2010 Edition

Technology
Finance
Law
Energy
Health Care
Government

THE VAULT

MBA CAREER BIBLE

GET EVERYTHING YOU NEED TO KNOW ABOUT A WIDE VARIETY OF INDUSTRIES AND PUT YOUR MBA TO THE BEST USE.

Edited by the staff of Vault

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2010 Edition

VAULT GUIDE TO THE

MBA CAREER BIBLE

VAULT EDITORS

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Introduction

MBA HIRING OVERVIEW

So you've spent a few years in business school and (if you're like most B-school grads) a few years in the workforce before that. All of a sudden, you're back on the job market with a new degree and newer skills, and you want to make sure that they pay off. Déjà vu?

The bad news

Unless you've been getting your MBA in a cave with no internet or news media of any kind, you know that the job market is rough for recent and soon-to-be graduates. While reports as current as November 2008 said that MBA hiring would be stable this year, as time goes on, the outlook appears less and less rosy. In early 2009, Vault conducted a survey of employers who hire undergraduate and MBA graduates. A staggering 76.8 percent of respondents said they have reduced their hiring goals from what they originally planned for the 2008-2009 school year. And in February 2009, the MBA Career Services Council surveyed business school career services offices about their current recruitment cycle. Not surprisingly, about 56 percent reported that recruiting is down at their business school this winter. And the majority (70 percent) reported that job postings (for internships and full-time positions) are down by at least 10 percent.

The good news

Though that associate position at Lehman Brothers may not be possible, there are still lots of jobs out there for MBA grads, particularly in the growing government, health care, education and energy industries, as well as boutique and middle market firms. In fact, companies in those industries and any firms still hiring are going to be more present on top business school campuses. One employer with spots to fill told Vault, "We are hiring more and better people and we have raised the bar on the type of person we hire."

So thinking broadly is key this recruiting season. That may mean changing one's career path or it may mean just taking a detour. Traditionally, when we think of finance/accounting, consulting and marketing/sales (job functions that traditionally claim two-thirds of MBA grads according to the GMAC 2008 MBA Alumni Perspectives Survey), we think of the consulting and finance industries. Students and alumni are looking to business jobs in nontraditional sectors. Considering a job in an industry you previously overlooked may mean the difference between having a job and unemployment. And rocking that finance job in the energy industry will put you in a better position to move back to finance when something great opens up.

You've come to the right place to explore your options. Vault's *MBA Career Bible* profiles lots of nontraditional industries and describes the opportunities for MBAs within them.

Career services steps it up

In the face of tougher times for MBA grads, many schools have amped up their career services to better serve students and alumni. Business schools' career management professionals have been working overtime to open up new avenues of opportunity for current and former students. Career counselors can offer guidance if you're looking to change your plan from investment banking to other, healthier industries, and help massage your finance-heavy resume to make it more appealing to employers outside the industry. The career center also still has job and internship listings, as well as contact information for alumni in your field(s) of interest who are willing to provide advice. And these resources aren't just for current students and recent alumni, either—in late 2008, *The Wall Street Journal* reported that the not-so-recently graduated are also getting more assistance from their alma maters in the difficult financial climate.

From internships and recruiting to interviews

For many full-time business school students, on-campus recruiting and summer internships following the first year of are the most important methods of finding employment. According to GMAC's 2008 Global MBA© Graduate Survey, which surveyed 5,312 graduating MBA students about their experience, 53 percent of MBA students surveyed received their job offers through internships or work projects. According to Vault's survey, more current students (like you) are looking for internships that will provide "great opportunity to become a full-time associate after graduation." And employers aren't complaining—most still look to their most recent internship class first to fill any open positions.

But landing a great internship isn't the only way to get your foot in the door—far from it. On-campus recruiting is another fast track to employment. According to the Global MBA Graduate Survey, most MBA-holders are recruited while still in school. And where recruiters go, interviews will follow—check with career services and fairs for dates. While companies usually make presentations and send representatives to business schools throughout the year, actual on-campus interviewing and recruiting tends to be structured on a predictable schedule.

But what if your dream employer isn't participating in traditional on-campus recruiting? It doesn't mean they're not present. In fact, employers tell Vault that they are changing their recruiting strategies, favoring more cost efficient "high tech" approaches (e.g., using social networking websites and other internet tools) over the traditional "high touch" methods. So do not lose hope if you don't see the same employers on campus using the same techniques they did last year. In fact, you may see companies on campus you've never seen before. Almost one-fifth of Vault's survey respondents said that they would be recruiting from schools that are geographically closer to their offices, and 12.4 percent said that they have been recruiting at "better" schools now that the competition has decreased.

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Shaking hands

One surefire bonus of the MBA degree is a high starting salary. Though about 52 percent Vault's survey respondents said not to expect bigger salary offers than the class of 2008 received, they're still not small numbers. For example, according to GMAC, executives and managers project that in 2008 a typical MBA candidate received a starting annual salary of $89,621. And that's not even counting other compensation and benefits, which 99 percent of employers tack on. In fact, the average expected total annual salary for a recent MBA graduate in 2008 was $102,619.

Taking stock

So is the degree still worth it? You bet! Despite some backlash against business schools after the managerial debacles perpetrated by MBA graduates in 2008, the MBA is still a valuable addition to any resume. According to the current president of GMAC, David Wilson, "We have long referred to the MBA as a global currency—a degree that symbolizes value all over the world." Paul Healy, head of MBA marketing at Manchester Business School agrees: even in this market, an "MBA will still open doors." However, Healy noted at a recent MBA fair, you need to "arm yourself" and "get as much under your belt as possible." Study hard, join a club, participate in an internship and visit career services early on. Being active and involved in business school will make you a better candidate when it comes time to apply for a full-time job, and it'll make your time at school more enjoyable.

So far, MBA grads concur. According to GMAC's 2008 MBA Alumni Perspectives Survey, 97 percent of MBA-holders say getting their degree was satisfying on a personal level. Among alumni, 72 percent felt that their MBA education was extremely helpful in landing their current position, and more than half reported being "extremely" or "very" satisfied with their employer and their job. So go ahead, grads—get happy and get hired!

Good luck!
The Team at Vault

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THE MBA JOB SEARCH

The Vault MBA Career Bible

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Resumes

TEN SECONDS

Studies show that regardless of how long you labor over your resume, most employers will spend 10 seconds looking at it. That's it.

Because of the masses of job searchers, most managers and human resource employees receive an enormous number of resumes. Faced with a pile of paper to wade through every morning, employers look for any deficiency possible to reduce the applicant pool to a manageable number. Thus, your resume must present your information quickly, clearly, and in a way that makes your experience relevant to the position in question. That means condensing your information down to its most powerful form.

So distill, distill, distill. Long, dense paragraphs make information hard to find and require too much effort from the overworked reader. If that reader can't figure out how your experience applies to the available position, your resume is not doing its job.

Solve this problem by creating bulleted, indented, focused statements. Short, powerful lines show the reader, in a glance, exactly why they should keep reading.

Think about how to write up your experience in targeted, clear, bulleted, detail-rich prose. Here are some examples.

Before

Primary duties included computer repair and assembly, software troubleshooter, Internet installation and troubleshooting, games.

After

Primary Duties:

- Assembled and repaired Dell, Compaq, Gateway and other PC computers
- Analyzed and fixed software malfunctions for Windows applications
- Installed and debugged Internet systems for businesses such as Rydell's Sports, Apple Foods and Eric Cinemas

Before

Responsibilities included assisting with artist press releases, compiling tracking sheets based on information from reservationists and box office attendants, handling photo and press release mailings to media, assisting in radio copywriting and performing various other duties as assigned.

After

Experience includes:

- Wrote artist press releases that contributed to an increase in sales by 23%
- Compiled and maintained mailing list of 10,000—Cambridge Theater's largest-ever list
- Handled press release mailings to *Anchorage Daily News* and Fox Four Television
- Contributed to copywriting of promotion radio commercials for selected events

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IT'S WHAT YOU DID, NOT WHAT YOUR NAME TAG SAID

Resumes should scream ability, not claim responsibility. Employers should be visualizing you in the new position, not remembering you as "that account assistant from Chase." While some former employers can promote your resume by their mere presence, you don't want to be thought of as a cog from another machine. Instead, your resume should present you as an essential component of a company's success.

THINK BROADLY

Applicants applying for specific job openings must customize the resume for each position. Many job hunters, particularly those beginning their careers, apply to many different jobs.

A person interested in a career in publishing, for example, might apply for jobs as a writer, proofreader, editor, copywriter, grant proposal writer, fact-checker or research assistant. You may or may not have the experience necessary to apply for any of these jobs. But you may have more skills than you think.

When considering the skills that make you a valuable prospect, think broadly. Anyone who has worked a single day can point to several different skills, because even the most isolated, repetitive jobs offer a range of experience. Highway toll collection, for instance, is a repetitive job with limited variation, but even that career requires multiple job skills. Helping lost highway drivers read a map means "Offering customer service in a prompt, detail-oriented environment." Making change for riders translates as "Financial transactions in a high-pressure, fast-paced setting." But unless these toll-booth workers emphasize these skills to prospective employers, it'll be the highway life for them.

SELECTED HISTORY

A lot of things happen in everyone's day, but when someone asks, "How was your day?" you don't start with your first cough and your lost slippers. You edit. Resumes require that same type of disciplined, succinct editing. The better you are at controlling the information you create, the stronger the resume will be.

When editing your history to fit the resume format, ask yourself, "How does this particular information contribute towards my overall attractiveness to this employer?" If something doesn't help, drop it. Make more space to elaborate on the experiences most relevant to the job for which you are applying.

Similarly, if information lurks in your past that would harm your chances of getting the job, omit it. In resume writing, omitting is not lying. If some jobs make you overqualified for a position, eliminate those positions from your resume. If you're overeducated, don't mention the degree that makes you so. If you're significantly undereducated, there's no need to mention education at all. If the 10 jobs you've had in the last five years make you look like a real-life Walter Mitty, reduce your resume's references to the most relevant positions while making sure there are no gaps in the years of your employment.

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SAMPLE RESUMES

Eugene H. Huang

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Chicago, IL 60615
(773) 555-1234
ehuang@uchicago.edu

EDUCATION

MIDWAY SCHOOL OF BUSINESS Chicago, IL
Master of Business Administration – Finance and Strategic Management June 2009

- Dean's Honor List
- Active member of Management Consulting, Corporate Management and Strategy, and High Tech Clubs

ANDERSEN COLLEGE Boston, MA
Bachelor of Arts in Physics (Cum Laude) June 2004

- Andersen College Scholarship for academic distinction; Dean's List all semesters
- Violinist in Andersen College Symphony
- Physics tutor for Bureau of Study Counsel; active participant in Habitat for Humanity
- Completed dissertation in the field of condensed matter theory

EXPERIENCE

SMART BROTHERS New York, NY
Technology Project Manager – Investment Banking June 2005 – July 2007

- Managed project teams to develop profit and loss systems for proprietary trading group
- Promoted to project leadership role in two years, well ahead of department average of four
- Developed an original mathematical algorithm for trading processing module, improving performance by 1,200%
- Led team of six analysts in firmwide project to re-engineer loan syndicate trading flows in firm's largest technology project of 2005. Recommendations established new firmwide standard for real-time trade processing
- Appointed lead developer of interest accrual team after just three months in department. Initiated and designed project to create customized, improved interest accrual and P&L applications for fixed-income controllers
- Selected to work on high-profile project to re-engineer corporate bond trading P&L system. Reduced overnight processing time from six hours to 20 minutes and improved desktop application speed by 350%
- Devoted 20 to 25 hours a month to instructing junior members of the team in interest accrual and trading

FINANCIAL TECHNOLOGY GROUP New York, NY
Analyst June 2004 – May 2005

- Developed cutting-edge analytic software for use by Wall Street traders
- Worked on a daily basis with clients to create and implement customized strategic software solution for equity traders. Helped create and deliver extensive training program for clients
- Initiated, created and documented new firmwide standard for software module development

OTHER

- Winner of Mastermaster.com stock trading competition in November 2005. Won first place out of over 1,600 entrants worldwide with one-month return of 43.3%
- Other interests include violin, soccer and the harmonica
- Recent travel to Yemen, Egypt and Venezuela

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THE COVER LETTER TEMPLATE

WONDERING WHAT GOES ON A COVER LETTER? HERE'S A STEP-BY-STEP GUIDE

Your Name
Your Street Address, Apartment #
Your City, State and Zip
Your Email Address
Your Phone Number
Your Fax Number

Contact's Name
Contact's Title
Contact's Department
Contact's Company Name
Contact's Street Address, Suite #

Company City, State Zip
Company Phone Number
Company Fax Number

Date

Dear Ms./Mr. CONTACT:

The first paragraph tells why you're contacting the person, then either mentions your connection with that person or reveals where you read about the job. It also quickly states who you are. Next it wows them with your sincere, researched knowledge of their company. The goal is to demonstrate that you are a worthy applicant and entice them to read further.

The second and optional third paragraph tell more about yourself, particularly why you're an ideal match for the job by summarizing why you're what they're looking for. You may also clarify anything unclear on your resume.

The last paragraph is your goodbye: you thank the reader for his or her time. Include that you look forward to their reply or give them a time when you'll be getting in contact by phone.

Sincerely,

Sign Here

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Date

Placement of the date, whether left justified, centered or aligned to the right, is up to your discretion, but take the time to write out the entry. If you choose to list the day, list it first, followed by the month, date and year, as follows: Tuesday, December 13, 2008. (Europeans commonly list the day before month, so writing a date only in numbers can be confusing. Does a letter written on 4/7/09 date from April 7th, or July 4th?)

Name and address

Your name and address on the cover letter should be the same as the one on your resume. Uniformity in this case applies not only to the address given, but the way the information is written. If you listed your street as Ave. instead of Avenue on your resume, do so on your cover letter, too.

Your header can be displayed centrally, just like the resume header—including your name in a larger and/or bolded font. But in most cases, the heading is either left justified or left justified and indented to the far right-hand side of the page.

If you choose to list your phone number, make sure that you don't list it somewhere else on the page.

Next comes the address of the person you are writing. In many circumstances, you'll have the complete information on the person you're trying to contact, in which case you should list it in this order:

Name of contact
Title of contact
Company name
Company address
Phone number
Fax number

However, in other cases, you have less than complete information to go on. This is particularly true when responding to an advertisement. If you have an address or phone or fax number but no company name, try a reverse directory, such as Superpages (www.superpages.com), which lets you trace a business by either its address or phone number.

When you're trying to get the name of a contact person, calling the company and asking the receptionist for the name of the recipient (normally, though not always, head of HR) may work. But usually, companies don't list this information because they don't want you calling at all. So if you call, be polite, be persistent, ask for a contact name, say thank you and hang up. Don't identify yourself. If you have questions, wait until the interview.

If you don't get all of the info, don't worry. There are several salutations to use to finesse the fact that you've got no idea who you're addressing. Some solutions are:

To whom it may concertion: A bit frosty, but effective.

Dear Sir or Madam: Formal and fusty, but it works.

Sirs: Since the workforce is full of women, avoid this outdated greeting.

Omitting the salutation altogether: Effective, but may look too informal.

Good morning: A sensible approach that is gaining popularity.

FORMAT

Unlike the resume, the cover letter offers the writer significant room for flexibility. Successful cover letters have come in various different forms, and sometimes those that break rules achieve success by attracting attention. But most don't. Here are some basic guidelines on what information the body of a cover letter should deliver.

First paragraph

To be successful, this first paragraph should contain:

- A first line that tells the reader why you're contacting him or her, and how you came to know about the position. This statement should be quick, simple and catchy. Ultimately, what you're trying to create is a descriptive line by which people can categorize you. This means no transcendental speeches about "the real you" or long-winded treatises on your career and philosophy of life.

- Text indicating your respect for the firm's accomplishments, history, status, products or leaders.

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- A last line that gives a very brief synopsis of who you are and why you want the position. The best way to do this, if you don't already have a more personal connection with the person you're contacting, is to lay it out:

I am a (your identifying characteristic)
+
I am a (your profession)
+
I have (your years of experience or education)
+
I have worked in (your area of expertise)
+
I am interested in (what position you're looking for)

And thus a killer first paragraph is born.

Middle paragraph(s)

The middle paragraph allows you to move beyond your initial declarative sentences, and into more expansive and revealing statements about who you are and what skills you bring to the job. This is another opportunity to explicitly summarize key facts of your job history. The middle paragraph also offers you the opportunity to mention any connection or prior experience that you may have with the company.

Tell the employer in this paragraph how, based on concrete references to your previous performances, you will perform in your desired position. This does not mean making general, unqualified statements about your greatness, such as "I'm going to be the best you've ever had" or "My energetic multitasking will be the ultimate asset to your company."

Comments should be backed up by specific references. Try something along the lines of "My postgraduate degree in marketing, combined with my four years of retail bicycle sales would make me a strong addition to Gwinn Cycles' marketing team."

Or, "Meeting the demands of a full-time undergraduate education, a position as student government accountant and a 20-hour-a-week internship with Davidson Management provided me with the multitasking experience needed to excel as a financial analyst at Whittier Finance."

Many advertisements ask you to name your salary requirements. Some avoid the problem altogether by ignoring this requirement, and this may be the safest route—any number you give might price you out of a job (before you have the chance to negotiate face-to-face at an interview). Alternatively, you might be pegged at a lower salary than you might otherwise have been offered. If you must give a salary requirement, be as general as possible. The safest bet is to offer a general range ("in the $40,000s"). Put the salary requirement at the end of the paragraph, not in your first sentence.

Some cover letter writers use another paragraph to describe their accomplishments. This makes sense if, for example, your experience lies in two distinct areas, or you need to explain something that is not evident on your resume, such as "I decided to leave law school to pursue an exciting venture capital opportunity" or "I plan to relocate to Wisconsin shortly." Do not get overly personal—"I dropped out of business school to care for my sick mother" is touching, but will not necessarily impress employers.

Final paragraph

The final paragraph is your fond farewell, your summation, a testament to your elegance and social grace. This should be the shortest paragraph of the letter. Here, tell your readers you're pleased they got so far down the page. Tell them you look forward to hearing from them. Tell them how you can be reached. Here's some sample sentences for your conclusion.

Thank you sentences:

Thank you for your time.

Thank you for reviewing my qualifications.

Thank you for your consideration.

Thank you for your review of my qualifications.

Way too much:

It would be more than an honor to meet with you.

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A note of confidence in a callback:

I look forward to your reply.

I look forward to hearing from you.

I look forward to your response.

I look forward to your call.

Over the top:

Call me tomorrow, please.

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MBA SUMMER INTERNSHIP COVER LETTER

February 1, 2009

Kimberly Sharpe, Recruiting Manager
Hexagonal Consulting
666 Avenue of the Americas
13th Floor
New York, NY 10010

Dear Ms. Sharpe,

I am a first-year MBA student at State Business School. I was extremely impressed with Hexagonal Consulting's approach to management consulting after attending the presentation given by your firm earlier this year. I also learned more about your firm by talking with William Field and several other summer interns. My discussions with them confirmed my interest in Hexagonal Consulting, and I am now writing to request an invitation to interview for a summer associate consulting position.

After graduating from Northern College with a degree in accounting, I worked as an associate in the finance department of AutoCo, a well-known automotive manufacturer. I gained solid analytical and problem-solving skills there. I was responsible for identifying and resolving financial reporting issues, as well as generating innovative methods to improve our processes. I also fine-tuned my communication and consensus building skills, as I often needed to present and market my work to middle and upper management. Finally, during my last year of employment, I took on a team leadership role, managing the daily work of five junior members of our team and taking an active role in our training for new hires.

I am excited by the strong potential fit I see with Hexagonal Consulting. I feel that the analytical, leadership and teamwork abilities gained through my employment and academic experience have provided me with the tools and skills necessary to perform well in a consulting career, and will allow me to make a significant contribution at your firm. I am particularly intrigued by the shareholder value focus of Hexagonal Consulting's methodology, since it fits well with my experience in finance.

I have enclosed my resume for your review. I welcome the opportunity to meet with you when you recruit at SBS for summer internships later this month, and I would greatly appreciate being included on your invitational list.

Thank you for your time and consideration. I look forward to hearing from you.

Sincerely,

Laura Haley
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New York, NY 10007
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MBA FULL-TIME COVER LETTER

Ms. Margaret Jones, Recruiting Manager
Mainstream Consulting Group
123 21st Street
Boston, Massachusetts 02145

November 19, 2008

Dear Ms. Jones:

It was a pleasure to meet you in person last week at the Mainstream Consulting invitational lunch on the Boston Business School campus. Having spoken with your colleagues at the event, I believe that Mainstream would be an exciting and challenging firm at which to build my career.

My background fits well with a position in strategy consulting. As a Midway University physics undergraduate, I developed an analytic, creative mind geared towards solving complex problems. I applied and enhanced my problem-solving skills as a technology project leader at Smart Brothers Investment Bank, where I focused on making business processes faster, more effective and more efficient. Creating these results for traders, financial analysts and senior management taught me how to effectively partner with clients throughout the various phases of business transformation. In addition, I gained valuable team leadership experience at Smart Brothers, guiding many project teams through the successful design and implementation of cutting-edge technology strategies.

As a telecommunications strategy intern at Global Consulting Associates this summer, I confirmed that strategy consulting is indeed the right career for me. Our project team helped a major telecommunications provider formulate a wireless data services strategy. I led the industry analysis and market opportunity assessment. This experience showed me that I am an effective contributor in a consulting environment, where industry knowledge, creative problem-solving skills, fact-based analysis and client focus are rewarded.

Mainstream appeals to me over other firms because of its focus on pure strategy projects, small firm atmosphere and accelerated career growth opportunities. Please consider me for your invitational campus interviews this fall. I am particularly interested in positions in the San Francisco and Chicago offices, and I have enclosed my resume for your review.

Thank you for your time, and I look forward to hearing from you soon.

Sincerely,

Michael A. Thomas
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michaelt3@bostonu.edu

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Interviews

Interviewing during on-campus MBA recruiting can be a harrowing process for several reasons. First, there is the sheer volume of interviewing: some students interview with a dozen or more companies within a few week period, all while maintaining a busy class schedule.

At each interview, students work to convince interviewers that they represent a good "fit" with the company. Part of being a good fit, of course, means that students have specific interest and knowledge of the companies with which they are interviewing. This crucial element of interview performance requires students to research the employers as thoroughly as possible in order to make their cases convincingly to many companies, a feat made more difficult by the large number of companies with which many students interview. To help students prepare for their interviews with specific companies, Vault publishes 50-page employer profiles of major MBA employers, as well as "snapshots" of thousands of other major employers online at www.vault.com.

Interviewers use a variety of techniques to test students. According to the Graduate Management Admission Council's (GMAC) Corporate Recruiters Survey survey of more than 1,000 MBA employers, behavior-based interviews (during which candidates describe specific examples of skills such as leading a team or managing a difficult employee) are used by the vast majority of recruiters, and are the most common technique used by MBA recruiters. More than half of the recruiters surveyed use "case" or situational interviews in which the interviewers describe a hypothetical or real business situation and ask the job seeker to work through a course of action out loud. And more than one-third use question that measure position-specific knowledge (such as the ability to price a bond for a fixed-income finance position).

Case interviews and technical finance interviews can be particularly stress-inducing, as students cannot as easily predict questions and prepare answers for these types of interviews as they can for behavior-based interviews. (In fact, some interviewers, most notoriously in the investment banking industry, choose to deliberately make interviews stressful in order to assess how business school students respond to stressful situations.) To help students prepare for these types of interviews, we discuss case and finance interviews in detail in the next two sections.

CASE INTERVIEWS

What is a case interview?

Simply put, a case interview is the analysis of a business question. Unlike most other interview questions, it is an interactive process. Your interviewer will present you with a business problem and ask you for your opinion. Your job is to ask the interviewer logical questions that will permit you to make a detailed recommendation. The majority of case interviewers don't have a specific answer that you, the candidate, are expected to give. What the interviewer is looking for is a thought process that is both analytical and creative (what consultants love to call "out-of-the-box" thinking). Specific knowledge of the industry covered by the case question is a bonus but not necessary. Business school students and candidates with significant business world experience receive case questions that require a deeper understanding of business models and processes.

The interview with a consulting company normally lasts about half an hour. Of this time, about five to 10 minutes is taken up with preliminary chat and behavioral questions and five minutes of you asking questions about the company. This leaves five to 15 minutes for your case interview question or questions. Make them count!

Why the case?

Your impressive resume may get you an interview with a consulting firm, but it won't get you the job. Consultants know that a resume, at its very best, is only a two-dimensional representation of a multifaceted, dynamic person.

And because consulting firms depend on employing those multi-faceted, dynamic people, the firms rely heavily on the case interview to screen candidates. The interview process is especially pertinent in the consulting industry, since consulting professionals spend the lion's share of their business day interacting with clients and colleagues and must themselves constantly interview client employees and executives.

Consultants must have a select set of personality and leadership traits in order to be successful. The consultant's work environment is extremely turbulent. There are nonstop co-worker changes, hostile client environments, countless political machinations, and near-perpetual travel. These factors mandate that an individual be cool under pressure, be influential without being condescending, be highly analytical, have the ability to understand the smallest aspects of a problem (while simultaneously seeing the big picture), and have the ability to maintain a balance between the personal and professional.

Consultants are often staffed in small groups in far-flung areas. As a result, the individual must be able to function, and function well, without many of the traditional workplace standards: a permanent working space, the ability to return home each night, easily accessed services such as administrative assistance, faxing and photocopying, and the camaraderie that develops among co-workers assigned to the same business unit.

All these factors necessitate a unique interview structure focused on assessing a candidate's ability to manage these particular circumstances with professionalism and excellence. The case interview has evolved as a method for evaluating these characteristics.

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Types of case interviews

What case interviews are not designed to do is to explore educational, professional or experiential qualifications. If you've reached the case interview stage, take a deep breath—the consulting firm has already weighed your background, GPA and experience, and found you worthy of a deeper skill assessment. This means that the case interview is yours to lose. Triumph over your case interviews and chances are that a slot at the firm will open for you.

Case interviews vary widely, but in general they fall into three groups: business cases, guesstimates and brainteasers.

Business case

Case interviews vary somewhat in their format. The classic and most common type of case interview is the business case, in which you're presented with a business scenario and asked to analyze it and make recommendations. Most cases are presented in oral form, though some involve handouts or slides, and a few (like Monitor Company's) are entirely written. (In a written case, the interviewer will not contribute any other information besides what's on the handout.) Another variation on the case interview is the group case interview, where three to six candidates are grouped together and told to solve a case cooperatively. Consultants from the firm watch as silent observers. Though you should certainly be prepared for these variations on case interviews, you are most likely to come across the traditional, mano-a-mano case interview.

Guesstimates

Whether freestanding or as part of a case, learning how to make "back-of-the-envelope" calculations (rough, yet basically accurate) is an essential part of the case interview. As part of a guesstimate, you might be asked to estimate how many watermelons are sold in the United States each year, or what the market size for a new computer program that organizes your wardrobe might be. (For example, you might need to figure out the market size for the wardrobe software as a first step in determining how to enter the European market.) You will not be expected to get the exact number, but you should come close—hence the guesstimate. Non-business school students and others who appear to be weak quantitatively may get stand-alone guesstimates—guesstimates given independently of a case.

Brainteasers

Brainteasers are normally logic puzzles or riddles. They may be timed. Often, brainteasers are meant to test both analytic and "out-of-the-box" thinking, as well as grace under pressure.

Skills assessed in the case interview

Following your case interview, your consulting interviewer will complete a written evaluation form. The evaluation forms often include a list of qualities, traits and abilities, and ask the interviewer to assess the candidate against the list. Following is a list of these special traits that, according to consulting insiders, interviewers will be keeping an eye out for as you work through the case interview:

Leadership skills

You'll hear this from every consulting firm out there—they want leaders. Why, you might ask, would a consulting firm need a leader? After all, many beginning consultants are consigned to independent number-crunching and research. The fact is, however, that consultants are often called upon to work independently, shape projects with very little direction and direct others. You should demonstrate your leadership skills by taking charge of the case interview. Ask your questions confidently. Inquire whether the case interview relates to the interviewer's own experience. While your resume and previous leadership experience will probably most strongly convey your leadership ability, your demeanor in the case interview can help.

Analytical skills

The core competency of consulting is analysis—breaking down data, formulating it into a pattern that makes sense, and deriving a sensible conclusion or recommendation. You should display this skill through your efficient, on-target and accurate questions while wrestling your case to a solution.

Presentation skills

Presenting your analysis is an essential part of consulting. Once consultants have analyzed their case engagement and decided on the proper course of action, they must present their findings and recommendations to their case team and to their clients. Interviewers will be watching you closely to see if you stumble over words, use inadvisable fillers like "um" or "like" frequently, or appear jittery under close questioning. Remember: When you're speaking, slow down and smile. If asked a question that temporarily stumps you, take a deep breath and pause. It's always better to pause than babble. Ask the interviewer to restate information if necessary.

Energy

Even the most qualified and analytical hire won't be much good if she quits at 5 p.m. during a long and arduous engagement. Interviewers look for zest and energy—firm handshake, sincere and warm smile, bright eyes. Remember that consulting firms expect you to take a long flight and show up at work the next day alert, perky and ready to go. If you must, drink lots of coffee and use eyedrops—just be energized.

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Attention to detail/organization

Consultants must be as painstaking as scientists in their attention to detail. And consultants who juggle two or more flights a week and engagements all over the world must be extremely organized. You can display this skill through a disciplined, logical approach to your case solution and by showing up for your interview prepared. You'll want to take notes, so bring a pad of paper and a pen. Interviewers notice when candidates must ask for these materials. You must arrive on time.

Quantitative skills

Those spreadsheets you'll be working with as a management consultant need numbers to fill them. Consulting interviews will inevitably test your grasp of numbers and your ability to manipulate them. Many interviewers will assess your quantitative skills by giving you a "guesstimate," either within the case question or separately.

Flexibility

Consultants may have to arrive at the office one day and be packed off to Winnipeg for six months the next. This kind of flexibility of schedule is mirrored in tests for mental flexibility. To test your grasp of a case interview, the interviewer may suddenly introduce a new piece of information ("OK, let's say the factories must be opened either in Canada or China") or flip the terms of the case interview ("What if this labor contract is not guaranteed, as I said earlier?") and then watch how quickly you're able to alter your thinking.

Maturity

Consultants must often work with executives and company officials decades older than they are. (This is why consultants are taught the right way to answer the question, "How old are you?") Eliminate giggling, fidgeting and references to awesome fraternity events you may have attended, even if the interviewer seems receptive.

Intelligence, a/k/a "mental horsepower"

Rather straightforward—consulting interviewers are looking for quickness of analysis and depth of insight. Don't be afraid to ask questions for fear of looking stupid—smart people learn by asking questions and assimilating new information. At the same time, asking your interviewer to repeat an elementary (or irrelevant) concept 20 times will not do you any favors.

What kind of case will I get?

While there's no way to tell for sure what case question you'll get, there are some things that can tip you off to the kind of case you'll receive.

For a business school student or graduate, the case question will probably be less open-ended and drive toward an actual solution. Your interviewer may posit something from her own experience—knowing what course of action the consultancy actually ended up recommending. This doesn't mean you have to make the same recommendation—but you'd better be able to back up your reasoning! Alternatively, one thing case interviewers love to do is look at your resume and give you a case question that relates to your past experience. "For example," says one consultant, "if you were on the advertising staff for the school newspaper, you might be given a question about investing in advertising agencies." For this reason, advise consultants, "it makes sense to follow up on your field in *The Wall Street Journal* because you may be asked about recent developments in it. If you know what's going on you'll be that much more impressive." Some guesstimates, like figuring out the total worldwide revenue of Tarzan, are broad enough so that most people can make a reasonable assumption of numbers.

SAMPLE CASE

You are advising a credit card company that wants to market a prepaid phone card to its customers. Is this a good idea?

Whoa! Better find out more about this prepaid phone card first before you even begin to think about recommending it.

You: What is the role of our company? Do we simply market the card or must we create them ourselves? Are we expected to provide the telephone services?

Interviewer: This card will be co-marketed with an outside phone company. We do not need to perform telecommunications functions.

You: What are our expenses connected with the card?

Interviewer: We must pay 15 cents for every minute we sell. We also have to pay $1 as a startup cost for the card and card systems.

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You: What are our marketing expenses?

Interviewer: We normally use slips of paper that are attached to the backs of our credit card payment envelopes. We sometimes also send customers a direct mailing in a separate envelope. Or we can have telemarketers call selected customers.

You: What's the cost of each of these marketing techniques, and what is their response rate?

Interviewer: Telemarketers have a 2 percent response rate and cost $1 per call. Direct mailings cost us 41 cents per mailing and have a 0.50 percent rate of response. Our payment attachments have a 0.25 percent rate of response, but only cost us 5 cents each.

You: I'm going to assume we will sell one-hour phone cards. That will cost us $9 for the minutes and a dollar per card—so each card costs us $10.

Interviewer: OK, that sounds reasonable.

You: And what is our expected revenue on a one-hour phone card? What is the current market rate for a 60-minute phone card?

Interviewer: Assume it's 50 cents a minute.

You: So if we sell the cards for $30, we have a $20 profit, minus our expenditures on marketing.

Interviewer: What's our cost structure look like?

You: OK, let's figure this out. To sell 1,000 cards through telemarketing, we would need to contact 50,000 people. That would cost us $50,000. To use direct mail, we would have to contact 200,000 thousand people, which, at 40 cents per mailing, costs us $80,000. Since the envelope inserts aren't very reliable, we will need to contact 800,000 people using that method. But at 5 cents each, it costs only $20,000 to sell 1,000 cards.

We make $20 profit on each card. But even using the cheapest promotional vehicle, at $20 profit, we would only break even, because our profit on 1,000 cards would be $20,000. We shouldn't market this card, unless we can further cut our marketing costs or increase the price of the card. If we could slice the cost of the envelope attachments a penny or so, or sell the card for $35, or convince our co-marketer to reduce our costs, it might be worth selling.

Interviewer: What are some other issues you might want to consider? (Notice how the interviewer is nudging you to add to your analysis.)

You: We should also consider the competitive landscape for this business. Is the per-minute rate for calling card minutes expected to fall? If so, and our costs are held constant, we may lose money. Of course, we can learn more from marketing these cards. It could be that the people likely to buy these cards might be frequent travelers and could be targeted for other promotions

SAMPLE GUESSTIMATE

How many square feet of pizza are eaten in the United States each month?

Take your figure of 300 million people in America. How many people eat pizza? Let's say 200 million. Now let's say the average pizza-eating person eats pizza twice a month, and eats two slices at a time. That's four slices a month. If the average slice of pizza is perhaps six inches at the base and 10 inches long, then the slice is 30 square inches of pizza. So four pizza slices would be 120 square inches. Therefore, there are a billion square feet of pizza eaten every month. To summarize:

- There are 300 million people in America.
- Perhaps 200 million eat pizza.
- The average slice of pizza is six inches at the base and 10 inches long = 30 square inches (height x half the base).
- The average American eats four slices of pizza a month.
- Four pieces x 30 square inches = 120 square inches (one square foot is 144 inches), so let's assume one square foot per person.
- Your total: 200 million square feet a month.

FINANCE INTERVIEWS

Investment banking positions and other finance positions are some of the more stressful and demanding positions on the planet, and this is reflected in the interview. In fact, insiders say that occasionally, an interviewer will yell at an applicant to see how he or she will react. Interviews normally go three or four rounds (sometimes as many as six or more rounds), and these rounds can have up to six interviews each, especially in the later rounds. Investment banking and finance interviews are also known for being deliberately stressful (as opposed to the attendant nervousness that goes with any interview). Some firms may ask you specific and detailed questions about your grades in college or business school, even if your school policy prohibits such questions. At other firms, interview rounds may be interspersed with seemingly casual and friendly dinners. Don't let down your guard! While

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these dinners are a good opportunity to meet your prospective co-workers, your seemingly genial hosts are scrutinizing you as well. (Hint: Don't drink too much.)

There are generally two parts to the finance hiring process: the fit part and the technical part. In asking technical questions, the interviewer wants to judge your analytical and technical skills. If you don't know the basic concepts of finance and accounting, your interviewers will believe (rightly) that you are either (1) not interested in the position, (2) not competent enough to handle the job. An important part of the interview is what is called "fit." As you go through recruiting in finance interviews, understand that you compete with yourself. Most firms are flexible enough to hire people that are a good fit.

The fit interview

They call it the O'Hare airport test, the Atlanta airport test, or the whatever-city-you-happen-to-be-applying-in airport test. They also call it the fit interview or the behavioral interview. It means: "Could you stand to be stranded in an airport for eight hours with this person?" Although bankers may have reputations for being aggressive individuals, don't act that way in your interview.

And while your performance in the fit interview partly depends—as the airport test suggests—on how well you gel with your interviewer, it also depends on your ability to portray yourself as a good fit as an investment banker, asset manager, etc. In other words, interviewers will try to figure out what your attitude towards work is like, how interested you are in a career in the industry, and how interested you are in the job for which you are applying.

I'm a hard worker

As a general rule, you should emphasize how hard you have worked in the past, giving evidence of your ability to take on a lot of work and pain. You don't have to make things up or pretend that there's nothing you'd want more than to work 100-hour weeks. In fact, interviewers are sure to see through such blatant lying. Says one I-banking interviewer, "If somebody acted too enthusiastic about the hours, that'd be weird." If you ask investment bankers and others in finance what they dislike most about their jobs, they will most likely talk about the long hours. Be honest about this unpleasant part of the job, and convince your interviewer that you can handle it well. For example, if you were in crew and had to wake up at 5 a.m. every morning in the freezing cold, by all means, talk about it. And if you put yourself through school by working two jobs, mention that, too.

Got safe hands?

As with all job interviews, those for finance positions will largely be about figuring out whether you can handle the responsibility required of the position. (In many cases with finance positions, that responsibility will mean making decisions with millions or billions of dollars at stake.)

An interviewer will try and figure out if you've got safe hands and won't be dropping the ball. "This is a critical I-banking concept," says one banker about safe hands. "The idea is: 'Can I give this person this analysis to do and feel comfortable that they will execute it promptly and correctly?' The people with safe hands are the ones who advance in the company. They are not necessarily the hardest workers but they are the most competent." Make sure you bring up examples of taking responsibility.

A mind to pick things apart

The world of finance is largely about number crunching and analytical ability. While this doesn't mean you have to be a world-class mathematician, it does mean that you have to have an analytic mind if you are to succeed. Explains one insider at a numbers-heavy Wall Street firm, "You can't be any old English major. You've got to have a really logical, mathematical head." Make sure you have examples of your problem-solving and analytic strengths.

T-E-A-M! Go team!

Teamwork is the buzzword of these days not just for the investment banking industry, but for every employer. Every finance position (except, perhaps, for research) requires that an employee work closely with others—whether this be in the form of investment banking deal teams, or finance officials working with marketers at a corporation. Interviewers will ask questions to make sure that you have experience, and have excelled, in team situations. Yeah, you can break out those glory days stories about the winning touchdown pass, but lots of other situations can also help describe your teamwork ability—previous work experience, volunteer activities, etc.

Preparing for finance interviews

When you review career options, don't discount the amount of time it takes to prepare for finance interviews. First of all, you should evaluate whether you actually want to be in investment banking, commercial banking, venture capital, etc. In short, you should know what you're getting into. Not only should you know this for your own sake (this is your future, after all), but your interviewers want to know that you understand the position and industry.

You should use the opportunity of nonevaluative settings (i.e., not an interview) to get answers to these questions. These are questions to which we strongly suggest you have answers before interviewing. Make a point to attend recruiting presentations by firms. Your informational interviews with alumni and (for those in business school) second-years are also good ways to get answers to some of your questions.

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As for written materials, you can start with general business publications like *The Wall Street Journal*, *The Economist*, *BusinessWeek* and *The Financial Times*. From there, you can move on to trade publications that will give more industry-specific news and analysis. *American Banker*, *Institutional Investor*, *Investment Dealers' Digest* and *The Daily Deal* are some examples.

Your interaction with alumni can have direct results. The results can be good if you prepare properly before contacting them. You can also assure yourself a ding if you don't handle a meeting or phone conversation correctly.

Here are some questions about finance positions you should ask before you have your first interview:

- What is a typical day like?
- What are the hours in the industry really like? Are they 100 hours every week or every other week? Is it the same for every firm?
- How do people cope with the lifestyle issues in the industry?
- What kind of money do people make in the industry?
- What are the things I-bankers (or commercial bankers, venture capitalists, etc.) like about their jobs? What would they like to change?
- What is the future of the industry for the next few years? How will the industry change? How will the margins change? The return on equity?
- What is the career track in the industry? What skills are required at what stage?
- What is so exciting about this job?
- What is the culture of an I-banking firm as compared to a Fortune 500 company? Compared to a startup?
- What are the exit opportunities after 10 years in the industry? After two years?

Research individual firms

Once you've answered questions about the industry, you should begin to narrow your research to specific firms—both to know which firms to target, and to be knowledgeable for your interviews. Good sources for research are easily accessible publications like *The Wall Street Journal, BusinessWeek* and *Fortune*. If you have the resources (perhaps at a school library), you can also read through recent issues of trade publications like *Investment Dealers' Digest*.

Insiders at business school who have gone through the recruiting process suggest that you form research and interview practice teams. There is a lot of material to cover, and it is not possible to do it all by yourself. Form teams for researching industries and firms. Later, you can use the same teams to practice interviews. If you are in business school, your school will undoubtedly have such a club, or you may want to team up with other students who are looking into finance careers. Teams of four to six work quite well for this research process.

Practice your interviews

You should prepare answers to common questions given at finance interviews—whether they be fit questions, technical questions or brainteasers. While this may be easiest for technical questions and brainteasers (after all, we can help you to nail those questions with the right answers), it is also important to prepare for fit questions even if there are no right or wrong answers. We can steer you onto the right path with these questions, but you'll need to fill in the blanks. What's the hardest thing you've ever had to do? Can you give me an example of a time when you came up with a creative solution? You don't want to be cursing yourself after an interview, thinking about what you should have said, or examples you could have brought up.

One of the best ways to prepare answers to these questions is to use mock/practice interviews. You can practice by role-playing with your friends and classmates, or by taking advantage of interview training offered by your school. Many MBA career centers offer students the opportunity to perform mock interviews, which are normally videotaped. These practice sessions are conducted either by professional career counselors or by second-year students. The mock interviewees are given the videotape of their critique to watch at home (again and again). Students may choose what kind of interview they'd like to receive: finance, consulting, etc.

What mistakes are commonly unearthed by the videotaped interview? One business school career counselor says that he finds that "most MBAs don't have their story down. They can't elaborate why they came to business school, and why they want to work in the industry." The best candidates are able to describe their background and career history, and make a pitch about why they are interested in a firm, all in a minute or less, career counselors say. Another problem is that many students apparently "can't elaborate their strengths. They have them, but can't sell them. They are too modest." While there's no use demurring when explicating your good points, career center professionals warn that "there is also a danger of tooting your horn too much"—so make sure you're not making any claims for competency you can't back up with relevant experience.

To take full advantage of their mock interviews, career counselors say, students should take them as seriously as possible. Dress professionally "to get into the interviewing mindset." Afterwards, the interviewer will go over the session, assessing the candidate's strengths and weaknesses. It's a good idea to take notes on this feedback.

Mock interviewers also coach students on appropriate answers. "For example," explains one mock interviewer, "many candidates are asked to name their top three weaknesses. Answering with your actual weaknesses is not a good idea. So when I identify a student's weaker point—maybe they are

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weak on real teamwork experience—we strategize on an appropriate answer. It's better to say something like 'I wouldn't call them weaknesses, but there are three areas in which I still have room to grow,' and then choose three areas that are not deal-breakers."

Do interviewers thus end up hearing the same canned answers over and over again? "I do hear from some interviewers at certain schools—not mine!—that they do hear identical answers to certain questions," says one insider. "My advice to students is to always put answers into their own words."

Prepare questions

Finally, don't forget that finance interviewers often ask candidates whether they have any questions. Don't get caught looking like a job applicant who hasn't done research and is not curious about the opportunities. Read about the firms, read about the industries, and prepare some intelligent questions.

SAMPLE FINANCE INTERVIEW QUESTIONS

What happens to each of the three primary financial statements when you change (a) gross margin; (b) capital expenditures; (c) other.

This problem tests your understanding of the interconnection between all three statements.

(a) If gross margin were to say, decrease, then your income statement would first be affected. You would pay lower taxes, but if nothing else changed, you would have lower net income. This would translate to the cash flow statement on the top line. If everything else remained the same, you would have less cash. Going to the balance sheet, you would not only have less cash, but to balance that effect, you would have lower shareholder's equity.

(b) If capital expenditure were to say, decrease, then first, the level of capital expenditures would decrease on the Statement of Cash Flows. This would increase the level of cash on the balance sheet, but decrease the level of property, plant and equipment, so total assets stay the same. On the income statement, the depreciation expense would be lower in subsequent years, so net income would be higher, which would increase cash and shareholder's equity in the future.

(c) Just be sure you understand the interplay between the three sheets. Remember that changing one sheet has ramifications on all the other statements both today and in the future.

How do you calculate the terminal value of a company?

The value of the terminal year cash flows (usually calculated for 10 years in the future) is calculated by calculating the present value of cash flows from the terminal year (in our case, Year 10) continuing forever with the following formula:

Calculation

$$TY\ FCF = \frac{FCF10\ (1 + g)}{(rd - g)}$$

Here "g" is an assumed growth rate and rd is the discount rate. Remember that you could also calculate the terminal value of a company by taking a multiple of terminal year cash flows, and discounting that back to the present to arrive at an answer. This alternative method might be used in some instances because it is less dependent on the assumed growth rate (g).

If you add a risky stock into a portfolio that is already risky, how is the overall portfolio risk affected?

a. It becomes riskier
b. It becomes less risky
c. Overall risk is unaffected
d. It depends on the stock

Answer: D. It depends on the stock. In modern portfolio theory, if you add a risky stock into a portfolio that is already risky, the resulting portfolio may be more or less risky than before.

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A portfolio's overall risk is determined not just by the riskiness of its individual positions, but also by how those positions are correlated with each other. For example, a portfolio with two high-tech stocks might at first glance be considered risky, but if those two stocks tends to move in opposite directions, then the riskiness of the portfolio overall could be significantly lower. So the risk effect of adding a new stock to an existing portfolio depends on how that stock correlates with the other stocks in the portfolio.

When should a company issue stock rather than debt to fund its operations?

There are several reasons for a company to issue stock rather than debt. If the company believes its stock price is inflated it can raise money (on very good terms) by issuing stock. The second is when the projects for which the money is being raised may not generate predictable cash flows in the immediate future. A simple example of this is a startup company. The owners of startups generally will issue stock rather than take on debt because their ventures will probably not generate predictable cash flows, which is needed to make regular debt payments, and also so that the risk of the venture is diffused among the company's shareholders. A third reason for a company to raise money by selling equity is if it wants to change its debt-to-equity ratio. This ratio in part determines a company's bond rating. If a company's bond rating is poor because it is struggling with large debts, they may decide to issue equity to pay down the debt.

If inflation rates in the U.S. falls relative to the inflation rate in Russia, what will happen to the exchange rate between the dollar and the ruble?

The dollar will strengthen relative to the ruble.

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DIVERSITY

The Vault MBA Career Bible

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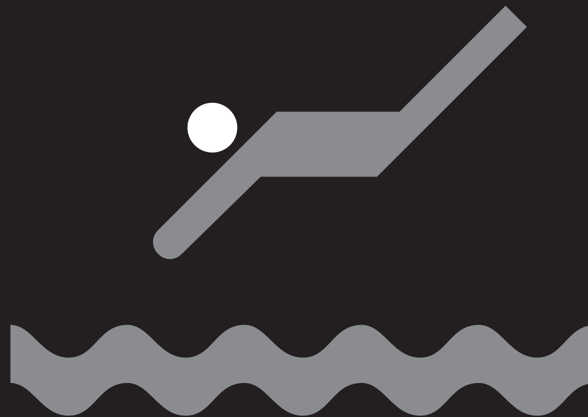

Around here, there is no shallow end

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THE IMPORTANCE OF MENTORS

What makes the difference between a career that thrives and one that stalls? For many women and minorities, the narrow gap between failure and success is bridged by mentorships. Mentors are people who share their general business knowledge, as well as their knowledge of a specific company, with lucky mentees (someone who is mentored). Here is some advice on how to make these valuable relationships work for you.

Mentors can keep you with an employer

After several years at the prestigious consulting firm Booz Allen Hamilton, Cathy Mhatre had her first child. Mhatre credits her mentors at Booz Allen with keeping her at the firm. "I've now been at Booz Allen for six years, which is unusual for any consultant. One of the main reasons I am still here is because there were people who wanted to keep me here." Mhatre estimates that she has "four to six" mentors at the firm, and advises, "Because women mentors are scarce in general, find enlightened men."

Have many mentors for many reasons

Do you need help on balancing your family life and career without sacrificing your career viability? You could probably use some help from a mentor who's done just that at your company. Your work/life balance mentor, however, may not be the same person who can help you polish your presentation skills and confidence. If you seek someone who will be your advocate at performance and promotion reviews, look for someone at least two levels above you (or with four or more years of experience at the company).

Find out if your employer assigns you a mentor—then keep looking

Increasingly, employers assign mentors to incoming associates—a practice that has been common at law firms for some time and is spreading rapidly to other industries as well. Some consulting firms have entire mentor family trees—with a "founder" mentor, his or her mentees, their mentees, and so on. Make sure to take advantage of these mentors, who have specifically volunteered to serve as resources.

At the same time, the most valuable mentors are normally the ones that evolve from everyday working relationships. If someone appears willing to share their experience and skills with you and takes an interest in your career, it is likely that they would like to mentor you in some way.

Don't expect your mentor to share your background

While it's terrific to have mentors that share your ethnicity or gender, it's no sure thing. Some of the MBAs we spoke to indicate that the old "succeed and close the door behind you" ethos is still in existence. "When I was working," says Lanchi Venator, a NYU Stern MBA graduate, "it seemed that most successful women were not open to helping other women out. It was almost as if they were saying, 'I made it when it was tough on me. Why should I soften it for you?'"

Be careful of having only one mentor

One-on-one mentorship has its pitfalls. Corporate historians may recall the case of Mary Cunningham and William Agee at Bendix Corp. After rising rapidly through the ranks of Bendix, Cunningham, a 1979 graduate of Harvard Business School, was accused of sleeping with her mentor. Cunningham eventually left the firm. Even when the shadow of romance doesn't enter a close mentorship, mentees with only one advisor run the risk of being seen as an appendage or sidekick, not a full professional. Whenever possible, seek mentorship from a wide variety of people.

Tips for Mentees

It's not enough to find a good mentor—it's just as important to use them correctly. Here are a few tips to make the most of your mentor relationship.

- Find mentors at all levels of the company. The classic mentor is someone a few levels above you in an organization—close enough to your experience to guide you upwards in the ranks, experienced enough to have some pull. But you can also gain experience from mentors at your level and at other companies as well. Your business school professors are another invaluable set of potential mentors.
- Don't approach someone and formally ask them to be your mentor. This kind of artificiality is akin to handing your business card to someone and asking them to be your contact—it's too artificial to take root. If someone wants to be your mentor, they will indicate that fact through the interest they take in you.

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- Keep in touch with your mentors. Mentorship is a relationship, and relationships are built from frequent, informal contact. This is important even when your mentor is assigned to you by your company. If you move on from a company, stay in touch with your mentor there.
- Establish trust. Everything you discuss with your mentor is between the two of you.
- Have realistic expectations. Your mentor is an advisor and advocate—not someone to do your career networking for you, or someone to cover your errors.
- Find your own mentees. Mentorship is a two-way street. As soon as possible, start finding people who are willing to learn from you. You never know when the mentee will become the mentor!
- Don't pass up the opportunity to have a mentor. Having a mentor can make a major difference in your career path and your self-confidence.

VAULT DIVERSITY Q&A: PIPASU SONI, FINANCIAL ANALYST, HONEYWELL

Pipasu Soni is a graduate of the Johnson School of Management at Cornell University. A former engineer of Indian descent, he previously worked at Ingersoll-Rand before getting an MBA. He currently works in Minneapolis as a financial analyst with Honeywell's Automation and Control Solutions (ACS) division, an $8 billion division encompassing seven different strategic business units including environmental controls, fire solutions, security systems and more. He took time out to talk to Vault a bit about being a minority MBA and working at Honeywell.

Vault: How did you end up in your current position? Did you go to business school knowing you wanted to do finance?

Soni: Actually, I was initially interested in going into marketing, but after the very first semester, my focus shifted to finance. Previously I worked in new product development for Ingersoll-Rand. There's always some tension between the engineering and marketing side during new product introduction, and I was interested in exploring the marketing/product management aspect, to get more of a general management perspective.

But as an engineer, I enjoyed the technical side of finance and the role it played within an organization. When it came to recruiting, I really liked the Finance Pathways Program and the fact that the finance group at Honeywell is one of the keys to implementing the strategic vision of the organization.

Vault: Did you intern at Honeywell?

Soni: No actually, I interned with a consulting firm. I wanted to find out more about the consulting field, and decided it wasn't for me. I enjoyed being part of the day-to-day operations of an organization where I could influence the performance and visibly see the product. I knew Honeywell would be a great place to leverage my past experience with Ingersoll-Rand.

Vault: What sort of program were you hired into?

Soni: I was hired into Honeywell's Finance Pathways Program. It's one of their career development programs for MBA graduates. The program consists of two 18-month assignments across different Honeywell businesses. I'm in my first rotation, which ends this December. My current assignment consists of working in the corporate finance group supporting the annual operating plan, strategic plan, corporate initiatives, and other functional areas—Six Sigma and Technology. At the end of the assignment I'll move into an operational finance role at a business unit level.

Vault: Is there a formal mentorship program with the Pathways program?

Soni: No, not "formal." Mentoring takes several forms at Honeywell. All employees are encouraged to seek out mentors as well as offer to mentor others. My particular businesses assisted me in identifying a formal mentor at the beginning of my assignment. The main focus of my mentor is to provide a contact that can give me insight and advice as I move throughout my career.

In addition, you receive mentoring through working with managers on assignments. Also, your supervisor gives you regular feedback on performance and instructs you on training you should pursue.

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Vault: Are there diversity organizations for you at Honeywell?

Soni: Yes, there's an Indian and Asian Association that meets on a regular basis. These groups usually meet once a month for a networking hour or a guest speaker presentation. Honeywell also has several other minority employee groups throughout the company, like the Hispanic Network and the Black Employees Network.

Vault: Did you get the feeling during recruiting that Honeywell targets minorities and women for diversity hiring purposes?

Soni: No, I don't think Honeywell specifically targets minorities, but focuses on recruiting individuals that are the right fit with the company. Honeywell defines diversity more as individual uniqueness. I don't think it's just gender, race and ethnic background, but also things such as educational and cultural background and work experience.

With that said, Honeywell's incoming Pathways class is a diverse group similar to what you would find in a typical MBA class.

Vault: What attracted you to Honeywell?

Soni: The things that attracted me the most were the people and the job assignments. For me, having a first assignment in financial planning and analysis at the corporate level allowed me to understand the strategic vision of the organization before moving into a business unit role.

Other things unique to Honeywell included the ability to work across several functions, mandatory green-belt training and certification for all incoming MBAs, and ability to switch roles—from finance to marketing if desired. I spoke with several Cornell alumni and other Pathway program members before joining and it seems that our perspective of Honeywell is very similar.

Vault: What aspects of your MBA education do you think have proved most helpful in your experience so far at Honeywell?

Soni: In my current assignment, finance, accounting and leadership classes have been the most helpful. The classes in accounting and finance have been invaluable in reviewing business unit results. The classes in leading, communicating and team building have been also valuable in day-to-day communication getting people to meet deadlines and goals.

You learn about metrics in business school and using metrics to drive performance, but you don't realize the significance until you actually use it. It's been a great experience, and I feel like I'm going to the next level in my ability to lead teams and drive results.

VAULT DIVERSITY Q&A: ANN SILVERMAN, M&T BANK

A graduate of the Wharton School at the University of Pennsylvania, Ann Silverman was a project manager and exhibition developer at the Smithsonian Institution in New York prior to business school. She decided to get an MBA in order to have a greater impact on the community in which she lives and ended up choosing to join the executive associate program at M&T Bank in the Washington, D.C. metro area after graduation. She took time out to talk with Vault about her choice of regional banking and about being a woman professional in finance.

Vault: Going into business school, did you know that you wanted to go into finance and commercial banking?

Silverman: I knew that I wanted to go into finance, but I suppose coming from such a different background, I didn't know what individual buckets [in finance] there were. Once I got into business school and understood more, I knew that commercial banking in particular was what I wanted, and that I wanted a regional bank.

Vault: What in particular about regional banks and commercial banking appeals to you?

Silverman: At the Smithsonian, one of the things I loved most was the community impact of the job, but I felt that I wasn't going to have a real impact until I had a profession that hits people's wallets. When I looked at the landscape out there I thought, "Wow, commercial banking is really a wonderful area that contributes to the businesses in the community and the community at large."

Vault: Why did you choose M&T?

Silverman: Looking at all of the mergers and acquisitions activity that have gone on in the banking industry, I really wanted to find a place where I would have opportunities for business development and client interaction earlier rather than later and a smaller, regional bank seemed the best place to get this experience and the chance to contribute in meaningful ways. And M&T's mission emphasizes being really involved in the community, and I take that very seriously.

Vault: Can you describe the program that you were hired into? Is it a rotational program?

Silverman: M&T has what's called the executive associate program. It's not really a formal rotation program; you're hired into a functional position. I was hired into commercial lending as knew I wanted to be a lender. In my case, my title is relationship manager. "Executive associate" is more of a hiring title.

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Vault: How long are you in the executive associate program?

Silverman: The first year is the more defined part of the program, though the bank does track us as executive associates throughout our career.

The first year has really been a mix of both project work, which gives you exposure to people throughout the bank, and learning the skills to being a lender, everything from the financial and industry analysis and the business development skills to integrating yourself into the community.

Vault: Are there training sessions for executive associates outside of on-the-job training?

Silverman: In the first year, we have seminars. Almost once a month, all the MBAs are brought together at the bank's headquarters in Buffalo. Each time, there's a lunch with one of the members of the executive committee, and bookending that in the morning and afternoon are presentations from departments throughout the bank. This way, you get a chance to meet the other EAs that you've been hired with and the managers and staff that work across the bank.

Vault: How many executive associates were there in your class?

Silverman: I believe there were 21 that were hired in my class.

Vault: Did you have any concerns about going into finance, which is notoriously male-dominated? And do you find, in comparing notes with your business school classmates, that commercial banking is any better than other areas of finance, such as investment banking or investment management?

Silverman: I would agree that finance is an area where women are underrepresented. I knew that that would be part of the world that I would enter regardless of where I went into finance. I don't feel that there's a difference between investment banking and commercial banking.

With the issue of representation of women in finance, it's only going to change as more of us come into the field. There are a lot of women who have certainly gone before me, and we need to keep that momentum. Taking my peer group at Wharton as an example, many of the women that I was friends with are going into finance, so there's continued progress.

Vault: How many women are there in your executive associate class at M&T?

Silverman: There were three of us. I know them quite well—we speak frequently and try to foster close relationships with each other.

One thing that was important to me about M&T is that it has a diversity council. It's a bank-wide initiative that's headed up by a gentleman on the senior committee of the bank. Particularly as the bank has grown in the last three years, it has made an effort to takes issues of diversity seriously, as evidenced by the formation of this group. The idea that you've really got to grow and nurture that, it doesn't happen overnight.

Vault: What types of companies and organizations are you working with as a lender?

Silverman: We service middle market companies, which are companies that have revenues above $10 million. The economy in D.C. is incredibly diverse. There are lots of life sciences and biotechnology companies, there are government related contractors, high technology companies. Just everything under the sun.

Vault: And how do you go about developing business with these organizations?

Silverman: One of the ways that we get a lot of business is through referrals. And one of the ways to do that is to make sure you're really well networked with accountants and lawyers in the region and others that work with businesses. People in the bank are very generous about making sure you get the external introductions you need. There are many business organizations in the county that have breakfasts, lunches, dinners, etc. Let's just say that my evenings are quite full.

Vault: Do you work with professional groups for women with respect to business development initiatives?

Silverman: Oh, yes. In the D.C. region, there's a group called Women in Bio, there's one called Women in Information Technology—there are a lot of those groups, and those are definitely resources I tap into.

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ROTATIONAL PROGRAMS

The Vault MBA Career Bible

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MBA ROTATIONS

The internship after the first year of business school is a great opportunity for MBA students to experiment a bit and get a taste of a specific job or company. What if you're now in your second year and looking for your first position after business school, but still would like to try your hand at a variety of positions?

Some major employers provide rotational MBA hiring programs for new business school graduates that provide just this opportunity. MBAs who join rotational programs are hired into a specific function such as finance or marketing, but then can rotate through different specialties within the broader function (for example, treasury vs. risk management in finance). Rotations also allow for new MBA hires to gain experience with different business units at a large organization.

The following Vault Q&As will help give you a sense of how some of these rotational programs work.

VAULT Q&A: FEDERICO SERCOVICH, CITIGROUP

Upon graduating from the University of Maryland's Robert H. Smith School of Business, Federico Sercovich, joined Citigroup's rotational MBA Management Associate program with the company's North American credit card division. The program consists of two one-year rotations. Now finishing up his second rotation, he spoke with Vault about why he chose a rotational program and his experience with it.

Vault: Tell me a little bit about your pre-business school background.

Sercovich: I'm originally from Argentina. I spent four years doing marketing in Chile, in a variety of industries and functions within marketing. First I worked with the country's largest global advertising firm, BBDO, then at L'Oreal in brand management, then with B2B marketing for a smaller regional telecom.

Vault: Did you want to do a career change from marketing when you went to get your MBA?

Sercovich: Overall, the idea of doing the MBA was the opportunity to expand my skill set and move on to a more general management-oriented career path.

The management associate program at Citigroup allowed me—in a rather "safe environment"—to gain more experience in different business functions. While marketing is still my passion, I've expanded my skill base to achieve my long-term aspirations.

Vault: What do you mean by a "safe environment?"

Sercovich: You know it's a one-year term job, and so you get to learn a lot and to add value at the same time. However it's not something you will be doing for more than 12 months, it has a defined term, which allows you to go beyond your professional comfort zone

For example, during my current rotation which I'm finishing up this week, I'm in a CFO role supporting a new product function clearly outside my comfort zone. I was encouraged to take the risk and I've seen other people doing it and succeeding at it. The program gives you the opportunity to go ahead and do these kinds of things.

Vault: So tell me a little bit about the program and the rotations that you've done.

Sercovich: It's a two-year program, with two one-year rotations in different areas. My first rotation was in a marketing/strategy role in our merchant acquiring business. With that group, the customer is not the cardholder—unlike the rest of the North America Cards, it's merchants who want to take credit cards as payment instruments. During said rotation, I had the opportunity to leverage my B2B skills, and it provided me with a broad view of the payment landscape and the consumer's behavior at the point of sale.

Vault: Did you know that you were going to that type of position when you joined the management associates program?

Sercovich: I was actually first a summer associate during the summer between my first and second years of business school. I was in the e-business department, working with the strategic alliances team with various partners on different cross-sell initiatives.

At the end of the summer, at the end of my performance evaluation I was offered a position in the MA Program, which I happily accepted. The way it works—you know you have a job, but you initially don't know in which business you're going to be working. When it's closer to the point of joining, you start an interview process. You meet with different managers and network. I think it's pretty cool because you are completely in charge of your career choices—you get to decide for which opportunities you want to interview.

Vault: So what about your second rotation, your current role.

Sercovich: It's a CFO role in an area called cross-sell. I provide financial planning and analysis support for a new set of products under the umbrella of the alternate lending franchise. The products are unsecured personal loans.

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These are new products, and this is a function I haven't been exposed to in my past. In this role, I do financial forecasting and profitability analyses, I have been solely in charge of the development of the 2006 financial plan for these products.

Vault: As a role outside of your "comfort zone" how have you found this experience?

Sercovich: Well, it's definitely stressful, but very exciting. The numbers I report roll up all the way to the CEO of Citi Cards and that's a big responsibility. The value I contribute to the business is clear and tangible.

Vault: So what are you drawing on to do your job, given that your background is in marketing?

Sercovich: It's part business school theory, part on-the-job training, and a lot of common sense. It's not rocket science—the math is fairly straightforward—but it was definitely a good challenge. I was able to put together from scratch the forecasting models for the business, which are now used every month.

Vault: Is there a formal mentorship program component to the program?

Sercovich: Last year, we joined the overall Citi Cards mentorship program, through which the MAs are paired up with a mentor who has been in the company for a while. But I think there is a huge component that is totally informal. As an MA, many doors are open, many times you can just call up a senior member of the organization and ask them for some time in their calendar. They are open to help you, and they give you wise career advice. It's sort of weird sometimes to be talking with these senior leaders who are dedicating part of their valuable time to giving career advice to a management associate.

Vault: So what will you be doing once you finish this rotation?

Sercovich: I have accepted a role in Citigroup International Cards, I will be working on strategic initiatives with different regions—global competitor analysis, different practices and products, taking a look at what's been successful in North America which could be rolled out elsewhere.

VAULT Q&A: REBECCA PRESTON, CHEVRON

After graduating with her MBA from the University of Michigan Business School, Rebecca Preston joined Chevron's finance MBA development program, one of several MBA hiring programs maintained by the company. After stints in London and Houston in a variety of roles, Preston returned to the company's corporate headquarters in California to oversee the program. She talked to us about the program, which has been around for close to 60 years.

Vault: How many MBAs does Chevron hire a year?

Preston: For the finance program, we just increased the target this year. Historically it's been six to eight and it's now eight to 10. The HR program does about four, the marketing program hires about four, supply and trading out of Houston hires about three, global gas is considering starting and MBA program, and procurement hires in the neighborhood of four. Every group has MBA summer interns. Finance has also increased its intern target, from six to eight; the other programs do between two and four.

Vault: How long has the finance MBA program been running?

Preston: The program started in 1946. We'll be 60 years old next year. The other programs are more recent.

Vault: I'd imagine that would mean that a lot of the company's leaders have come through the program.

Preston: Yes. The former chairman came through the program. The current vice chairman is off the program, our head of international upstream (exploration and production), vice president of government and public affairs, and our CFO are all program alumni. The finance heads for major strategic business units are off the program; the comptroller, the treasurer, they're all from the program.

Vault: Is there any crossover between the various MBA programs in terms of rotations?

Preston: Not in terms of rotations. Functionally the programs are quite different. However, we do some joint events. Typically these would be around general industry or company knowledge. For example, we bring in external instructors—last week we had a geophysics professor, Dr. Hines from University of Tulsa, lecture about topics from how the earth was formed and how oil was created through to drilling and production of resources. It's a very complex industry, so getting fluency outside of your discipline is important.

Vault: In what types of roles and locations are incoming MBA hires for the finance program placed?

Preston: I've got eight people coming in this year. Six are starting here in California, two are overseas …

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Vault: You're already sending them overseas for their first positions?

Preston: These two are returning interns. If they've had an internship at HQ and so grounding with us, we're comfortable in sending them overseas right off the bat. One's in Aberdeen [Scotland] in the North Sea, and another's in Singapore with our treasury function. The international component is increasingly important.

Vault: How long is the program and how many rotations do employees do?

Preston: It's a two-year program. They do three or four rotations. Domestic rotations are typically six months long. Sometimes the international assignments will be longer, and someone may elect to do three rotations with a longer, more in-depth experience overseas. This is particularly true of people who have interned here. Other people might feel strongly they need to see four different areas while on the program.

We always try to maximize the diversity of experience with different business units, and different finance functions. I get contacted from Chevron businesses all over the world looking for the talent. Every month I send out an update that shows where everyone in the program is in the company, and what opportunities have come in.

We encourage people to do a rotation outside of the finance discipline, too, and we have had many people cross over in past years.

Vault: What sort of rotations would they do outside of finance?

Preston: Typically people cross over into two areas: planning and business development. The planning roles are corporate strategy roles within the business units—developing the business plan, the strategic plan for the organization, within overall corporate strategy. The business development roles might be supporting commercial teams looking for new opportunities. For example, you might be supporting a team that's negotiating for new opportunities in Russia.

Vault: With the program having been in place for so long, there must be a lot of alumni from the program.

Preston: Yes. There are about 150 alumni and we've got a very active alumni network for the program. As the program manager I maintain all that information. We have two to three events a year that pull in all the alumni. We do a "family picnic" every year. We have a summer cocktail, where people meet the interns and the new hires. This year, the CFO was there, the head of investor relations was there, and other senior people. And every year we do the holiday luncheon and that pulls in all the alumni as well. These are typically in the Bay Area.

About a quarter of the alumni are international now. There are alumni in Moscow, Kuwait, London, Singapore, Scotland, Barbados, Beijing, Bogotá, Angola, Venezuela…

Vault: Is there any resentment among other finance professionals toward what might be thought of as an elite group?

Preston: There's definitely the risk of it becoming sort of an elitist group, and if that were to happen, the program would lose much of its effectiveness. But that hasn't happened because we're highly selective in who we bring in. Our industry is enormously complex, so you have to be humble and learn from the experienced people around you. You also have to be very capable so that you can take these learnings and produce superior results in a short period of time (six months or less for the rotations). Fit is very important—we have a highly collaborative and cooperative culture at Chevron.

Bringing in people with strong teamwork orientation, combined with demonstrated performance, means that rather than resentment, there's a lot of respect for the program and its members. They're able to perform at a high level quickly so people are clamoring for program members to work on their teams.

There's brisk, brisk demand for program graduates once their 24 months on the program is over. A big part of my job is matching the right opportunity with a program member's individual interests and development goals. It's quite common to move every 18 months to three years after you're off the program, because you're building up a broad base of experience.

Vault: Do most of the people who join the program have energy industry experience?

Preston: Not necessarily. I'd say it's less than a quarter that have direct industry experience, although a lot of them have technical backgrounds, such as engineering or geosciences. A lot of people have finance backgrounds or economics backgrounds.

Vault: But when interviewing, you're trying to make sure they are interested in the industry.

Preston: That's very important. In the first round for full-time hires, I spend almost all of the time trying to understand fit and motivation—is energy something they're passionate about? Will they thrive in our culture or clash with it? I then use the second round to push on the technical skills. Can they do the job? We're looking for every hire to be a career hire. We have 90 percent retention over 10 years. Fit and motivation is what's going to sustain you over the long run.

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Vault: Is there a formal mentoring program?

Preston: We do not do a formal mentor matching in the finance program, but some of the other programs do. Instead, our alumni are very receptive to program members. I facilitate connections and our members find diverse and successful mentoring relationships that way. For interns we do match them with a "buddy," someone who's currently on the program and can help them evaluate us as a full-time employer.

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INDUSTRY OVERVIEWS

The Vault MBA Career Bible

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Aerospace and Defense

INDUSTRY OVERVIEW

The Wright stuff

The aerospace industry consists of companies that produce aircraft, spaceships and the jets, engines and rockets that propel them. The defense industry produces a complementary group of goods, including satellites, ships and submarines, tanks and armored vehicles, and guns, bullets, explosives and other weapons. These industries are closely allied, with companies frequently participating in both spheres.

The aerospace industry makes most of its money ($20.9 billion, on revenue of $204 billion in 2008) by supplying individuals and commercial carriers with planes for business or pleasure. The commercial airline industry is notoriously cyclical, operating at the mercy of the business cycle; factors like the price of airline tickets and terrorism (or the threat thereof) can also affect the number of people who travel by air—and hence the rate at which airline companies purchase new planes. The top names in the segment are Boeing and Airbus, with smaller players as well, like Textron (which owns Cessna), Embraer and Bombardier

The lucrative nature of defense contracts shouldn't be underestimated, either: the U.S. government spent about $200 billion on defense in 2008—give or take the odd hundred million allotted for special items during the year. Since making fighter jets and cargo planes doesn't require wildly different skill sets, and defense contracts are a generally recession-proof form of revenue, nearly all aerospace and defense companies have arms that handle both commercial and military production.

This applies to most of the companies involved in civilian aircraft manufacture—Boeing derives nearly half its revenue from government contracts, while archrival Airbus is partly owned by EADS, the European Aeronautic Defense and Space Company. Embraer and Bombardier also have interests in both commercial and military aircraft and technology. Pratt & Whitney, a subsidiary of United Technologies, Westinghouse and GE, Rolls Royce, and Daimler-Benz all produce aircraft engines. Companies that are only locked in to military projects include contract leader Lockheed Martin, and ship- and submarine-builder Northrop Grumman, General Dynamics, Raytheon, BAE Systems and United Technologies.

Plane dealing

The commercial aircraft market (worth $86.6 billion in 2008) is dominated by Boeing and Airbus. The biggest rivalry in the industry is an international one, between U.S.-based Boeing and European-owned Airbus. These companies are the two largest suppliers of large jets to airlines, and summer 2007 saw them battling it out with their newest offerings. Airbus hopes to tempt buyers from the airlines that ferry large numbers of people between major airports with its A380, a double-decker plane of Brobdingnagian proportions. It seats 500 passengers, give or take, but has been plagued by problems with its assembly and wiring, which delayed its release by two years, driving Airbus into the red—and its customers to Boeing's products, like the proven 747, which seats about 400.

Boeing's newest offering, the 787 Dreamliner, was set to debut in July 2007, but has suffered its own setbacks (a labor strike, slumping demand for travel and carriers' capacity pullback); it's now scheduled the first product delivery for the first half of 2010. The plane was designed to ferry comparatively smaller numbers of passengers—only about half as many as the A380—but its carbon-composite construction offers several advantages. The plane is lighter, and hence more fuel efficient; the construction also means that the plane requires less maintenance and isn't as prone to metal fatigue (the damage done to metal by cyclical loading and other wear and tear). This is a boon to the airlines, whose margins have fallen as customers become savvier about comparison-shopping for tickets. The composite structure also allows for several passenger-pleasing features, like larger windows and higher cabin pressure and humidity. All of these were factors in the wild enthusiasm that initially greeted the Dreamliner—the commercial airliner's plane was the fastest-seller in aviation history.

A new player enters the game

Boeing and Airbus may face a third competitor in the years to come. China is reveling in its newfound industrial might, and plans to launch its own aircraft manufacturer. Already, AVIC (the China Aviation Industry Corporation I) has produced the ARJ-21, a short-haul plane tailored to the vagaries of air travel in China that can carry about 80 people; it is scheduled to enter service in 2009. But that's not all. The Chinese government is loath to see its rapidly growing market for air transport—expected to create a demand for 1,500 planes by 2010—farmed out to foreign companies, and AVIC has its sights set on producing large jets for the international market.

DE-fence!

Speaking of international relations, the defense side of the industry has been affected on two fronts. It weathered a sustained wave of large mergers, as well as a shift in the way wars are fought—changes in the practicalities of warfare. As current engagements have shown (i.e., the agonizing and protracted conflict going on in Iraq and Afghanistan), future battles are less likely to be fought on a traditional battlefield against a professional army fielded by a government. Of course, this means that enormous tanks are out—and smaller, faster and lighter equipment is in.

Automation is also a growing trend. Machines, unlike humans, never need to sleep or eat, are always paying attention, and can be easily repaired or replaced in the event they are damaged. Moreover, if a machine is shot down, no pilots or other soldiers are hurt—a big plus, to say the least. In

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2007, Honeywell's MAV (Micro Air Vehicle) was sent to Iraq to help troops identify and defuse bombs and other threats. The device, about the size of a breadbox, consists of a fan in a cylindrical housing (which provides lift) as well as a small payload of wireless cameras and other sensors. The MAV can hover inches above a suspected bomb, allowing it to be more closely examined, or climb to about 10,000 feet for surveillance of a larger area. Remotely operated sensors are also the latest trend in border surveillance.

Also in 2007, Boeing set up its first 27-mile stretch of monitored border between the U.S. and Mexico. Aimed at preventing smuggling and illegal immigration, the border security consists of a series of towers outfitted with radar, cameras, loudspeakers and data links. The towers are tall enough to see over trees and other obstacles, and allow rangers to monitor the movements of people as far away as several miles.

In addition, though President Obama pledged to pull all troops out of Iraq by August 2010, the U.S. is increasing its presence in Afghanistan, so the defense industry will probably stay busy. Spending on weapons procurement rose from $54 billion in 2001 to $146 billion through 2008.

Spatial relations

Then, of course, there's space, the final frontier, which is soon to become as crammed with tourists as Times Square the weekend before Christmas. After Richard Branson, owner of a number of Virgin properties, announced that he would be offering space tours via Virgin Galactic in 2004, EADS Astrium, the space wing of the European defense giant, announced in 2007 that it would be offering 1.5-minute stints in a weightless environment for 200,000. The spaceship, which has yet to be built, would take off like an ordinary jet before lighting its rocket.

More prosaically, most effort in the space division of aerospace is devoted to the design, launching and maintenance of satellites for GPS devices, communications, weather prediction and research, television and radio. Specialized leaders in this field include Alcatel Space, Astrium, Orbital Sciences and Arianespace, a division of EADS. Government and military demand for satellite bandwidth is expected to quadruple in the next decade—and, as such, the two groups (which can't seem to launch satellites fast enough) have been attaching their tech to civilian birds. Other companies involved in the sector include Boeing, Northrop Grumman and Lockheed Martin. Major aerospace and defense companies continue to build space activities into their long-term investment plans, even though shooting for the stars won't turn cash flow positive in any timeframe outside of a science fiction novel.

SKY'S THE LIMIT

According to the AIA (Aerospace Industries Association), 655,000 people were employed in the aerospace industry in 2008, and but only about one-half of those jobs were in manufacturing. The average wage for these workers is almost $30 per hour (at a typical 43.5 hour workweek, this translates to $67,000 annually).

According to the Bureau of Labor Statistics, the aerospace industry has a higher-than-average number of people with advanced degrees in subjects like mechanical and electrical engineering. In addition to engineering aptitude, defense industry companies perennially seek employees who can gain top security clearances. In order to obtain this status, a candidate must be sponsored by an employer (either a corporation or the government), and must be a U.S. citizen. Critically, he or she must undergo a thorough investigation of his or her background, the result of which must show the candidate is of high moral caliber.

Giving the kids their wings

Companies are trying to recruit the latest crop of young 'uns, as a quarter of the workforce was said to be retirement-ready in 2008. In order to woo their newest hires, major aerospace firms like Boeing and Lockheed Martin took a Web 2.0-type approach. Boeing lured potential job seekers with the promise of a shot at winning an iPod, as well as sponsoring a Facebook group for former interns. Lockheed allows potential job seekers to instant message its recruiters, while Rolls Royce's engine department established a fast-track management program to promote new hires into management positions after a few years.

Roger, niner

So you've electronically networked your way into an interview. Now what? Insiders report that questions include behavioral questions like, "Tell me about a time when you were working in a group and something when wrong. What went wrong? What was your role in the situation? What was the outcome?" While some engineers report being given technical questions to test their expertise: "Have you ever had to resolve a complex technical challenge without all of the necessary information? If so, how did you find out what you needed to know?" Companies can give as little as one interview or as many as three, and these vary from an informal chat on the phone with a recruiter to a panel interview. Another common question relates to the interviewee's eligibility for security clearance, a necessary attribute when working in some defense sectors. Only U.S. citizens can be granted security clearances, and must submit to having their backgrounds thoroughly searched in order to obtain it.

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Looking up

In the long term, both the aerospace and defense industries are poised to grow. Worldwide air travel is forecast to increase to nine billion passengers by 2025—twice the number that fly the skies today, and someone's got to build all those planes. Growth in this sector might be tempered by an economic downturn in the U.S. or Europe, which still account for the majority of airline customers, but it will be tempered by expansion in Asia.

On the military front, for the time being at least, politicians are unlikely to reduce their commitment to defense spending lest they appear to give low priority to domestic security issues. Furthermore, projects and spending are largely locked in through fiscal year 2010, and the AIA expects that sales growth in defense will continue at a similar level until 2012 or so.

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Agriculture

INDUSTRY OVERVIEW

Feed me

The agriculture industry's broad scope includes everyone from farmers and ranchers to the scientists who devise new and better foods and the businesspeople who keep it all running. The various disciplines within the industry seek ways to feed Earth's ever-growing population more efficiently while improving profit margins for food-related businesses. Allied industries provide the infrastructure that makes this possible, including rail and road transportation, pesticides and fertilizers, and processors that transform raw products into comestibles.

Looking at the numbers, the agriculture industry is a massive undertaking. In 2008, more than 87 million acres of land—an area slightly larger than that of Germany—were devoted to planting corn, with wheat production taking up 60 million acres and soybeans another 75 million acres. Soybean production increased 17 percent over 2007's harvest, while corn production was down nearly 7 percent, which still translated to the second-largest harvest in U.S. history (the biggest crop was produced in 2007, the largest since 1944). To feed the protein-ravenous masses, more than 100,000 cattle and 378,000 hogs are slaughtered every day in the U.S.

Agriculture's not just about edibles, though; rather it covers everything that is grown or raised for consumption. Cotton and wool are agricultural products, as are animal byproducts, ornamental plants, tobacco, lumber and the various fruits and grains used to produce alcohol. The industry, unsurprisingly, is huge, accounting for 1 percent of U.S. gross domestic product (GDP). That might seem like small potatoes, but 1 percent of the 2008 GDP is a hefty chunk of change—$14,264,600,000,000, according to the International Monetary Fund.

The farmer's dilemma

Despite its significant contribution to the GDP, agriculture is very risky and often unprofitable. Profit margins, especially for crops such as soybeans, wheat and corn, are very low, so these plants are frequently grown on large, industrial farms, as tiny returns per acre make small-scale farming economically unfeasible. Fruits and vegetables offer higher returns on lower acreage, but the investment in plants, soil preparation and the necessary labor-intensive harvesting makes the likelihood of farmers breaking even in the first few years unlikely.

Farmers are also at the mercy of pests, plant diseases and weather, the king of all X-factors. While insecticides and pest- and disease-resistant strains of plants can mitigate these risks, they, of course, cannot be entirely controlled. Heat, drought, flooding, storms and other "acts of God" wreak havoc on yields and, in extreme circumstances, can even lead to famine. The weather doesn't even have to be especially dramatic to drive up prices: the per-bushel cost of corn in 2006 went up 28 percent, to a two-year high, due to a hot, dry spell in the Midwest in July of that year. In addition, flooding during summer 2008 destroyed about 10 percent of the harvest.

Further complicating matters is the fact that commodities such as corn, soybeans and wheat are subject to market forces. To wit: a good harvest suppresses the price of a commodity and lowers profits, while a poor one raises prices but causes shortages. This inverse relationship between productivity and profit has plagued agribusiness for decades. Government subsidies for corn, wheat, milk, cotton and a number of other farm products also affect the equation. Designed to hedge risks and lessen farmers' financial burden, these subsidies keep agricultural commodity prices artificially low in domestic markets and around the world.

All of the issues detailed above have forced the consolidation of farms and processing firms. Today, the real players in the industry are all big companies such as Cargill, Archer Daniels Midland, Tyson, Perdue, Bunge and Pilgrim's Pride (which filed for bankruptcy protection in 2008). ConAgra, at one time a major farming firm, is currently divesting its agricultural business to focus on branded and value-added packaged foods. Meanwhile, Bayer, Dow and DuPont all have a stake in biotech, fungicides and pesticides, each with its own crop sciences division. And Monsanto is a leader in the genetic engineering field.

Little. Yellow. Different.

When you think of corn, what initially comes to mind is probably something edible: creamy corn on the cob dripping with golden butter, or crisp, salty corn chips or sweet soda. It's unlikely that you would consider postage stamps, aspirin or imitation silk, but all of these goods are manufactured using corn byproducts. Archer Daniels Midland is one of the largest agricultural processors in the world, turning oilseeds (like soybeans), corn, wheat and nuts into food products like flour, sweeteners and emulsifiers, as well as plant-derived wood preservatives, industrial starches (which become everything from wallboard to glue) and ethanol. Bunge is the world's largest processor of oilseeds, turning them into such products as biofuels, livestock meal and mayonnaise, while Cargill is a highly diversified agricultural products processor, making such items as soy waxes, vitamins, pharmaceutical coatings, flavoring agents, dairy and meat products.

Fueling a greener future

Demand for biofuel has made the past few years a boom time for corn producers like Archer Daniels Midland. Ethanol—the alcohol-based fuel produced from fermenting corn, beets, wheat, or any other sugar-bearing feedstock—has quickly become the poster child for America's solution to gas shortages and the greenhouse effect. Mixed with gasoline to create E85 (85 percent ethanol, 15 percent gasoline), ethanol promises to replace

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America's reliance on foreign oil with a renewable, homegrown resource. The flurry of activity around the hot new fuel caused corn prices to spike and corn production to swell in 2007—U.S. farmers planted 93.6 million acres of corn, a high not reached since 1944, when 95.5 million acres of corn were planted to supply depleted allies in Europe. The total dipped to 87.3 million acres for 2008, which is still a lot of land devoted to corn, if you ask us.

Another biofuel seeing growth is biodiesel, which can be produced from vegetable oils, animal fat and even the leftover, artery-clogging grease used in restaurants. In its purest form, biodiesel releases 75 percent less carbon dioxide than petroleum diesel. Additionally, there's no conversion or new technology involved to scare off new consumers—as long as a machine runs on diesel, it'll run on biodiesel. (That's what makes it a potential blockbuster for airlines—a handful of the major air carriers experimented with biofuel by conducting test runs during 2008.)

The growing popularity and potential of biodiesel has increased demand for soybeans (whose oil is a commonly used base), as production of the fuel increased by a factor of five from 2005 to 2007 (490 million gallons!). The first 10 months of 2008 yielded 570 million gallons, on pace to hit 700 million gallons for the year.

Bean there, done that

Biodiesel aside, soybeans have taken a bit of a beating of late, due to the sudden and resounding condemnation of trans fats in American foods. The process of hydrogenation that soybean oil undergoes to lengthen its shelf-life (and that of the products it's used in, including some brands of crackers, cookies and fish sticks) produces the much-loathed trans fats, which are believed to clog arteries and raise cholesterol levels when consumed in excess. Fast-food restaurants and junk food manufacturers are cutting trans fats out of their products in response to growing consumer concern and outright bans like New York's December 2006 decision to cut trans fats from its restaurants. Soybean farmers are being pressured to grow beans that are low in linolenic acid (a substance that causes soybean oil to go rancid), thereby eliminating the need for hydrogenation while keeping the soybean oil flavor intact. However, the conversion to low-linolenic soybeans isn't far enough along to replace the traditional, high-linolenic beans, although production of the coveted bean is expected to increase rapidly.

Not exactly American Pastoral

You're in for a shock if "agriculture" brings to mind amber waves of grain and fruited plains. Rather, agribusiness is as tech-focused and cutting edge as every other industry these days. Steroids, hormones and antibiotics, for example, are routinely administered to U.S. meat and dairy animals. Steroids up the rate at which meat animals transform feed into muscle, while hormones, when administered through slow-release pellets implanted in the animal's ear, cause it to gain weight and, in cows, improve milk production. Hormones are also applied to fruits and vegetables. In order to ship fruit long distances, it must be picked before it is fully ripe to withstand the journey. Once it reaches its destination, it is treated with ethylene, the chemical that, in nature, causes fruits to ripen.

Antibiotics are given to animals to cure illnesses—a frequent occurrence when livestock is kept in close conditions and fed an unnatural diet. Modern poultry flocks, for instance, are so large that sick animals frequently cannot be isolated, so producers treat all the birds that may have come into contact with the infected individual by adding antibiotics to the animals' drinking water. Feedlot-fattened, corn-fed cattle must be given antibiotics, too; the feedlot diet of corn can distress their digestive tracts and lead to fatal infections. Antibiotics are more widely used in subtherapeutic doses, or doses not large enough to cure an infection, a practice that encourages the proliferation of antibiotic-resistant bacteria (much as with a human who takes antibiotics at the first sign of every sniffle). Without competition, resistant bacteria can spread rapidly throughout a population and subsequently be transferred to people who eat raw or undercooked meat.

Begun, this clone war has

Beyond antibiotics and hormones, recent biotech advances have become major issues in the agriculture industry. While farmers have been selecting crops for higher yield, greater disease resistance, better flavor and other desirable qualities for the last 12,000-odd years, we are now able to manipulate individual genes to express specific traits. Genetic engineering has produced Golden Rice, designed to accumulate vitamin A in the edible portion of the grain, a boon for cultures where rice is the staple crop and a varied diet is often a luxury. Insufficient quantities of vitamin A can cause blindness and even death in children.

Researchers are looking into growing oral vaccines for hepatitis B and HIV in tomatoes, bananas, potatoes and even tobacco. Embedding drugs in plants promises a less expensive method than traditional vaccine production, and would make large-scale vaccination of the populations of poorer countries possible. Genetic tinkering has produced plants such as Monsanto's Roundup Ready corn, canola, soybeans and cotton, and Bayer CropScience's Liberty Link corn, which are, respectively, resistant to the proprietary herbicides Roundup and Liberty. Today, nearly all the soybeans and 80 percent of the corn grown in the U.S. is genetically modified, as is 86 percent of cotton yields.

Scientists are also beginning to explore these methods for use on animals, seeking to increase egg and milk production, change fat content and speed maturity. Genetically modified varieties of catfish and tilapia—designed to grow faster—are already for sale in some countries, while bulls are being cloned to improve the breeding stock of cattle. Pet fish implanted with genes that produce luminescent proteins have been available for purchase since 2003.

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However, such tinkering has spawned a number of advocacy groups that fear unforeseen consequences. Many groups argue that direct genetic manipulation could produce harmful side effects that simple hybridization and crossbreeding would not. Others warn that herbicide residue might remain in the tissues of resistant plant varieties, or that engineered genes might cross into wild plant populations. Environmental advocacy groups won a small victory in March 2007, when a federal judge halted the planting of Monsanto's Roundup Ready alfalfa on the grounds that the plant had not undergone complete environmental impact testing before its 2005 release. The debate rages on, now on a global scale: Mexico barred biotech companies from planting genetically modified corn within its borders in October 2006. That same month, Japan increased its testing of rice imported from the U.S., sniffing out unapproved genetically modified rice in the 1.1 million tons of short- and medium-grain rice in its warehouses. And in March 2009, the European Union allowed Austria and Hungary to continue their bans on growing genetically modified corn derived by Monsanto.

The organic green giant

Consumers, motivated by concerns about the above, as well as factory farming, animal cruelty and the health of the environment, are increasingly demanding organic, ethically treated, free-range, and antibiotic- and hormone-free food products. And they appear willing to pay the premium price: according to the Organic Trade Association, Americans spent around $24 billion on organic products in 2008, an increase of 40 percent over 2006. That year, organic products accounted for 2.8 percent of all retail foods sold.

Many businesses are taking advantage of this surge in organic interest. The supermarket chain Whole Foods, one of the more popular purveyors of organic produce, has the highest profit margin per square foot of any grocery store. At the other end of the spectrum, Wal-Mart began offering organic products in 2006. While such produce's widespread availability will certainly have tangible benefits for the environment and for customers, there are some drawbacks. Faced with price competition, retailers will inevitably demand lower prices from organic farmers, which could put them out of business. In addition, though organic produce can be sourced from foreign countries (from China, for instance), regulations stipulating what "organic" means are certain to differ from country to country, or could even be absent altogether.

You just can't get good help these days ...

Despite the increasing reliance on machinery to do the grunt work of the U.S. agriculture industry, there are still some jobs that require that human touch. Unskilled migrant and immigrant laborers have provided this necessary muscle power for relatively low pay for decades, often filling positions that more prosperous Americans don't want. However, as the sanctity of the nation's borders has come to the fore in this era of homeland security, the agriculture industry has struggled to find and keep cheap labor. In December 2006, immigration raids at Swift & Company's meat processing plants (Swift is the third-largest meatpacker in the nation, behind Cargill and Tyson Foods) netted more than 1,200 illegal immigrants—the replacement of which, coupled with lost production, cost the company $45 million. A solution to the problem remains elusive; an immigration bill that would give illegal immigrants a chance to obtain legal status was defeated in the Senate in June 2007, making meatpackers and farmers worry about increased raids and dwindling applicants.

Picking up the bill

Every so often Uncle Sam takes a look at the current policies aimed at aiding the agriculture industry in the form of the highly contentious Farm Bill. In terms of controversy, the 2008 incarnation (also known as the Food, Conservation and Energy Act of 2008) lived up to expectations, only becoming law when Congress overturned a Presidential veto of the bill. In many ways, the Farm Bill provides a snapshot of how the political scene works in Washington, pitting special interest groups and lobbyists against legislators (and one another), as each attempts to get the best possible deal out of the legislation. And, although easily ignored, the decisions of what to include within the bill have serious ramifications not only in the U.S., but around the world. This is only exacerbated by the fact that the provisions of the bill will shape the agriculture industry for years to come. The 2008 bill, for example, is effective through 2013 (or possibly longer, given the length of time it can take to pass such a gargantuan piece of legislation).

One of the most controversial issues at stake in the 2008 bill was that of farm subsidies. Given the bumper crop prices being reaped by farmers due to record food prices and an ever-increasing demand for biofuel crops, there was a substantial body of feeling that farm subsidies should be cut, both to ease the cost to the U.S. taxpayer, and to encourage free trade around the globe. When the bill was passed by Congress, however, the subsidies were included within it, and even increased in some cases. The reasons for that are several-fold, and include a desire to keep agricultural jobs within the U.S., as well as security concerns and the influence of lobbyists.

One example of how government subsidies affect the U.S. is in the ubiquity of junk food, much of which has ingredient lists that are heavily based on wheat, soybeans, corn, and corn-derived sugars and fats. All of those crops are subsidized by the government, making them less expensive to grow, meaning that they'll pop up more often in the American diet than nonsubsidized crops.

Another bone of contention in the battle over the Farm Bill had to do with the influx of imported food. According to *The New York Times*, the U.S. imports $65 billion in food a year, or double the amount it imported 10 years ago. Consumer groups want clear labeling on imported food, arguing that Joe American has the right to know if the beef on his plate was slaughtered on foreign soil. Opponents (namely, the meat lobby) say that the cost of such labeling would overburden the industry, and they have successfully limited such labeling to seafood despite 2002 legislation requiring country-of-origin labeling on meat, produce and nuts. However, in light of recent scares regarding imported foods—including the massive pet food recall in March 2007 due to tainted wheat gluten from China, and another huge scandal in 2008 (largely limited to Asia) involving products made with powdered

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milk developed in China—those calling for enforced labeling of imported food found more sympathetic ears in Congress, and a provision was included in the bill to place the country of origin on all meats, produce and certain types of nuts.

Other provisions in the 2008 Farm Bill, meanwhile, included extensions to the food stamps program, and a pilot food aid program that involves buying locally sourced food overseas to donate to poor countries rather than shipping American crops. On the “green” side, the bill included extra funding for research in organic farming, and the establishment of incentives and grants to encourage farms to increase energy efficiency and put renewable energy systems in place.

That wasn’t the only eco-friendly piece of legislation, though. The bill also contained a raft of measures—including grants, subsidies and loan guarantees—for driving the biofuel industry forward. A significant amount of money was set aside for research and production of advanced biofuels (i.e., non-corn-based biofuels).

While the bill caused controversy within the U.S., the drubbing it received abroad was perhaps even more significant. Criticized as being anti-free trade, the bill met a significant amount of opposition from foreign leaders who complained that it takes global agricultural policy in the wrong direction. The problem? Subsidies (surprise!) that allow U.S. products a price advantage in the marketplace, thereby disadvantaging poorer countries.

WORKING IN THE INDUSTRY

From farmhand to finance

An enormous range of man- and womanpower is required to keep agriculture humming along. The agriculture industry is exceptionally diverse when you consider the number of different segments it encompasses. Operations include fish hatcheries, apple orchards, flower nurseries, slaughterhouses and more. Farm workers (who account for 90 percent of industry employees) require minimal training, but the Bureau of Labor Statistics (BLS) expects that more efficient machinery will reduce the number of such jobs in the future. On the other hand, small-scale farming, especially of the organic variety, is expected to grow.

A number of positions in the industry require more experience and education, including an agriculture degree and a background in a particular field or specialty. These professionals include managers and, in particular, farm and ranch owners, as well as those who operate ripening facilities or cold storage. In addition, agricultural graders sort products, such as fruits and eggs, and inspectors evaluate the cleanliness of processing facilities.

The agriculture industry has plenty of opportunities for those who want to avoid getting their hands dirty, as well. Commodities merchants are needed to buy and sell grain, cocoa and other articles of commerce to ensure a consistent supply. Ecologists consult for the farming world as the government has grown more concerned about the environmental impact of factory farming on the land and ecosystems. Agronomists (researchers in the many disciplines involving agriculture) often start their careers with a bachelor’s degree, and many have doctorates to perform “pure” research. Logistics experts get the stuff from where it’s grown to where it’s going, while veterinarians keep the livestock healthy (until it’s time to kill it). Along with the usual jobs in HR, sales and IT, lawyers and MBAs are needed to keep good business practices and make sure everyone plays by the rules.

Although agriculture has been around since, oh, say, the dawn of modern man, the industry is constantly trolling for advanced technologies and the scientists who create them. Chemists come up with new coloring and flavoring agents, and discover innovative uses for agricultural byproducts. Agricultural scientists devise new food-processing methods, study soil and animal management, and frequently consult for the government or food processing companies. Bioengineers tweak genetic codes to create herbicide-resistant plants, Mexican jumping beans that can do the Lindy hop, or whatever other special function is required of an organism. Agricultural engineers design farm equipment for increased efficiency and reduced environmental impact. Depending on the career path they wish to pursue, these people generally have advanced degrees. The BLS reported that the agricultural scientist and engineer industries, specifically, are expected to grow by 14 percent between 2004 and 2014.

VAULT Q&A: DARRYL BARBEE, ARCHER DANIELS MIDLAND

As a product manager in Archer Daniels Midland Company’s (ADM) Specialty Food Ingredients division, Darryl Barbee is responsible for shepherding new products through the development process. From ADM’s headquarters in Decatur, Ill., Barbee spoke with Vault about his position.

Vault: Tell me a little bit about your position at ADM.

Barbee: I primarily work on new business development, looking at the possibility of new products in my division to see what will be profitable for the company. I’ll perform market research, as well as find the current market price domestically and internationally. I take a look at competition. Also, as it is important to keep open lines of communication with our customers, I will go out on sales calls to see what ADM products are working best for them or what could be changed.

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Vault: Who are these customers?

Barbee: Our division's customers are typically major baking and beverage companies. ADM products go into food, animal feed, fuel and industrial products, so as a company we have customers in all of those markets.

Vault: As a product manager, what types of positions are your main customer contacts?

Barbee: I interact with research and development, as well as purchasing. I speak with R&D to find out what their likes and dislikes are about the products. With purchasing, I discuss the price of our products.

Vault: Is there a particular product set you work on?

Barbee: Yes. They're called acidulants, which covers citric acid and lactic acid. These are additives that go into food and industrial products.

Vault: Tell me a little bit about your background. Where did you earn your MBA?

Barbee: I received my MBA from Indiana Wesleyan in Indianapolis in May 2002.

Vault: Was it a full-time or part-time program?

Barbee: It was part-time. At the time, I was working for a different company as a financial analyst. Once I earned my MBA, I joined ADM as an assistant product manager for lecithin, a release agent you can find in cooking spray and chocolates, among other things.

Vault: How did you end up transitioning from your finance background into your current position? Were you looking for a change?

Barbee: Actually, when I was in graduate school, one of my professors asked me what I was currently doing. As I told him I was in finance, he told me I was in the wrong profession, and that I needed to get in sales. When I joined ADM, that was the direction that I wanted to pursue. As a product manager, I'm not only in sales, but also using my finance background, as I'm working a lot with numbers—P&L's, etc. It was a perfect fit.

Vault: So what is the project cycle like? How long does it take to launch a new product?

Barbee: It takes about 18 months to two years to get a new product out.

Vault: And how many would you release in a year?

Barbee: I'd say about one. Products can be tweaked many different times before they are released. I would say, if you get one product out a year, you're doing a good job. There are usually about eight to 10 products in the pipeline.

Vault: Does your involvement with a product end once the product is approved?

Barbee: No. From there a plant is built, and while the plant is being built, I interact with the plant to make sure everything is OK. I keep track of the timeline and make sure we're keeping up.

I'm also working with R&D. I'm passing along information I am gathering from the customers about the product. Our main goal is to use our resources to help meet the needs of today and tomorrow for our customers.

I get R&D, sales, marketing and regulatory affairs together. We all make sure we're on the same page. With marketing, I'll assist in developing a brand, logo and sales literature as needed. I'll also work with marketing to talk to the trade publications to let them know we're coming out with a new product.

Vault: What is the most recent product you launched?

Barbee: Calcium citrate. It's used in orange juice, and it's also used in tablets.

Vault: What sort of classes from business school do you find most helpful with what you're doing right now?

Barbee: I would probably say marketing and finance. Also, just being a leader in a group. My cost accounting skills definitely play a huge role in launching a new product. You're looking at estimating packaging costs, what type of packaging, how much do we need to start off with. You're doing this all without any preexisting data, so my MBA, maybe more than anything else, has given me the confidence to handle those challenges managing a new product as opposed to managing a product that's already on the market.

Vault: How do you find working for a large employer like ADM?

Barbee: ADM is a Fortune 50 company, so when I talk to people about working for ADM, they know I am working for a large, successful company. ADM tends to attract and hire the best people.

There are also benefits working at the headquarters of a large organization. There's a gym on site that's free to all employees, their spouses and dependents. At that wellness center, there is also a medical facility with an on-site doctor that employees can use.

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CONSUMER GOODS

Ask for it by name

The consumer products industry produces and markets practically every item an individual can possibly purchase: from canned soup to shaving cream, chewing gum to washing machines—and everything in between.

To get a handle on the market, analysts often divide it into two categories: durable and nondurable goods. As the names imply, the former is comprised of items with (relative) staying power, like home furnishings, jewelry and electronics. The latter includes more ephemeral merchandise with a life expectancy of fewer than three years, like soap, clothing, personal care items and cleaning supplies. Others, however, break the industry down into products that are staples and those that are discretionary—the difference between what consumers need and what they'd like to have. But however long they're intended to last, and whether consumers need them or not, these disparate products all have one thing in common: the overwhelming majority are sold under a brand name.

Brands exist ostensibly as a way for consumers to differentiate one manufacturer's goods from another—but, of course, they mean so much more. A "brand" has two main components. First, there's the association with the brand that the marketers and advertisers wish to cultivate in the minds of consumers, called the brand identity, where the brand promises (among other things) to make the consumer feel happier, more successful, more efficient or more popular. Then there's the idea of the brand that actually exists in the minds of consumers, called the brand image, which depends on how well it delivers on those promises. Effective brands communicate with consumers on an emotional level through advertising, and a buyer's feelings are also colored by previous experiences with the product. Of course, there can be considerable disconnect between the brand identity and the brand image, since a brand's image can be affected by all manner of scandal, rumor and negative press. The brand can also experience a disconnect when the target audience fails to respond to it or finds it undesirable.

Internationalists

Regardless, branding these days drives an enormous amount of consumption. The numbers are staggering—spending on consumer products accounts for two-thirds of the volume of trade in the economy, and yearly spending on consumables hovers around $7 trillion in the United States alone. In addition, consumer products are making inroads into the furthest reaches of the globe. As American and European markets become increasingly saturated and competitive, manufacturers of consumer products are turning toward emerging markets in boom nations like those in the so-called BRIC (Brazil, Russia, India, China), Turkey and Eastern Europe.

These growing markets are a cash cow for consumer products manufacturers. Between 2003 and 2007, an index compiled by Morgan Stanley of the value of public companies in 25 developing nations increased nearly 250 percent. One reason for this phenomenal growth is tied to the World Bank's estimate that, by 2030, what it defines as the middle class will triple to include 1.2 billion people—and the overwhelming majority will live in the developing world.

But reaching customers in these dynamic economies is not simply a matter of shipping products to stores and advertising that they're ready to be taken home. There are a number of factors that companies must consider before taking on an emerging economy. Doing so is a risky endeavor, and is not a route to guaranteed gains. Emerging economies are unstable and prone to sudden financial crises, as in Russia in the late 1990s and Argentina in 2002. To further complicate matters, emerging economies often play by different rules than developed ones. Governments in these countries can be prone to cronyism and corruption, impeding the profitability and functions of businesses. Moreover, developing countries' infrastructure may be poorly maintained or absent entirely: utilities necessary for the smooth operation of business—such as electricity, clean water and reliable modes of transport—may be sporadically or entirely absent, leading to manufacturing difficulties and fragile supply chains. While China's economic liberalization may have spurred a surprisingly high growth rate, it's still a communist country, operating under the dubious premise that bureaucracy can harness the market.

In addition, regulation of consumer products in developing markets may be notably absent, as in early 2007 when food products from China contaminated with melamine killed house-pets in the United States. In addition, cute toys coated in lead paint, counterfeit toothpaste full of lethal chemicals, and defective tires that allegedly caused fatal accidents led to multiple recalls of Chinese-made imports and brought heavy media and legislative scrutiny to the issue.

The economic climate in a particular country is another hurdle that consumer products companies must sometimes overcome. While the elite in developing nations enjoy spending power and a standard of living roughly on par with that of Western countries, the majority of the population—95 percent, by some estimates—may live on about $2,000 per year or less. Still, they are just like consumers everywhere: they desire products that make their lives easier and more pleasant, and are willing to shell out (within their means) for little luxuries. So, to tap this huge, profitable and underserved market, consumer products companies sell products like toothpaste, laundry detergent, shampoo, deodorant and moisturizer in small packets for a few pennies apiece. While the profit on such items might be mere fractions of a cent, they sell in large enough volumes to make serving this market a very profitable enterprise.

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Of course, as branding guru Martin Lindstrom once noted, “A global brand-building strategy is, in reality, a local plan for every market.” And when the markets are as disparate as Guangzhou and Cincinnati, what customers want will differ greatly. For instance, Crest toothpaste comes in flavors like tea and salt in China, flavors a Midwesterner would find mildly bewildering, to say the least. Lower-income consumers in China prefer to wash their clothes by hand, rather than pay for the excess water and electricity a washing machine uses, and so they need washing detergent formulated specially for the task. In India, Whirlpool sells microwaves that can shallow-fry and sauté—cooking methods for a country that hasn’t yet embraced convenience foods to the extent that the United States has.

Plan of ad-tack

That said, despite the developing world’s growing importance in the consumer products industry, product sales in Western countries still account for the majority of these companies’ income. But diverting new customers from Europe and the United States away from other products is increasingly difficult, as the people living in developed nations are inundated with advertising. It’s estimated that Americans, for example, see between 600 and 3,000 ads per day, and most ignore them completely or view them as a nuisance, something to which users of ad-blocking software and fast-forwarding TiVo owners will attest. While traditional marketing techniques—catchy jingles, clever patter, happy housewives, etc.—have worked in years past, consumers are becoming increasingly immune to their effects.

In order to overcome consumers’ jaded attitudes, marketers try to find new and clever ways to attract eyeballs to Product X, making the consumer products industry a cutthroat world. One recent trend has found companies running internet contests in which audiences create their own ads for the product, with mixed results. Chevrolet gave internet denizens stock footage of the Tahoe to craft into ads in 2006, and amateur muck-racking documentarians promptly returned commentary on the cars’ gas mileage and effect on the environment. A contest sponsored by Malibu Rum sparked participants’ ire when it altered its rules. Unilever’s Dove and Pepsi’s Frito Lay had better luck with entries submitted to run in coveted slots during the 2007 Super Bowl and the Oscars, respectively. And Heinz chose a winner in April 2008 from over 2,000 entries responding to call on its website for homemade ads for its world-famous ketchup.

Companies now also customarily enter the public’s space—MySpace, that is. Scores of companies have set up campaigns on social networking sites to draw the attention of bright, young things with plenty of disposable income. Procter & Gamble began using social networking site Facebook to promote tooth whitening strips in 2006, while Unilever promoted its Axe brand of men’s body spray on MySpace. Several other firms, including American Apparel, adidas and Dell, have set up presences in the virtual world Second Life, hoping to communicate with consumers wherever they go. In 2008, YouTube opened its arms to consumer products companies as never before, allowing them to present video ads keyed to specific terms entered into YouTube’s search window; so Pepsi, for example, could conceivably bid for the opportunity to show an ad when people search for clips dealing with “soda” or “thirst.”

Trading up

It’s a time-honored adage that the rich are getting richer and the poor are getting poorer. In the United States, incomes at the high end have been growing dramatically, and the number of millionaires has doubled in the past 10 years. As a result, more consumers are demanding products with an aura of luxury about them. Brands cultivate such an image in a number of ways. Louis Vuitton, whose logo-splashed bags are more common than litter on some New York City streets, manages to maintain its high profile by sponsoring America’s Cup races, and only sells its wares through a small group of stores.

Several other high-end brands—Gucci, Rolex, Nokia’s Vertu—clamp down on the number of stores that sell their wares so that only the select few can buy them. Polo maintains its strong whiff of upper-crust appeal, even while expanding some lines into decidedly midmarket—even (gasp) discount—retail channels JCPenney and Kohl’s by allowing the lower-priced brands to feed off the halo of their higher-end cousins. However, readily available objects can still be considered luxury items: Whirlpool’s sleekly designed Duet washer (priced at about $1,000 more than your run-of-the-mill white box) was the best-selling front-loading washer in 2006 and continues to sell strong.

As the midmarket becomes increasingly saturated with luxury products, some brands have begun appealing to people’s consciences in order to make consumers shell out. Procter & Gamble has long had an association with the Special Olympics, and highlights that fact with a coupon promotion tie-in each year. Similarly, in 2006, Apple, Armani, Gap and Converse all embarked on a co-branding initiative with Product (Red), a humanitarian campaign co-founded by rock musician Bono. A portion of profits from certain items (T-shirts, MP3 players, sneakers) stocked a charity that then funded the distribution of AIDS medication in Africa. Needless to say, the campaign sparked some backlash, especially in relation to its $100 million marketing budget. But such philanthropic goals needn’t be so public; these days, it’s not uncommon for a consumer products company (Unilever is one) to give employees time off for volunteer work.

It’s a natural

Philanthropy isn’t the only way that brands are grabbing consumers’ attention. The overwhelming interest in all things green, organic and natural is currently a major force driving consumptive activity, and even Wal-Mart’s gotten on the green-wagon. The green energy division of GE was its fastest-growing segment in 2006, and, also in 2006, Levi’s brought out jeans made from organic cotton—a smooth move, considering sales of organic cotton clothing topped $2.5 billion in 2008. The Hain Celestial Group and Dean Foods (segment leaders when it comes to organic, natural and/or soy-based products) have both been around for several decades, and are now reaping the benefits of earlier investments. Even companies that appeal to the

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sweet tooth have leaned toward the "nutritional" if not the "natural"; Nestlé acquired the medical nutrition business of drug company Novartis in July 2007, around the same time Coca-Cola came out with a vitamin-enhanced Diet Coke and bought the parent of Vitaminwater, Glaceau. The significance of the trend hasn't been lost on the top consumer products companies; most consumers don't realize that Cascadian Farms (frozen fruits and vegetables) and Kashi (cereals) are actually cogs in the larger machinery of General Mills and Kellogg's, respectively.

However, as consumer interest in products designated as "natural" and "organic" increases, there's some fudge factor about what these terms actually mean. In 2007, a number of poultry processors, including Sanderson Farms, objected to the use of the word "natural" on chicken products that had been treated with such substances as salt water, chicken broth and carrageenan, a thickener derived from seaweed that is added to prevent the chicken from drying out when cooked. The processors petitioned the U.S. Department of Agriculture to update its definition of "natural," which at present excludes only the use of artificial colors, flavors and ingredients.

This occurred only a few months after natural cosmetics company Burt's Bees introduced an initiative calling for manufacturers of natural cosmetics to voluntarily ban certain ingredients from items sold as "natural," like sodium laureth sulfate and p-thalates. (Its initiative, called The Greater Good, promotes a list of natural ingredients, such as black currant oil and buttermilk, which is praised for being "richer in fats and emollients than whole cow's milk.") The topic came up again in 2008: Dr. Bronner's Magic Soaps (officially named All One God Faith) accused 13 companies of false advertising by claiming their personal care products are organic; it subsequently filed a lawsuit in California on May 1, 2008 against the likes of consumer products groups Hain Celestial, Kiss My Face, Stella McCartney America, Estée Lauder and Whole Foods. Dr. Bronner's claims that certain components are made by treating them with petrochemicals and other suspected carcinogens.

The main problem is that there are a number of entities that certify products as organic, but no one definitive authority. In contrast to the food industry, there is no governmental body that governs lipsticks and face creams. However, the end of May 2008 did bring one authoritative statement: the California Attorney General filed suit against four companies (including Hain subsidiary Avalon Naturals) in an attempt to force them to append warning statements on their products about possible carcinogens.

Divide and conquer

In order to sell most effectively, brands generally try to target a specific corner of the market. Traditionally, teenagers and 20-somethings have been targeted, as advertisers believe that brand loyalty is cultivated at that age; also, teenagers and college students frequently have large amounts of disposable income. Families are another group with strong selling potential. Harried parents are grateful for anything to make their lives easier, from microwaveable dinners and brownie mix, to backseat entertainment systems.

Aside from these traditional markets, increasingly important demographic groups include baby boomers and Hispanic people. As the 80-million-odd members of the baby boom begin to enter their 60s toward the back end of the 2000s, they are of particular interest to consumer products companies. This group, which comprises almost a third of the U.S. population, has large quantities of capital—analysts estimate that each year they spend around $2 trillion, some $50 billion of which is spent on packaged goods.

Oldsters aren't the only growing group, however. The Hispanic market in the United States is increasingly important to consumer products manufacturers. Due to strong immigration from Latin American countries and a higher than average birth rate, this group is the largest minority in the United States and also the fastest-growing one, according to the U.S. Census. Between 2001 and 2006, the disposable income of this group increased nearly a third, according to AC Nielsen. It's currently at around $930 billion, and is projected to reach $1.2 trillion by 2012.

All the big players hope to gain a toehold in this and similar segments. In April 2007, Kellogg launched a bilingual program called Healthy Beginnings/Un Comienzo Saludable. The program marries a magazine promoting healthy eating to free screenings for diabetes, lactose intolerance and high blood pressure, conditions from which Hispanic consumers are likely to suffer. A month later, Unilever put its marketing muscle behind Vive Mejor, a campaign featuring a website, magazine and TV ads promoting Unilever's brands. Unilever trails P&G in reaching this important market, however—P&G brought out its Hispanic-aimed effort in 1999, and typically outspends Unilever on ad dollars aimed at Hispanics by a factor of two or three.

As goes the economic climate, so go consumer products

What may someday be referred to as "The Great Economic Turmoil of 2008" has affected a number of industries, perhaps none more so than consumer products. Escalating energy costs have raised shipping expenses, and petroleum-related products—integral to the process for making diapers, plastics, cleaners and packaging—have also driven up costs. The price of basic ingredients, from peanuts to fruit, has climbed as well. Del Monte, Newell Rubbermaid, Kimberly Clark and Smucker's were just a few of the army of companies raising prices during summer 2008. Though Kellogg's has kept cereal prices where they were, it has made its boxes smaller to compensate. Even the beauty market (with includes biggies L'Oreal and Estée Lauder), usually immune to the effects of financial stress, was affected, showing the largest one-quarter sales decline since 1997 during spring 2008. According to the U.S. Bureau of Labor Statistics, in the first eight months of 2008, grocery prices increased by 7.5 percent (a seasonally adjusted annualized rate), and shoppers were often turning to private-label items to cope.

Research also showed that consumers, to save on gas, began to actively curtail their driving, which translated to fewer shopping trips, fewer products rung up, and similarly poor results in the retail sector. They also cut out impulse buys and bigger-ticket purchases as food and other basic needs took

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up a larger slice of the take-home-pay pie. As a result of that emerging trend, toward the end of the year, consumer products companies changed tactics as relief continued to elude them. Hoping to appeal to shoppers' sense of thrift—rather than the desire for pricier premium products, which had characterized company messages until recently—more than a few firms began to emphasize the "value" aspect of their offerings. To that end, Campbell Soup and Kraft linked up to promote economical meals of soup and grilled cheese sandwiches, of all things. Kellogg's focused on its more basic cereal products like Rice Krispies and Corn Flakes—cheaper by far than its more stridently colored sugar-laden products, which approached the $6 mark for a box in many metropolitan-area grocery stores. The dairy industry touted milk with a new series of ads that ignored its nutritional aspects in favor of its low cost (less than a quarter per glass!). Aside from making shoppers feel smarter for making a more sensible choice, these ploys also help the firms' bottom line, as many of the products are cheaper to manufacture and provide higher margins than top-line items.

BRAND MANAGEMENT

What is a marketer? The allure of brand management

Marketing encompasses a wide variety of meanings and activities. Some marketing positions are very close to sales, while others set overarching marketing strategy. What marketing positions have in common is the sense of ownership over the product or service, as well as the drive to understand customer needs and desires and translate those into some kind of marketing communication, advertising campaign or sales effort. The manager of product or service marketing is called the brand manager—he or she is the ruler of that marketing universe.

Careers within the marketing/branding arena are high profile. The business world is now realizing that strong brands and solid marketing programs drive shareholder value, and that companies can no longer make fundamental strategy decisions without truly understanding how to market a product. Today's business challenges—the quest for company growth, industry consolidation and deregulation, economic webs, and the emergency of new channels and technologies—make marketers even more valuable.

The titles of brand manager, product manager and, to a lesser extent, marketing manager are often used to describe the same function—some companies use one title, others use another. Marketing managers tend to be used in industries other than consumer packaged goods; product managers are often used in tech industries. "Brand management" implies more complete supervision of a product. The typical brand management framework gives a brand "group" or "team"—generally comprised of several assistant brand or assistant marketing managers and one supervising brand manager—responsibility for all matters relevant to their product or products. Whether this responsibility is, in fact, complete depends somewhat on the size of the company relative to the number of brands it has, the location of the brand group and most importantly on the company's attitude toward marketing.

How important is the individual brand manager?

Consider the company to determine the level of brand manager responsibility. The first factor is the size of the company relative to its number of brands. For a company with hundreds of different brands—Nabisco, for example—brand managers, or even assistant brand managers, may have a great deal of power over a specific brand. At companies with a few core products, brand managers will focus on narrower aspects of a brand. As one recently hired assistant brand manager at Coca-Cola comments: "They're not going to take an MBA and say, 'Okay, you're in charge of Sprite.'" Brand managers at such companies will instead be focused on marketing to a particular demographic or geographic group, or perhaps handling one aspect of the product's consumption (plastic bottles, cases of aluminum cans and so forth).

International brand managers have historically held more sway than managers in the company's home market, but keep in mind that the daily tasks of international brand managers often lean more toward questions of operations, rather than questions of strategy or marketing. ("How much should we produce?" or "How is our distribution network affecting sales?" rather than "What do we want our brand identity to be?") International brand management is sometimes split into two positions. Global brand managers are more strategic, concentrating on issues such as protecting brand equity and developing product offerings that can be rolled out into subsidiaries. Local brand managers are more tactical. Local managers focus on executing global plans that are delivered to them, and tweak them for local consumers. Also know that with the increasing trend toward globalization and the truly global presence of certain brands, companies have sought to impose more centralization and tighter controls on the marketing of those brands from country to country. In the past, individual country managers have had more discretion and leeway to make decisions about a brand's packaging, advertising, etc. Now, companies have established tighter guidelines on what can be done with regard to a brand around the world, with the goal of protecting and enhancing the value of the brand, and ensuring a consistent product and message worldwide.

Finally, consumer goods companies place varying levels of importance on their brand or marketing departments. Some, such as the Ford Motor Company, are driven as much by financial analyses of production costs or operations considerations as by marketing. The level of emphasis on finance or operations matters at a firm will influence not only the independence and authority of marketing managers, but also potential marketing career paths. At some companies, marketing is the training ground for general management. At General Mills, marketing is considered so important that employees in other functions who show promise are plucked from their positions and put into the department.

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CAREERS IN MARKETING

Taking charge of a brand involves tackling many diverse job functions—and different subspecialties. Decide where you'd like your main concentration to lie.

Brand management

In a typical brand management organizational structure, positions are developed around responsibility for a particular product rather than a specific functional expertise (e.g., you're an assistant brand manager for Cheerios). This structure enables you to be the "master of all trades," acquiring an expertise in areas such as manufacturing, sales, research and development, and communications. In brand management, the marketing function is responsible for key general management decisions, such as long-term business strategy, pricing, product development direction and, in some cases, profit and loss responsibility. Brand management offers a terrific way to learn intensively about a particular product category (you could be a recognized expert on tampons!) and to manage the responsibility of running a business and influencing its performance.

The core of brand work is brand strategy. Brand managers must decide how to increase market share, which markets and demographic groups to target and what types of advertising and special promotions to use. And at the very heart of brand strategy is identifying a product's "brand identity." Brand groups then figure out how to exploit brand strategy or, in some cases, how to change it. PepsiCo's Mountain Dew has built its popularity among youth as a high-caffeine beverage into a "brand identity" of cutting-edge bravado that has boosted market share, while the Banana Republic chain underwent a transformation from an outdoor adventure store that sold actual Army-Navy surplus to an upscale, chic clothing store. In both cases, the brands have benefited from a shift in brand identity, and consequently, a shift in their market. Brand identity is normally created and confirmed through traditional print, radio and TV advertising. Advertising is usually produced by outside agencies, although brand insiders determine the emphasis and target of the advertising.

Some liken a brand manager to a hub at the center of a hub and spoke system, with the spokes going out to departments like finance, sales, manufacturing, R&D, etc. It is the brand manager's job to influence the performance of those groups—over whom he or she has no direct authority—in order to optimize the performance of his or her brand or product line.

Direct marketing

Ever wonder who is responsible for making those coupons you receive in the mail? Or the Saab videotape you've received every two years since you bought your car in 1993? You can thank direct marketers. Direct marketers are masters in one-to-one marketing. They assemble databases of individual consumers who fit within their target market, go after them with a personal approach and manage the production process from strategy inception to out-the-door distribution.

Direct marketers have two main objectives: to stay in touch with their current consumer base and to try to generate more business by finding individuals who fit a target set of criteria but are not currently using their particular product. For instance, if you've ever checked out of the supermarket and got a coupon for Advil after buying a bottle of Tylenol, chances are a direct marketer is trying to convince you to switch brands by offering you a monetary incentive.

It's important to note that direct marketing isn't just done through snail mail. It operates in multiple media, such as the Web, telemarketing and in-store promotions. Direct marketers have a powerful new tool in their arsenal—the Internet. Marketers are able to track the online habits and behavior of customers. They can then serve up customized banner advertisements that are much more likely to be relavant to them. Many consumers have agreed to receive promotional offers on certain subjects—marketers can then send them targeted email messages that allow for much easier access to purchase or action (clicking on a link, for example) than a conventional mail direct marketing programs.

Affiliate/property marketing

If you're working with a major brand company like Nike, Disney, Pepsi or L'Oreal, chances are you'll do a lot of cross-promotion, or "affiliate marketing." For instance, Nike has marketing relationships with the NBA, NFL and a variety of individual athletes and athletic teams. Disney has a strong relationship with McDonald's; cute toys from the entertainment company's latest flick are often packaged with McDonald's Happy Meals upon the release of each new movie. L'Oreal works with celebrities, like Heather Locklear, and sponsors events, such as the annual Academy Awards.

Marketers must manage the relationship between any two entities. If Disney wants to promote the cartoon du jour with McDonald's, or Pepsi wants to make sure that all Six Flags theme parks have a Pepsi ride, then marketers need to ensure both parties get what they need out of the deal and stay true to their own brand images.

Price marketing/sales forecasting

Pricing is largely driven by market pressure. Most people, for example, won't pay more than $2 for a hamburger in a fast-food restaurant. On the other hand, brand managers always have some pricing leeway that can greatly affect market share and profitability. An increase of a nickel in the price of a product sold by the millions can make huge differences in revenue—assuming the price rise doesn't cause equivalent millions less of the products

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to be sold. Brand managers need to figure out the optimal pricing strategy for their product, though it's not always a case of making the most money. Sometimes it makes more sense to win market share while taking lower profits. How do brand managers justify their prices? Through extensive research. Paper towels, for example, may be much more price-sensitive than a luxury item like engagement rings or smoked salmon.

Brand and marketing managers don't always have free reign over pricing. At some companies, such as those that sell largely through mail order, or those with complex pricing systems, pricing and promotional offers may be limited to what the operational sales system can handle. Explains one marketing manager at a long-distance phone company (an industry with notoriously tangled pricing plans): "It's very easy to offer something to the customer. It's very difficult to implement that in the computer system."

Another large part of the general management duties of brand managers is forecasting product sales. This means not only keeping track of sales trends pertaining to one's product, but also anticipating responses to marketing campaigns and product launches or changes. The forecasts are used to determine production levels. Once a year, brand groups draw up budgets for their production, advertising and promotion costs, try to convince the finance folks that they absolutely need that amount, get less than they ask for, and then rework their budgets to fit the given budget. As one international brand manager at one of the world's biggest consumer goods companies puts it: "You don't determine the production and then get that budget; you get the budget, and then determine the production."

High-tech marketing

Not everyone markets applesauce for a living. Many people choose to enter the world of high-tech marketing because they want to work with products and technologies that reshape and improve the world around us. These marketers feel that they would rather change the way a person interacts with the world in a sophisticated way, rather than spend time understanding what hair color teenagers find most appealing. High-tech marketers spend much of their time understanding research and development issues, and working on new product launches.

Technology companies like Intel, Dell and Microsoft have recognized the power of branding and are utilizing traditional marketing tactics more and more. Amazon's extensive marketing campaign in 1998 helped brand that company in the mind of consumers still new to e-commerce as the company to purchase books (and other products) online. Intel became perhaps the first semiconductor company readily identifiable to the public through its heavily branded "bunny people." Marketing in the high-tech world will continue to grow in importance over the next decade, as technology companies become more consumer-oriented (see Microsoft's X-Box). Marketing a service or software product versus a more tangible product is a bit different. It may be more challenging to understand how consumers relate to the product. Inventory and distribution issues may be tracked differently.

Market research

If you are an analytical person who likes numbers and analysis, and enjoys tracking consumer behavior, then market research may be the field for you. A product is much more effective when a company understands the consumer it is targeting. That's where market researchers come in. They employ a variety of different qualitative and quantitative research techniques to understand consumers. Surveys, tracking systems, focus groups, satisfaction monitors, psychographic and demographic models, and trial/repurchase estimations are all methods researchers use to understand how consumers relate to their products. Researchers who find that consumers associate lemon scents with cleanliness, for example, may suggest that cleansers could drive up sales by adding a lemon aroma.

Marketing consulting

Although most well-known consulting firms are known for their expertise in general strategy, many consulting firms now hire industry or functional experts that focus on marketing issues. These firms need people with expertise in the areas of branding, market research, continuous relationship marketing, pricing strategy and business-to-business marketing—they tend to hire people with previous marketing experience and value consultants who have been successful marketing managers and have lived through the full range of business issues from the inside. McKinsey and Monitor are two general strategy firms that have begun to hire marketing specialists. Other boutique marketing consulting firms, such as Kurt Salmon, focus on certain product categories like beverages, health care and retail. All major ad agencies are also attempting to reinvent themselves as marketing partners focused on marketing strategy beyond simple advertising.

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A DAY IN THE LIFE: ASSISTANT BRAND MANAGER

You can often spot the assistant brand managers because they are the ones running around like a chicken with its head cut off. Assistant brand managers must learn how to balance your time and prioritize. Here's a look at how their time might be spent:

Responsibilities	Percentage of time per day
Meetings	30 percent
Analysis/data tracking	30 percent
Writing memos	30 percent
Answering management queries	30 percent
Interfacing with other departments	30 percent
Actually marketing	Optional

Although this is a humorous take on the day of an ABM (talk about giving 150 percent), there is some truth to it. Days and weeks will go by where you feel like you've just been pushing paper and trying to stay afloat. It is very easy to get comfortable maintaining the businesses rather than creating new opportunities. Although the role of an ABM is mostly one of maintenance, if you want to be a "star," you must shape your brand, not just maintain it.

A more realistic look at a day in the life of a brand manager

8:30 a.m.: Get into work. Listen to voicemails. Check emails. Print out calendar of today's events. Skim the markets section of *The Wall Street Journal* to find out what's happening "on the street." Go to the cafeteria and grab breakfast. (Of course, you're only eating products that your company produces or has some relationship with!)

9:00 a.m.: Meet with market research department to discuss specifics of your latest round of quantitative research. You are trying to understand why people are not repurchasing your product, but you don't feel that the data presented actually answers your questions. You decide that you'll need to design another round of research—but where's the money going to come from?

10:00 a.m.: Budget meeting to determine how you will be spending second quarter funds. Given the decision to spend more money on research, you might need to cancel an instant redeemable coupon or a local promotion in a poorly performing market.

10:30 a.m.: You head to the long-awaited product development meeting. Your team has recently discussed reformulating your product to take advantage of new technology. This new technology may raise your product's performance levels, but it will cost more to manufacture and will take some advertising effort (and more money) to explain the changes to the consumer. The group must decide whether these changes are strategically and financially justified. As always, very few people agree. You decide to summarize all the costs and benefits to the project and present the issues to your brand manager at the status meeting you have scheduled for the end of the day.

12:00 p.m.: A fancy lunch with a *People* magazine salesperson. For months the magazine has tried to convince you that your product should be advertised in *People*. During lunch, the represenative explains to you how the publication can effectively reach 18 percent of your target audience and how it can provide you with the extended reach you need to communicate with potential new users. You leave lunch with a fancy *People* backpack and a headache. Where can you find the money to add *People* to your media plan? Let's ask the media department (Note: While lunch with ad reps happens occasionally, the days of most brand managers are packed, without the time to spend schmoozing with ad reps. More often, brand managers, who are very focused on their jobs, grab lunch at a corporate cafeteria and take it back to their desks.)

1:30 p.m.: Media planning meeting. Because sales of your product have come in slightly under budget, you have been forced to give up 10 percent of your media budget. You now must meet with the media department to determine how to cut media funds without sacrificing your goals (to reach 20 percent of your target group, and to have a continuous presence on TV). Maybe you can cut out two weeks of TV advertising in July when not many people are home anyway. But isn't that your product's peak purchase cycle? Decisions, decisions.

2:30 p.m.: Time to review changes to the latest advertising campaign. Your ad agency presented a new concept about three weeks ago that needed work. You and your brand manager made comments to the storyboard (a drawing that explains a commercial) and now you are anxious to see what the agency has produced. You review the changes with the agency via conference call and promise to present the new work to your brand manager at your status meeting later in the day.

3:15 p.m.: Keep the ad agency on the phone and bring in the in-house promotions department. This ad campaign will be introduced into a promotional campaign in the top-20 performing markets in the country. You want to make sure that before you get the promotions people working on a concept, they agree with the agency on the strategy going forward. The following 45 minutes is a creative brainstorming session that offers wonderful possibilities. You promise to type all ideas up and distribute them to the group later in the week.

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4:00 p.m.: Strategy development with sales manager. Your category manager is insisting that all brands work to gain a better presence in supermarkets. You meet with the regional sales manager to understand what types of strategies might work to get better shelf space and more consistent in-store promotions. Once you hear his ideas, you start to price options and see if this is possible within your (reduced) current budget.

5:00 p.m.: Status meeting with brand manager. You present your proposal for increased research expending as well as the implications of the new product development issue. You also review the latest advertising changes and the changes to the media plan. You aggressively present your data and your opinion, and discuss these with your boss. The two of you decide on the next steps.

6:00 p.m.: End of the day. You spend an hour checking the 23 email/voicemail messages you received during the day but failed to return. You go through your "inbox" to read any documents relevant to your product. You start to attack all of the work you have to do and promise that tomorrow you'll block out some time to make some progress.

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www.avoncompany.com

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The Mountain
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Fax: (508) 766-7543
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Cadbury plc
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www.campbellsoup.com

The Clorox Company
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Fax: (212) 310-3284
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Jockey International, Inc.
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McCormick & Company, Inc.
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www.tupperwarebrands.com

Tyson Foods, Inc.
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Energy/Oil and Gas

WHAT IS THE ENERGY SECTOR?

Besides mc^2, what is energy?

According to the *Merriam-Webster Dictionary*, energy can be defined as “usable power” or, as is the case in the energy industry, “the resources for producing such power.” The energy sector produces, converts and distributes fuels for heat, light and propulsion. Oil, natural gas and coal are burned to make heat and electricity. Wind, flowing water and sunlight are converted into electricity. Oil is refined to propel cars, planes and industrial machines. And to achieve these things, the companies who are producing, transporting, converting and distributing these energy sources are supported by a variety of service firms, investors and equipment providers.

There is a great divide between the oil and gas industries and the network of companies that produce electrical power, even though each side accounts for about half of the business jobs across both sectors. “Oil and gas” refers to the exploration for, and extraction and processing of oil and natural gas. In contrast, the electric power business revolves around converting fuel to electricity in power plants and distributing that electricity to consumers. The economics of the two fields—and the regulations that govern them—are quite distinct. Generally, people make their energy careers in one camp or the other, without too much crossover.

Just how big is the industry that comprises all those diverse activities? Companies in the energy sector take in over $1 trillion in revenue annually, out of the $20 trillion earned by all U.S. businesses. Energy-related businesses employ about three million people—or 2 percent of the U.S. workforce—far more than banking, high tech or telecommunications.

Big oil

The price of oil sends a ripple effect throughout the world’s economy, affecting not only drivers who have to shell out at the pump, but also other forms of transportation, the cost of all goods and services, and the availability of basics like food and shelter. Nearly half of petroleum production in the United States goes toward gasoline, according to the NPRA. Other products include asphalt, solvents, and even the wax used in things like chewing gum and crayons. Leading companies, ranked according to sales by Forbes, are ExxonMobil, Royal Dutch/Shell, BP, TOTAL S.A., ChevronTexaco, Gazprom (Russia) and ConocoPhillips. In terms of oil-equivalent reserves, they’re dwarfed by the Middle East’s nationalized energy companies, as well as those of Venezuela and Nigeria.

Oil companies engage in exploration and production of oil (“upstream” activities), oil transportation and refining (“midstream”), and petroleum product wholesale and retail distribution (“downstream”). The largest companies, known as the “majors,” are vertically integrated, with business operations along the entire spectrum from exploration to gas stations. Smaller oil companies, known as “independents,” are often exclusively involved in exploration and production. Upstream is considered the glamorous place to be, as it is where all the big decisions are made. Upstream jobs also involve heavy international work; many employees are sent off to new postings around the world every three years or so. Some companies focus exclusively on midstream and downstream activities. They operate refineries to distill crude oil into its many commercially useful petroleum derivatives, like gasoline, jet fuel, solvents and asphalt. Refineries are, in theory, built to last 40 years, but some have been around for as long as 80 years. That means that new refineries are rarely built, and the refinery business is mostly about managing the razor-thin margins between purchased crude oil inputs and revenue from refined product outputs.

Aside from these are the sectors and businesses that feed off of oil. Oil services companies provide a range of outsourced operational support; for instance, they may rent out oil rigs, conduct seismic testing or transport equipment. Working for one of these probably means working in Texas or abroad, and can feel very much like working for an oil company, given the similarity in issues and activities. Equipment manufacturers make turbines, boilers, compressors, pollution control devices, well-drilling and pipeline construction equipment, software control systems, and some provide engineering services and construction/installation of their equipment. Pipeline operators own and manage tens of thousands of miles of petroleum (and natural gas) pipelines. Many also operate oil intake terminals, engage in commodities trading and energy marketing, and own natural gas storage facilities or petroleum refineries as well. Pipeline companies are not household names; nonetheless, the largest ones take in several billion dollars in annual revenue, comparable to the scale of a midsized oil company. The fortunes of these companies follow the price of oil: when oil is expensive, oil companies drill a lot and make a lot of money, so business volume and revenue increase for their contractors.

Richer Rockefellers

The modern oil industry in the United States was born in the late 19th century, when, after investing in a Cleveland oil refinery during the Civil War, John D. Rockefeller founded Standard Oil in 1870. By 1880, Standard refined 95 percent of all oil in the U.S. Branded an illegal monopoly in 1911, Standard was divided into 34 companies, including many whose descendants are still around today, like Mobil, Chevron, Shell and Esso (later renamed Exxon).

As public works projects in the 1930s improved the country’s transportation infrastructure, Americans took to the road and demand for oil gushed ever higher. Also during that time, the oil giants turned to Texas to seek their fortunes. Soon thereafter, Chevron, Texaco, Exxon and Mobil went overseas to expand their reserves, buying up rights to oil fields in Saudi Arabia (a bargain at $50,000).

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Oil gets organized

In 1960, top oil-producing countries Iran, Iraq, Kuwait, Saudi Arabia and Venezuela met in Baghdad to form the intergovernmental organization OPEC, or the Organization of the Petroleum Exporting Countries. OPEC nations collectively supply just above 43 percent of the world's oil exports and control more than three-fourths of total crude oil reserves in the world. In addition to its founding member countries, the current roster includes Algeria, Indonesia, Libya, Nigeria, Qatar and the United Arab Emirates; in 2007, Angola was added and Ecuador rejoined the group after withdrawing in 1992. Indonesia exited the group at the end of 2008. The members meet twice a year to decide on their total output level of oil, considering actions to adjust it, if necessary, in response to oil market developments. OPEC countries look to ensure that oil producers get a good rate of return on their investments and consumers are able to access steady supplies of oil. Basically, it's all about supply and demand. If oil production rises faster than demand, prices fall—a situation that OPEC claims hurts both producers and, eventually, consumers (in the form of inflation). Surely, consumers would beg to differ.

Oil stateside

Oil is certainly a slippery subject in the United States, where high prices at the gas pump and environmental issues associated with extraction and production always garner plenty of attention. The issue of drilling in the Arctic National Wildlife Refuge, for instance, was a huge topic in the 2000 presidential election and continues to surface at semi-regular intervals. (Drilling there was proposed as a means to relieve pressure on gas prices in spring 2008; more on that later.) Many of these decisions rest on politics and power—while the Clinton administration had proposed selling some six million acres in the Gulf of Mexico, off the coast of Florida, this amount was reduced at the behest of Florida Governor Jeb Bush in 2001. But at other times, true environmental concerns hold sway; take as a case in point the fact that the last oil refinery built in the United States was completed in 1976. And although a handful more could help deliver lower gas prices, the risks and controversy surrounding their construction—refineries need to be built near water, and disasters like the Exxon Valdez oil spill have contributed to what, according to industry pundits, translates into a NIMBY ("Not in my backyard") attitude among the public—have all but scuttled the possibility of any new refineries any time soon.

According to the National Petrochemicals and Refiners Association (NPRA), there are 155 refineries in the United States, owned by 60 companies, with aggregate crude oil processing capacity of 17.6 million barrels per day (a barrel is 42 gallons). Total U.S. demand for finished petroleum products in 2008 was 19.4 million barrels per day. Back in 1981, there were 325 refineries, capable of producing 18.6 million barrels per day. OPEC estimates the world demand for oil will close on 90 million barrels per day by 2010, and it's predicted to rise to more than 103 million barrels per day by 2020. For a variety of reasons (most obviously pricing concerns and the fact that U.S. demand outstrips supply), the nation imports a portion of its oil from other nations. In fact, according to NPRA, for 2006, while 96 percent of refined petroleum product is produced domestically, the U.S. imports 60 percent of the crude oil it uses in the refining process.

Troubled times lead to alliances

The 1970s saw two crises in oil pricing: an Arab oil embargo in 1973 and the outbreak of the Iranian revolution in 1979. In both cases, oil prices rose sharply. After a peak in prices in the early part of the 1980s, the market saw a sharp decline followed by a collapse in 1986. By the 1990s, prices had recovered, though they never regained the high levels of the previous decade. Another collapse occurred in 1998 following economic instability in Asia—prices sank to $10 a barrel. By 2000, they had climbed back up to over $30 a barrel.

At the end of the 1990s, following the Asian crisis, the industry witnessed several megamergers among major international oil companies, including the well-known Exxon-Mobil and Chevron-Texaco marriages. (British Petroleum also merged with Amoco and Arco to form BP, and Conoco joined with Phillips Petroleum to become ConocoPhillips.) Many small independent companies weren't so lucky, and went into bankruptcy.

Though the industry overall has recovered—oil prices rose sky high as the Iraq war dragged on, topping $147 a barrel in July 2008 before coming back down to Earth—producers will continue to see pressure as environmental concerns become more pronounced. Supply may also become an issue as continued unrest in Iraq (not to mention instability in pockets of the Middle East) has prevented the exporting of crude oil from that country.

Russia, rebels rising

With oil resources naturally limited, the industry constantly has to search for new supplies. Since the collapse of the Soviet Union, Russia has been taking steps to modernize its oil infrastructure. With proven oil reserves of 60 billion barrels, mostly situated in Western Siberia, Russia also holds the world's largest natural gas reserves (and is also its largest exporter). International oil services companies like Halliburton and Baker Hughes have begun working with the major Russian oil companies in recent years, and the country's economy is becoming increasingly reliant on oil exports—in 2007, the energy sector accounted for just over 20 percent of Russia's GDP. In February 2003, BP invested $6.8 billion in Russia, creating a new joint venture with Russia's fourth-largest oil company, TNK. That investment, now worth $45 billion, is perhaps a tad unsteady—during summer 2008, after some BP staffers' visas were not renewed, the venture's Russian investors forced out the BP-supported chief executive and other management personnel in a bid that, some said initially, signaled a state takeover of the concern. (The parties came to an understanding, but, as of February 2009, a new CEO has yet to be installed.) Analysts say the country has great potential, and could eventually produce 10 million barrels of oil per day by 2010, and while in office, former President and current Prime Minister Putin made energy the centerpiece of Russia's growth strategy. But this promise is dampened by an inefficient infrastructure, including government corruption and the legacy of the Soviet collapse. Russia poses a geographical challenge, as well. Exports are limited by the capacity of the pipeline system crisscrossing the vast tundra, though new networks, such as the Baltic Pipeline System, have been developed in recent years and negotiations are underway for others. Similar measures are under consideration for natural gas.

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Africa is another source for oil reserves. In February 2004, ExxonMobil began a $3 billion development project off the coast of Angola; and in July 2003, crude oil production began for the first time in the nation of Chad, the result of the World Bank's single largest investment in sub-Saharan Africa. Africa is also becoming a more significant source of the U.S. oil supply, with imports increasing more than 40 percent in the first half of the decade. But companies that do business on the continent are sometimes vulnerable to dramatic political unrest and violence. Royal Dutch/Shell has been plagued with difficulties at its operations in Nigeria's Niger Delta due to clashes between soldiers and militant groups in the area, and attacks on its installations. In May 2008, Royal Dutch calculated that it was losing the equivalent of 30,000 barrels of crude oil (translation: almost $3.5 million) every day due to such attacks. About half of Nigeria's output of 2.1 million barrels a day is processed by the company.

"Classical" gas

Natural gas is one source that bridges the oil/gas vs. electricity divide—it is extracted from the earth together with oil and can be used in much the same way, but it has also gained importance as a primary fuel for generating electricity. Today, about a third of the energy used in the United States is fueled by natural gas. As demand for electricity boomed in the 1990s, the market revved up, and with it came the entry of "energy merchants" like the infamous Enron, which set out to purchase natural gas cheaply, convert it into electricity and reap profits from the "spark spread"—the markup on the sale of power. These merchants eventually manufactured a "shortage" in electricity that sent prices soaring, which in turn affected the price per cubic foot of natural gas. But the United States has limited domestic resources for natural gas production. As the supply shrinks, U.S. production falls by roughly 2 percent a year. Importing gas from other countries, including Russia, Qatar and Trinidad, and building pipelines in places like Alaska and Canada are touted as options, but expensive and unwieldy ones.

Big sparks

Public utilities, which are involved in power generation, transmission (from generator to substation) and distribution (from substation to residential or commercial consumer) are, by definition, located all over the country—everyone has to get their electricity and (natural) gas from somewhere, of course. "Utility" is actually a loose term that refers to all types of companies that provide energy to consumers: investor-owned utilities, government-owned utilities, municipal power companies, rural electric co-ops and independent power producers (IPPs), or nonutility generators (NUGs). Utilities may differ greatly in terms of their lines of business. Some have sold off most of their generation assets and are primarily distribution companies with power lines as their primary assets, while others may own large amounts of regulated power plants, and may also own nonutility generators or individual independent power plants. As the electricity market fell apart starting in 2001, most IPPs sold off their assets piecemeal to large utility holding companies or financial institutions. Thus, there's been a massive consolidation among utility holding companies. There are presently about 50 investor-owned utilities in the country, but industry insiders predict that in a few years mergers may result in as few as 10.

Companies produce electricity in a variety of ways, from the simple and natural to the complex. Solar sources (and photo-voltaic cells), water (hydroelectric plants), and below-ground stores of heat and steam (geothermal) are used in the most environmentally uncomplicated methods. Coal can be used as well, though it's messy and contributes to polluting greenhouse gases. Nuclear plants, also relatively clean, are regaining ground, but they still suffer the NIMBY effect; the word "nuclear" still conjures up danger signals in the minds of most Americans.

Green concerns

So-called "greenhouse gases," produced through the burning of fossil fuels, are increasingly acknowledged to be a major factor behind the global warming phenomena, a trend that threatens major environmental repercussions in coming decades. The Kyoto protocol, developed by a group of nations over the last decade to limit greenhouse gas emissions, was a hot topic as the Bush administration came into power in 2000. The administration decided not to sign on to the protocol, which would have required the United States to reduce its 1990 levels of greenhouse gas emissions by 7 percent by the years 2008 to 2012. That administration's response to the global warming problem has raised the ire of many environmentalists, who see the United States' energy policy as too accommodating of corporate interests. Nonetheless, "clean energy" is a growing trend. In 2007, San Francisco's Clean Edge, which monitors such activity, found that revenue growth for companies involved in power generated by wind, solar cells, biofuels and fuel cells was up 40 percent, and on track to triple to $254 billion over the next 10 years.

Meanwhile, corporations have taken their own baby steps to ease the environmental impact of their products. In January 2003, 14 U.S. oil corporations and subsidiaries launched the Chicago Climate Exchange, a trading program allowing participating members to earn redeemable credits for exceeding emissions reduction goals. Even automobile companies are starting to come around; Ford and GM have begun to make their automobiles more fuel-efficient—note the increasing news accounts on hybrid and ethanol-powered vehicles, and the battery-powered Volt, GM Chevrolet's work-in-progress—as consumers are abandoning gas-guzzling trucks and SUVs at an alarming rate (which is just as much a factor of inflated gas prices as increased environmental concern).

Today, the U.S. oil industry spends a lot of time lobbying Congress for a "comprehensive energy policy." According to the NPRA, such a policy could include tax incentives for new and existing refinery capacity, reasonable environmental regulations that balance the need for cleaner fuel with market demand, and a clearer policy for individual states adopting requirements for fuel formulations (California, Connecticut and New York, for instance, have tougher restrictions on what can go into fuel in order to reduce potentially harmful emissions, restrictions that companies say cost them millions). But that's just one way to go—other players are pushing for carbon caps that would limit carbon dioxide emissions and force companies to purchase offset credits in "payment" for excess emissions (the scheme is sometimes referred to as "cap-and-trade"). It's possible that this method will be introduced

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in Congress during its 2009 sessions. Such a move would greatly benefit the electricity-making nuclear plant operators—especially the two largest, Exelon and Entergy—and, to a lesser extent, natural gas-fired generators, since their facilities don't send out large quantities of carbon dioxide (which puts them at a distinct price advantage over firms that will have to buy credits). Further, cap-and-trade would pave the way for advances in the number of nuclear facilities (since energy will be cheaper to produce). Lastly, it would drive up electricity prices for the consumer, while increasing the possibility of what *The Wall Street Journal* called "supernormal profits for nuclear operators in markets where rates are deregulated and have more ability to rise." (Assuming an offset price of $25 per million metric tons of carbon output, Exelon estimated that the system could bring it some $2 billion extra each year in profit before interest, taxes, depreciation and amortization.)

Gone with the windfall?

If, under the cap-and-trade system, *The Wall Street Journal*'s prediction came to be, it could bring the same kind of legislative scrutiny to certain power traders that the oil company sees all the time. As gasoline prices were beginning to take off for good in 2005, ExxonMobil came under increasingly hostile fire for its 2005 financial results—they were much too high. The company reported a whopping profit of $36.1 billion—the largest single-year profit ever for an American firm—and had to hold an electronic news conference to "explain" its robust earnings to budget-challenged consumers in a tightening economy. Politicians started tossing around the idea of a "windfall profits" tax on the oil industry, a suggestion that gained force as the company continued to reset records in 2007 and 2008 (with profits of $45.2 billion). The issue of oil company earnings was a major talking point for 2008 Democratic presidential candidate Barack Obama, and Big Oil's top-five execs were raked over the coals by Democratic members for the Senate Judiciary Committee in May 2008. While some sort of governmental "input" may be inevitable, it's not clear how or even if such a measure will help bring down costs for the average citizen.

Before the committee, for their part, the oil men called for permission for more exploration and drilling in the Atlantic, Pacific, the Gulf of Mexico and the Arctic National Wildlife Refuge in Alaska (always a topic of controversy). They also floated the idea that high prices were a result of market forces and OPEC, and were not under their control (that same argument doesn't quite work when talking about astronomical profits, though). However, the representatives were not so easily distracted, and dug into the execs about this high salaries and other compensation.

Tick, tick, tick ...

The bottom line is that oil is a nonrenewable resource, and experts warn that there is an urgent need for a large-scale alternative energy infrastructure. In addition to alternatives already in use, such as solar, wind and geothermal energy systems, new technologies are constantly in development, but it's a race against time. According to the Alternative Energy Institute, the world's supply of oil will reach its maximum production, and the midpoint of its depletion, around 2010. Already, about 65 percent of known oil reserves in the United States have been used up. Soon, the AEI warns, more than half of the world's petroleum reserves will be owned and controlled by countries in the Middle East, a fact that could only heighten the problems wrought by political instability in the area.

Braving the wind ...

Thus far, the energy sector has mostly avoided feeling any of the effects of the global economic downturn that gained force in 2008—acquisitive actions may have dried up a bit, but that's all. Only one major company, Chesapeake, laid off workers, and that was due to a facility downsize from region hub to branch office. Other job reductions seemed to affect manufacturers of wind power equipment: DMI Industries, Gamesa and L.M. Glasfiber.

Speaking of which, industry analysts were set to christen the wind power segment energy's next great hope while prices for other types of fuel soared. But as prices leveled off, then fell, wind, and the initial investments required to grow the business, no longer looked attractive.

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Just how big is the industry that comprises all those diverse activities? Companies in the energy sector take in over $1 trillion in revenue annually, out of the $20 trillion earned by all U.S. businesses. Energy-related businesses employ about three million people—or 2 percent of the U.S. workforce—far more than banking, high tech or telecommunications. Energy companies as a whole employ a high percentage of production workers (the people who drive local utility repair trucks, laborers on oil rigs and gas station attendants), compared to other industries. Of the millions of energy jobs in the U.S., about 90 percent of them are blue-collar jobs or technical positions. Even so, there are many energy-related business jobs out there: business analysts, finance associates, marketing managers, economic modelers and operations consultants, to name a few roles.

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Energy sector positions capture about 4 percent of new MBA graduates, an amount roughly proportional to the industry's size. In contrast, the finance and accounting capture 22 percent of graduates, and consulting absorbs another 14 percent. Even the significantly smaller high-tech industry takes on three times the number of new MBAs as does the energy sector. What this means for you as a job seeker is that the energy sector is not as dominated by people with graduate business degrees as some other popular arenas. There is plenty of opportunity for smart, well-trained college graduates to rise through the ranks without going back to school.

WHICH JOB FUNCTION?

In order to pursue a job in the energy sector, your first decision is what type of position you want—in other words, what functional role you want to play. Your function has a lot more impact on the nature of your job than does the type of company in which you work. You can have a wide variety of business jobs in the energy sector:

- Asset development
- Corporate finance
- Quantitative analytics, risk management
- Trading, energy marketing
- Investment analysis
- Consulting
- Business development
- Banking
- Strategy and planning
- Economics and policy analysis

Different companies can have widely varying names by which they refer to these roles. For example, "marketing" in one company involves advertising and product promotion, whereas "marketing" in another can mean commodities trading. Similarly, "business development" can be more akin to sales in one company, or synonymous with strategic planning in another.

Job Function	Possible Employer Types
Asset development	Utility; oil company; pipeline operator; energy services firm
Corporate finance	Utility; pipeline operator; oil company; equipment manufacturer
Quantitative analytics; risk management	Utility; oil company; transmission grid operator; pipeline operator; investment fund; bank
Trading; energy marketing	Utility; oil company; pipeline operator; investment fund; bank
Investment analysis	Investment fund; bank
Consulting	Consulting firm; oil services company
Business development	Equipment manufacturer; utility; oil services company; pipeline operator; energy services firm
Banking	Bank
Strategy and planning	Utility; oil company; pipeline operator; oil services company; equipment manufacturer
Economic and policy analysis	Government agency; nonprofit group; consulting firm

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WHAT TYPE OF COMPANY?

Job functions and company types intersect in numerous ways—for example, you can do corporate finance in a large oil company or with a small fuel cell manufacturer, or choose between asset development and trading within a given utility. Below, we have summarized the characteristics of each of the major energy sector employer types.

Oil companies

Oil companies engage in exploration and production of oil ("upstream" activities), oil transportation and refining ("midstream"), and petroleum product wholesale and retail distribution ("downstream"). The largest companies, known as the "majors," are vertically integrated, with business operations along the entire spectrum from exploration to gas stations. Smaller oil companies, known as "independents," are often exclusively involved in exploration and production. Upstream is considered the glamorous place to be, where all the big decisions are made. Upstream jobs also involve heavy international work, with many employees sent off to new postings around the world every three years or so. Some companies focus exclusively on midstream and downstream activities. They operate refineries to distill crude oil into its many commercially useful petroleum derivatives, like gasoline, jet fuel, solvents and asphalt. Refineries are, in theory, built to last 40 years, but some have been around for as long as 80 years. That means that new refineries are rarely built, and the refinery business is mostly about managing the razor-thin margins between purchased crude oil inputs and revenue from refined product outputs.

The majors are known for excellent rotational training programs, and a fair number of people take advantage of those programs and then jump over to independents for good salaries. Oil companies pay well in general, but jobs are not necessarily as stable as one might think. When oil prices drop, company operating profits are dramatically impacted, and layoffs are fairly common. American oil jobs are overwhelmingly concentrated in Houston. International hotspots include London, Calgary and the Middle East.

Aside from these are the sectors and businesses that feed off of oil. Oil services companies provide a range of outsourced operational support; for instance, they may rent out oil rigs, conduct seismic testing or transport equipment. Working for one of these probably means working in Texas or abroad, and can feel very much like working for an oil company, given the similarity in issues and activities. Equipment manufacturers make turbines, boilers, compressors, pollution control devices, well drilling and pipeline construction equipment, software control systems, and some provide engineering services and construction/installation of their equipment. Pipeline operators own and manage tens of thousands of miles of petroleum (and natural gas) pipelines. Many also operate oil intake terminals, engage in commodities trading and energy marketing, (and own natural gas storage facilities) or petroleum refineries as well. Pipeline companies are not household names; nonetheless, the largest ones take in several billion in annual revenue, comparable to the scale of a medium-sized oil company. The fortunes of these companies follow the price of oil: when oil is expensive, oil companies drill a lot and make a lot of money, so business volume and revenue increase for their contractors.

Oil services companies

Oil services companies provide a very wide range of outsourced operational support to oil companies, such as owning and renting out oil rigs, conducting seismic testing and transporting equipment. The fortunes of these companies follow the price of oil: when oil is expensive, oil companies drill a lot and make a lot of money, so business volume and revenue increase for their oil services contractors. Working for an oil services company probably means working in Texas or internationally, and can feel very much like working for an oil company, given the similarity in issues and activities.

Pipeline operators

Pipeline operators own and manage tens of thousands of miles of petroleum products and natural gas pipelines. Many of them also operate oil intake terminals, engage in commodities trading and energy marketing, and own natural gas storage facilities or petroleum refineries, as well. Unlike the major oil companies, pipeline operation companies are not household names—nonetheless, the largest ones take in several billion dollars in annual revenue, comparable to the scale of a medium-sized oil company.

Utilities

Utilities are, by definition, located all over the country—everyone has to get their electricity and gas from somewhere, of course. However, as a result of massive consolidation among utility holding companies, the corporate offices for your local utility may not necessarily be that local. There are presently about 50 investor-owned utilities in the country, but industry insiders predict that in a few years mergers may leave us with as few as 10. The "graying" of the utility industry is a well-documented trend; 60 percent of current utility employees are expected to retire by 2015, meaning there's lots of opportunity today for young job seekers.

"Utility" is actually a loose term that we use to succinctly refer to gas utilities and all types of power generation companies: investor-owned utilities, government-owned utilities, municipal power companies, rural electric co-ops and independent power producers (IPPs) or nonutility generators (NUGs). Utilities differ greatly in terms of their lines of business: some have sold off most of their generation assets and are primarily distribution companies with power lines as their primary assets. Others may own large numbers of regulated power plants, and may also own nonutility generators or individual independent power plants. As the electricity market fell apart starting in 2001, most IPPs sold off their assets piecemeal to large utility holding companies or financial institutions.

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Transmission grid operators

Transmission grid operators, known as independent system operators (ISO) or regional transmission operators (RTO), provide a power generation dispatch function to a regional electricity market. They don't own the transmission lines, but coordinate how much power is generated when and where, such that supply and demand are equal at every moment. This is an extremely complex process, and necessitates the analytical skills of electrical engineers and other generally quantitative and analytical operations staff.

Equipment manufacturers

Equipment manufacturers make turbines, boilers, compressors, pollution control devices, well drilling and pipeline construction equipment, software control systems, pumps and industrial batteries. Many of them also provide engineering services and construction/installation of their equipment. The major gas turbine manufacturers, for example, also offer engineering, procurement and construction of entire power plants. Oil-related equipment makers are often characterized as "oil services" firms. The equipment manufacturers in the energy industry are not particularly concentrated in one geographic area, though of course many of the oil business-oriented ones have major offices in Texas.

Investment funds

Investment funds are a diverse bunch: mutual funds, private equity funds and hedge funds. As a whole, the investment fund world is fairly concentrated in Boston, New York and San Francisco, but there are small funds dotted all over the country, as well.

Mutual funds hire stock analysts primarily out of MBA programs to track, value and recommend stocks in a particular sector (e.g., energy, natural resources, consumer goods) to the fund managers. However, there are a lot of other finance-related positions inside these massive firms for which graduating undergrads are sought.

The number of hedge funds in the U.S. has been growing at a phenomenal rate in the past few years, but they are still notoriously difficult places to get jobs. Hedge funds often hire people out of investment banking analyst programs. They tend not to hire people out of the mutual fund world, given that their valuation approach is so different, their investing horizon is so much shorter, and their orientation many times is towards short-selling, as well as buying stocks. While some hedge funds may focus exclusively on energy, most are generalist and opportunistic with respect to their target sectors.

Private equity funds invest money in private (i.e., not publicly traded) companies, often also obtaining operating influence through a seat on the portfolio company's board of directors. As a result, an analyst's work at a private equity fund is vastly different from that at a mutual fund or hedge fund. You are not following the stock market or incorporating market perception issues into your valuations and recommendations; instead, you are taking a hard look at specific operating issues, identifying concrete areas where the portfolio company can lower costs or enhance revenue. A few private equity firms specialize in energy investing, and many more do occasional deals in the energy space as part of a broader technology or manufacturing focus. Private equity firms hire just a few people straight out of college or MBA programs, and many others from the ranks of investment banking alumni.

Banks

Banks are primarily involved in lending money to companies, but they also have their own trading operations, private wealth management and investment analysis groups. Commercial and investment banks arrange for loans to energy companies, as well as syndicate loans for them (i.e., find other people to lend the money). Investment banks manage IPOs, and mergers and acquisitions (M&A) activities, as well. The banking world is overwhelmingly centered in New York (and London), with some smaller branches in Chicago and San Francisco.

Consulting firms

Consulting firms offer rich opportunities for those interested in the energy industry. Consulting on business issues (rather than information technology or technical, scientific issues) is done at three types of firms: management consultancies, risk consulting groups and economic consulting shops. Consulting firms are often interested in hiring people with good functional skills rather than requiring specific industry expertise and provide a broad exposure to energy sector business issues, as well as good training. Business consulting firm offices are located in most major cities, but much of the energy sector staff may be located in Houston, Washington, D.C. and New York.

Nonprofit groups

Nonprofit groups are tax-exempt corporations (pursuant to IRS code 501(c)3) engaged in issue advocacy or public interest research. Advocacy groups may focus on developing grassroots support for public policy changes, publicizing public interest issues or problems through direct actions, or working to influence politicians to enact or change legislation. Most of the energy-related advocacy groups focus on environmental topics, though some also cover corporate financial responsibility and investor protection issues. Think tanks are public policy research institutes, staffed mainly by PhDs who generate research and opinion papers to inform the public, policy-makers and media on current issues. Interestingly, the think tank is primarily a U.S. phenomenon, although the concept is slowly catching on in other countries. Some think tanks are independent and nonpartisan, whereas some take on an explicit advocacy role. Nonprofits are funded by individual donations and grants from foundations, and accordingly a substantial portion of their

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staffs are dedicated to fundraising. Most energy nonprofits are based in Washington, D.C., where they have access to the federal political process, but many of them have small regional offices or grassroots workers spread out across the country.

Government agencies

Government agencies at the federal and state levels regulate the energy markets and define public energy and environmental policy. Federal agencies are mostly located in Washington, D.C., and each state has staff in the state capital. Jobs can include policy analysis, research project management or management of subcontractors. The energy agencies tend to hire people with environmental or engineering backgrounds, and are lately following a policy of hiring people with general business and management education and experience.

Energy services firms

Energy services firms help companies (in any sector) reduce their energy costs. Working for an energy services firm is similar in many respects to consulting—except that you go much further down the path of implementation. Typically, an energy services firm first conducts an energy audit to understand where a company spends money on energy: electricity, heat and industrial processes. Then, the firm actually implements energy-saving measures "inside the fence" of the client company. This can involve investments and activities such as putting lightbulbs on motion sensors, upgrading the HVAC (heating, ventilation, air conditioning) system, negotiating better rates with the utility suppliers or developing a cogeneration power plant adjacent to the factory. Often, the energy services firm receives payment for these services in the form of a share in the net energy cost savings to the client. These firms are located across the country, with a few of the largest clustered in Boston.

WHO GETS HIRED?

As in other technology-intensive sectors, the energy sector is populated by a disproportionate number of people with technical degrees (e.g., BS, MS or PhD in engineering, hard sciences and math). Whether it's true or not, traditional energy company employers often feel that success in a job correlates to having a certain degree. This pickiness about your undergraduate major or master's degree field gets even stronger during economic downturns, when companies act more conservatively and have more bargaining power in terms of new hires.

In many energy jobs, the prevalence of people with technical pedigrees is somewhat a function of self-selection; individuals interested enough in the energy sector to make it their career were usually also interested enough in related topics to focus on them academically. On top of that, the prevalence of technical people is also self-reinforcing; in other words, engineers like to hire other engineers. There is also arguably an element of reality underpinning the preference for people with certain academic backgrounds—engineers communicate best with other engineers, and have proven in school that they can learn the ins and outs of a complex subject area.

This tendency is most characteristic of hiring preferences among oil companies, oil services firms, refineries, pipelines, grid operators, equipment manufacturers, energy services companies and utilities. These firms want to hire people who have their heads around how their technologies work—people who can master the jargon quickly, and who can fit into their culture. Even for their MBA hires, these companies often look for technical undergraduate degrees or pre-MBA work in energy or another technical field.

However, there are certainly many people with liberal arts backgrounds doing great work at these types of companies. A nontechnical degree does not in any way shut you out of any energy sector career path; it simply makes you slightly more unusual in the eyes of some interviewers. If you can craft a compelling story about why you are passionate about and deeply understand the energy world, your degree becomes far less relevant. In addition, if you are applying for a finance, economics or accounting job with a degree in those fields, you are also less subject to scrutiny about your knowledge of geology, electrical engineering or chemistry. Once you have a couple years of experience in the industry, that serves as a degree equivalent and you will have established your credibility.

Many of the service jobs in energy are interested in simply hiring smart people who demonstrate an ability to learn a new industry quickly. Energy consulting, banking and investing jobs often screen for nothing different than their counterparts in other industries. Similarly, the newer, alternative energy companies are often heavily filled with people who studied liberal arts, economics and government in college. These companies are progressive in terms of their business strategies, and usually this comes across in their approach to hiring as well. In addition, nonprofits typically first look for passion and commitment to advocacy work before they look for technical background.

Where you're coming from

Apart from academic background, traditional energy employers are also keenly interested in people who have a strong connection to the geographic region in which the company is located. These companies like to hire for the long term, so will often grill out-of-state candidates about why they would want to move to, for example, Houston or Atlanta. This can mean that, for a Houston oil company position, an MBA from Rice is a more attractive candidate than one from Wharton.

In fact, the energy sector offers particularly rich opportunities for students from second-tier undergraduate and graduate schools. Energy companies know that their industry is not typically considered as hot and glamorous as some other industries, and they can therefore often be skeptical about

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recruiting from name-brand undergraduate and graduate schools. The bottom line is that energy, as an industry, is simply less hung up on name-brand schools than some other industries, e.g., consulting, law and banking.

Moreover, during the past few years of our sluggish economy, many traditional energy companies tightened their recruiting budgets and reduced focus on first-tier schools—at the same time as service companies like consulting and banking firms reacted to a slow economy by canceling recruiting at second-tier schools and concentrating on only a limited set of top schools. Of course, those in the know are well aware that the energy sector is one of the most intellectually challenging, influential arenas in which to work! If you want to work in the sector, you can certainly seek out the energy employers, regardless of whether they visit your campus or target people from your alma mater.

In general, the best time to jump into the energy sector is right out of undergraduate or graduate (MA/MS, MBA or PhD) school. Like most employers, energy companies expect less in the way of industry experience from people who have just graduated, so it's a good time to get your foot in the door of a new field. Lateral hires of people a few years out of college or post-MBA are relatively rare, unless you have some specific industry background or functional experience a company needs. For example, a pipeline company might realistically hire someone with a couple years of general banking experience into a corporate finance role, but would be very unlikely to hire someone with a couple of years of, say, real estate experience into that same role—so if you had just graduated and never spent those couple of years in real estate, you'd have a better shot at the job.

This reluctance to hire laterally from other industries is far less common in the services sector (consulting, banking, investing, nonprofits). These employers are more interested in functional knowledge and pure brainpower, rather than a track record in one particular industry or another (though they have their own intransigence about hiring people laterally from other functional areas, i.e., it's awfully hard to get into consulting or banking if you don't do so your first year out of school). As a result, these jobs are an excellent way to get into the energy sector, and offer lots of options down the road—in other words, for example, it's relatively easy to go from an energy consulting role into a corporate job at other energy firms.

One caveat for those who move from one firm to another to position themselves for a future job: traditional energy employers like stability. If you have a lot of different jobs on your resume, you should make sure to have a good story to explain the necessity of your job-hopping, and why you are long-term play for the company (whether you truly are or not). This is true when interviewing with any firm, but large, traditional energy firms are certainly more sensitive to the issue.

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Fashion

FASHION AND THE MBA

Like the entertainment industry, the fashion industry considers education to be less important than experience. So, if you want to go into the industry but don't have the previous experience, get a part-time job in sales or merchandising for an introduction to the industry. Unfortunately, most companies won't care much about your MBA unless it's a large corporation, such as Gap, Levi Strauss, Eddie Bauer, Limited or Nike. These companies tend to hire for finance, supply chain issues or CRM. Typically, you need a consulting, finance or marketing background to get a post-MBA job in the industry. Very few apparel companies have established programs to specifically hire MBAs. A few companies that do hire MBAs for the more creative positions include Cartier, LVMH, Macy's and the Gap.

Hillary Shor recruits for the strategy and business development and consulting and assurance services groups of Gap, Inc. These groups are relatively small (about 20 to 30 people per group). Almost all candidates have an MBA, although many are not hired directly as MBA graduates. Shor says, "We actually look at what a candidate did prior to business school. The strategy and consulting groups look for candidates with consulting or industry experience (such as consumer products, goods or retail). Some of our candidates come from consulting firms such as A.T. Kearney and McKinsey."

The strategy and business development group at Gap identifies, develops and drives longer-term strategies and initiatives that will result in profitable growth (usually with a focus on new opportunities). "Strategy involves brand management, research, as well as planning," says Shor. Consulting and assurance services involves financial/operational analysis, process analysis and design and project management. Basically, this group acts as an internal consulting group for Gap. Team members may work with outside consultants and vendors.

GETTING HIRED

Build your resume correctly and you can get the interviews you need. In apparel, most of the job functions are very specific, such as design, merchandising, marketing, production and so on. Because many of the companies are small, there aren't very many traditional MBA "management" positions. Many of the people who work at these companies may have gone to trade schools or been in the industry for a long time. For example, the president of Gucci used to work as vice president at Richard Tyler. He was young when he left Richard Tyler for Gucci, but he had started working there when he was 18.

The Gap, Limited and Eddie Bauer all have internal consulting groups that traditionally hire MBAs. If you are interviewing for an internal consulting position, more than likely it will resemble a traditional consulting interview. You may be given a case study as part of the interview. (See the Vault Guide to the Case Interview for more information on this type of business interview.) Other jobs at fashion companies for MBA graduates may include planning, finance or strategy.

PAY AND PERKS

MBA jobs in the fashion industry may not pay well in comparison with other MBA graduate options. Entry-level salaries may hover around the $50,000 mark, though a regional manager or director of sales can make more than $100,000, plus a wardrobe allowance and stock options. In general, there are two options—you work to get the experience or to learn enough to start your own business. If you are thinking of the latter, gain experience that will help you manage your own business. For example, if you want to open your own jewelry store, get a job merchandising or selling jewelry. The best way to learn all sides of the business is to experience it yourself. The pay in the fashion industry is more negotiable than other industries. Most companies will not release this information and, because these jobs are not necessarily geared toward MBAs, the salaries are not standard.

VAULT PROFILE: JUDY CHANG, FASHION MBA

Judy Chang graduated from the Anderson School at UCLA with a MBA in 2002. Her previous education included a BS and master's in industrial and operations engineering from the University of Michigan. After college, she worked as a program manager for DaimlerChrysler to coordinate the launch of a particular program in the automotive plants. Chang says, "I would work on program launches for each car model year and style (for specific windshield specifications). I came to Anderson knowing that I wanted to do something totally different." She also says, "If you really want to change careers, getting an MBA is essential. Without my MBA, I don't think I would have been able to switch careers successfully. Fashion companies would have looked at my resume and questioned my interest."

At the Anderson School, her emphasis was marketing, and it was the first time she began to seriously consider a fashion career. She had worked at Armani Exchange during college and enjoyed it—but didn't think that fashion would be a practical career choice. At Anderson, she joined the Fashion and Retail Association and began to do her research so that she could merge her interests and career goals. On campus, Macy's and Neutrogena came for interviews. Through the database, she found alumni and contacted them to speak about their experiences. Chang landed a summer internship in planning at Macy's West. She worked there for three months in the summer and is now there fulltime.

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At Macy's West, Chang did two projects over the summer. (The department store Macy's is split into two regions and run completely separately. Macy's East is headquartered in NYC, while Macy's West is based in San Francisco.) To her surprise, Chang's operations experience was extremely relevant during the internship. Her first project was about handbag assortments. Her goal was to figure the optimum assortment level. She analyzed the number of styles bought for each cluster of stores, available table space for the handbags and discounted handbag sales versus regular stock. She used Macy's sales data as well as active visits to the Macy's floor to make her recommendations. Her second project was to standardize colors across a group of buyers. Each buyer used an individual color coding system. Macy's had no way of tracking sales by color or across categories. For example, although each buyer bought "red," each red item could be a completely different shade. Chang created a color tracking system that allowed the planners to analyze the sales by color and buyer. Macy's could now see which color sold during any a one-week period.

During her internship, Chang was excited to go to work every day (especially compared to her previous position). She found everyone to be supportive and very friendly. Macy's was a very different experience for her. Chang says, "At Macy's, it seemed like the workforce was 90 percent women and only 10 percent men. At DaimlerChrysler, I used to work with 90 percent men and 10 percent women. If there is something you really think will make you happy, you should do it—even in this difficult economy."

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Financial Services and Insurance

STATE OF THE INDUSTRY

Like a bazaar that offers something to satisfy every customer's potential needs, the financial services industry presents a little bit of everything to prospective clientele. But while the trade is a vast one, its subdivisions are specialized to meet individuals' fiscal needs, and the major firms primarily operate in one of the following categories: credit cards, insurance, mortgages, auto financing, ratings, financial data services or diversified financials. (Noticeably missing categories include accounting, investment banking, commercial banking and investment management—all of which are covered in a different chapter.)

Although the evolution of the financial services business has been a long and storied one, its development and expansion continues well into this century.

CREDIT CARD SERVICES

Looming large

Issuing credit cards is one of the most common ways in which financial services firms provide credit to individuals. Via the credit card, firms provide individuals with the funds required to purchase goods and services, and in return, individuals repay the full balance at a later date, or make payments on an installment basis. Via the debit card, people avoid debt by withdrawing the purchase amount from their bank accounts and transferring it to the seller. Though you're most likely familiar with how credit and debit cards work, you might not be familiar with just how large the industry is. According to Reuters, as of 2007, there were more than 640 million credit cards in circulation in the U.S. And according to CreditCards.com, Visa had a 46 percent U.S. market share based on credit card receivables outstanding in 2007, followed by MasterCard with 36 percent, American Express with 12 percent and Discover with 6 percent. On a global scale, Visa accounted for 65 percent of the market, MasterCard had a 30 percent share, followed by American Express and Japan-based JCB card (both of which had unknown shares).

Credit crunch

Credit cards, which saw the availability of their lines to consumers rapidly diminish over the course of 2008, are dealing with a number of recession-related issues. Top banking analyst Meredith Whitney (now working for her eponymous firm after leaving Oppenheimer & Co.) said in March 2009 that credit cards' problems are more imminent than previously expected. She estimated that $2 trillion in credit card lines will be cut in 2009, and another $2.5 billion will go in 2010. The concern has also been raised that credit cards, once used as a cash management tool, have become overused and their balances left unpaid (in the United States, there are about $5 trillion in outstanding credit card lines).

Credit cards' annual interest rates also continued to rise into 2009, even including low-interest rates on cards offered to those with strong credit histories. Balance transfer rates for cards also increased, and industry watchers say there's not a lot of relief in sight—rates are likely to continue to skyrocket throughout the course of the year and beyond.

A bumpy ride

In the first quarter of 2008, Visa and MasterCard spent $860,000 and $720,000 apiece in order to attempt to combat proposed federal regulations, which would shield consumers from high interest rates and let merchants who take credit cards negotiate their transaction fees. The proposed legislation, called the "Credit Card Fair Fee Act of 2008," as spearheaded by the Federal Reserve, the Office of Thrift and Supervision, and the National Credit Union Administration.

Potential legislation against Visa and MasterCard was only the tip of the iceberg of credit card companies' difficulties in 2008. MasterCard posted a $746 million loss for the second quarter of the year, due in no small part to the $1.8 billion the company ended up paying American Express in a settlement stemming from a 2004 lawsuit contending that MasterCard—along with competitor Visa—had barred some financial companies from distributing cards through American Express. In the third quarter of 2008, MasterCard will make its first $150 million payment to American Express—a practice that will continue for 12 quarters. Meanwhile, Visa, in its settlement, is paying American Express a total of $2.25 billion.

Consumer credit purgatory

Credit card companies were hardly the only ones to feel the pinch of the credit crunch. Consumers worldwide felt the breakdown of the subprime market in many ways, and those in the U.S. took the brunt of the fallout. In late 2007, International Monetary Fund Director Rodrigo Rato predicted the U.S. would be the hardest hit throughout 2008. Sadly, his predictions seemed to be fulfilled quickly—by June 2008, The Guardian reported on the trend of more and more middle-class citizens being forced to live in their cars due to the foreclosures brought on by the subprime crisis. And that wasn't the end of the market backlash. In July 2008, the Senior Loan Officer Opinion Survey on Bank Lending Practice reported that 65 percent of U.S. banks admitted to stiffening their overall lending practices over the course of the year as a result of the credit crisis, a 30 percent jump versus its April 2008 report.

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Heavy metal

The credit card traces its roots back to 1914 when Western Union began doling out metal cards, called "metal money," which gave preferred customers interest-free, deferred-payment privileges. Ten years later, General Petroleum Corporation issued the first metal money for gasoline and automotive services, and by the late 1930s, department stores, communication companies, travel and delivery companies had all began to introduce such cards. Then, companies issued the cards, processed the transactions and collected the debts from the customer. The popularity of these cards grew until the beginning of World War II, when "Regulation W" restricted the use of cards, and as a result, stalled their growth.

After the war, though, cards were back on track. Modes of travel were more advanced and more accessible, and more people were beginning to buy expensive modern conveniences such as kitchen appliances and washing machines. As a result, the credit card boomed in popularity, as consumers could pay for these things on credit that otherwise they couldn't afford to buy with cash.

Charge-it

In 1951, New York's Franklin National Bank created a credit system called Charge-It, which was very similar to the modern credit card. Charge-It allowed consumers to make purchases at local retail establishments, with the retailer obtaining authorization from the bank and then closing the sale. At a later date, the bank would reimburse the retailer and then collect the debt from the consumer. Acting upon the success of Franklin's Charge-It, other banks soon began introducing similar cards. Banks found that cardholders liked the convenience and credit line that cards offered, and retailers discovered that credit card customers usually spent more than if they had to pay with cash. Additionally, retailers found that handling bank-issued cards was less costly than maintaining their credit card programs.

The association and the Master

Bank of America masterminded credit card innovations in the 1960s with the introduction of the bank card association. In 1965, Bank of America began issuing licensing agreements that allowed other banks to issue BankAmericards. To compete with the BankAmericard, four banks from California formed the Western States Bankcard Association and introduced the MasterCharge. By 1969, most credit cards had been converted to either the MasterCharge (which changed its name to MasterCard in 1979) or the BankAmericard (which was renamed Visa in 1977).

Cutting the cost of transaction processing and decreasing credit card fraud were the next innovations introduced to the industry. Electronic authorizations, beginning in the early 1970s, allowed merchants to approve transactions 24 hours a day. By the end of the decade, magnetic strips on the back of credit cards allowed retailers to swipe the customer's credit card through a dial-up terminal, which accessed the issuing bank cardholder's information. This process gave authorizations and processed settlement agreements in a matter of minutes. In the 1980s, the ATM (Automatic Teller Machine) began to surface, giving cardholders 24-hour access to cash.

The debut of the debit, the climb of the cobrand

The 1990s saw the debit card rise in popularity. The debit card grew from accounting for 274 million transactions in 1990 to 8.15 billion transactions in 2002. (According to the Packaged Facts report "Debit Cards in the U.S.," there were 28 million debit card transactions in the U.S. in 2007, worth a total of $1.4 trillion.) The 1990s also witnessed the surge of cobranded and affinity cards, which match up a credit card company with a retailer to offer discounts for using the card (think Citibank's AAdvantage cards and American Express' Mileage Rewards program). Although cobranded cards took a dip in the late 1990s—according to some industry experts, this was because issuers had exhausted the most lucrative partners—they returned in full force during the early part of the new millennium. In 2003 alone, MBNA—called "The King of the Plastic Frontier" by *BusinessWeek*—struck some 400 new deals with various companies such as Merrill Lynch, Royal Caribbean and Air Canada. Additionally, it renewed deals with another 1,400 organizations, including the National Football League and the University of Michigan. In 2004, MBNA signed agreements with numerous other companies and organizations such as A.G. Edwards & Sons, the Massachusetts Institute of Technology, Arsenal Football Club (U.K.), Charles Schwab and Starwood Hotels and Resorts. (In 2005, MBNA was acquired by Bank of America.)

And then there were four

In September 2003, a federal court upheld a lower court ruling that cost credit card powerhouses Visa and MasterCard a combined $3 billion. The court found Visa and MasterCard rules preventing the companies' member banks from also issuing American Express and Morgan Stanley's Discover cards to be illegal and harmful to competition. MasterCard was forced to pay $2 billion in damages and Visa paid $1 billion.

In October 2004, the U.S. Supreme Court decided not to hear Visa and MasterCard's appeal in the government's antitrust suit against them, effectively ending the two companies' rules that had prevented banks from issuing cards on rival networks. As a result, Amex and Discover became free to partner with the thousands of banks that issue Visa and MasterCard. This allows Amex and Discover to gain ground on the two credit powerhouses that, together, control at least 80 percent of the U.S. credit card purchase volume (as of July 2007), according to the National Retail Federation.

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Re-Discovering the possibilities

In the midst of Morgan Stanley's great personnel exodus of March 2005, the firm announced plans to spin off its Discover credit card unit. Former Morgan Stanley CEO Philip Purcell reasoned that Discover "will be more properly valued as a stand-alone entity" than as a piece of Morgan Stanley. Soon after the announcement, analysts began estimating the Street value of the huge credit card unit. The range fell between $9 billion and $16 billion. Analysts also disagreed over whether or not the spin-off would maximize shareholder value.

However, new CEO John Mack's first big after taking over the reins in mid-2005 was to reverse course on the Discover business, which predecessor Purcell had talked of selling off. "Discover is not only a strong business, but also an attractive asset for Morgan Stanley," Mack said in a statement. "It is a unique, successful franchise with growth opportunities that gives Morgan Stanley a consistent stream of stable, high-quality earnings and substantial cash flow, diversifies the company's earnings and broadens our scale and capital base."

But despite the kind words, there was ultimately a change of heart for Morgan Stanley. Although Discover delivered record before-tax earnings of $16 billion in 2006, Morgan Stanley announced the same year that it planned to spin off Discover, which some analysts said would allow both businesses to grow more quickly. The deal was finally completed in June 2007, and though financial terms weren't disclosed, analysts estimated Discover's worth to be $13 billion at the time.

As an autonomous firm, Discover is now led by CEO David W. Nelms, and as of August 2008, its stock was trading at $15.52 a share. Net income for the second quarter 2008 was $234.15 million, up from $209.24 million in the second quarter 2007. Being its own entity has hardly exempted Discover from dealing with a few roadblocks. In August 2008, a lawsuit from Discover asserting a conspiracy between MasterCard and Visa was deemed limited in reach by a judge who also rejected allegations from Discover that MasterCard was excluding Discover from distributing debit cards.

The big buy

In June 2005, BofA announced its acquisition of credit card behemoth MBNA in a $35 billion deal, following closely on the heels of its $49 billion purchase of FleetBoston Financial in 2003. The MBNA purchase made Bank of America one of the largest card issuers in the U.S., with $143 billion in managed outstanding balances and 40 million active accounts. Bank of America added more than 20 million new customer accounts as well as affinity relationships with more than 5,000 partner organizations and financial institutions. It achieved overall expense efficiencies of $850 million after-tax, fully realized in 2007, and a restructuring charge of $1.25 billion after-tax. Cost reductions came from a range of sources, including layoffs. (In unrelated cuts, the bank announced plans to slash 7,500 jobs in its mortgage, home-equity and insurance groups in summer 2008).

In November 2006, BofA announced that it had agreed to acquire US Trust, the wealth management subsidiary of Charles Schwab Corporation. The $3.3 billion acquisition, completed in July 2007, helped BofA strengthen its capabilities in serving high-net-worth clients and increase its assets under management.

The big IPOs

At the end of August 2005, MasterCard, which became a private share corporation in 2002, announced plans to become a publicly-traded company. On May 25, 2006, MasterCard finally went public, and began trading on the New York Stock Exchange (NYSE) under the ticker 'MA.' "Listing on the NYSE marks a major milestone for MasterCard and reinforces our commitment to continued growth and building value for our customers and stockholders," Robert Selander, the company's president and chief executive officer, told the Associated Press. The market had expected the issue to open in the $40 to $43 range, but MasterCard was at $39 after a series of setbacks delayed the process. But by most accounts, the IPO has been a huge success. As of August 2008, the stock had zoomed to over $234 per share, thanks in part to solid growth rates. During the second quarter 2008, 951 million MasterCard cards were issued, up 11 percent. MasterCard's worldwide purchase volume went up 12.8 percent to $655 billion, while transactions processed went up 13.6 percent to 5.2 billion.

MasterCard wasn't the only piece of plastic that's dazzled IPO investors. On March 19, 2008, Visa set a record for stateside IPOs when it raised $17.9 billion in its initial public offering. (The deal got even bigger when Visa's underwriters decided to exercise their option to buy 40.6 million more shares at $44 each for about $1.8 billion.) The firm's shares were initially valued at $44 per share—higher than the expected $37 to $42 range—and increased 35 percent to $59.50 almost immediately upon going public. At the end of the first day of trading, Visa's shares (which trade on the NYSE under the symbol 'V') closed at $56.50, a 28.4 percent increase from its opening price. As of September 2008, Visa's stock was still going strong, trading for around $74 a share.

The road, however, has been rocky as MasterCard and Visa have recently weathered some storms. In November 2007, MasterCard and Visa announced that they would be paying American Express $1.8 billion and $2.25 billion, respectively, in a settlement stemming from a 2004 lawsuit contending that the companies had barred some financial companies from distributing cards through American Express.

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No contact credit

"Contactless" cards and finger-swiping systems are the latest advances in the world of plastic purchasing. According to CreditCards.com, by mid-2007, banks had issued about 27 million debit and credit cards that could be scanned via a radar-like beam, rather than having to be run through a machine. The popularity of contactless credit and debit cards—which can be used at numerous retailers such as McDonald's, 7-Eleven and CVS—is only expected to skyrocket. According to market research firm Packaged Facts, there will be approximately 109 million cards in circulation by 2011. Other than not having to run the cards through a machine, another benefit is that no signature is required for purchases less than $25.

Another no-contact credit payment system is now in place: the pay-by-finger system, in which individuals' fingers are scanned and linked to their payment information. All you have to do is press your finger (its print) against a device, enter some personal information, such as your phone number on a keypad and your payment is made; fingerprints are linked up with credit or debit cards. The system is already in place at hundreds of U.S. supermarkets such as Albertsons and Piggly Wiggly.

A worrying trend

There's been a number of reports detailing the disturbing trend of cash-strapped homeowners declining to pay their mortgages as the U.S. economy has continued to tank. Maybe because of this trend—or in spite of it—American Express and Visa began a rewards program that allows customers to pay their monthly mortgage or rent with a credit card. Although the companies said that customers have the potential to earn exponentially more bonus points than they had before, some analysts pointed out that the main concern with such a program is that credit card owners who are already in debt will only continue to fall deeper into credit issues. And those debt issues already run deep with Americans to begin with. A Sallie Mae/Gallup poll released in August 2008 revealed that parents of college students who borrowed on credit cards put an average of more than $5,800 on their cards while students put about $2,500 on their plastic. Besides big-ticket items like education, other accouterments of wealth are also frequently put on Americans' credit cards without a second thought—swimming pools and car payments are no longer a rarity to charge.

But is it preferable to put college payments on a credit card rather than luxury items that would otherwise be out of reach? It may be, according to some credit card companies. CompuScore, which markets Visa cards, came under fire from the Federal Trade Commission in August 2008 for profiling cardholders' transactions, reducing the credit limits of customers who used their cards at marriage counselors, tire shops, billiard halls and pawn shops. The FTC hasn't called the company's actions illegal, but it did allege that the company wasn't upfront about its actions. Either way, it may pay for consumers to watch where they use their cards.

INSURANCE

Risky business

The insurance industry is a multitrillion-dollar market dealing in risk. In exchange for a fee (the "premium"), insurers promise to compensate individuals and businesses for future losses, thus taking on the risk of personal injury, death, damage to property, unexpected financial disaster and just about any other misfortune you can name. The insurance industry is commonly divided into categories, such as life/health and property/casualty, and within those, either personal (individual consumers) or commercial (business). Life dominates the mix, and accounts for about 60 percent of all U.S. premiums ($1.3 billion). The bigger categories can be subdivided into smaller groups; a personal property policy, for instance, may be purchased by a homeowner or renter, and can cover land, the building structure and personal incidental property (like electronics, clothes, important papers, jewelry or musical instruments), while health is made up of subsets that include disability and long-term care.

These days, though, you can find insurance for just about anything: weddings, bar mitzvahs, the chance of weather ruining a vacation—even policies for pets. Animal health insurance is projected to generate $550 million in premiums by 2010, up from a $160 million market in 2005. Celebrity policies always get a lot of press: though rumors that Jennifer Lopez had insured her most famous, um, asset for $1 billion proved to be unfounded, other such policies do indeed exist. In fact, the phrase "million dollar legs" comes from Betty Grable's policy for that amount (a similar policy is held by Mary Hart of TV's *Entertainment Tonight*); other notable contemporary policies include Bruce Springsteen's voice (reportedly covered at around $6 million) and the smile of America Ferrara (television's *Ugly Betty*) for $10 million. And through reinsurance, insurance companies themselves can be insured against extraordinary losses.

The state of the insurance world

Insurance is a truly global industry—world insurance premiums reached $4.1 trillion in 2007. Europe is, on average, ahead of the rest of the world in terms of insurance coverage, as evidenced by its 40+ percent share of the total figure; and the United States represents 33 percent of the total. (Note, though, that those two regions only hold 7 percent of the planet's population.) Ranked by 2007 revenue data from the III (Insurance Information Institute), the top-five U.S. property/casualty insurance companies are Berkshire Hathaway, American International Group (AIG), State Farm, Allstate and Travelers. MetLife, Prudential Financial and New York Life Insurance are the top firms in life/health. Leaders abroad include Germany's Allianz, France's AXA, Lloyd's (better known by some as Lloyd's of London) and Italy's Assicurazioni Generali. Nationwide, Liberty Mutual Group, Progressive and Chubb are other notable American insurers.

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According to the III, there were 2,723 property/casualty insurance companies in the United States in 2007; however, this number is misleading, since it's common for the fatter firms like AIG to own scads of smaller insurers, each catering to a particular market. Thus, the top-10 property/casualty insurers account for nearly half of all premiums written. Some insurance companies have also begun to reconfigure themselves from mutual insurers (or those owned by policyholders—e.g., State Farm), to stock insurers (or those held by shareholders—e.g., Allstate). This process, known as "demutualization," promises to raise capital for insurance companies to indulge in acquisitions.

The last quarter-century has seen a move away from life insurance (of which there are 1,190 firms today) toward annuity products—reflecting a shift in focus to managing investment risk rather than the (obviously inevitable) risk of mortality. Moreover, increased deregulation in the United States and Japan has brought insurers closer to direct competition with financial services firms. Indeed, the business of the insurance industry doesn't end with insurance. The world's top companies have broadened their array of financial services to include investment management, annuities, securities, mutual funds, health care management, employee benefits and administration, real estate brokerage and even consumer banking. The move towards financial services follows the 1999 repeal of the Glass-Steagall Act, which barred insurance companies, banks and brokerages from entering each other's industries, and the Gramm Leach-Bliley Act of 1999, which further defined permissible acts for financial holding companies. Today, insurance companies are free to partner up with commercial banks, securities firms and other financial entities. Of course, the converse is also true, and some banking companies have entered the insurance arena, creating heightened competition.

Virtual agent

Like other industries, the insurance market has been transformed in recent years by the internet. Traditionally, insurance products have been distributed by independent agents (businesspeople paid on commission) or by exclusive agents (paid employees). But insurers who sell over the Web reap the benefits of lower sales costs and customer service expenses, along with a more expedient way of getting information to (and from) consumers. Esurance was founded as an entirely online auto insurance company, and has grown dramatically in its short 10-year history. Though few insurers have moved to 100 percent online vending of their policies, the vast majority have found it helpful to provide quotes on their websites.

A new cause of loss: terrorism

The September 11 terrorist attacks sent shockwaves through the insurance industry. Not only did the tragedy cost insurers roughly $32 billion in property- and liability-related losses and $36 billion in other associated claims, but it also caused insurers and reinsurers to take a hard look at how they would handle the risks associated with possible future terrorist acts. The Terrorism Risk Insurance Act (TRIA), signed into law by President Bush in November 2002, aimed to deal with the nearly incalculable risk posed by such a threat. Among other things, the law defined a terrorism-related event as one with a minimum of $5 million in damages, and provided for the sharing of risk between private insurers and the federal government over a three-year period. Participation was mandatory, and in the event that such an episode occurred, each company was responsible for paying a deductible before federal assistance became available. While the measure met with much grumbling from all parties involved—the timeframe for implementation was short, and recordkeeping and logistical questions abounded—the industry acknowledged that the plan at least quantified the potential risk from terrorism-related disasters.

Just days before the expiration of the act, TRIA was extended for two years in December 2005. However, provisions of the extension reduced the government's exposure, putting more of the burden on private insurers. The extended act mandated increases in the amount of damage an event must cause before the government steps in over the life of the bill—in 2006, a terrorist act had to cause $50 million in damage to be certified as a terrorism-related event, and in 2007, the deductible was set at $100 million. The act was extended once again, and its sunset date is now set at December 31, 2014.

When disaster strikes

Despite the catastrophic destruction of September 11th, the nation's most consistently expensive insurance incidents come straight from Mother Nature. The hurricane season of 2004, during which a succession of four hurricanes battered the Southeast, racked up insured property losses estimated at $23 billion. The 2004 season also brought on more than two million separate insurance claims. However, the 2004 hurricane season paled in comparison to that of 2005—the most active in recorded history—during which 15 different hurricanes formed in the Atlantic. The most destructive of these was Katrina, a category-3 storm that devastated New Orleans and the Gulf Coast at the end of August 2005 and caused $100 billion in damages—twice those of Hurricane Andrew, a category-5 storm that hit the Southeast in 1992. More than one million claims were filed against some $40 billion of insured property. Hurricanes Rita and Wilma (which each reached category 5) damaged the Gulf Coast and South Florida, respectively. Insurers feared that cyclical weather patterns—as well as, many believe, global warming—augured an increase in hurricane numbers and severity.

For 2006, National Oceanic and Atmospheric Administration (NOAA) predictions indicated an 80 percent chance of an "above normal" hurricane season with particularly strong storms, yet only one sub-hurricane event managed to inflict damage. For the year, insured catastrophe losses (including tornadoes, hurricanes, terrorism, winter storms, earthquakes, wind/hail/flood and fire) were estimated at $9.2 billion—a far cry from the $61.8 billion record of 2005. Weather watchers again predicted an above-normal hurricane season for 2007 and 2008; but those were both, thankfully, unspectacular.

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In spite of unreliable weather predictions, insurance companies do what they can to mitigate the risks of future hurricane seasons—and not always ethically. In order to prevent losses of the sort that attended the hyperactive 2005 season, some companies refused to insure or renew policies on houses in coastal regions, an industry practice known as redlining, which is frowned upon by state insurance regulators. Thousands of Katrina victims (in Louisiana and Mississippi) accused their insurers of inappropriately denying their claims. As of mid-2007, attorney Richard Scruggs, who represented many of them, had managed settlements with Allstate, State Farm, Nationwide and Metropolitan Property & Casualty for millions of dollars; the arrangements also forced the re-evaluation of thousands of policies, 35,000 of them from Allstate alone. Though Scruggs was convicted of bribery and sentenced to five years in prison in June 2008, Katrina insurance victim cases continue to appear and settle today.

As another cost-cutting strategy, other companies concentrated on wooing policyholders in the Midwest, an area less prone to natural disasters (tornadoes notwithstanding), to balance out the riskier insureds. The insurers still writing policies for coastal regions charge astronomically higher premiums; rates in Florida commonly have surged as much as 200 percent since 2005. Updated disaster prediction models and higher reinsurance rates are blamed for the significant price jumps, which instigated a large-scale ripple effect throughout the housing industry.

I'll take fraud for $100 billion, please

Fraud is an issue that continues to challenge the insurance industry. According to the III, it costs companies (and, down the line, consumers) an estimated $85 to $120 billion per year. But this con is not perpetrated by rogue executives, but by John Q. Public. The data from the III and the National Insurance Crime Bureau shows that property/casualty insurance fraud runs near $30 billion annually, and comprises as much as 10 percent of all claims, adding $300 to the average consumer's insurance bill every year. Auto, health care and workers' compensation are the segments most affected by fraudulent activity.

Fraud comes in two flavors, "hard" and "soft." Hard fraud is a deliberate invention or staging of an accident, fire or other type of insured loss to reap the coverage; while soft fraud covers policyholders' and claimants' exaggeration of legitimate claims (such as when victims of burglaries overstate the value and amount of lost property, or when car accident victims pad damage claims to cover their deductibles).

Unhealthy health care

Health insurers generally get a bad rap from the public: in 2005, only 9 percent of those polled thought that health insurance companies were "generally honest and trustworthy," and only 5 percent of respondents thought that HMOs had similar qualities. (In fact, only tobacco and oil companies were rated as less trustworthy.) The media and politicians—neither of which the public considers very trustworthy, for that matter—give plenty of air time to horror stories about managed care companies slighting critically ill patients and insurers refusing to cover necessary treatments or technologies. Is this reputation deserved? It depends on who you ask, but the industry has its own battles in health care. For example, it sees medical malpractice claims, which have skyrocketed in recent years, as a true crisis. According to the III, some insurers have quit writing malpractice policies entirely rather than shoulder the risk.

A July 2005 study by the Center for Justice and Democracy found that malpractice rates increased 120 percent between 2000 and 2004, while the amount of money paid in claims increased by a paltry 5.7 percent, and the surpluses collected by insurers increased by 33 percent. Insurers blasted the study's methodology, claiming it failed to take into account the additional costs that insurers face, such as underwriting. The good news is that there are signs that the medical malpractice insurance crisis is waning—in the years since the study, the annual number of such suits filed has declined in states both with and without tort reform measures on the books. Also, a 2008 study involving 700 policy quotes conducted by the Medical Liability Monitor showed that 93 percent of insurers' rates were stable or decreasing, compared to 84 percent the prior year.

The high cost of (not) working

Workers' compensation insurance, which pays for lost wages (termed "indemnity") and medical costs for injured employees, is yet another segment that generates a lot of heat among firms, regulators and the general public. Annual results have rarely been uplifting for the companies that write the coverage; although it's the largest commercial sector, it hasn't shown an underwriting profit since 1995. But 2006 was different, in fact, it was the best showing in three decades, with a 96.5 combined ratio (on $46 billion in premium). The combined ratio is the percent of premiums paid out as losses and expenses. Thus, anything left after subtracting that number from 100 represents profit. For 2007, the ratio slipped to 99 percent.

The problems plaguing workers' compensation are still there, though. Medical costs increased by 100 percent between 2000 and 2006 (an average of 12 percent a year, according to Express Scripts, Inc.); and medical coverage has also been the driving force for escalating corporate premiums, outstripping wage hikes and the medical consumer price index. Indemnity costs are rising, too, but at a much slower rate. These expenses cause workers' compensation disbursements to increase, even as the frequency of claims is declining. Reforms enacted in California several years ago have brought relief—excluding the state from the countrywide data raised the national combined ratio (by 10 points in 2006 and five points in 2007). However, according to the National Council on Compensation Insurance, the current political climate often makes it hard for these measures to be approved where they are needed.

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Under the scope

Since 2005, life at the top has been less than perfect for a number of insurance heavyweights. An investigation by federal and state prosecutors into AIG's accounting practices revealed accounting problems that forced the company to reduce reported profits by over $3.5 billion over five years. After the misstatements were largely found to be the fault of former CEO Maurice "Hank" Greenberg and former CFO Howard Smith, Greenberg stepped down from his post in March 2005 after nearly four decades on the job. Greenberg had been personally picked by AIG founder Cornelius Vander Starr to steer the company. That May, then-New York State Attorney General Eliot Spitzer filed a complaint against AIG, Greenberg and Smith, over accusations of securities fraud, common law fraud and a number of violations of insurance and securities laws. In February 2006, Spitzer and AIG settled the case, and as a result, AIG handed over a total of $1.6 billion in restitution to policyholders, investors and state funds, in addition to penalties to New York state and the Securities and Exchange Commission. That December, AIG tried to recover some of its losses by suing Greenberg for $1 billion. The lawsuit went to court in September 2008.

In June 2005, Allstate agreed to pay $34 million in restitution and fines to settle claims from California insurance regulators, who had accused the company of overcharging on a quarter of a million policies over a five-year period. In October 2004, the world's largest insurance broker, Marsh & McLennan, was accused of manipulating bids and receiving kickbacks for funneling business, but the firm later settled with New York state for $850 million to be paid back to insureds over the next four years. One casualty of the debacle was company chairman and CEO Jeffrey Greenberg—Hank's son.

Reports of our death … are not greatly exaggerated

But that wasn't the last heard from AIG—in fact, what happened next was one of the defining moments of the banking and economic crisis that was born in September 2008. On the night of the 17th, the U.S. government seized control of the AIG, one of the world's largest insurance firms and second-largest life insurer in the United States. Under the terms of the deal—one of the most radical in U.S. history, putting a private insurer into the hands of the government for the first time ever, and placing U.S. taxpayer dollars at risk—the Federal Reserve and Treasury Department promised $85 billion in loans in return for convertible warrants. This deal gave government an 80 percent stake in the insurer, and called for AIG CEO Robert Willumstad to be succeeded by Edward Liddy, the former head of fellow insurance giant, Allstate. The agreement arrived two days after the U.S. government decided not to bailout crumbling New York-based investment bank Lehman Brothers, which caused Lehman to file for Chapter 11. This pass had led some industry observers to believe that AIG would suffer a similar fate. But at the 11th hour, the Feds decided that the markets, seemingly able to endure the bankruptcy of Lehman, could not handle the liquidation of AIG.

AIG owed some Wall Street firms as much as $10 billion for speculative trades on mortgage assets and corporate debt that went south, insiders told *The Wall Street Journal* in December 2008. According to the *Journal*, "AIG's financial products unit, operating more like a Wall Street trading firm than a conservative insurer selling protection against defaults on seemingly low-risk securities, put billions of dollars of the company's money at risk." A spokesman for AIG said the trades were not speculative but "credit protection instruments." No matter how they're classified, the losses fall outside of AIG's bailout package, and the Federal Reserve "has no immediate plans to help AIG pay [them] off."

After two more adjustments to the package that brought the total up to $150 billion, in March 2009 the U.S. government said it would offer an additional $30 billion to AIG. Simultaneously, the firm reported a $62 billion loss for the fourth quarter of 2008 (staggering, especially when compared with a $5.3 billion loss in the fourth quarter of 2007). During that period, the firm took a $21 billion tax-related charge and wrote down almost $26 billion in assets. For the full year, AIG's income statement was similarly dismal—the firm lost $99.3 billion, compared with a $6.2 billion profit in 2007. AIG is hoping to sell off some of its arms to generate cash and isolate its risky contracts, but it's not at all clear whether any takers will materialize.

Ensuring the future

According to the U.S. Bureau of Labor Statistics (BLS), the insurance industry employed approximately 2.2 million people in 2006. Of these, around 60 percent work for insurance carriers, and the remainder is employed by agencies, brokerages and other employers. A small proportion of the workforce is made up of self-employed professionals, typically independent sales agents. Most insurance agents specialize in life and health insurance or property and casualty insurance. But a growing number of multiline agents sell all lines of insurance. A growing number of agents also work for banking institutions, non-depository institutions or security and commodity brokers. Medical and health insurance are among the fastest-growing industry sectors.

Common jobs in the industry include claims adjusters, appraisers, examiners and investigators; marketing and sales managers; actuaries; loss control experts; customer service representatives; insurance sales agents; underwriters; lawyers; computer systems analysts, programmers and support specialists. However, several of these job functions require (or at least strongly encourage) specialized training and/or professional certification. An agent, or anyone who sells insurance, is obliged to get a license, which usually demands a course of study and passing a written test on insurance basics and state regulations; and authorization to sell additional financial instruments means additional tests. Actuaries calculate the probability of a loss and incorporate company expenses into premium rates. Advancement in that career comes with successful completion of exams sponsored by the actuarial societies (one for life, one for property/casualty). Underwriters have their own set of tests administered by the AICPCU (American Institute for the Chartered Property-Casualty Underwriters).

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Although corporate downsizing and changes in business practices will limit growth in the industry over the next few years, a number of job openings are expected as older workers leave or retire. Furthermore, as the average age of the U.S. population increases, as is expected, more Americans will purchase health and medical insurance. Still the BLS projects wage and salary employment for the industry will grow by only 7 percent through 2016 (less than the 11 percent estimated for all industries).

RATINGS

Without a doubt, ratings agencies were affected by the recession. But some have argued that it was the ratings agencies' initial actions that pushed the United States into the recession in the first place. Some industry watchers have said that ratings companies, many of which gave investment-grade ratings to subprime mortgage-backed securities, helped play a part in the instability of the credit markets.

Regulators seemed to agree with this assessment. In 2008, New York Attorney General Andrew Cuomo and three ratings agencies—Moody's, Standard & Poor's and Fitch—struck an agreement to revamp the method the agencies use to collect fees and rate mortgage-backed securities. The agreement, brought about due to the subprime housing crisis, is part of a set of reforms designed to stop bond-rating companies from competing against each other by rating some derivatives artificially high.

Making the grade

Credit rating is another sector of the financial services industry that serves a highly specific purpose. Founded by John Knowles Fitch as the Fitch Publishing Company in 1913, Fitch was one of the early leaders in providing financial statistics. The Fitch rating system of "AAA" to "D," introduced in 1924, has become the standard for the financial community. Fitch, one of the four major credit-rating agencies (the others are Moody's Investors Service, Standard & Poor's and DBRS), is the leader in providing ratings on debt issued by companies, covering entities in more than 80 countries.

Moody's, founded in 1900, is one of the most prominent and widely utilized sources for credit ratings, research and risk analysis on debt instruments and securities. In addition, Moody's provides corporate and government credit assessment and training services, credit training services and credit software to financial institutions, with 9,000 accounts at 2,400 institutions worldwide. The firm's ratings and analyses track 100 sovereign nations, 11,000 company insurers, 25,000 public finance issuers and 70,000 structured finance obligations. Moody's ratings business consists of four groups: structured finance, corporate finance, financial institutions and sovereign risk and public finance. The firm's primary clients include corporate and government issuers as well as institutional investors, banks, creditors and commercial banks.

Standard & Poor's operates through six main divisions: credit ratings, data services, equity research, funds, indices and risk solutions. Nearly $1.5 trillion in investor assets was directly tied to S&P indices as of June 2008, more than all other indices combined. The firm has the world's largest network of credit ratings analysts, and its equity research division is the world's largest producer of independent equity research. More than 1,000 institutions—including 19 of the top 20 securities firms, 13 of the top 20 banks, and 11 of the top 20 life insurance companies—license its research for their investors and advisors.

DBRS, an international ratings agency, is headquartered in Toronto and gives ratings to borrowing entities. The company is split into corporate, financial institutions, public finance and structured finance divisions. The firm prides itself on being "the leading rating agency in Canada" as well as being the first rating agency to have a full-service website for customers.

Suspect practices

Rating agencies have recently come under severe scrutiny for their ratings of mortgage-backed securities—specifically, whether or not these ratings helped contribute to the subprime mortgage crisis. In late 2007, the Securities and Exchange Commission (SEC) began an inquiry into whether appropriate procedures were followed for ratings companies like Moody's and S&P. The SEC has alleged that some ratings agencies gave unnaturally high rankings to mortgage-backed securities and some debt products.

The problems for the rating agencies didn't end with the SEC. In July 2008, Connecticut Attorney General Richard Blumenthal filed a lawsuit against Fitch, Moody's and S&P, alleging that the firms gave municipal bonds falsely low ratings and, consequently, caused customers to pay for unneeded bond insurance as well as elevated interest rates. Additionally, Blumenthal said the agencies ran afoul of the Connecticut Unfair Trade Practices Act by neglecting to mention "material facts that caused bond insurers in Connecticut to purchase bonds at higher interest rates."

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www.aflac.com

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Dallas, TX 75252
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Fax: (972) 348-5335
www.alliancedata.com

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Northbrook, IL 60062-6127
Phone: (847) 402-5000
Fax: (847) 326-7519
Toll free: (847) 402-5000
www.allstate.com

American Express
World Financial Center
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www.americanexpress.com

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Madison, WI 53783-0001
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The Gallagher Centre
2 Pierce Place
Itasca, IL 60143-3141
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www.capitalone.com

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Fax: (949) 809-4357
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Fax: (212) 793-3946
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Fax: (224) 405-4993
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Fax: (404) 885-8055
www.equifax.com

Fidelity National Financial
601 Riverside Avenue
Jacksonville, FL 32204
Phone: (888) 934-3354
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First American Corp.
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Fax: (303) 967-6701
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Brookfield, WI 53045
Phone: (262) 879-5000
Fax: (262) 879-5013
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Fitch Ratings
1 State Street Plaza
New York, NY 10004
Phone: (212) 908-0500
Fax: (212) 480-4435
www.fitchratings.com

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Fax: (804) 662-2414
www.genworth.com

GMAC Financial Services
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Detroit, MI 48265
Phone: (313) 556-5000
Fax: (313) 556-5108
www.gmacfs.com

Guardian (The Guardian Life Insurance Company of America)
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www.guardianlife.com

Hartford Financial Services
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Fax: (860) 547-2680
www.thehartford.com

Leucadia National Corporation
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Fax: (212) 598-4869
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Fax: (617) 350-7648
www.libertymutualgroup.com

Lincoln Financial Group
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Fax: (215) 448-3962
www.lfg.com

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Fax: (212) 521-2525
www.loews.com

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Phone: (413) 744-1000
Fax: (413) 744-6005
www.massmutual.com

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Fax: (914) 249-4206
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New York, NY 10007
Phone: (212) 553-0300
Fax: (212) 553-4820
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Newport Beach, CA 92660
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The Progressive Corporation
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Fax: (212) 438-7375
www.standardandpoors.com

State Farm
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Phone: (309) 766-2311
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Government and Politics

Washington, D.C. has largely been an untapped source of career opportunities for business school students and MBAs. However, as the recession hits "traditional" post-business school career tracks hard, MBAs are starting looking to Washington for positions not available elsewhere. Add to this,a heightened interest in employment with nonprofits and a burgeoning effort by some federal agencies to recruit MBAs. Additionally, there are MBA employers that exist only in Washington, such as the World Bank.

Despite increased interest in hiring MBAs by many of these employers, in general, these organizations have limited and spotty recruiting efforts on business school campuses. The onus remains on interested students to research appropriate opportunities and network with individuals with similar interests. The section below contains a guide to several of the employment options for MBAs in Washington along with advice on how to identify opportunities and successfully apply for positions.

FEDERAL GOVERNMENT

Making government cool again

After the November 2008 election of the 44th President of the United States, Barack Obama, the federal government was flooded with job applications—more than 330,000 people applied for top spots in the Obama administration by December 2008. While many of those applicants had worked for the Obama campaign and had recently found themselves out of a job, many others are just public service hopefuls. And it's not just the allure of working for our new president that motivates people to apply—public service is also gaining popularity simply because it's stable and hiring. Private sector jobs are becoming more and more difficult to find (let alone hold onto), and the government plans to increase its workforce dramatically in the next few years (adding 100,000 more jobs by 2010, and 120,000 more by 2012), in part to help stimulate the economy.

The change at the top has not yet translated into widespread opportunities for MBAs, but the government has grown more receptive to MBAs as it begins to appreciate the skills and capabilities they bring to bear. For example, there have been recent efforts to recruit on MBA campuses. In the 2003 recruiting season, the U.S. Department of the Treasury visited select campuses seeking to fill internships and full-time positions. At times, the CIA has promoted opportunities with MBA programs and advertised for MBAs as part of its financial analysis teams on popular job posting sites, such as HotJobs.com and *The Washington Post*.

In addition, federal departments have been creating rotational programs for recent MBA grads. The Securities and Exchange Commission (SEC) has a two-year Business Associate Program that teaches participants about the securities industry and the role the SEC plays in the economy. In 2002, former Secretary Elaine Chao (who holds an MBA) of the U.S. Department of Labor launched an initiative specifically to recruit MBAs to the department. With a large proportion of senior department personnel scheduled to retire, Secretary Chao moved aggressively to create a new pipeline of talent and specifically identified hiring MBAs as the future of the department.

Finding a position with the federal government

As would be expected with the federal government, bureaucracy rules the hiring process. However, as with any organization, there are paths around the human resources quagmire. MBAs interested in finding an appropriate position with the federal government should apply the tools emphasized by any career counseling office: identify your interests, find out the general requirements for position, network, and utilize internships.

Since the federal government is required to post nearly all vacancies, one potential resource to use in identifying appropriate opportunities is its career listing website, www.usacareers.com. However, a word of warning: while the site provides a useful starting point and a valuable research tool, using it exclusively for a job search with the federal government would sell your efforts short. Instead, for MBAs it can be best used as means to examine the types of positions available and the general salary ranges. Still, even the position descriptions can be overly bureaucratic, and therefore the site should only be considered a starting point in the research process.

According to several MBAs employed by the federal government in Washington, the best way to identify opportunities is by networking with those already working in the federal government and with those in the nonprofits and other entities that regularly partner or interact with the federal agencies. Two good ways to make such contacts are through MBA alumni networks and student- or school-sponsored conferences focusing on the public sector and nonprofit management.

Applying for positions can also be highly bureaucratic, and again, interested applicants are well advised to use their networks to begin the application process. While all applicants must eventually go through the human resources department to determine whether they are qualified and if so, their pay level, it is far more fruitful to begin the application process with the office one wishes to join than with the human resources department. This is where networking can pay off, since ultimately hiring decisions are made within a specific office for high-level candidates. In fact, many government managers already have an applicant in mind before a position is posted.

One MBA graduate who returned to the federal government after graduation says that while finding government position can take effort, the MBA is definitely seen as a benefit. "There are a lot of hiring managers who will be receptive to talking with MBAs simply because they hold the credential," he says. "MBAs with a specific interest should seek out managers in the federal government, send them their resumes, and then try to follow up."

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The insider also confirmed that there is a growing awareness of the value of an MBA, but that the government hasn't been fast enough to quickly establish the right recruiting policies to bring more business students into the federal workforce. "The fact of the matter is that the government just doesn't pay what the private sector does," he says. "But, for those with a strong interest in government work, there are many ways in and many rewarding career paths."

Who works for the government today?

The federal government employs over 2.8 million civilian workers, excluding people who work for the U.S. Postal Service, and that number is only expected to increase. This makes the federal government the single largest employer in the country. Most federal employees (more than 80 percent) work outside of Washington, D.C. The states that boast the largest number of federal jobs are Florida, Texas, California, Maryland and Virginia. A number of agencies hire Americans to work overseas.

According to the Office of Personnel Management (OPM), the average full-time government employee is 47 years old. The OPM says 57 percent of federal workers are men, and 43 percent are women. About 33 percent of these men and women are ethnic minorities. About 45 percent of federal employees have a college degree or higher.

Some federal workers are unionized. The American Federation of Government Employees (AFGE), which acts on behalf of about 600,000 federal and D.C. government workers, is the largest federal employee union. Another union that represents federal workers is the National Federation of Federal Employees (NFFE). The American Federation of State, County and Municipal Employees (AFSCME) stands up for librarians at the Library of Congress. The Congressional Research Employees Association (CREA) represents many of the professional and nonprofessional employees who work for the library's Congressional Research Service.

The pros and cons of working for Uncle Sam

Often, government wages are competitive with the private sector salaries. Many federal jobs use the GS pay scale. The scale starts at GS-1 ($17,540 to $21,944 base salary in 2009) and goes up to GS-15 ($98,156 to $127,604 base in 2009). People with master's degrees generally start out at the GS-9 level ($40,949 to $53,234 in 2009). There's a separate scale for executives, which ranges from Level I (the highest) to Level V (the lowest). In 2009, the base pay for executives ranges from $139,600 to $191,300. To complicate things further, some agencies have their own pay scales. The Peace Corps, for example, has FS levels instead of GS levels for employees.

Federal employees say excellent benefits are one of the big perks when it comes to working for Uncle Sam. One respondent says that even if government salaries are slightly lower than in the private sector, "the small monetary difference is easily offset by job security, flexibility and advancement opportunities." Typically, benefits for full-time federal workers include medical and dental coverage, life insurance, vacation, sick leave, tuition assistance and retirement benefits. According to a February 2007 article in *USA Today*, retired government employees are twice as likely to get pensions as their equals in the private sector. Moreover, the article adds, the typical government pension is much more generous.

When it comes to schedules and working from home, the government may offer more flexibility than the corporate world. A 2007 CDW Government study found that telework adoption in the federal government outpaced that in the private sector. The survey discovered that 44 percent of federal employees had the option to telework, an alternative that only 15 percent of private-sector employees enjoy.

A September 2007 article in *The Washington Post* discusses how some federal agencies are increasingly offering bonuses to recruit and retain employees for hard-to-fill positions. According to a report that the Office of Personnel Management prepared for Congress, 47 government agencies paid more than $140 million in bonuses to recruit, retain and relocate employees during 2006. Departments that offered such incentives to employees included Defense, Agriculture, Commerce and Veterans Affairs. The OPM report added that the average recruitment bonus was more than $8,000, the average retention bonus was more than $5,000 and the typical relocation incentive was about $11,500.

Many federal workers also like the security of working for the government. One source at the USDA says, "The Federal government is extremely stable. If they restructure and eliminate jobs, then they make every effort to relocate displaced workers. It is the ultimate in job security."

Sources who work for the government, like those who work for any large organization, often complain about the amount of red tape they encounter. A doctor for the Department of Veterans Affairs, for example, says, "This medical center is in tension between the desire for excellent professional care and the limited budget, between innovation that has achieved the highest levels of quality of care and the burden of unmotivated bureaucracy." Sometimes working for the government can also be political. One insider at the FCC says, "I've generally enjoyed working here, but frequently politics overwhelms the mission of the agency." Another common gripe about working for the government is that it can be difficult to advance. Some insiders say it's impossible to move up in the ranks unless you change jobs, become a manager or move, and a few government insiders say it is impossible to get promoted period. One civilian staffer with the Air Force, for example, feels, "Opportunities for advancement are not there."

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Finding a position with the federal government

A U.S. Department of Agriculture insider says, "The one tip that I have for someone seeking federal employment for the first time is to forget all the preconceived stereotypes. Federal employees are the hardest working, [most] caring and most satisfied people that I know."

Within the federal government, there are two classes of jobs. Competitive service jobs fall under the OPM's jurisdiction, and some service agencies establish their own qualification requirements. Most government agencies post job openings on USAJOBS (www.usajobs.gov), the federal government's official careers site. When you're applying for a position with the federal government, it's essential to read the vacancy announcement carefully and fill out the application forms properly. You'll have to submit an application form or a resume containing information that your existing resume probably doesn't have. Often, agencies also want applicants to send written knowledge, skills and abilities assessments called KSAs.

The Department of Agriculture source says, "It is extremely important to read the job announcement and provide everything requested in a complete package with the correct formatting before the announcement expires … The next most important and difficult part of the hiring process is answering the Knowledge, Skills and Abilities (KSA) well enough to get an interview. Address every KSA in the affirmative, and provide as much supporting evidence as possible."

Some government departments and agencies also have special entrance exams or other requirements. For example, the U.S. Postal Service has a number of written examinations for different positions such as motor vehicle operator or city carrier. Applicants for temporary jobs with the postal service don't need to take exams, but they still need to pass a pre-employment drug test. Becoming a Foreign Service Officer for the U.S. Department of State is extremely difficult, and studying for the Foreign Service examination can be a grueling exercise. Successfully completing the exam (and then the subsequent oral interviews) requires extensive and intensive knowledge of U.S. and world history, international relations and major political issues. Foreign Service Officers also have to pass a security background check and a medical exam.

Getting a taste of government service

The government also has a number of internship and job opportunities for students. Some programs offered across the federal government include the Presidential Management Fellows (PMF) Program, the Workforce Recruitment Program For College Students With Disabilities (WRP) and the Student Education Employment Program, which includes the Student Temporary Employment Program (STEP), and the Student Career Experience Program (SCEP). More information about the Student Education Employment Program is available online at www.opm.gov/employ/students/index.asp. The OPM also has a special website for students, www.studentjobs.gov.

In addition, many agencies have their own internship and job programs for undergraduate and graduate students. The U.S. Department of Justice, for example, has job and internship opportunities for law students. Programs include the Attorney General's Honors Program and the Summer Law Intern Program. The White House has a highly selective fellowship program. White House Fellows spend two years working in the White House as assistants to senior officials.

AREAS OF INTEREST TO MBAS

Since most MBAs aren't interested in becoming lifetime bureaucrats, they usually consider specific opportunities in order to gain the experience they need to advance in their chosen professions. The following are areas of the federal government that provide career enhancing opportunities.

Community and economic development

Community and economic development is an area that has captured the interest of MBAs. Since community and economic development is often the result of cooperation among public sector, private sector and nonprofit entities, a position with the federal government can be an effective way to build experience, gain contacts within the development community and gain an understanding of the government's role in community and economic development and the resources it makes available.

There are several agencies within the federal government that have community and economic development functions. These include the U.S. Department of Treasury, the U.S. Department of Commerce and the Small Business Administration. Since roles within each agency will vary with the specific mission of the department, interested candidates should try to learn about each department's operations and opportunities through networking with organizations such as Net Impact, alumni, and by contacting hiring managers directly to discuss opportunities.

Management

There are many opportunities within the federal government for MBAs to gain management experience. However, these opportunities must be ferreted out, and will depend on what the MBA hopes to gain by joining the federal government. For example, an MBA with an interest in the federal budget process could attempt to locate an analyst position with the Office of Management and Budget. Another potential source of management positions will be the Department of Homeland Security. Since the Homeland Security Department is free of some of the federal employment regulations imposed

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on virtually every other federal entity, there may be more opportunities for MBAs to utilize their management abilities to a greater degree than elsewhere in the federal bureaucracy. MBAs need to think creatively about how their skills relate to government management.

One avenue for MBAs into the federal government is through the Presidential Management Internship (PMI) program, which is open to all students pursuing master's or doctoral degrees. To be considered for the program, students must submit an application and be nominated by the dean, chairperson or program director of their academic program. Once accepted, PMIs must find an appropriate position within the federal government. The program lasts two years, with PMIs beginning at the GS-9 level (approximately $35,500 to $46,100). After one year, they are eligible for promotion to the GS-11 level ($42,900 to $55,800). At the end of the program, PMI program participants may be converted to a permanent position with the federal government and are eligible for the GS-12 grade level ($51,500 to $66,900). For detailed information on the program, see its website at www.pmi.opm.gov.

Additionally, the Department of Labor has begun to actively recruit MBAs for general management positions with strong results. For 2002, its first year in operation, the department's MBA recruitment program reported receiving more than 250 applications for 30 openings. While MBAs start at the GS-9 level, the department is offering other incentives, including recruitment bonuses and loan forgiveness programs.

Upon acceptance into the program, MBAs will be allowed to rotate through several different assignments before being placed in a permanent position. The permanent assignments are based on the needs of the department and the long-term interests of each participant.

A senior official working on the program glows about its initial results: "We didn't know what to expect when we fist put the program into place, but we have been very pleased with the results. In fact, several other offices within the federal government have approached us about putting up similar recruitment programs for themselves."

Application information is available on the department's website at www.dol.gov.

International development

The federal government also provides options for MBA students interested in international development, a field that has traditionally and still remains dominated by economists.

Since there are no formal recruitment programs in place for MBAs for international development positions with the federal government, interested students will have to network with both on-campus and outside organizations to uncover opportunities.

The U.S. Department of Treasury's Office of International Affairs often recruits MBAs for financial analysis positions covering such issues as debt policy or international trade. It is particularly interested in MBAs with strong experience in the banking and financial service sector, as well as international experience. The office's recruitment efforts include posting position openings with MBA career offices and general advertising.

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Health Care

INDUSTRY OVERVIEW

An industry in flux

You can't live with it and you can't live without it—this pretty much sums up the attitude many Americans have toward today's health care industry. The sector is a veritable Rube Goldberg machine of patient care providers, manufacturers, middlemen and insurance companies. It's no secret that the sector is a sizeable one, making up 16.3 percent of the nation's gross domestic product (GDP). U.S. health care spending was projected at $2.5 trillion for 2009, more than what people spend on housing or food. Despite the awesome quantities of money involved in the industry, its players have a tough time figuring out how to turn a profit in such a way that benefits both providers and patients—not to mention shareholders. Economists predict health care spending will make up 18.7 percent of the country's GDP in 2014, a percentage considered unsustainable by many analysts. It is also estimated that the public sector will pay for nearly half of all health spending in the U.S. by that year—not a healthy number.

Big trouble

Another unhealthy number is the growing quantity of people who will need medical attention in the coming decades, due to the increasing prevalence of bariatric and geriatric patients. Two-thirds of adults are overweight to varying degrees because of increasingly sedentary lifestyles and a diet liberal with calories; 100 million Americans are adversely affected by the "obesity epidemic." Carrying a few extra pounds won't be listed as a cause of death, but obesity doesn't just imply one's trousers are a tad snug—overweight and obese people are increasingly at risk for disorders like heart disease, osteoarthritis, type II diabetes, certain types of cancer and a number of other long-term (and expensive) conditions, including having a stroke. Economists are continually trying to figure the economic impact of overweight and obese Americans. Studies based on a 2000 U.S. Surgeon General's report pegged obesity's cost to society at upwards of $120 billion per year; and the number is undoubtedly much higher today, at the close of the decade. The number includes both direct insurer costs and indirect effects, such as loss of productivity. However, the term "overweight" is difficult to define consistently; additionally, there are a number of subtle effects, like depressed wages from weight discrimination and missed productivity due to disability, that can have profound economic consequences. More worryingly, the incidence of obesity in children has tripled since the 1970s, according to data from the Centers for Disease Control and Prevention; studies have shown that children who were overweight had an 80 percent chance of growing up to be obese adults.

Having a senior moment

Speaking of adults, according to the American Association of Retired Persons (AARP), by the year 2050, seniors will outnumber children for the first time ever. With approximately one million people turning age 60 each month worldwide, the phenomenon known as "global aging" promises to have a profound effect on the demand for and delivery of health care services. This shift is sparking interest in all issues affecting senior health, from preventive care to programs promoting home care and assisted living as alternatives to oft-dreaded nursing home care.

The United States' aging population is also putting pressure on the nation's reimbursement system for seniors and low-income patients. The Medicaid program is funded by the federal government but administered by the states, serving low-income individuals who do not have access to health care through their employers, while the Medicare program serves people over the age of 65. Because of this, the federal government looms large in health care. In fact, ranked by sales, the government's own Centers for Medicare & Medicaid Services (CMS) is the No. 1 provider in the insurance industry, covering around one in four people, and distributing $760 billion in benefits in 2007—representing more than 20 percent of federal government spending.

As 77 million baby boomers reach the age of 65 and sign up for Medicare, the government will foot an even larger share of the health care bill. In 2007, Ben Bernanke, chairman of the Federal Reserve, warned in a Senate hearing that the spiraling costs of Social Security and government-funded health care could precipitate a budgetary crisis if not swiftly addressed. He predicted that the programs, burdened by the baby boomers, could increase publicly held government debt from 37 percent of the GDP in 2007 to 100 percent of GDP in 2030, and that it would increase astronomically thereafter, requiring large tax hikes and deep cuts in government spending.

Let's go to Plan D

As more Americans reach the age to qualify for Medicare, it is important that they receive adequate coverage. In 2006, Part D, a prescription drug benefit plan, was enacted. (Medicare parts A, B and C govern hospital stays, doctor's visits and plans offered through other insurers, respectively.) The Bush administration made several attempts to tweak the program, with mixed results. The revised Medicare drug plan provided seniors with a flurry of plan options through various private insurance companies. But the Byzantine regulations for the program left many seniors confused and worried they were not getting the coverage they needed. Befuddled seniors notwithstanding, insurance companies have posted record profits from administering Part D.

Additional regulations, which took effect in 2007, recalculated the rates at which Medicare compensates hospitals and physicians for various procedures. Compensation for surgeries, such as hip and knee replacements and various cardiac procedures, was cut by as much as a third. In response, the American Medical Association (AMA) announced that if compensation for Medicare patients was reduced, physicians would be forced

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to restrict the number of such cases they can handle. This legislation represented the opening salvo in a series of laws that will try to rein in Medicare spending by 34 percent over the next decade. Further economic fallout may include hospitals seeking higher reimbursement from insurance companies, which will then raise premiums, increasing the cost of health care even further.

Flying without a net

Then there is the problem of the remaining 86 percent of the population, who aren't eligible for Medicare or Medicaid and who must buy private insurance on their own or through an employer, or just go without, cross their fingers and hope for the best. An alarming number of Americans, including many children, are uninsured—around 15 percent of the population at last count, or some 45.7 million people (as of 2009).

What's more, this number, along with the number of those who must purchase insurance on their own, will grow. As generally healthy people without other insurance options choose to forego health insurance, the pools of people buying insurance will increasingly consist of people with expensive, chronic conditions or those who think they will imminently need expensive medical care—an actuarial nightmare that's driving up premiums. At such high costs, employers are increasingly unwilling or unable to pay to insure their employees, further enlarging the ranks of the uninsured.

Uninsured individuals increase pressure on the price of health care in other ways as well. They are less likely to get regular checkups and treat minor medical problems before they become major issues, causing many to end up seeking treatment in the emergency room. Since many of the uninsured don't have the financial reserves to buy health insurance in the first place, a hospital stay can be devastating, and many default on their debts or are forced into bankruptcy by medical bills. In order to defray the costs of what is essentially providing free medical care, hospitals must charge higher prices. Reports also indicate that health care is more expensive overall for the uninsured. For example, hospitals bill uninsured clients at a higher rate for the same procedures provided to those with health coverage, since big insurance companies are able to negotiate discounts with providers.

The solution to America's health care woes is not as simple as forcing everyone to purchase insurance, however. With so many different players jockeying for their slice of the profits, the fragmented nature of the industry has played a role in increasing the amount that patients must pay for care, since administrative costs only drive up the price of services.

The situation isn't so rosy for consumers fortunate enough to have coverage, either. As the cost of providing health care coverage continues to rise, many employers are finding they can no longer afford this benefit, and are passing more of the costs on to employees in the form of higher premiums, deductibles and stingier reimbursement plans.

Instead of pointing fingers or complaining about the situation, some people are doing something about high health care costs. Seattle's Virginia Mason Medical ran into trouble when the insurance companies that referred patients there pointed out that, despite the stellar quality of the care it delivered, it cost significantly more than other hospitals in the area. Virginia Mason went on a cost-cutting campaign, eliminating pricey medical equipment and specialists. Oddly, the hospital kept losing money, due to the skewed way insurers reimburse procedures. High-tech options, like MRI scans, net big checks from insurers, while simple, equally effective procedures, which cost far less, may cause hospitals to lose money. In short, insurers pay caregivers based on how much they do to a patient, as opposed to how effective—or even necessary—the treatments are. The doctors at Virginia Mason and the insurance companies reworked the payment scheme for the hospital so that patients were treated more efficiently. Instead of seeing scads of specialists for back pain, getting an MRI and finally going to physical therapy, patients are now sent directly to physical therapy, which costs much less, and immediately starts to alleviate the patient's pain.

The quest for reform

Starting in 2007 and continuing through the 2008 election, the buzz over the health care crisis has gotten a little stronger, but legislators have been notably reluctant to deal with the issue ever since Hillary Clinton's attempt to create a universal coverage plan was shot down early in her husband's tenure as president. In 2007, California Governor Arnold Schwarzenegger outlined a plan to insure the 36 million residents of his state. In his plan, individuals would be required to purchase insurance, either privately or through their employers, and health insurance companies would be obliged to cover them. Employers not offering insurance would pay 4 percent of payroll into a state fund for coverage; government assistance for coverage would be given to people below a certain income level. To defray future costs, the state would sponsor initiatives against obesity and diabetes, and levy a fee of 4 percent of gross revenue on hospitals and 2 percent on doctors to pay for it all. Needless to say, many groups opposed the plan. California business owners said that mandated coverage was a sneaky form of taxation and would stunt economic growth; a nurses' group said it pandered to insurance companies; conservatives cried socialism, and liberals claimed Schwarzenegger stole their idea. The bill was rejected by the state senate health committee in January 2008; an opposing bill (SB840), which proposed the current fragmented insurer system be dismantled in favor of one statewide carrier, was vetoed by Schwarzenegger in October 2008. So although the subject has been well covered, nothing has yet changed.

President Barack Obama also took up the mantle of health reform during his election campaign. In fact, it was an important building block of the run-up, and subject to controversy (of course), as some saw "insurance for all" as a step toward socialism and foisting an untenable burden on small business. As of early 2009, the push is still in its early stages, but the reform effort, estimated early on to cost at least $50 billion to $65 billion, will have to compete with a host of other problems, economic and otherwise, in 2009. There was a health care component in the economic stimulus bill; the American Recovery and Reinvestment Act injected life (in the form of $87 billion) into state Medicaid programs, and contained a nine-month, 65 percent subsidy to help the jobless pay the high cost of COBRA coverage.

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CDHC—the new wave of care?

Another plan for health care that generated a buzz in the Bush administration was the idea of "consumer-driven health care," or CDHC. The idea is elegant in theory: if consumers can control their own health care spending, providers and insurers will be forced to compete for business, thus (hopefully) increasing quality of care while driving down costs. At the crux of CDHC are health savings accounts (HSAs), or tax-free accounts offered along with low-cost, high-deductible insurance plans. Either employee or employer (or both) stow away a certain amount of money in the HSA each year, which consumers can spend on virtually any health treatment or medication they want; whatever is unused remains in the account for any future health-related expenses.

Proponents of CHDC point out that the cost of plastic surgery and other elective procedures not covered by insurance has effectively kept pace with inflation, since consumers can shop around and find the best care for the best price. Opponents of the plan suggest that employers will use CDHC as a cover to reduce employee compensation. What CDHC plans do not take into account is that the bulk of the cost of health care spending is not from overconsumption of medical care by people who can afford it, but rather from treating people with chronic conditions, which can easily require in excess of thousands of dollars per year to manage. CDHC also fails to take into account that competitive pricing only works when one is in a position to make rational, informed decisions about which doctors to visit; in the event of a medical emergency, a severely wounded, unconscious or similarly incapacitated person is in no position to comparison shop.

Liability looms

Another type of reform that gets plenty of congressional buzz is medical malpractice liability, which the powerful AMA has made its top priority. The association has taken to identifying states that are in a "medical liability crisis" owing to exploding insurance premiums caused by the high number of successful malpractice suits in the state, and the aftereffects of those costs—namely, that some providers are limiting or halting certain services because of liability risks. One such state, Massachusetts, is a case in point: according to Massachusetts Medical Society research, 50 percent of the state's neurosurgeons, 41 percent of orthopedic surgeons and 36 percent of general surgeons have been forced to limit the scope of their practice due to insurmountable medical liability costs.

It's a seemingly unending loop: multimillion-dollar judgments against providers, brought by a solid industry of trial lawyers devoted to representing mistreated patients, make headlines regularly. These judgments then cause liability insurers to panic, with many refusing to cover health care providers at all. As such, the insurers who have stayed in the medical liability market charge a premium providers increasingly can't afford to pay. Another unfortunate side effect of the "medical liability crisis" label is that doctors and other health care providers are pressured to leave, as their own malpractice insurance (the insurance that covers them, should disaster strike) goes through the roof.

For lawmakers, the issue is a tough one: how do you set a cap on the amount a plaintiff can receive for the preventable death of a loved one? Patient advocates frame the issue as a David-versus-Goliath scenario, charging that the monolithic medical community wants to limit consumers' rights to sue providers for poor care. Meanwhile, as the industry waits for the federal government to come up with a solution, states have begun to tackle the issue themselves by setting their own limits on the amount of money a malpractice judgment can reap for the plaintiff. Voters in the state of Texas, for example, which was listed on the AMA's liability list, approved a constitutional amendment capping awards for noneconomic damages at $250,000.

According to an article published in *Health Services Research* in December 2008, "the call for federal malpractice reforms has cooled with the [2007] change in leadership in the Congress. [Still], the American Medical Association and nine other physician organizations continue to identify tort reform as a key element in reforming the U.S. health care system." And yet the data is inconclusive: HSR says "no rigorous research has examined whether insurance purchasers have realized cost savings due to changes in tort law."

Hot hospitals

In 2007, $697 billion was spent on care in hospitals. Growing demand for hospital services, along with higher rates from private insurers, have led to an increase in capital expended in this area. Among the approximately 6,100 hospitals in the U.S., a few tower over the rest. Each year, *U.S. News & World Report* publishes a ranking of the nation's top hospitals, surveying doctors around the country about hospitals' reputations in 17 medical specialties as well as other factors like staffing, morbidity rates and technology. In 2008, the magazine's list named Baltimore's Johns Hopkins Hospital No. 1 overall—a position the institution has held for 18 years running. The Mayo Clinic came in second, followed by the Ronald Reagan UCLA Medical Center and the Cleveland Clinic.

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MBAS IN HEALTH CARE

What is health care management?

Health care management, also known as health care administration, encompasses a wide range of jobs in a variety of organizations. Health care managers are involved in the delivery of health care and the development of public policy regarding financing of and access to care. It is a field that has evolved over the last 50 years and continues to evolve as the health care delivery system changes. Health care managers work for organizations and individuals, from physician groups to hospitals, insurance companies and government agencies. Their roles are diverse, as well, ranging from line supervisors to directors and middle managers, to executives.

As the health care field has grown through advances in medicine, new technology and new types of health care facilities, so has the number of disciplines that health care managers oversee. In addition to expanding clinical areas requiring managers, such as imaging centers, ambulatory surgery centers, home care, occupational health, assisted living and adult day care, to name a few, disciplines in need of professional management have developed. These include specialists in the realm of financial management, reimbursement, revenue cycle management, planning, fundraising and development, performance improvement, medical management and business development.

The health care field is one of the most rapidly growing in the United States today. An aging population, longer life expectancy and new technology, treatments and medication are major contributors to this growth. As such, the need for health care professionals, including managers at all levels, will increase. The roles and responsibilities of health care managers may change as the health care system continues to do so. But the primary objective of management will remain constant: creating a work environment within an organization that promotes the accomplishment of goals and objectives.

Who are health care managers and what do they do?

Health care managers come from a large number of professions. In addition to the majority of managers who graduate from programs in health care administration, public administration or business administration, there are many different kinds of health care managers. These include clinical managers, financial managers, information systems managers, and public relations and marketing managers. Individuals with undergraduate or graduate degrees in management generally enter the field after the completion of their training with the goal of obtaining a middle management or upper-level management position in a health care organization. Managers in professions, such as finance, often have worked in another field, have developed their skills and can readily transfer these skills to the health care environment. Clinical managers, including nurses and physicians, may work as clinicians for a period of time before entering management.

The organizations in which health care managers work include those that provide direct patient care and those that support the provision of care and services. Along what is referred to as the continuum of care, organizations provide different levels of direct care.

The highest level of care is provided in acute care hospitals. Hospitals are large complex organizations with hundreds or even thousands of employees and dozens or hundreds of supervisory and management personnel. Hospitals may be freestanding or part of a health system. They are classified according to ownership and control, number of beds, by the levels and types of services they provide and whether they have physician training programs, research programs and academic affiliations.

The next level of care on the continuum is called long-term acute care (LTAC). These are hospitals either freestanding or units within an acute care hospital that provide care to patients with chronic conditions. This is a relatively new level of care that is in a growth mode as units and facilities open throughout the country.

Sub acute care is provided in hospital and nursing homes. Hospital units are often referred to as transitional care units in which patients receive intense rehabilitation. Nursing homes operate sub acute or short-term units in which patients discharged from the hospital receive rehabilitation and other clinical services. Nursing homes or skilled nursing facilities provide care to the elderly and disabled and others requiring long-term care. Nursing homes may be freestanding, part of a regional or national company or hospital based.

Assisted living facilities provide a lower level of care than nursing homes. These facilities are generally for elderly residents who are unable to live on their own who require supervision and assistance with activities of daily living. Adult day care programs may be a medical model or social model. These programs provide socialization and medical services in the case of the medical model to elderly individuals who live in the community.

Other levels include home health care and ambulatory care. These services are provided by a variety of organizations and individuals including hospitals, physicians, nurses, therapists and technologists.

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Organizations that support the provision of care may be classified into the following categories:

- Managed care organizations and insurance companies
- Management services organizations
- Consulting firms
- Public health and community health organizations
- Health care information services organizations
- Health related companies
- Research organizations, associations and educational institutions
- Regulatory and government agencies

Each of these entities plays a role in the delivery, financing and regulation of health care services. Managers in these organizations may have worked for a direct care provider previously or in another field.

Levels of health care management

As in any organization, there are different levels of management in health care. Entry-level management positions are generally referred to as line supervisors. These people supervise the day-to-day activities of a group of employees. Examples of this type of position are a chemistry lab supervisor in a hospital, a nursing supervisor in a nursing home, a food services supervisor in an assisted living facility and a case management supervisor in a managed care company. Many of these individuals are trained in a clinical or technical field, such as X-ray technology, ultrasound or nursing, and have come up through the ranks.

Manager

The next management level is department manager, or department head. These individuals are responsible for an entire department in a hospital, nursing home or other health care organization. An environmental services manager in a nursing home, a health information management (also known as medical records) department head in a hospital, and a project manager in a consulting firm are all at this management level. Many of these individuals have formal management training (a bachelor's or master's degree or other training program) and/or certification in their specific discipline other than management.

Director

The level above department manager is often called director, although some organizations refer to their managers as directors. Director usually implies the management of a broad function in the company, such as director of public relations or director of staff development, who is responsible for their specific area in multiple departments and often for the entire organization. Managers in these roles may have clinical experience (e.g., certified oncology manager or registered record administrator).

In health care systems with corporate structures, like Community Health Systems and Hospital Corporation of America (two national hospital chains), the title of director is often used for individuals with corporate or systemwide responsibility for a function such as the director of materials management who is in charge of this function for all of the hospitals and other facilities in the system. Another example of a corporate director is the director of managed care at a smaller hospital system in the New York area, Atlantic Health.

Physicians

Physicians assume management roles, as well. These include the head of a clinical department in a hospital (e.g., medicine, surgery, obstetrics), the head of a clinical section in a large hospital (e.g., cardiology, urology) and various positions in hospitals that are administrative in nature, including medical director, chief medical officer, director of performance improvement, director of clinical effectiveness and medical director of a managed care organization. Many of these physician-executives obtain management degrees and attend management training courses prior to or after achieving these positions.

Executive-level

There are several designations for executive-level management in health care organizations. One title sequence uses administrator to signify the highest management level. In this scheme, there are associate administrators and assistant administrators. In hospitals and nursing homes that use these titles, the administrator is the highest ranking executive responsible for the entire organization. Associate administrators and assistant administrators report to this individual and are responsible for multiple departments and/or large functional areas. A common variation of this structure is president and chief executive officer, executive and senior vice presidents and vice presidents. For the most part, the roles and responsibilities of these individuals correspond to the first set of titles. Another set of titles designates executive director as the top person, and associate and assistant executive director for the top managers reporting to this individual. Those who hold these positions may have worked their way up through the management ranks and almost always have graduate degrees in health care management, business administration or a similar discipline.

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Corporate management

In health systems, multihospital organizations or hospitals operating other facilities, such as nursing homes and ambulatory care centers, there is also a corporate management level. These executives have system responsibilities for the operations and specific functions (e.g., financial management) for the entire organization and usually have the title corporate director or vice president. There is also a corporate president or chief executive officer and a corporate chief financial officer. These companies may be regional, national or international and either for-profit or nonprofit. They may be comprised of one type of health care facility, such as a nursing home, or many types, such as hospitals, physician practices and insurance companies. Manor Care, a for-profit chain, for example, operates long-term care facilities throughout the country. Kaiser Permanente is comprised of physician practices, affiliated hospitals and provides various insurance plans.

In an academic setting, deans and university vice presidents often have overall responsibilities for the hospitals and other health care facilities in the organization. The health care executives at the hospital or other health care facilities report to these individuals.

Functional areas

New roles and positions continue to evolve. Administrators and managers for organizational effectiveness, and managers of clinical effectiveness are two examples.

And there is good reason to believe that as the health care system continues to evolve, new roles for managers will be created. These positions may be in areas of outcomes management, health education, information systems and ambulatory services. As access to health and health care increases via the Internet, people have more information on which to base their health care decisions. This will lead to increased accountability in terms of quality of care and health outcomes. Health information systems managers will be needed to develop ways to compile, store and share the data that is used in diagnosing and treating illness. The promotion of healthy lifestyles has become a high priority and will continue to be driven by health education. The need to control escalating health care costs will continue to result in less health care provided in expensive inpatient settings and more in ambulatory care settings Alternatives to institutional long-term care will also have an impact. New models for the provision of care to the growing elderly population are being developed and tested. One such demonstration project is PACE (programs of all-inclusive care for the elderly). These programs provide comprehensive primary care, acute care and long-term care services to individuals as an alternative to nursing home admission. An interdisciplinary team develops care plans for program enrollees, and Medicare and Medicaid reimburse services provided on a capitation (pre-determined monthly payment per enrollee) basis.

Government policy and regulation will play a major role in shaping new management positions in a number of ways. Limiting Medicare reimbursement for specific procedures (e.g., surgeries) and treatments, and reporting requirements for infection rates and hospital acquired infections will further stimulate the growth of ambulatory care. Government reporting requirements for infections rates and hospital acquired infections will result in an increase in the number of quality improvement professionals and managers. All of these factors contribute to field that is expected to expand and diversify for years to come.

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Hedge Funds

WHAT IS A HEDGE FUND?

Hedge funds are considered an "alternative investment" vehicle. The term "alternative investment" is the general term under which unregulated funds operate; this includes private equity and real estate funds. The total "alternative" category (including private equity and real estate) is not covered within the scope of this section but it is useful to know that often people refer to hedge funds as alternative investments. Mainstream funds are investment funds that everyday investors can purchase, mutual funds are the prime example of a mainstream fund.

Over the past decade, hedge funds have grown tremendously in terms of assets under management and also garnered a lot of media attention. Although, despite their growth and popularity, hedge funds still remain a mystery to many people who do not understand exactly what they are and how they work. So what exactly is a hedge fund?

A Concise Definition of "Hedge Fund"

A "private unregistered investment pool" encompassing all types of investment funds, companies and private partnerships that can use a variety of investment techniques such as borrowing money through leverage, selling short, derivatives for directional investing and options.

During the early years of the hedge fund industry (1950s to 1970s), the term "hedge fund" was used to describe the "hedging" strategy used by managers at the time. "Hedging" refers to the hedge fund manager making additional trades in an attempt to counterbalance any risk involved with the existing positions in the portfolio. Hedging can be accomplished in many different ways but the most basic technique is to purchase a long position and a secondary short position in a similar security. This is used to offset price fluctuations and is an effective way of neutralizing the effects of market conditions.

Today, the term "hedge fund" tells an investor nothing about the underlying investment activities, similar to the term "mutual fund." So how do you figure out what the hedge fund manager does? You are able to figure out a little more about the underlying investment activities by understanding the trading/investment strategies that the hedge fund manager states he trades. The "investment strategy" is the investment approach or the techniques used by the hedge fund manager to have positive returns on the investments. If a manager says he trades long/short equity then you know he is buying undervalued equities and selling overvalued equities. Although this description is the long/short equity strategy at its most basic, it is important to understand the strategies that the manager says he employs.

Hedge funds today

Hedge funds, a sector that once stood tall, has been steadily chopped down in the midst of one of the worst financial crises in the recent history. Ultimately, hedge funds may hemorrhage approximately 20,000 jobs globally over the course of 2009, the executive search firm Options Group reported in March 2009. The figure, which is about 14 percent of the industry's total workers, isn't out of line with what the sector has endured. More than 900 hedge funds shuttered in 2008, and 70 percent of the 6,800 funds still in business suffered losses—losses that need to be earned back before the funds can start collecting performance fees again.

Of course, Bernard Madoff's $50 billion Ponzi scheme certainly didn't help hedge funds' outlook—and some industry watchers have seen it as a sign of the decline in business. As it came to light that Madoff had defrauded hedge funds, investors, pension funds and charitable groups, shocked investors continued to withdraw funds—and, consequently, portfolios have continued to lose their value. Although Madoff pleaded guilty to all charges in March 2009, it looks like the damage within the industry may linger for a while. And in the end, it may boil down to a trust issue—hedge fund investors hearing Madoff's tale may become suspicious of their own fund managers.

DISTINGUISHING CHARACTERISTICS

So now that you have reviewed some of the basic terminology in the industry, we will explain the key points in depth. The main distinguishing characteristics of hedge funds are the following:

- Hedge funds can "hedge" their portfolio.
- Hedge funds use derivatives.
- Hedge funds can short sell.
- Hedge funds have the ability to use leverage.

These characteristics make hedge funds different from most other investment funds, especially mutual funds. To get a good understanding of how a hedge fund manager operates, it is very important to understand these concepts. The four concepts are now defined in detail.

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Hedging

Hedging can be accomplished in many different ways, although the most basic technique is to purchase a long position and a secondary short position in a similar security (see Gap example). This is used to offset price fluctuations and is an effective way of neutralizing the effects of market conditions.

Hedging Example

Courtney is a hedge fund manager who invested in the Gap stores. Here we will see how he hedges his risk. Courtney is "long" (he's bought) 100 shares of Gap stores but he now believes the retail industry may be vulnerable to a down turn in the market. He wants to hedge this risk and does this by going "short" (selling) Abercrombie & Fitch, which is in the same retail industry.

Q. What would happen if the retail industry did poorly?

A. The share prices of both Gap and Abercrombie & Fitch might decline.

Q. How would this affect any money Courtney makes?

A. Since Courtney is long on Gap (he owns it) he would lose money on this trade. Since Courtney is also short (he has already sold it) Abercrombie & Fitch, he would make money on that trade. Therefore he can offset some of his losses from Gap with gains from Abercrombie & Fitch. He reduces his risk of Gap by hedging with Abercrombie & Fitch.

Q. When you say Courtney gains from the Abercrombie & Fitch trade, what does this mean?

A. When Courtney goes short A&F, it means he has sold it before he owns it. So say he sells 100 A&F shares short for $50 each. He receives $5,000 cash for doing so. This transaction is conducted through his broker and he now owes 100 A&F shares to his broker, to be paid back at some time the future. As time goes by, the retail industry does poorly and the share price of A&F falls to $40.

Q. If the stock price of A&F falls to $40, what does this mean for Courtney's profits?

A. Since Courtney owes 100 A&F shares to his broker, he can now go out and buy the 100 shares for $40 each, costing him a total of $4,000. Therefore, Courtney has made $1,000 profit. (He receives $5,000 from the original short sale and then pays $4,000 to buy A&F, so his profit is $1,000)

Derivatives

Derivatives that are used by hedge funds can take on many forms, and the more complex derivatives (interest rate swaps, foreign currency swaps, contract for differences, total return swaps, etc.) are not covered in this book. Discussed now are the most basic forms of derivatives: "put" and "call" options on stocks.

Option Definitions

Put option

A "put" option gives the holder the right to sell the underlying stock at a specified price (strike price) on or before a given date (exercise date).

Call option

A "call" option gives the holder the right to buy the underlying stock at specified price (strike price) on or before a given date (exercise date).

Option writer

The seller of these options is referred to as the "writer"—many hedge funds will often write options in accordance with their strategies. This is the person who originates an option contract by promising to perform a certain obligation in return for the price or premium of the option. Any investor can sell options (write options) provided they have answered an options questionnaire provided to them by their broker. This would determine the knowledge of the investor and whether they understand the risks associated with writing options.

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Short selling (going "short")

Short selling involves the selling of a security that the seller does not own. Short sellers believe that the stock price will fall and that they will be able to repurchase the stock at a lower price in the future. Thus, they will profit from selling the stock at a higher price, then buy it in the future at a lower price. (The opposite of going "short" is going "long," when investors buy stocks they believe will rise.)

Short Selling Example

Jimmy believes that McDonald's is overvalued and that he can profit by selling short "MCD." Jimmy sells short 100 shares at $50 which means he has sold stock that he does not yet own, this is a stock loan. In the future he has to buy the stock to repay the stock loan he entered into when shorting the stock. But, McDonald's price continues to rise to $75, this means that in order to buy the stock (this is called "covering" his stock loan), Jimmy pays $75 per share, which results in him losing $2,500 (100*$25)

Before Jimmy enters into the short sale, he must ensure that he is able to borrow the stock (get a stock loan), usually through its prime broker. Jimmy will call the stock loan department of the prime broker to see if the prime broker has the stock available to lend to him. If the stock loan department has the stock to lend, then Jimmy can short sell the stock (borrowing it from the prime broker). If the stock is not available for borrow, Jimmy cannot sell short the security.

Leverage

Leverage measures the amount of assets being borrowed for each investment dollar. Leverage (borrowing additional funds) is utilized by hedge fund managers when they believe that the cost of the borrowed funds will be minimal compared to the returns of a particular position. It can be a key component to hedge fund management since it gives the hedge fund managers the ability to have higher returns (and potentially lose more) with borrowed funds.

Typical hedge fund leverage depends on the type of financial instruments that the hedge fund trades. Fixed income has lower risk levels so it is not uncommon to have four or five times the value of the fund borrowed. Equities have a higher risk profile and therefore typical leverage is one and a half to two times the value of the fund. However, hedge funds are usually comprised of long and short positions, so a large market rise or fall has little impact if their profitable positions were equally balanced by their losing positions.

The simplest examples in everyday life of leverage are house mortgages and car loans. The bank manager uses the house or the car as collateral for the loan from the bank. The bank manager can then sell the house or the car if you default on your loan. Similarly, the hedge fund manager uses the financial instruments in his account as collateral for the funds they have borrowed from their bank (prime broker). The primary sources of leverage are financial institutions and banks. If the hedge fund manager cannot pay the loan back, the financial institution can then sell the collateral (the financial instruments in the account) to pay back the loan.

Leverage Calculation Example

If the hedge fund has $1 million of invested money and is borrowing another $2 million, to bring the total dollars invested to $3 million, then the leverage used is 200 percent. The amount of leverage typically used by the fund is shown as a percentage of the fund.

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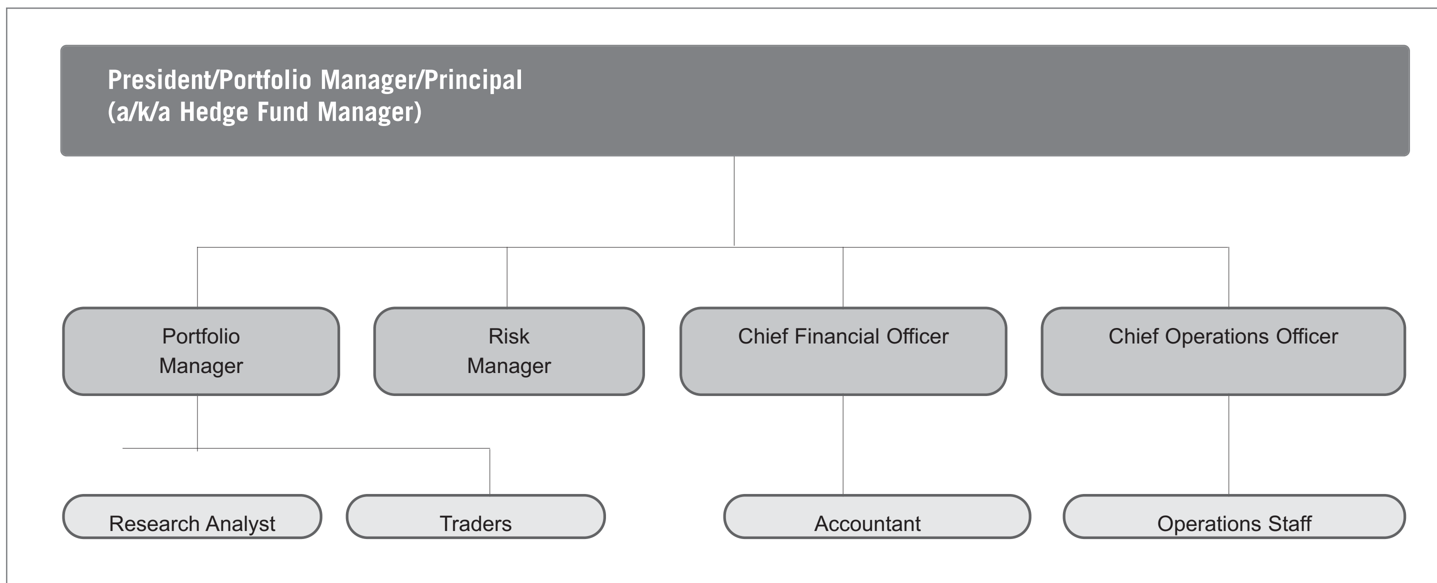
ORGANIZATIONAL STRUCTURE OF A TYPICAL HEDGE FUND



So who exactly are hedge fund managers and what do they do? A hedge fund manager is normally the founder and the key person in charge of overseeing the whole operation of the hedge fund. This means that he/she is responsible for overseeing the portfolio, often making trading decisions, hiring personnel, monitoring the risk of the portfolio and ensuring that the accounting and operations departments are in order. The hedge fund manager is often referred to as the principal or president and can often also be called the portfolio manager.

Hedge funds vary in size from assets under management from as little as $1 million to over $10 billion. Unlike a typical investment bank, the roles of the employees at hedge funds are not the same for each hedge fund. Someone entering an investment bank as a trader will likely have a similar role to someone else entering another investment bank as a trader. Traders at hedge funds are likely to have different responsibilities, which are usually determined by the size of the fund. At a smaller fund the trader is much more likely to be involved with the operations of the trade, whereas a larger hedge fund would have a separate operations person to handle this element. A smaller hedge fund may have three or four employees, whereas a larger hedge fund may employ over 300 people.

A typical hedge fund will have various departments: operations, accounting, trading, and risk and investor relations. These departments support the trading decisions and operations of the hedge fund. Since the size of hedge funds vary dramatically, the number of people in each department can range from one to over 20. As a hedge fund grows in size (manages more money), more personnel are added to support the increased trading volume.

It is very important to note that specific job titles are not important at hedge funds. This is because one role (job) can have many different titles depending on the hedge fund. For example, an operations analyst can also be called portfolio analyst, trading assistant or accountant depending on the size and environment of the fund.

In addition, due to the varying sizes of hedge funds, employees tend to have a more diverse range of responsibilities, which may overlap between several different departments. This unique nature of the hedge fund job requires superior teamwork skills and the ability to deal with a variety of people.

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A Day in the Life: Director of Operations

Most directors of operations either have several years of experience in the same capacity, a MBA or both. At this stage one generally has a staff of two to 10 people who are direct reports. The job functions are similar to the operations specialist although there is much more responsibility for the employees working under you as well as maintaining relationships between prime broker, banks and offshore administrators. This position will generally pay between $100,000 and $250,000 depending on experience, background and size of hedge fund.

7:30 a.m.: Arrive at the office and log onto the computer, along will various back office and portfolio systems such as DTC.

8:15 a.m.: Go over exception reports (available only to a manager) that show trades that have not settled and any margin calls for accounts and speak to the member of staff who works on it to get status on the item.

9:00 a.m.: Have weekly team meeting and go over team workload and coverage for the week.

10:00 a.m.: Get on a call with a manager in the prime broker because a large wire needs to be sent out for management fees and there needs to be extra attention give to it to make sure it goes through properly. The prime broker department at an investment bank offers products, technology and clearing services to a hedge fund.

11:00 a.m.: Have a meeting with the head trader on the convertible trading desk who does not agree with the final position on a particular security. Go over each transaction and see if anything was incorrectly booked. Have one of the staff members print all transaction reports internally and ask the prime broker to find a solution to this problem as it may involve large losses for the desk.

1:00 p.m.: Have lunch at the desk while browsing through some stories on Bloomberg.

2:00 p.m.: Field calls and help the staff resolve any pending problems.

4:00 p.m.: Re-review all reports from the morning and make sure all highlighted discrepancies are resolved otherwise jot them down as "open items."

5:00 p.m.: Create a list of agenda items for the next day and look at the calendar of any meetings.

6:00 p.m.: Leave work and meet the prime broker for dinner who is taking the operations team out.

7:00 p.m.: Discuss rates with the prime broker over dinner and get to know them better.

10:00 p.m.: Head home and try to get the motivation to go to the gym before crashing.

RISK MANAGEMENT

The risk department proactively monitors each hedge fund, identifying potential risks and then determining and understanding the importance of various types of risks. This department uses various propriety or vendor tools and methodologies for risk management and implements strategies to prevent any risk completely or to deal with them if they occur.

At a hedge fund, a risk management role can vary depending on the size of the fund. At a small fund, generally the principals or the trading group may monitor the risk and there are no specific risk personnel; while at a larger fund, there is a group who is solely responsible for monitoring risk. Many hedge funds are also known to outsource their risk controls through third party vendors specialized in providing this service to corporations, hedge funds, mutual funds, etc. Many investment banks also provide such added value service through their prime broker departments.

Fund of funds are known to have a very large risk teams because of two reasons. Firstly, due to the way fund of funds operate they are dealing with a large variety of securities product base; and secondly, the risk group plays a large role in alleviating concerns of existing and potential investors.

Risk associate

This associate level position will play a supporting role in the risk department. Many hedge funds don't have a separate risk department but this position would be available at an investment bank's prime broker department.

In a prime broker department, the risk associate will perform the same duties, except he will be monitoring risk for several hedge funds that are prime broker clients. This position generally requires a minimum of a bachelor's degree and a few years of relevant experience. A thorough understanding

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of a variety of trading products (i.e., options, fixed income, mortgage backed securities, swaptions), options risks (i.e., delta, gamma, vega, rho and theta) and strong analytical skills are strongly recommended. The daily job duties include but are not limited to maintaining value at risk (VAR) data, back-testing and stress-testing securities within a portfolio and reporting the analyzed data to senior risk management.

For example, Heather works with the trading group to monitor risk. The hedge fund where she works subscribes/utilizes a risk monitoring system designed by a large investment bank. Every morning she will perform analysis to the short portfolio measuring how minor changes in the stock market, such as the Dow Jones Industrial Average decreasing substantially in one day, could affect the value of the portfolio. Heather does not have to compute everything manually because the risk system has built in mathematical models to attribute for different scenarios, although Heather needs to understand what the output of results mean and be able to verbally communicate those clearly to the traders and portfolio mangers along with having spreadsheets and graphs as back up of her analysis.

Base salary depends on geographical location, previous experience, education skills and size of the corporation. The risk position could potentially have interaction with clients (investors) depending on the size of the fund. Some hedge funds have a designated investor relations employee whose sole responsibility is to field calls from investors. Although, in smaller funds investors may call the risk group directly to state and address any risk concerns. It is important that a hedge fund has a strong risk monitoring system because this reduces the likelihood of error and losses in the fund and will also help alleviates the investor's worries.

Risk jobs are found through job agencies or through connections. Generally, traders are also well aware of job openings in the risk groups and can be a good source of contact/network.

A Day in the Life: Risk Analyst at a Large Hedge Fund

7:30 a.m.: Get into the office and check email. Chat with colleagues about interesting stories in the WSJ.

8:00 a.m.: Daily risk conference call with traders, portfolio manager and principals

9:30 a.m.: Monitoring the portfolios on one screen while looking at the markets affecting the various securities on another screen. Quantify illiquid positions and valuations risk and compare margin requirements of all positions with the custodian/prime broker making sure you are in agreement.

10:00 a.m.: Call the prime broker risk department and discuss risks involved in utilizing more leverage for a particular option arbitrage fund. Write up a report based on the call to present to the principals.

11:00 a.m.: Compile statistics for the ongoing exception report for non-investment risk issues such as trade settlement, particular trader leaving the organization, etc.

12:00 p.m.: Making sure that the portfolio is maintained within established risk parameters

1:00 p.m.: Eat lunch at the desk while preparing for the 1:30 meeting with potential investors of the hedge fund who want to discuss business and corporate structure of the hedge fund and its links to the investment manger.

1:30 or 2:30 p.m.: Meeting with investors in a conference room. Emphasize the safety of assets to the investor because of proper risk monitoring.

2:30 p.m.: Recap the meeting with principals, see how it went and make a list of items to follow up with the investor. It is very important that the risk manager gets rid of any potential investors concerns of sudden losses.

4:00 p.m.: Work with the CFO to have him clarify a problem you noticed on last month's audit.

5:00 p.m.: Field calls and answer emails on all risk and portfolio inquiries to internal and external people.

7:00 p.m.: Look over notes from today and jot down any items that needs to be addressed tomorrow.

7:15 p.m.: Review schedule for next day.

7:30 to 8:00 p.m.: Head home and get to bed early for a good night's sleep.

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High Tech

TECHNOLOGY IS EVERYWHERE

It's a tech, tech world

As industries go, the tech sector is a fairly new one, but is revolutionizing the way people conduct themselves socially and in business. Technology has been so rapidly integrated into the fabric of modern life that the semiconductor chip, a device that hardly existed 50 years ago, has become a commonplace part of modern life. The sector is fairly broad, and encompasses companies that manufacture hardware—the guts of the computer, like hard drives, chips, circuit boards and wiring—and software, the programs that run on said chips. Other companies offer their customers some combination of hardware and software—like Hewlett-Packard and Dell, who ship computers with operating systems and programs already installed.

Chips off the old block

Microchips are up there with the wheel and knapped flint in terms of human inventions that have had a dramatic effect on history. Remarkably, in 2004, humans produced more transistors than grains of rice, according to the Semiconductor Industry Association. The microchip as we know it—which consists of multiple circuits embedded in a semiconductive substrate—was invented by Jack Kilby, an employee at Texas Instruments, in 1958. The first semiconductors, which only had a handful of circuits, were initially used in highly funded government projects, like the Apollo Moon mission and in Minuteman missiles. As the production of chips became less expensive, they began their inexorable move into the realm of consumer goods during the late 1970s and early 1980s. Unlike those first microchips, which combined tens of circuits on a single chip, microchips produced today can have billions of circuits in an area that can fit on your fingertip.

The manufacture of chips involves hundreds of repeated steps. Chips are built on a substrate of pure silicon, called a wafer. Wafers are cut to a thickness of about a millimeter from cylindrical crystals grown in baths of molten silicon. After cutting, the surfaces of wafers are polished thoroughly; any imperfections in the surface of the wafer will result in chips that do not function properly. As chip manufacturing technology improved, wafers increased in size from about four inches in the 1960s to 12 inches (30 centimeters) today; though some memory chips are still made on smaller wafers. Anywhere from a few hundred to a thousand chips can fit on a 30-centimeter wafer. After polishing, the wafer's surface is coated with an insulating layer of silicon dioxide a few atoms thick, which, in turn, is coated with a light-sensitive material called a photoresist. The wafer is then exposed to light filtered through a lithographic plate, which allows an acid etch bath to remove the photoresist that was exposed to light, as well as some of the silicon underneath it. An atom-thick layer of metal, such as copper or aluminum, can be deposited on these exposed parts of the chip; and when the photoresist is removed, only the metal remains to connect the various parts of the chip. Other electrical features can be added to the surface of the chip by implanting the silicon with a smattering of individual atoms, often of boron or arsenic, known as dopants. The boron or arsenic atoms are shot into the crystal structure of the silicon with a particle accelerator. Successive layers of insulating and conducting pathways are gradually built up by repeating these processes.

Since the electrical pathways of modern processor chips are measured in mere nanometers—billionths of an inch—nearly any errant piece of schmutz can short out a circuit. Therefore, chips must be manufactured in clean rooms, where the ambient level of dust is significantly reduced by filtration. Workers in these environments also wear bunny suits, which protect the wafers from hair or skin cells that the workers might shed.

The designers of the lithographic plates used to print circuit boards have been known to embed words and images in blank spaces in the design, which eventually wind up, in microscopic form, in the chip. These images vary from the prosaic—the names of the people who designed the lithographs, taunts to competitors, and allusions to the purpose of the chip (a semiconductor on a probe sent to Mars had cartoon Martians on it)—to other, inexplicable images, like a picture of the lunar lander, a Landshark (born of a 1970s *Saturday Night Live* skit), or a drawing of a baby.

Bumpy road

The semiconductor industry is highly cyclical, prone to vertiginous highs and astonishing lows. This is partly due to the industry's high cost of entry; a fab or foundry, a plant where microchips are made, can take several years—not to mention upwards of $2 billion—to build. As the price of chips rises, more fabs are built; as they add their capacity to the marketplace, the price of chips falls. This has already happened several times over the course of the industry's history, notably in the 1980s, when Japanese manufacturers flooded the marketplace with inexpensive chips. The market reached a high in 1999—in time to fuel the tech boom—and again in 2004, in order to power the recovery from the tech bust.

As of summer 2007, the industry was in a growth phase. Many semiconductor manufacturers were building new factories, and prices for semiconductor products were on the rise. One notable exception was the price for Flash memory chips, which suffered a strong downward correction in spring 2007; a substantial supply of the chips depressed prices. The price of silicon also rose, as demand for solar cells, which are also made of the same pure silicon wafers that microchips are made of, increased demand for the material. While many major chip manufacturers locked in contracts for inexpensive silicon, high prices for the material were expected to exert upward pressure on chip prices.

However, that growth phase has cooled, and in early 2009, the industry appears to be in a decline. The economic turmoil in the financial sector rippled through many industries, finally reaching tech manufacturers. Because of consumer uncertainty, people pulled back on impulse and non-necessary buys, and companies that incorporate semiconductors in their products similarly reined in purchases. This created a bit of a glut of product and

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overcapacity, and job cuts ensued around the tech world; many semiconductor manufacturers (Fairchild, NEC Electronics, Micron Technology, et. al.) and other makers of hardware (Dell, Lenovo, Seagate, Hutchinson Technology, et. al.) are idling factories and laying off workers. Even Intel announced layoffs of up to 6,000 people in January 2009.

In Soviet Russia, you power your devices

Tech isn't just chips, however; batteries present their own host of problems for the designers of computer gadgets. In addition to adding to the size and weight of the product, they are often taxed by the demands of fueling features like bigger, brighter displays—sometimes for days between charges. While chips have continued to double the number of transistors every two years as predicted by Moore's law, batteries have failed to keep up. Lithium ion batteries, the usual rechargeable batteries found in consumer electronics, have been standard for nearly a decade. Engineers are nearly at a loss to provide products that can stand up to the rigors of powering zippy processors, big displays and internet connections for days between charges. As batteries are pushed to their limits, they can suddenly fail—or worse, explode.

One explosion-free plan for powering the next generation of cell phones would harvest power from the gadgets' human hosts. While this sounds like a premise for a horror movie, it's really quite clever. Carrying a cell phone while walking—having the device jiggling up and down in a purse or pocket—can generate a small charge, which can be stored in a capacitor for later use. Piezoelectric materials, which generate electricity when compressed, can be put beneath buttons in order to ease the battery's pain during those epic games of *Brick Breaker*. Consumers need not only poke and boogie their way to longer battery life, however. In 2007, two devices came out that promised to sip power from ambient sources. That year, a company with the literal name of Inflight Power introduced a device that transforms the music distributed through the headphone jacks on airplane seats into power for an iPod or phone. That same month, researchers at the University of Southampton in England introduced a small generator that transforms ambient vibrations into electrical power. While the generator does not absorb enough vibes to fuel electrical gizmos, it will be used to power structural sensors on bridges, where running power cords and replacing batteries is not always possible.

Ambient power can't entirely replace the need for power sources, however. As consumers demand more and better features, companies are looking beyond batteries to power devices. Methanol fuel cells are one option to replace batteries. The cells use catalysts to turn methanol into carbon dioxide and water in a controlled reaction; and they must be refilled, instead of being charged like batteries. Naturally, it's not as simple as all that, or we'd have them already. The design has some kinks that need to be worked out, among them the toxicity of methanol, its tendency to corrode aluminum, and the necessity of manufacturing the tiny pumps and other parts for the cells.

Giving the customers what they want

Speaking of those power-hungry gizmos, the overwhelming trend in the tech industry is to add more features to products. The scheme seems like a surefire crowd-pleaser: feature-laden gadgets attract customers and sell at a premium, and adding a chip that turns a cell phone into a music player doesn't add much to its manufacturing cost. This process, known as feature creep, has a downside, however. Consumers only spend about 20 minutes on average fussing around with a new product—and if they can't figure out all the bells and whistles in that period of time, they're likely to return it. In 2008, more than half of all returned electronics had nothing wrong with them. While it may be easy and cheap to add more features, it's extremely difficult to design an elegant, easy-to-use interface for the device—just adding more buttons doesn't quite cut it.

Data, data everywhere

People are also producing more data than ever. Luckily, the cost of data storage is falling exponentially. The cost of data storage has dropped precipitously—from $10,000 per megabyte in 1956 and $0.73 in 1986, to two hundred-millionths of a cent in 2008 (it's more convenient to translate this as less than one cent per 500 gigabytes of storage). At the same time, the amount of data that people and businesses want to store has increased dramatically. For 2007, the "digital universe," at 281 billion gigabytes, was 10 percent bigger than previous estimates; storage requirements for 2011 will be 10 times larger than that which was necessary in 2006. A great deal of this data, especially the portion created by companies—from credit card transactions to funny cat pictures sent to the office via email—must be saved for several years according to regulations like Sarbanes-Oxley. This translates into strong growth for the data-storage products industry—it's expected to expand by 15 percent in 2007. But even that's not enough—according to an IDC white paper sponsored by EDC (a leader in networked storage solutions), the amount of "information created, captured or replicated exceeded available storage for the first time in 2007."

One laptop per lap

Developing economies are a hot market for tech companies—and not just those who want to manufacture goods there. The wealth of the citizens in these countries is increasing dramatically, pushing people into a growing middle class. Combine that factor with competitive Western markets saturated with products and jaded consumers, and the solutions are obvious. The companies bringing the gospel of the byte to the citizens of growing economies have diverse motives for doing so, from increasing computer literacy among the world's poorest people to seeking profits and gaining market share. Former MIT professor Nicholas Negroponte has a plan to bring a $199 laptop to poor people in developing countries. The laptops, now called XO-1, can be used as an e-book (with a black-and-white screen that can be read in sunlight), laptop or game device—and can also be networked over a wireless connection, just like conventional machines. The laptops run on a version of Red Hat's Fedora Linux to encourage children to develop their

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own software, and also to keep prices down. Argentina, Brazil, Libya, Nigeria, Thailand and Uruguay were among the first countries to show interest and devices began shipping in 2008.

The idea has created a new segment of sorts in the U.S. and especially Europe. These so-called “Netbooks” are the latest thing, perfect for people who need only basic internet and email capabilities, and no bells and whistles like hyper-graphics or super memory. (Dell and Hewlett-Packard debuted “mini” models in 2008). Though they sold only 400,000 or so in 2007, the next year, sales jumped by a factor of 30 (to 11.4 million, about 7.8 million of which in Europe) and in some months, netbooks crept into top-10 sales rankings. Some analysts estimate that by 2013, up to 139 million of the lightweight laptops will be traded annually.

Microsoft is pursuing customers in the developing world, partly in search of profits, and to curb the growth of free operating systems, which can erode the market share of Windows and its Office suite. In 2007, Microsoft announced that it would begin selling PCs aimed at children in India, which has not adopted the laptops for children initiative. The plan is intended to supplement education in areas where public schools may lack such necessities as running water, electricity, teachers and books. Microsoft’s computer comes equipped with a Windows operating system, Word, Encarta and programs tailored to help children cram for school exams. The device isn’t designed to get poor children up to speed with the internet, but will help the company gain market share in the growing Indian economy, where it has the potential to lose ground to less expensive machines running Linux—it hopes to grab one billion customers by 2015. Intel surely has some designs in this sphere as well; in October 2008, it bought the domain name netbook.com, ostensibly to be used as some sort of sales portal (there was talk of an Intel notebook launch to come the following March).

An Apple a day

Microsoft is seeking new markets because its dominance at home is increasingly coming under threat. Apple—whose computers were once the purview of a small, rabid fringe of computer users—is now the mainstream. Indeed, it’s hard to find anyone who doesn’t own some kind of iPod (and doesn’t have it permanently welded to his ears). The iPhone has been a roaring success, as well—the company reported that it sold one million of them four months after the launch, and expects to make it an even 10 million by early 2009. However, the company is not just about spiffy consumer electronics—it’s been gaining in the computer race, as well. Although it still hangs behind industry behemoths Dell and Hewlett-Packard, its share of the pie has been growing. Consulting firm Gartner said Apple’s market share crept up by 1.8 percentage points between September 2007 and the same month in 2008, boosting its share of the U.S. market to about 9.5 percent. It’s a certain type of consumer that enjoys Apple computers’ modern-looking cases, lively graphics and relative imperviousness to viruses. Nonetheless, amongst vendors dealing in worldwide shipments, the thoroughly modern Apple has continually been shut out of the top five.

THE MBA IN TECH

So you’re in IT and you decided to get an MBA. Perhaps your degree even came with a technology specialty, which is an increasingly common option. Where will your degree get you?

Despite the lore of the 1970s-era computer “hackers” who revolutionized personal computing by working out of garages, many other people even then were studying for MBA degrees and were interested in technology. In the five-year period from 1976 to 1981, Harvard Business School produced Dan Bricklin (VisiCalc), Scott Cook (Intuit), Donna Dubinsky (Palm), Meg Whitman (eBay), and many others. Bricklin was an MIT-educated engineer, but has stated that he thought of many core ideas for the electronic spreadsheet while in business school.

Today, working in IT or working at a technology manufacturer offers many opportunities for MBAs to advance. Some of the popular fields are consulting, director-level positions, finance, law, marketing, project management, sales, training and the ultimate, which is C-level leadership.

Project management

As a project (or product) manager, you have a very specific set of goals to meet. They typically include detailed technology specifications to follow, deadlines to make and, of course, a budget to stick with. Maybe you’d be put in charge of an IT department’s rollout of a new software product for internal users, or in charge of a certain operating system version of a certain piece of hardware. Either way, acquiring an MBA as a project/product manager can lead to doing the same job but with a bigger company, or to a position with a VP title. As in marketing, project/product managers need a very wide range of skills and knowledge, so having your MBA can only help. If you’re a hardcore engineer or programmer, the MBA will help you break into project/product management.

Marketing

If the intensity of the IT lifestyle makes you feel burned out, and you have some creative DNA, then you may be a good fit for a position in technology marketing. The field involves dealing with advertising, partners, the press and anything related to corporate outreach. In technology marketing, more so than in other fields, you will be expected to know quite a bit about the technology in question. By getting that MBA you can also understand the technology’s business strategic situation, and have a good chance at moving up into upper management.

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Tech consulting

Many tech consultants are former successful technologists who desire to share what they've learned with others. With just IT experience, you can get an entry-level consulting job, which means interfacing with your client's own IT staff about their special needs. With a few years of experience and the addition of an MBA degree, you can open your own consulting firm, be invited to participate in panels at trade shows, or perhaps move from out of consulting and into the exciting world of venture capital. (To be a VC, you need to excel at understanding business and technology hand-in-hand, just as good consultants do.) You can also become an in-house consultant for a very large company, which may involve more deadlines and politics to play, but leaves you not having to worry about finding new customers.

Director jobs

If you work for a company that makes technology products, instead of working in the IT department of a company that simply utilizes technology, then possessing an MBA degree will often lead you into a "director" level job. For example, you might become the director of printers for a company that makes business technology, or the director of R&D for a military software contractor. As a director, your role is a notch below the division vice president and a notch above the various product managers. Product managers work on just one thing, but as director you're also working on a technology group's sales, marketing, manufacturing, etc.

Finance and law

Finance and law positions in an IT department or at a technology vendor have some aspects that are unique compared to working in other fields. You may have to deal with patent issues, foreign employee visas, international licensing laws, making sure the IT staff follows legal compliance rules for backing up data, and working with multiple layers of distributors, partners and resellers. By getting an MBA degree as well, you are in good position to become a company's operations director, or even to get a C-level position if you have extensive sales or technology experience as well.

Sales

In sales the job description is very clear: generate revenue for the company. By having an MBA you can manage entry-level staff, get the best and biggest clients, get into working with partners and resellers, or even enter the field of "competitive intelligence," which is a nice way of saying corporate espionage.

Training

As an IT trainer you have many career options. You can work in a classroom setting, manage advanced customer support, become involved with technical writing, educate the sales staff or work with your company's technology partners. With an MBA degree you can become a manager and get a title such as call center director or VP of user experience.

Upper management

Last, and the hardest job to get, is technology upper management. To become a CIO, CTO or even a CEO in the technology field, an MBA degree is almost a requirement, especially at large companies. There are a lucky few who become business leaders straight out of core technology jobs (and with a lot of natural talent)—the world's richest person, Bill Gates, never even finished his undergraduate degree. But for mere mortals, if you want to become an IT business leader, you can't go wrong with an MBA: it will help you close big sales, manage your company's logistics, strategize for growth and prepare you for the executive suite.

TECH EXPERIENCE AND THE MBA

Of course, getting an MBA is not enough for a successful career in tech. "My gut reaction is, get the real-world experience," says Paul Buonaiuto, director of recruiting for Computer Associates International Inc., the Islandia, N.Y. company specializing in business management software. The problem with classroom experience alone, he says, is that "Unless you're really out in the trenches, it's difficult to implement sometimes what you read in a book. Real-world experience I hold in more high regard." And even when a rookie MBA gets hired, there is usually the need for some amount of retraining, as "a lot of the [MBA] case studies are dot-com [or] an Enron or a latest-greatest merger," Buonaiuto explains.

To really stand out in the hiring process, the ideal job candidate should also have some kind of hands-on technology experience, Buonaiuto said. Candidates that well rounded come along "almost never," he says. When a pure MBA interviews in technology, "What's sorely lacked in those folks looking for a job is research skills. It becomes painfully evident in the interview" that they know about CA's stock performance but know nothing about its technology other than what's on the website, he said.

Many future executive candidates start out as technical employees or lower-level managers. For them, many companies will pay for a portion of their MBA educations. There are a wide range of choices for where to get it—a traditional MBA program gives you the recognition that business is business and profits are profits, regardless of your industry, while a specialized technology MBA program (such as in e-commerce or systems management) will

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make you stand out but can be risky if your chosen specialty market has a downturn. Magazines like *Computerworld*, *BusinessWeek* and *U.S. News & World Report* sometimes publish features dedicated to ranking the graduate programs. The relative newness of specialized degrees is another common point of debate: it's been noted many times before that the leading rankings often wildly disagree.

VAULT Q&A: CATHERINE WANG, INTUIT

Prior to attending the Stanford Graduate School of Business, Catherine Wang had little experience in high tech. While at Stanford, however, she landed an internship at Silicon Valley stalwart Intuit and took a position as a marketing manager upon graduating in 2005. Wang took some time out from her busy schedule to talk to Vault about her experience as an MBA at a tech company.

Vault: Tell me a little about your experience prior to business school

Wang: I was in consulting at McKinsey for two years and then worked with Charles Schwab for two years before going to business school.

Vault: Did you know going into business school that you wanted to move into high-tech marketing?

Wang: I actually wanted to do marketing in general, so technology was less important. I chose Intuit less because Intuit is a software company, but more because of Intuit's approach to customers. Intuit is definitely not a technology company for the sake of being a technology company. It just happens that they use technology to solve their customer's needs. Frankly, I didn't interview with many tech companies, but was interested in Intuit's strong marketing organization.

I did my summer internship at Intuit. You can do either marketing or product development on the MBA side. The internship was very structured—lots of meetings with senior executives of the company, intern events, things like that.

Vault: Were there a lot of MBAs that joined Intuit at the same time you did?

Wang: There really isn't an MBA class my year; Intuit kind of hires MBAs as needed. That said, there's tons of MBAs at Intuit and there's tons of Stanford MBAs at Intuit.

There are many people who have very very similar backgrounds to you. We are a big company, but the culture at Intuit is very collaborative, it's very much about helping people out, getting to know people. You don't really have to be very proactive in networking, a lot of people reach out to get to know you. It's part of the company culture to make sure you have the mentors you need that you have the network that you need.

Vault: Tell me about your current position at Intuit.

Wang: I'm a marketing manager, working on our payroll service, which is a small business solution that enables small businesses to do payroll in house. It's a service within the Quickbooks product.

Vault: How is it delivered? Is it a CD or through the Web?

Wang: It's functionality that we turn on in Quickbooks. Think about your cable TV, and how there are different packages. If you pay more, you get HBO versus if you didn't pay for it. It's kind of like that—we turn it on for you. Quickbooks itself can be downloaded from the Web or you can buy it off the shelf and install it.

Vault: So what does it mean to be a marketing manager at Intuit?

Wang: So marketing manager is comparable to a brand management position. What I manage is one of our channels, the phone channel. I work a lot through our call centers, to make sure that they have the materials they need. Our main call centers are in Tucson and Reno, so I go to each of them about once a month. Right now, I'm in Tucson.

We have a group of 12 marketing folks within payroll. For example, there's someone focused on retail, so packaging is a more important part of her responsibilities than it is for me. We also have someone who focuses on the web channel who's responsible for the content displayed on the Web.

Vault: What is your impression of how marketing management at Intuit and other high-tech companies compares to brand management at traditional packaged goods companies?

Wang: My perception is that with many consumer packaged goods companies, there's more of a focus on marketing. I would say it's less so that way here, because technology plays an important role. It's more of a balance.

I think a big difference between Intuit and a lot of other tech companies, however, is that marketing is very important. I did interview at tech companies where the folks I was interviewing with would say, "Honestly, we have some products that have certain functionality because the engineers thought it was cool." Here, the focus is on the customer and so I don't think you have that tension between engineering and marketing.

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Vault: In brand management at traditional packaged goods companies, brand managers interface with a wide variety of departments in an organization. Who are you working with mainly?

Wang: People from all levels, starting from sales managers to coaches who lead a team of about 15 agents. We're very customer focused, so I spend a lot of time listening on calls to agents, to see who what our customers are saying, or doing agent focus groups.

For example, we did six focus groups around what types of marketing messages we should emphasize. This starts with identifying what are the benefits that customers really value, that has implications that they really sell—so if customers are saying that a benefit is not important, the salespeople aren't going to focus on that.

Vault: What about getting customers in the door in the first place?

Wang: So I also deal with lead generation—getting calls into the call center. That involves working with our managers who manage Quickbooks.com or Payroll.com, as well as working with our direct marketing organization. Direct marketing is a centralized function at Intuit, so all marketing managers coordinate with that team.

Vault: What other responsibilities do you have?

Wang: Although we're largely structured by channels, we also spend some time on different issues that affect all channels. For me, beyond telesales, I work on pricing promotion across channels. These promotions must be coordinated with other channels.

Vault: Was there a particular reason that pricing promotion fell under your oversight? Does it have particular relevance to the telesales channel?

Wang: No, it was just how things were divided up.

Vault: So are you frequently interacting with the marketing managers overseeing other channels?

Wang: Yes, definitely—every day, if not more frequently. Things that we do in one channel affect other channels. If we do a promotion on the Web, we know not everyone is going to order through the Web, some will call. If we are trying to grow sales of one particular product, that affects all channels.

Vault: Are you often in contact with the engineers building the products?

Wang: Not so much. We interface more with the product marketing folks. Of the four Ps in marketing, the marketing side is really focused on the pricing, promotions and placement. The product piece is really the ownership of the product managers. The product managers are the ones who take customer requirements, find out what functionality is missing, and they work with engineers with the product themselves.

The product managers and engineers work on future functionality, the marketing group focuses on selling current functionality.

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Human Resources

Every organization has people, which means every organization needs human resources (HR) professionals. HR helps manage and develop the people in an organization. Sometimes called "personnel" or "talent management," HR is the function in charge of an organization's employees, which includes finding and hiring employees, helping them grow and learn in the organization, and managing the process when an employee leaves. Human resources takes care of people from the time they're interested in the organization to long after they leave.

THE HISTORY OF HUMAN RESOURCES

Now a thriving, growing profession, human resources wasn't always a key part of most organizations—if at all. Until the early 1900s, all human resources functions were typically handled by the workers themselves or their bosses (often called master craftsmen). As more workers were needed, master craftsmen would just go out and find them (talk about the birth of recruiting!).

When the 1900s brought inventions and changes in the workplace, like machines that automated production, human resources began to take shape. The addition of machines made factories run more quickly and smoothly, but also meant that the workers had to learn how to use them, and forced factory managers to introduce rules and procedures on the factory floor.

Frederick Taylor, a businessman and researcher, first introduced the concept of scientific management. Taylor's theory took workplace rules and procedures one step further, declaring that there was only one best way to do a job. He spent years collecting data on the tasks making up specific jobs and then researching the workers who performed each small task. Workers who performed well, following tasks to the letter, remained employed and were paid well. Those who didn't were among the first to hear "you're fired."

Taylor's research was the first to increase worker productivity, but his robotic approach didn't prove to be an effective management tool. Still, his work showed the importance of managing workers to increase a company's success. While Taylor's work focused more on company success than that of the worker, it propelled many companies to begin to personalize the workplace, anticipating the first appearance of HR. One of the earliest HR roles was that of a welfare secretary whose role was to look out for the welfare of the workers. An ancestor of what's now called a benefits manager, welfare secretaries created libraries and recreation areas in the workplace, as well as primitive medical and health programs.

But HR really took shape in the 1930s when a company called Western Electric asked a team of researchers to figure out how to increase workers' productivity at one of their plants in Chicago. The Hawthorne Studies, taking their name after the targeted plant, set out to determine whether changing the lighting in the plant could help the employees work faster. What they found instead was how important it was for plant managers to pay attention to the workers, reward them for a good job and make sure they were satisfied. The idea of happy workers being productive workers took hold and still remains true today. If a company wants to perform well, it has to create and manage a content workforce. HR plays a critical role in making sure that happens.

The Hawthorne Studies fueled the study of worker behavior in organizations, and what was called behavioral science. The growth of behavioral science as a field studied how jobs and the workplace affect workers and how workers affect the performance of a company.

The study of behavioral science reinforced the importance of welfare secretaries. The secretaries' jobs became more and more complex as governments introduced labor laws to keep up with the changing workplace. These laws, restricting the rights of both employers and employees, required the welfare secretaries to keep paper records of employees and their activities. One of the first human resources laws, the Fair Labor Standards Act (FLSA) created a minimum wage, set rules for child labor and required employers to treat employees fairly in regards to wage and hours worked.

In many industries, workers also began organizing into unions—groups of workers banding together to lobby for rights in the workplace. New laws around union activity also required companies and welfare secretaries to understand and comply with the laws.

Many companies began hiring multiple welfare secretaries—one responsible for hiring employees, another responsible for employee benefits and perhaps another to train employees on the factory floors. These specialty areas evolved into the specialty areas of the human resources profession today.

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HUMAN RESOURCES TODAY

Today, human resources is essential to the success of business. The level of importance HR holds does differ from organization to organization, but businesses consistently rely on HR professionals to help them through high-growth times and periods of turmoil. Regardless of how successful (or not) an organization is, there is always a need for HR staff. The welfare secretary title may be long gone, but the idea of having human resources professionals focus on specific areas of managing and developing a company's workers has remained. Now, in most organizations, there are HR professionals who focus specifically on hiring, training, benefits, labor relations, health and safety and more.

While it's important to like working with people and wanting to help them to be successful in HR, that's definitely not the only skill or attribute you need to be a successful HR professional. HR is about creating systems, processes and environments where employees perform better and are satisfied, and there are many different career paths and opportunities in the profession. For example, HR professionals can take center stage as a recruiter or trainer. In these roles, you're interacting with people all day long, whether conducting interviews or running a training course. But HR professionals can also serve behind the scenes, administering payroll, tracking HR metrics (statistics about company workers) or running an organization's Human Resource Information System (HRIS), technical databases where all employee data is stored and managed.

While HR continues to grow as a function, in many companies it does not carry the importance or value of its colleagues in finance, sales or marketing. Know that as satisfying as an HR career can be, the profession still struggles to gain respect in many places.

WHAT DO HR PROFESSIONALS DO?

Typical HR responsibilities are focused in major areas such as recruiting and staffing, compensation and benefits, training and learning, labor and employee relations, and organization development. Most HR professionals have experience in one or more of these specialty areas. These areas all deal with helping employees in an organization perform more effectively and satisfactorily on the job.

Recruiting and staffing

You're either in or you're out. When an employee leaves and a job opens up or new jobs are created, HR is usually in charge of the process. Recruiting and staffing is one of the largest areas of HR. Recruiters start the process—working with specific departments to write job descriptions and understand what skills and abilities the new employee should have. Then they're off and running—responsible for finding candidates, determining who might be a good fit, conducting interviews and making job offers. While recruiters involve department employees in the process to interview and make the hiring decisions, it's the recruiters who are usually in charge of finding the talent, managing interview scheduling, negotiating offers and making sure departments have all the information they need to make the best hiring decisions possible.

While recruiters work to find and hire the talent, staffing experts determine who should go where. They strategize with different departments to anticipate hiring needs and help determine where a new employee might best fit in an organization. Staffing professionals are heavily relied on in high-growth companies to make sure the company is prepared to hire enough new employees to grow the company, and that employees are in the right positions.

Recruiting and staffing professionals are also called upon to help an organization market to prospective employees. This can include creating and managing recruiting events, designing marketing pieces, such as company brochures and commercials, and staffing career fairs to educate prospective employees about open opportunities. Many organizations also have recruiting and staffing professionals dedicated to working with universities. These roles are focused on finding talent on undergraduate and graduate school campuses and can include a great deal of travel and campus presentations.

Compensation and benefits

Finding talent is important, but employees also have to be paid. HR, specifically compensation and benefits professionals, are in charge of making sure new employees are given an appropriate salary and benefits, and current employees continually receive their salary and benefits.

Compensation experts focus on the money. This includes processing regular payroll (making sure that the check is in the mail) and payroll changes, including raises and tax changes. Compensation experts also work closely with an organization's finance department to ensure salaries stay within each department's budget, as well as conducting and researching salary surveys to make sure they're paying the going rate.

Benefits professionals also have to make sure employees are taken care of—they specialize in helping employees with medical and other company benefits. This may include teaching new employees about their medical plan choices, implementing and managing the plans offered by the company, and managing the cost of benefits for the company.

Compensation and benefits professionals are also often tasked with communicating salary and benefits information to employees. This may include marketing and promoting new benefits offerings to a company or managing a company's open enrollment period—a brief period of time where employees can change medical plans and other benefit options.

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One-on-one counseling may also be part of the job. If an employee leaves an organization, the benefits manager may counsel the employee on access to health insurance available after departure. Employees also often seek guidance on understanding their compensation packages, making changes to employment tax forms or managing a difficult medical insurance claim.

Training and learning

Part teacher, part manager, part leader—that's a training professional. Helping employees become oriented to a new job or company is just one of the many responsibilities of training and learning professionals. Sometimes called training, or learning and development, it's helping both new and tenured employees develop and grow as professionals both on and off the job.

Training and learning professionals are typically responsible for running programs designed to educate and develop employees. This can include programs for an entire employee population, such as new hire orientation or ethics training, but also includes more specialized programs for different groups of workers within a company, like online training courses, in-class instruction or on-the-job training.

Training managers, for example, are called upon to do everything from registering and tracking training courses, to developing new courses and evaluating the effectiveness of training programs after they happen. This may include designing surveys or determining if newly trained employees perform better than they did before the training. They also may be responsible for providing information to employees on training classes and programs outside the company.

In some organizations, training and learning professionals actually deliver the training courses. They might create a presentation skills course and then send trainers on the road to teach the new course to employees around the country. Since it's often cheaper to train current employees rather than hire new ones, training and learning is becoming increasingly important in the business world. A company's strong commitment to training and development is also a boost to its workers' morale.

Labor and employee relations

Just like welfare secretaries responded to new laws in the early 1900s, labor and employee relations professionals ensure that anything dealing with employee contracts, rights, responsibilities and complaints is taken care of right quick.

Labor relations is a function typically found in companies whose employees are members of unions. Labor relations professionals are called upon to deal directly with unions, doing everything from interpreting current union contracts to negotiating new ones. They also analyze and monitor union activity and work with unions during organizing campaigns—the time when unions recruit new members.

Employee relations professionals need to be familiar and comfortable with the law; they are also responsible for equal employment opportunity and affirmative action programs. For government agencies or companies that do work for the government, this may include creating reports to demonstrate a company is complying with the law and making an effort to hire and retain employees from underrepresented ethnicities. Other key responsibilities may include counseling or conflict resolution within an organization, helping employees who are dealing with disagreements in the workplace or have issues preventing them from doing their jobs.

Labor and employee relations is not found in every human resources department. Organizations that don't have government contracts or unionized employees may rely on outside attorneys or consultants to deal with any legal issues or employee conflicts that arise.

Organization development (OD)

While developing employees is important, perhaps just as important is developing an organization. A relatively new field, organization development focuses on evaluating how a company is structured and how employees work together to see where improvements can be made. Also referred to as organization effectiveness, this might include helping to restructure the chain of command in a department to helping employees cope with a major change, such as the introduction of a new company-wide technical system.

OD professionals are experts in understanding behavior and psychology. They often act as internal consultants, helping their fellow employees understand how a new company program might affect the employees' behavior.

They often work closely with training professionals to address development needs for the company. OD professionals may develop companywide team-building activities or introduce new programs for leadership development.

OD specialists often manage the performance review process, making sure that employees are evaluated and moved within the organization based on how well they're working. OD specialists may also help companies develop succession plans (determining who is in line to be the next person in a leadership position, such as CEO or CFO) and mentoring programs, making sure less experienced employees can learn from their more experienced comrades. OD professionals may also be called upon to help an employee address individual issues through executive coaching, or a department address a leadership or performance challenge.

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Less common OD work may include coaching or career development. Coaches, common at the executive level, help employees overcome poor teamwork or management skills. Many large firms are hiring external coaches, or creating coaching functions in order to help valuable employees deal with singular issues that may prevent them from being promoted.

Health and safety

Factory machines, hazardous chemicals and construction sites are all potentially dangerous situations for workers. This is where health and safety professionals come in. One of the oldest HR specialties, health and safety professionals are responsible for ensuring a safe working environment for all workers—this is more of an issue in industries with risky work settings, such as manufacturing, health care and construction. While all organizations must protect the safety of their employees while at work, it is more complicated in industries that have work sites beyond a typical office environment.

One of the major components of the role of a health and safety professional is to be proactive—assessing a work environment to anticipate where the dangers might be and correcting them before an injury occurs. This might include periodic tours of a work site, or research into the latest workplace safety options.

Health and safety professionals are also responsible for reacting to issues, concerns or problems related to the workplace environment. They might handle a complaint from a worker about a dangerous factory machine or an on-site injury. They work closely with compensation and benefits professionals to handle any injuries and determine how to prevent future injuries from occurring.

Working with an organization's legal team and employee law specialists is also part of the role. Health and safety professionals are responsible for following federal and state rules governing workplace safety, including, in some industries, submitting reports that demonstrate a company's compliance with the law.

WHY HR?

While HR professionals have varying degrees of interaction with an organization's employees, all HR people can enjoy the satisfaction of knowing that the work they do has a direct impact on people every day. HR professionals like helping employees navigate through tough problems and get back to normal on the job. Whether it's helping an employee overcome a performance problem or fix an expensive and stressful medical claim, there is an inherent satisfaction in these types of tasks.

They also enjoy the ability to interact with different groups of people; HR professionals may be working with employees in many different parts of the company. Organization development specialists may act like internal consultants helping different departments in a company work better together. This means they might be working with a sales team one week and a product design team the next. So there is a ton of variety in their day-to-day tasks.

In his role at Bank of America, Phil Skeath likes the diversity of projects. "Each time I am on a new project," he says, "I find myself identifying general concepts I learned in my educational experience, adapting them and applying them to a specific issue in the bank."

They also like contributing to the business and bottom line. For example, one of the most common issues CFOs are facing in 2005 (according to *CFO Magazine*) is the rising cost of health care. HR and benefits professionals who analyze how to lower these costs can save a company millions of dollars. Talk about making an impact.

Why not?

For most HR professionals, the positives of working in HR (such as extending a job offer to a very excited job candidate) are enough to outweigh the drawbacks (in the opposite category, downsizing or laying off employees). Otherwise, they wouldn't be there in the first place. But no job is perfect. Even rock stars have to deal with annoying paparazzi and screaming fans. While it's highly unlikely you'll be chased by reporters working in HR, you may be chased by unhappy employees. One of the toughest things about working in HR is providing a service many employees take for granted. No one says, "thanks HR," every time they get a paycheck. But if something goes wrong, if employees don't get paid, if benefits disappear or new employees aren't trained properly, you may end up with a mailbox full of angry callers to contend with.

Like many professions, starting out in HR, you may also have your fair share of administrative work. Many HR careers begin with processing paperwork for new employees, or entering and maintaining resumes in an online database. This might seem like menial work, especially if you've just received a college degree, but don't walk away too quickly. These roles, while tedious, provide a great learning opportunity and a chance to prove you're ready for more responsibilities. HR also suffers from some common misconceptions, like being a touchy-feely profession or being female-dominated.

Ready to help your colleagues and organization perform better? Before you determine what type of HR role you might best be cast in, it's important to understand that HR as a function isn't the same in every organization.

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HUMAN RESOURCE MANAGEMENT

Human resource management (HRM) is the set of traditional HR activities that manage or support the people in the organization, and every working organization has to have at least one person responsible for HRM. The major areas of HRM include:

- Recruiting and staffing
- Compensation and benefits
- Labor and employee relations
- Health and safety

In HRM roles, professionals need to keep the HR motor humming and wheels turning. Imagine if you stopped receiving your paycheck or if your company stopped recruiting altogether. HRM functions are key to keeping organizations running smoothly, and HRM professionals are responsible for preventing any interruption in services that employees expect.

HRM professionals are also responsible to the organization as a whole. Running all of these processes can cost a lot of money, and it is up to HRM professionals to make decisions that help save the company money and make sure employees are well served. In each of the major areas of HRM, professionals are continually evaluating processes and implementing new programs and systems to serve the organization better. Examples include:

- **Recruiting and staffing:** Recruiting management systems (RMS) or applicant tracking systems (ATS) are the latest trend in electronically managing the influx of resumes during busy recruiting times. These systems save organizations money by streamlining the recruiting process and requiring fewer staff members to manage employee records.

- **Labor and employee relations:** Legal training for managers on topics, such as sexual harassment and workplace law, is becoming more and more common, in order to proactively reduce lawsuits related to workplace behavior.

- **Health and safety:** While injuries at plants and hazardous sites are common, HR professionals are also recognizing the increase in office injuries; many health and safety professionals are introducing ergonomically correct office furniture. While these fancy chairs and glare-reducing computer screens may be expensive, such investments can prevent future injuries and their associated costs.

- **Compensation and benefits:** Benefits outsourcing is a popular way to reduce costs and responsibility for an organization. Some compensation and benefits professionals work with outside vendors to manage programs such as an employee stock purchase plan. Since these outside vendors already have the expertise and systems in place to manage these programs, it saves the company the expense of creating them from scratch.

Companies such as the Home Depot are well known for their HR practices, and are consistently looking for ways to ease and automate the function in order to serve customers, and ultimately the organization, better. The Home Depot has become more recently renowned for creatively recruiting veterans who have recently finished their military careers. Since advertising on online job boards can be expensive, finding new channels to recruit prospective employees is an important way to save valuable recruiting dollars.

As a human resources VP for a consulting firm professes, improving the way employees are served is an important part of the job. “In the last five years, over 75 percent of our HR transactions have been automated to better serve our customers. We created a company Intranet and put our benefits elections process online, as well as all of our employee policies and procedures. No more paper!”

HRM professionals are also often charged with reporting HR’s return on investment (ROI) to the company through tracking HR metrics (statistics on how a company’s employees are performing) and demonstrating the value HR brings to the company. Compensation and benefits professionals might track how much employees are spending on health care costs and seek ways to reduce them. On the other hand, an employee relations professional might track statistics on how many minorities are employed in an organization for an affirmative action report. Measuring such activity is important for HRM professionals to show their commitment to an organization’s bottom line.

HR management professionals must continually be thinking about ways to better serve and save a company money at the same time.

Common Human Resource Management (HRM) Roles

Common HRM roles include:

- Compensation manager
- Senior recruiter
- Health and safety manager
- Employment lawyer
- Labor relations specialist
- Benefits specialist
- HR generalist

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HUMAN RESOURCE DEVELOPMENT

Human resource development (HRD) is the second part (albeit much smaller) of the HR world. If HRM professionals are keeping the wheels turning smoothly, HRD professionals are helping them turn faster and better. Human resource development refers to the activities in an organization that help develop and grow employees. Many organizations simply refer to HRD as training or learning and development but in reality, it's much more than that. HRD includes:

- Training and learning
- Organization development, which includes:
  - Succession planning (determining who is next in line for a CEO or other senior job)
  - Coaching (helping employees overcome on-the-job problems)
  - Performance management (those pesky performance reviews)

HRD is the area of HR that is growing most quickly as organizations recognize the need to go way beyond simply managing their workforce. While smaller organizations often have HR generalists assume the responsibility for training alongside other HR tasks, large companies, such as Medtronic, Bank of America and Texas Instruments, have entire functions devoted to subsets of HRD such as organization development.

"Organization development is a key part of human resources," says Phil Skeath, a performance improvement consultant at Bank of America. "We are business partners who support our line managers' needs, but we are also an integral part in driving the company's strategy."

HRD professionals may be responsible for a certain subset of the workforce (such as training the sales force), or may serve as internal consultants working on projects as they arise, such as helping to restructure a department or working on the succession plan for an entire division. Other HRD responsibilities include employee performance evaluations, training new employees and helping companies deal with change as the result of a new program, technology, merger or acquisition.

HRD careers are growing every year. Training and development is one area in which the Bureau of Labor Statistics (BLS) predicts growth in 2005 and beyond. This is due not only to how complex jobs are becoming, but also the aging of the workforce, and the many changes in technology requiring more and more training and development programs for workers. What does this mean for HR professionals? HRD might well be an increasingly popular career path.

Because HRD is not only growing, but is structured very differently from organization to organization, if you see HRD as a viable career path, it's important to research where it fits in specific companies. Organizations that only have a training and learning function may not see as much value in HRD as a company that has a specific organization development function.

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Investment Banking

What is investment banking? Is it investing? Is it banking? Really, it is neither. Investment banking, or i-banking, as it is often called, is the term used to describe the business of raising capital for companies and advising them on financing and merger alternatives. Capital essentially means money. Companies need cash in order to grow and expand their businesses; investment banks sell securities (debt and equity) to investors in order to raise this cash. These securities can come in the form of stocks, bonds or loans. Once issued, these securities trade in the global financial markets.

Generally, an investment bank comprises the following areas:

Corporate finance

The bread and butter of a traditional investment bank, corporate finance generally performs two different functions: (1) mergers and acquisitions advisory, and (2) underwriting. On the mergers and acquisitions (M&A) advising side of corporate finance, bankers assist in negotiating and structuring a merger between two companies. If, for example, a company wants to buy another firm, then an investment bank will help finalize the purchase price, structure the deal and generally ensure a smooth transaction. The underwriting function within corporate finance involves raising capital for a client. In the investment banking world, capital can be raised by selling either stocks or bonds to investors.

Sales

Sales is another core component of an investment bank. Salespeople take the form of: (1) the classic retail broker, (2) the institutional salesperson or (3) the private client service representative. Brokers develop relationships with individual investors and sell stocks and stock advice to the average Joe. Institutional salespeople develop business relationships with large institutional investors—those who manage large groups of assets, like pension funds or mutual funds. Private client service (PCS) representatives, often referred to as private wealth managers, lie somewhere between retail brokers and institutional salespeople, providing brokerage and money management services for extremely wealthy individuals. Salespeople make money through commissions on trades made through their firms.

Trading

Traders also provide a vital role for the investment bank. Traders facilitate the buying and selling of stock, bonds or other securities, either by carrying an inventory of securities for sale or by executing a given trade for a client. Traders deal with transactions, large and small, and provide liquidity (the ability to buy and sell securities) for the market—often called making a market. Traders make money by purchasing securities and selling them at a slightly higher price. This price differential is called the "bid-ask spread."

Research

Research analysts follow stocks and bonds and make recommendations on whether to buy, sell or hold those securities. Stock analysts (known as equity analysts) typically focus on one industry and will cover up to 20 companies' stocks at any given time. Some research analysts work on the fixed-income side and will cover a particular segment, such as high-yield bonds or U.S. Treasury bonds. Salespeople within the investment bank utilize research published by analysts to convince their clients to buy or sell securities through their firm. Corporate finance bankers rely on research analysts to be experts in the industry in which they are working. Reputable research analysts can generate substantial corporate finance business and substantial trading activity, and thus are an integral part of any investment bank.

Syndicate

The hub of the investment banking wheel, syndicate provides a vital link between salespeople and corporate finance. Syndicate exists to facilitate the placing of securities in a public offering, a knock-down-drag-out affair between and among buyers of offerings and the investment banks managing the process. In a corporate or municipal debt deal, syndicate also determines the allocation of bonds.

The state of the industry

To say the least, the landscape for investment banking job seekers has drastically changed. Some of the largest firms have gone bankrupt (Lehman Brothers), been acquired (Bear Stearns, Merrill Lynch), changed their status to holding company (Goldman Sachs, Morgan Stanley) or, at best, are seriously ailing (UBS, Credit Suisse, etc.). Unless you've been hiding out in a cave somewhere for the past two years, you know that the credit predicament that began in summer 2007 has turned into a full-blown financial crisis—and has affected investment banking perhaps more than any other sector. Investment banks have booked billions of dollars in losses, accepted billions more in government funding and shed thousands of employees, meaning jobs in the industry are harder to come by than in years past.

However, contrary to popular opinion, that doesn't mean investment banking positions aren't available; they are, but they just might not be in the most obvious of places. For example, although big hitters like Citi, Goldman and Morgan Stanley have cut numerous employees, smaller firms like Moelis & Company, Greenhill & Co. and Evercore Partners have been adding to their staffs (and those additions include recent graduates as well as experienced bankers let go by the big firms). So, though it's true that investment banking is a different animal than it was prior to 2008, it's still very much alive, if not yet quite well.

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CORPORATE FINANCE

Stuffy bankers?

The stereotype of the corporate finance department is stuffy, arrogant (white and male) MBAs who frequent golf courses and talk on cell-phones nonstop. While this is increasingly less true, corporate finance remains the most white-shoe department in the typical investment bank. The atmosphere in corporate finance is, unlike that in sales and trading, often quiet and reserved. Junior bankers sit separated by cubicles, quietly crunching numbers.

Depending on the firm, corporate finance can also be a tough place to work, with unforgiving bankers and expectations through the roof. Although decreasing, stories of analyst abuse run rampant and some bankers come down hard on new analysts simply to scare and intimidate them. The lifestyle for corporate finance professionals can be a killer. In fact, many corporate finance workers find that they literally dedicate their lives to the job. Social life suffers, free time disappears and stress multiplies. It is not uncommon to find analysts and associates wearing rumpled pants and wrinkled shirts, exhibiting the wear and tear of all-nighters. Fortunately, these long hours pay remarkable dividends in the form of six-figure salaries and huge year-end bonuses.

Personality-wise, bankers tend to be highly intelligent, motivated, and not lacking in confidence. Money is very much a driving motivation for bankers, and many anticipate working for just a few years to earn as much as possible, before finding less demanding work. Analysts and associates tend also to be ambitious, intelligent and pedigreed. If you happen to be going into an analyst or associate position, make sure to check your ego at the door but don't be afraid to ask penetrating questions about deals and what is required of you.

The deal team

Investment bankers generally work in deal teams which, depending on the size of a deal, vary somewhat in makeup. In the paragraphs below, we will provide an overview of the roles and lifestyles of the positions in corporate finance, from analyst to managing director. (Often, a person in corporate finance is generally called an I-banker.) Because the titles and roles really do not differ significantly between underwriting to M&A, we have included both in this explanation. In fact, at most smaller firms, underwriting and transaction advisory are not separated, and bankers typically pitch whatever business they can scout out within their industry sector.

THE PLAYERS

Analysts are the grunts of the corporate finance world. They often toil endlessly with little thanks, little pay (when figured on an hourly basis), and barely enough free time to sleep four hours a night. Typically hired directly out of top undergraduate universities, this crop of bright, highly motivated kids does the financial modeling and basic entry-level duties associated with any corporate finance deal.

Modeling every night until 2 a.m. and not having much of a social life proves to be unbearable for many an analyst. Furthermore, when not at the office, analysts can be found feverishly typing on their BlackBerries. Not surprisingly, after two years, many analysts leave the industry. Unfortunately, many bankers recognize the transient nature of analysts and work them hard to get the most out of them they can. The unfortunate analyst who screws up or talks back too much may never get quality work, spending his days bored until 11 p.m. waiting for work to come, stressing even more than the busy analyst. These are the analysts who do not get called to work on live transatctions and do menial work or just put together pitchbooks all of the time. The very best analysts often get identified early by top performing MDs and VPs, thus finding themselves staffed on many live transactions.

When it comes to analyst pay, much depends on whether the analyst is in New York or not. In NYC, salary often begins for first-year analysts at $55,000 to $70,000 per year, with an annual bonus of approximately $60,000 to $85,000. While this seems to be quite a lot for a 22-year-old with just an undergrad degree, it's not a great deal if you consider per-hour compensation. Bonuses at this level are also force-ranked, thus identifying and compensating top talent. At most firms, analysts also get dinner every night for free if they work late, and have little time to spend their income, often meaning fat checking and savings accounts and ample fodder to fund business school or law school down the road. At regional firms, pay typically is 20 percent less than that of their New York counterparts. Worth noting, though, is the fact that at regional firms (1) hours are often less, and (2) the cost of living is much lower. Be wary, however, of the small regional firm or branch office of a Wall Street firm that pays at the low end of the scale and still shackles analysts to their cubicles.

Regardless of location, while the salary generally does not improve much for second-year analysts, the bonus will dramatically increase for those second-years who demonstrate high performance. At this level, bonuses depend mostly on an analyst's contribution, attitude and work ethic, as opposed to the volume of business generated by the bankers with whom he or she works.

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Associates

Much like analysts, associates hit the grindstone hard. Working 80- to 100-hour weeks, usually fresh out of top-tier MBA programs, associates stress over pitchbooks and models all night, become experts with financial modeling on Excel, and sometimes shake their heads wondering what the point is. Unlike analysts, however, associates more quickly become involved with clients and, most importantly, are not at the bottom of the totem pole. Associates quickly learn to play quarterback and hand-off menial modeling work and research projects to analysts. However, treatment from vice presidents and managing directors doesn't necessarily improve for associates versus analysts, as bankers sometimes care more about the work getting done, and not about the guy or gal working away all night to complete it.

Usually hailing directly from top business schools (sometimes law schools or other grad schools), associates often possess only a summer's worth of experience in corporate finance, so they must start almost from the beginning. Associates who worked as analysts before grad school have a little more experience under their belts. The overall level of business awareness and knowledge a bright MBA has, however, makes a tremendous difference, and associates quickly earn the luxury of more complicated work, client contact and bigger bonuses.

Associates are at least much better paid than analysts. A $95,000 to $100,000 salary generally starts them off, and usually bonuses hit $35,000 to $55,000 or more in the first six months. (At most firms, associates start in August and get their first prorated bonus in January.) Newly minted MBAs cash in on signing bonuses and forgivable loans as well, especially on Wall Street. These can amount to another $35,000 to $55,000, depending on the firm, providing total first-year compensation over $200,000 for top firms. Associates beyond their first year begin to rake it in, earning $250,000 to $500,000 and up per year, depending on the firm's profitability and other factors.

Vice presidents

Upon attaining the position of vice president (at most firms, after four or five years as associates), those in corporate finance enter the realm of real bankers. The lifestyle becomes more manageable once the associate moves up to VP. On the plus side, weekends sometimes free up, all-nighters drop off, and the general level of responsibility increases—VPs are the ones telling associates and analysts to stay late on Friday nights. In the office, VPs manage the financial modeling/pitchbook production process in the Corporate Finance office. On the negative side, the wear and tear of traveling that accompanies VP-level banker responsibilities can be difficult. As a VP, one begins to handle client relationships, and thus spends much more time on the road than analysts or associates. As a VP, you can look forward to being on the road at least two to four days per week, usually visiting current and potential clients. Don't forget about closing dinners (to celebrate completed deals), industry conferences (to drum up potential business and build a solid network within their industry), and, of course, roadshows. VPs are perfect candidates to baby-sit company management on roadshows.

Directors/managing directors

Directors and managing directors (MDs) are the major players in corporate finance. Typically, MDs set their own hours, deal with clients at the highest level, and disappear whenever a drafting session takes place, leaving this grueling work to others. (We will examine these drafting sessions in depth later.) MDs mostly develop and cultivate relationships with various companies in order to generate corporate finance business for the firm. At this point in a banker's career, the job completes the transition from managing a process to managing a relationship. MDs typically focus on one industry, develop relationships among management teams of companies in the industry, and visit these companies pitching ideas on a regular basis. These visits are aptly called sales calls.

A DAY IN THE LIFE: ASSOCIATE, CORPORATE FINANCE

We've asked insiders at leading investment banks to offer us insight into a day in the life of their position. Here's a look at a day of an associate I-banker at Goldman Sachs.

8:15 a.m.: Arrive at 85 Broad Street. (Show Goldman ID card to get past the surly elevator guards.)

8:25 a.m.: Arrive on 17th Floor. Use "blue card" to get past floor lobby. ("Don't ever forget your blue card. Goldman has tight security and you won't be able to get around the building all day.")

8:45 a.m.: Pick up work from word processing department, review it, make changes.

9:00 a.m.: Check voicemail, return phone calls.

9:30 a.m.: Eat breakfast; read *The Wall Street Journal*. ("But don't let a supervisor see you with your paper sprawled across your desk.")

10:00 a.m.: Prepare pitchbooks, discuss analysis with members of deal team.

12:00 p.m.: Conference call with members of IPO team, including lawyers and client.

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1:00 p.m.: Eat lunch at desk. ("The Wall Street McDonald's delivers, but it's the most expensive McDonald's in New York City; Goldman's cafeteria is cheaper, but you have to endure the shop talk.")

2:00 p.m.: Work on restructuring case studies; make several document requests from Goldman library.

3:00 p.m.: Start to prepare analysis; order additional data from DRG (data resources group).

5:00 p.m.: Check in with vice presidents and heads of deal teams on status of work.

6:00 p.m.: Go to gym for an abbreviated workout.

6:45 p.m.: Dinner. ("Dinner is free in the IBD cafeteria, but avoid it. Wall Street has pretty limited food options, so for a quick meal it's the Indian place across the street that's open 24 hours.")

8:00 p.m.: Meet with VP again. ("You'll probably get more work thrown at you before he leaves.")

9:45 p.m.: Try to make FedEx cutoff. Drop off pitchbook to document processing department on the 20th Floor. ("You have to call ahead and warn them if you have a last-minute job or you're screwed.")

10:00 p.m.: Order in food again. ("It's unlikely that there will be any room left in your meal allowance—but we usually order in a group and add extra names to bypass the limit.")

11:00 p.m.: Leave for home. ("Call for a car service. Enjoy your nightly 'meal on wheels' on the way home.")

MERGERS & ACQUISITIONS

Mergers & Acquisitions (M&A) transactions can be roughly divided into either mergers or acquisitions. These terms are often used interchangeably in the press, and the actual legal difference between the two involves arcana of accounting procedures, but we can still draw a rough difference between the two.

Acquisition: When a larger company takes over another (smaller firm) and clearly becomes the new owner, the purchase is typically called an acquisition on Wall Street. Typically, the target company ceases to exist post-transaction (from a legal corporation point of view) and the acquiring corporation swallows the business. The stock of the acquiring company continues to be traded.

Merger: A merger occurs when two companies, often roughly of the same size, combine to create a new company. Such a situation is often called a "merger of equals." Both companies' stocks are tendered (or given up), and new company stock is issued in its place. For example, both Chrysler and Daimler-Benz ceased to exist when their firms merged, and a new combined company, DaimlerChrysler was created.

M&A advisory services

For an I-bank, M&A advising is highly profitable, and there are many possibilities for types of transactions. Perhaps a small private company's owner/manager wishes to sell out for cash and retire. Or perhaps a big public firm aims to buy a competitor through a stock swap. Whatever the case, M&A advisors come directly from the corporate finance departments of investment banks. Unlike public offerings, merger transactions do not directly involve salespeople, traders or research analysts, although research analysts in particular can play an important role in "blessing" the merger. In particular, M&A advisory falls onto the laps of M&A specialists and fits into one of either two buckets: seller representation or buyer representation (also called target representation and acquirer representation).

Representing the target

An I-bank that represents a potential seller has a much greater likelihood of completing a transaction (and therefore being paid) than an I-bank that represents a potential acquirer. Also known as sell-side work, this type of advisory assignment is generated by a company that approaches an investment bank (also an investment bank may also make the initial approach and "pitch" the idea of the company being sold or merged) and asks the bank to find a buyer of either the entire company or a division. Often, sell-side representation comes when a company asks an investment bank to help it sell a division, plant or subsidiary operation.

Generally speaking, the work involved in finding a buyer includes writing a Selling Memorandum and then contacting potential strategic or financial buyers of the client. If the client hopes to sell a semiconductor plant, for instance, the I-bankers will contact firms in that industry, as well as buyout firms that focus on purchasing technology or high-tech manufacturing operations. In the case of many LBO transactions, a sell-side firm might even hold an "auction" in which it will accept bids for the company, in order to get the seller the best price possible for its property.

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Representing the acquirer

In advising sellers, the I-bank's work is complete once another party purchases the business up for sale, i.e., once another party buys your client's company or division or assets. Buy-side work is an entirely different animal. The advisory work itself is straightforward: the investment bank contacts the firm their client wishes to purchase, attempts to structure a palatable offer for all parties, and makes the deal a reality. (Again, the initial contact may be from the acquiring company. Or the investment bank may "pitch" the idea of an acquisition of Company X to the acquiring company.) However, most of these proposals do not work out; few firms or owners are readily willing to sell their business. And because the I-banks primarily collect fees based on completed transactions, their work often goes unpaid. However, this doesn't stop investment banks from dreaming up new proposals.

Consequently, when advising clients looking to buy a business, an I-bank's work often drags on for months. Often a firm will pay a nonrefundable retainer fee to hire a bank and say, "Find us a target company to buy." These acquisition searches can last for months and produce nothing except associate and analyst fatigue as they repeatedly build merger models and pull all-nighters. Deals that do get done, though, are a boon for the I-bank representing the buyer because of their enormous profitability. Typical fees depend on the size of the deal, but generally fall in the one-two percent range. For a $100 million deal, an investment bank takes home $1 to $2 million. Not bad for a few months' work.

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Investment Management

Do you enjoy following the financial markets—whether it be reading *The Wall Street Journal*, watching CNBC, or checking stock prices on the Internet? Do you consider yourself to be creative and analytical, opinionated and objective? If that is the case, you may find a career in investment management an appealing option.

Imagine an industry that rewards individuals for working independently, thinking on their feet and taking calculated risks. Additionally, how many industries can you think of that broadly impact households all over the world? Very few. That is one of the many exciting aspects of the asset management industry—with household increasing and the demise of Social Security as a tool for long-term savings, more people than ever before are planning for their future financial needs. As a result, the industry is growing and more visible than ever.

Investment Management vs. Asset Management

A quick note about the terms **investment management** and **asset management**: these terms are often used interchangeably. They refer to the same practice—the professional management of assets through investment. Investment management is used a bit more often when referring to the activity or career (i.e., "I'm an investment manager" or "That firm is gaining a lot of business in investment management"), whereas "asset management" is used more with reference to the industry itself (i.e., "The asset management industry").

More stability

Because of the stability of cash flows generated by the industry, investment management provides a relatively stable career when compared to some other financial services positions (most notably, investment banking). Investment management firms are generally paid a set fee as a percentage of assets under management. (The fee structure varies, and sometimes is both an asset-based fee plus a performance fee, especially for institutional investors.) Still, even when investment management fees involve a performance incentive, the business is much less cyclical than cousins like investment banking. Banking fees depend on transactions. When banking activities, such as IPOs and M&A transactions, dry up, so do fees for investment banks, which translates into layoffs of bankers. This occurred in 2000-2001, with the tech bubble burst, and most recently in late 2007 and 2008, with the subprime mortgage debacle. In contrast, assets are quite simply always being invested.

HISTORY

To better understand why asset management has become such a critical component of the broader financial services industry, we must first become acquainted with its formation and history.

The beginnings of a separate industry

While the informal process of managing money has been around since the beginning of the 20th century, the industry did not begin to mature until the early 1970s. Prior to that time, investment management was completely relationship-based. Assignments to manage assets grew out of relationships that banks and insurance companies already had with institutions—primarily companies or municipal organizations with employee pension funds—that had funds to invest. (A pension fund is set up as an employee benefit. Employers commit to a certain level of payment to retired employees each year and must manage their funds to meet these obligations. Organizations with large pools of assets to invest are called institutional investors.)

These asset managers were chosen in an unstructured way—assignments grew organically out of pre-existing relationships, rather than through a formal request for proposal and bidding process. The actual practice of investment management was also unstructured. At the time, asset managers might simply pick 50 stocks they thought were good investments—there was not nearly as much analysis on managing risk or organizing a fund around a specific category or style. (Examples of different investment categories include small cap stocks and large cap stocks.) Finally, the assets that were managed at the time were primarily pension funds. Mutual funds had yet to become broadly popular.

ERISA, 401(k) plans and specialist firms

The two catalysts for change in the industry were: (1) the broad realization that demographic trends would cause the U.S. government's retirement system (Social Security) to be under-funded, which made individuals more concerned with their retirement savings; and (2) the creation of ERISA (the Employment Retirement Income Security Act) in 1974, which gave employees incentives to save for retirement privately through 401(k) plans. (401(k) plans allow employees to save pre-tax earnings for their retirement.) These elements prompted an increased focus on long-term savings by individual investors and the formation of what can be described as a private pension fund market.

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These fundamental changes created the opportunity for professional groups of money mangers to form “specialist” firms to manage individual and institutional assets. Throughout the 1970s and early 1980s, these small firms specialized in one or two investment styles (for example, core equities or fixed income investing).

During this period, the investment industry became fragmented and competitive. This competition added extra dimensions to the asset management industry. Investment skills, of course, remained critical. However, relationship building and the professional presentation of money management teams also began to become significant.

The rise of the mutual fund

In the early to mid 1980s, driven by the ERISA laws, the mutual fund came into vogue. While mutual funds had been around for decades, they were only generally used by almost exclusively financially sophisticated investors who paid a lot of attention to their investments. However, investor sophistication increased with the advent of modern portfolio theory (the set of tools developed to quantitatively analyze the management of a portfolio. Asset management firms began heavily marketing mutual funds as a safe and smart investment tool, pitching to individual investors the virtues of diversification and other benefits of investing in mutual funds. With more and more employers shifting retirement savings responsibilities from pension funds to the employees themselves, the 401(k) market grew rapidly. Consequently, consumer demand for new mutual fund products exploded (mutual funds are the preferred choice in most 401(k) portfolios). Many specialists responded by expanding their product offerings and focusing more on the marketing of their new services and capabilities.

Modern Portfolio Theory

Modern Portfolio Theory (MPT) was born in 1952 when University of Chicago economics student Harry Markowitz published his doctoral thesis, “Portfolio Selection,” in the *Journal of Finance*. Markowitz, who won the Nobel Prize in economics in 1990 for his research and its far-reaching effects, provided the framework for what is now known as MPT. The theory quantifies the benefits of diversification, looking at how investors create portfolios in order to optimize market risk against expected returns. Markowitz, assuming all investors are risk averse, proposed that investors, when choosing a security to add to their portfolio, should not base their decision on the amount of risk that an individual security has, but rather on how that security contributes to the overall risk of the portfolio. To do this, Markowitz considered how securities move in relation to one another under similar circumstances. This is called “correlation,” which measures how much two securities fluctuate in price relative to each other. Taking all this into account, investors can create “efficient portfolios,” ones with the highest expected returns for a given level of risk.

Consolidation and globalization

The dominant themes of the industry in the 1990s were consolidation and globalization. As many former “specialists” rapidly expanded, brand recognition and advanced distribution channels (through brokers or other sales vehicles) became key success factors for asset management companies. Massive global commercial and investment banks entered the industry, taking business away from many specialist firms. Also, mutual fund rating agencies such as Lipper (founded in 1973, now a part of Reuters) and Morningstar (founded in Chicago in 1984) increased investor awareness of portfolio performance. These rating agencies publish reports on fund performance and rate funds on scales such as Morningstar’s five-star rating system.

These factors led to a shakeout period of consolidation. Over the last 20 years, there have been well over 150 mergers in the industry, creating well-established and formidable players such as BlackRock and J.P. Morgan Asset Management. The top-10 mutual fund firms now control roughly 50 percent of total assets, while the top-20 mutual funds control roughly 65 percent of total assets.

Traditional vs. alternative asset managers

The dominant theme over the past five to 10 years has been the proliferation of alternative asset managers. It is necessary to make the distinction between traditional asset managers and alternative asset managers. Traditional asset managers (such as mutual funds) are highly regulated entities that are governed by strict laws and regulations. The Securities and Exchange Commission (SEC) is the principal governing body and regulates these funds under the Investment Company Act of 1940. The rules governing traditional asset managers are primarily instilled to protect the investors and limit the amount of unnecessary risk-taking. Traditional asset managers have defined investment mandates, which determine what types of securities and strategies they can pursue in a given portfolio.

Alternative asset managers include assets classes such as hedge funds, private equity and venture capital. Their investment strategies and regulation differ from traditional asset managers as they are lightly regulated investment vehicles that do not always have defined investment strategies or risk tolerances. These asset classes are often designed to be uncorrelated with the broad stock and bond markets and seek to provide positive returns in a variety of economic situations. Since alternative investments are very risky, investors need to be deemed “accredited” (which is determined by net worth) in order to invest in these products.

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THE INDUSTRY TODAY

Due to the recession that hit the United States, the investment management sector saw a number of layoffs in 2008 and into 2009. Morgan Stanley, Barclays and Bank of America—just to name just a few—all made substantial job cuts within their asset management teams. And BlackRock, perhaps the biggest pure investment management firm, had a rough time of it lately as well. The firm's 2008 fourth quarter was a gloomy one, as earnings fell 84 percent and it consequently had to cut 500 jobs—the first round of layoffs BlackRock has ever had to make. Still, the firm managed to score a contract supervising assets for the U.S. government. Such a contract has become a highly sought-after one within the industry. Pacific Investment Management Co. (PIMCO) attained a similar contract in 2009, receiving an appointment by the government to advise on the value of $118 billion in Bank of America holdings.

But, overall, it's gotten bad enough for the sector that even a few big names within the industry are trying to distance themselves from their asset management divisions. In March 2009, General Motors decided to take its name off of its asset management unit, changing it from General Motors Asset Management to Promark Global Advisors, a move designed to woo additional outside clients. And other general monetary shifts have indicated possible problems on the horizon for the industry as well—overall assets of U.S. mutual funds came in at $9.4 trillion for January 2009, down from $11.73 trillion in January 2008.

A robust economy has led to ever-increasing wealth creation, which in turn led to even greater demand for money management services today. Some analysts estimate the total global investable asset universe to be worth around $60 trillion, having grown by roughly 10 percent annually over the past decade. According to Merrill Lynch, there are 9.5 million people across the world with greater than $1 million in financial assets, up from 8.2 million in 2004. Mutual fund demand has continued to increase; as of 2006, there were 9,000 different funds in the market (up from just 3,000 in 1990). In fact, nearly 50 million households invest in mutual funds, with a total worth of $24 trillion as of June 2007 ($1 trillion as recently as 1990).

As the industry has matured, total assets under management (AUM) in the United States have grown to $60 trillion. Consolidation and globalization have created a diverse list of leading industry players that range from well-capitalized divisions of investment banks, global insurance companies and multinational commercial banks to independent behemoths, such as Fidelity and Capital Group.

Working in the industry, unlike other areas of financial services like investment banking, does not require that you live in a particular region of the country.

THE THREE SEGMENTS

As you know, the investment management is usually considered the "buy-side" of the finance industry. (The buy-side refers to the asset managers who represent individual and institutional investors. The sell-side refers to the functions of an investment bank. Specifically, this includes investment bankers, traders and research analysts.) In general, investment management companies are less structured than most other types of finance firms, especially those on the sell-side. As a result, investment management positions have less defined job descriptions than positions at other types of finance firms.

For example, investment banking typically has a three-year analyst program for college grads, a three-year associate program for MBA grads (or directly promoted analysts), and then promotions to vice president and managing director. Investment management careers have a much less rigid hierarchy and there is usually no formal training program. Job descriptions for similar job titles in the investment management industry differ from firm to firm (for example, a new undergrad hire is considered an associate, not an analyst).

This presents the opportunity for very intelligent and successful individuals to be promoted at a very young age. In general, buy-side firms have a three-segment professional staff consisting of:

- Portfolio managers who invest money on behalf of clients
- Research analysts who provide portfolio managers with potential investment recommendations and in some cases invest money in their respective sectors
- Account and product managers who manage client relationships and distribute the investment products to individual and institutional investors

Asset management firms are organized into three segments: portfolio management, investment research and account/product management (marketing/sales). On the following page, you will find a diagram explaining this structure.

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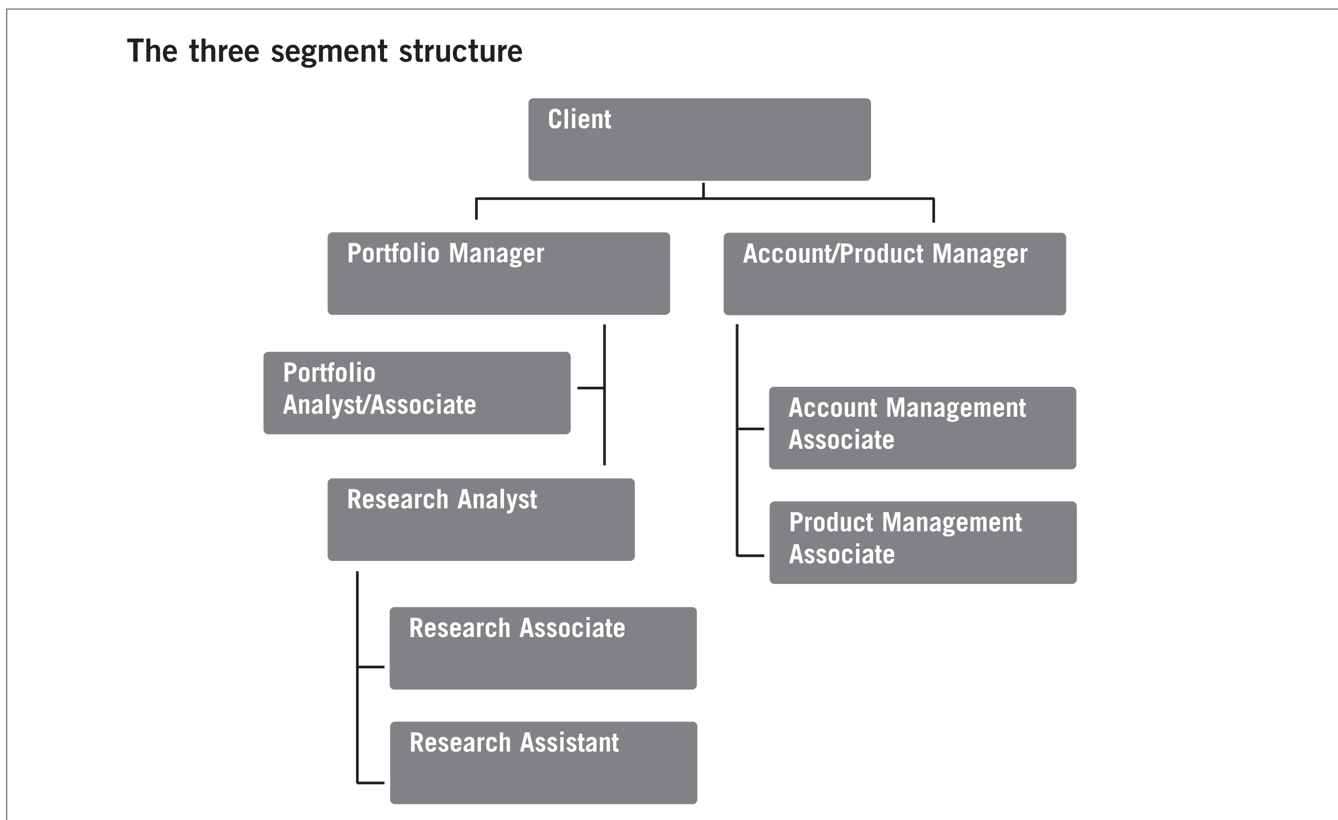

As you can see from the diagram, both portfolio management and account/product management serve the client (whether they be individuals, institutions or high-net-worth investors). Alternatively, investment research falls under portfolio management, indicating its support of the investment process. While this represents a traditional hierarchy, asset managers can have varying structures. In many cases, the research analyst can also report directly to the client if he/she has money management responsibilities. An example of this would be Fidelity's "Select" funds in which the industry analysts manage money directly in their industries of expertise.

PORTFOLIO MANAGEMENT

The portfolio management segment of the firm makes the ultimate investment decision; it's the department that "pulls the trigger." There are three jobs that typically fall under this component of the firm: portfolio managers, portfolio analysts (or associate portfolio managers) and portfolio manager assistants. Recent college graduates often fill portfolio assistant positions, while individuals with many years of investment experience hold associate and senior portfolio manager assignments. MBAs are not hired as portfolio managers right out of business school, unless they have a ton of experience. Typically, MBAs who wish to pursue a career in portfolio management join investment management firms in their investment research divisions. After several years in research, MBAs will then have a choice: either stay in research or leverage their research experience to move into an associate portfolio manager position or broaden their experience by covering additional sectors.

Senior portfolio manager

Portfolio managers are responsible for establishing an investment strategy, selecting appropriate investments and allocating each investment properly. All day long, portfolio managers are presented with investment ideas from internal buy-side analysts and sell-side analysts from investment banks. It is their job to sift through the relevant information and use their judgment to buy and sell securities. Throughout each day, they read reports, talk to company managers, and monitor industry and economic trends looking for the right company and time to invest the portfolio's capital.

The selection of investments must adhere to the style of the portfolio. For instance, a large-capitalization growth manager might be screening for only companies that have a market-capitalization in excess of $10 billion and earnings growth characteristics that exceed its industry average. Therefore, the portfolio manager would not even consider a $500 million utility stock, with a 6 percent dividend yield.

Once investment opportunities are recognized, portfolio managers must decide what percentage of their portfolio to allocate to the respective security. This decision is based on the mandate of the portfolio—active or passive—and the risk expectation of the overall portfolio. For example, riskier

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portfolios invest in a small number of securities and take large “bets.” The popular Janus Twenty fund invests in only 20 liquid large-capitalization companies. These are often referred to as “concentrated” funds. Alternatively, diversified portfolios may invest in over 100 securities to spread the risk of any one holding.

Portfolio managers also spend time meeting with their clients to review investment strategy and performance results. While account and product management professionals lead this process, portfolio managers are often an integral part of client discussions. In the mutual fund world, portfolio managers do not spend time talking to individual customers, but they are often called on to present at sales conferences and at product road shows. However, institutional and high-net-worth portfolio managers have fewer clients, and they only meet with them one to two times a year.

Portfolio managers are the most seasoned investment professionals in the firm. Typically, people with at least seven to 10 years of investment experience occupy these positions, and most have either an MBA and/or a CFA designation.

Associate portfolio manager

The associate portfolio manager position requires an MBA, CFA or considerable investment experience. Typically, the job is filled by successful research analysts who have at least three to five years of post-MBA experience. Larger firms may also recruit MBAs to fit this role straight out of business school. The job itself is very similar to that of the senior portfolio manager with one main exception: associates interact less with clients than senior managers do. Associate portfolio managers usually are assigned smaller, less sophisticated portfolios to manage or serve as lieutenants on large, complicated portfolios.

The role of the associate portfolio manager differs depending on which segment of the market is being served—mutual fund, institutional or high-net-worth. For instance, associate portfolio managers at many mutual fund firms will either act as the lead investor on a sector fund or as second-in-command on a large diversified fund. Depending on the firm, an associate could also act as a lead on a sector fund and a second-in-command on a diversified fund at the same time. Alternatively, on the institutional side, associate portfolio managers typically apprentice with seasoned portfolio managers on the largest and most complicated portfolios. After they have succeeded in that role, the firm will assign them smaller institutional accounts to manage on their own.

While there is no defined career track, successful associate portfolio managers could be promoted to senior portfolio managers within three to five years depending on the associate’s track record.

A DAY IN THE LIFE: PORTFOLIO MANAGER, MAJOR MUTUAL FUND FIRM

6:30 a.m.: Take train into office. Read *The Wall Street Journal* and several trade magazines. An article in an aviation magazine mentions a small aerospace firm that designs generic aftermarket parts. It sounds like an interesting company. I send the portfolio analyst a quick email to gather additional information.

7:00 a.m.: Arrive at work. I have 100 emails sitting in my inbox. I quickly sift through the emails, paying particular attention to companies that have released quarterly earnings. Three companies whose stocks I own in the portfolio have reported earnings.

7:30 a.m.: The portfolio analyst comes into my office with preliminary research on the aerospace company. He has printed out several sell-side reports and a financial model. He tells me the company is growing the top line at 20 percent and generating positive free cash flow. I ask him if it will generate increasing returns on invested capital, which he tells me he expects it to. The company seems very interesting and meets our portfolio’s initial screening process, so I ask the portfolio analyst to continue researching and build out a detailed financial model.

8:00 a.m.: Review my calendar with my analyst. She notifies me that CEOs from four companies will be visiting the offices today. I ask to be signed up for two of the meetings.

8:30 a.m.: Attend the morning investment meeting. A new senior analyst covering pharmaceuticals has joined the firm and is initiating coverage on the industry. He puts hold ratings on two stocks in my portfolio. I ask several questions during his presentation. He agrees to follow up with me later in the day.

9:00 a.m.: Dial-in to earnings conference call. I’ll try to listen to as much of it as possible but realize I will probably be interrupted.

9:30 a.m.: My co-portfolio manager walks into my office. While we each manage 50 percent of the portfolio independently, we constantly inform each other of our ideas and trades. We discuss the week’s upcoming economic releases and how our portfolio is structured to react to certain data points.

10:30 a.m.: I attend a meeting with a CEO on his company’s road show. A “road show” occurs when a company files an initial public offering (IPO) and seeks to sell the equity to institutional investors. While I find the company and presentation to be interesting, I am going to pass on investing in the IPO.

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11:30 a.m.: Return to my office. I have five new voicemails and 20 new emails. One message is from the product manager of the fund I manage. He is getting several inquiries from account managers over the quarterly performance of my portfolio. We set up a time to meet later in the day.

12:00 p.m.: Eat lunch while attending an industry update. The technology analyst is providing an annual update and outlook to our firm's portfolio managers. Our firm provides lunch while the analyst formally presents his research and projections.

1:00 p.m.: Monitor portfolio. Check to see if any stocks have particularly large gains or losses. There are currently no abnormal returns.

1:30 p.m.: Attend another meeting with the CEO of a restaurant company. CEOs and CFOs often go on the road several times a year to meet with institutional investors. I have owned this particular stock at several points throughout the last five years and know the CEO quite well. The meeting is quite casual and we discuss the outlook for his business amidst a potential pending recession.

2:30 p.m.: Contact trader. Make several trades in order to meet new fund flows.

3:00 p.m.: Meet with the pharmaceuticals industry analyst to gain further understanding behind his investment theses on the two stocks I hold in my portfolio.

4:00 p.m.: Meet with the product manager for my fund. While our performance has been decent in the last quarter, it fared much better than some of its closest competitors. The product manager wants a detailed understanding of the "moving parts." He conveys this information to several account managers whose clients have large positions in the fund.

5:00 p.m.: Touch base with the portfolio analyst and see if he has gotten any further work done on the aerospace company from this morning. He has set up a conference call with a sell-side analyst the next day to discuss the company.

5:30 p.m.: Leave for home.

INVESTMENT RESEARCH

The investment research segment is responsible for generating recommendations to portfolio managers on companies and industries that they follow. Similar to the portfolio management segment, there are several positions in the research hierarchy: senior research analyst, research associate-analyst (or junior analyst), and research associate.

On the sell-side, senior analysts typically have three to five years of post-MBA research experience or six to 10 years of post-college experience (if an MBA was not pursued). On the buy-side, new MBA graduates typically occupy the senior analyst position. The research associate-analyst is typically a sell-side position for recent MBA graduates. These positions are usually occupied for several years or until the candidate is deemed capable of covering his own sector. Both buy-side and sell-side firms employ recent college graduates as research associates. It is typically a two- or three-year program that can lead to a more senior position or result in the associate returning to business school.

Senior research analyst

Senior research analysts are investment experts in their given industry focus. An equity analyst covers stocks; a fixed income analyst covers bonds.

Their role is to predict the investment potential of the companies in their sector. For instance, take an equity analyst covering computer hardware companies, including Apple Computer. The analyst would be responsible for predicting Apple's future earnings and cash flow, and comparing the fair value of Apple to the expectations of the stock market. To do this, the analyst would build a financial model that included all of the potential variables to derive Apple's earnings and appropriate value (e.g., sales growth, business costs, as well as research and development).

A fixed income analyst focusing on Telecom, for example, might be looking at a new high-yield corporate bond issued by Qwest. The main thing the analyst will be looking for is Qwest's ability to pay off that loan—the amount of the bond. The analyst will look at historical cash flows, project future cash flows and look at other debt obligations that might be more senior to the new bond. This will tell the analyst the likelihood that Qwest will be able to pay off the bond.

Analysts spend a considerable amount of time attending industry conferences, meeting with company management and analyzing industry supply and demand trends to derive business forecasts. Sell-side analysts follow around 15 to 25 companies and must be an expert on each while buy-side analysts typically follow even more companies.

An important part of a senior research analyst's job is to convey their recommendations to the portfolio management teams. Therefore, senior analysts spend considerable time presenting to portfolio managers and issuing investment reports. Because of this, senior research analysts must be articulate and persuasive in their convictions in order to earn respect within the firm.

Senior research analysts typically have served as investment research associates for three to five years, post MBA or CFA, before assuming their position. If successful in their role, many senior analysts move into portfolio management roles later in their careers.

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Investment research associate-analyst

This is the role for most MBAs or those with equivalent experience. It is typically a sell-side position but some larger buy-side firms employ the position as well. Essentially, associate-analysts have the same responsibilities as senior research analysts with one exception: associate-analysts are given smaller industries to follow. Typically for the buy-side, the industry assigned to an associate-analyst is a component of a broader sector that is already being analyzed by a senior analyst. For instance, an associate-analyst might be assigned HMOs and work closely with the senior analyst in charge of insurance companies. As stated above, the more likely scenario is for the MBA to enter the buy-side as the senior analyst. On the sell-side, the associate-analyst will typically work under the senior analyst for several years before branching off on his own to cover a sub-sector.

The associate-analyst creates investment recommendations in the same manner as a senior analyst. In general, they spend several weeks familiarizing themselves with their industry by reading industry papers, journals and textbooks, and attending industry conferences. A large percentage of a research analyst's time is spent monitoring industry and company trends to predict financial results for the company. Therefore, associate-analysts are constantly speaking with management, customers and suppliers to gauge the current status of the company they are analyzing. Armed with financial models and fundamental company analysis, they develop investment recommendations that they distribute to the senior analyst or firm's portfolio managers (on the buy-side).

One of the greatest challenges for a new associate-analyst is the steepness of the learning curve. Senior analysts and portfolio managers do not have the patience or the luxury to allow an analyst to be uninformed or consistently incorrect. New associate-analysts work extremely hard building trust with their superiors.

Obviously, financial acumen and quantitative skills are a must for an associate-analyst, but communication skills are also critical. Associate-analysts need to be able to clearly and persuasively communicate their investment recommendations. They must also be able to respond to detailed inquiries from portfolio managers that challenge their ideas—which requires a strong tact and a great deal of patience. Furthermore, associate-analysts need to be energetic, diligent and intellectually curious.

A DAY IN THE LIFE: SENIOR ANALYST, HEDGE FUND

5:45 a.m.: Wake up and check BlackBerry for any news.

6:00 a.m.: Check foreign markets on CNBC from home before I leave for work. (Foreign stock markets and the futures market are a good proxy of how the U.S. markets will open.)

6:30 a.m.: Arrive at work. Monitor foreign positions and comb through email, checking for any upgrades or downgrades from sell-side analysts.

7:00 a.m.: Attend morning meeting with the other five members of our portfolio team. We discuss two positions. Company XYZ has doubled in three months and now represents a significant concentration of the portfolio. We decide to trim our position. The other stock has underperformed significantly. Our investment thesis remains intact and we decide to schedule a call with Company XYZ's CFO for later in the day.

8:00 a.m.: Receive phone call from a sell-side analyst that downgraded a stock I have a large position in. He explains his reasoning for the downgrade. I expect the stock to drop significantly and may use the opportunity to purchase more stock.

8:30 a.m.: Read the sell-side analyst's downgrade report. Revisit my financial model and assumptions. I disagree with certain key conclusions and check the pre-market trading activity. It appears the stock is down 12 percent.

9:00 a.m.: Notify the portfolio manager that I want to purchase more of the stock. He approves the decision.

9:30 a.m.: The market opens and the stock is down 15 percent. I contact our trader and let him know I want to purchase an additional 100,000 shares.

9:35 a.m.: The trader calls me and confirms he was able to find 100,000 shares and made the purchase.

9:45 a.m.: Meet with a colleague on the options desk for coffee. As an analyst covering three industries, I brief him on my industry outlooks. He is trying to devise an options strategy to capitalize on the volatility of one of my industries. I assist by notifying him of upcoming catalysts that will increase volatility in the industry.

11:00 a.m.: Meet with the portfolio manager to further discuss Company XYZ and why the stock is underperforming. He asks extremely detailed questions on the company's inventory levels. I answer most of the questions but need to get back to him on others.

11:30 a.m.: Call up several distributors of the company to discuss inventory levels. Determine that inventory remains at all-time low levels. Write the portfolio manager a quick email.

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1:00 p.m.: Eat lunch with a sales representative from J.P. Morgan. The purpose of the lunch is to introduce me to a new sell-side analyst the firm has hired and to hear his investment ideas.

2:00 p.m.: Prepare for the conference call with Company XYZ's CFO. Write down five topics I plan on discussing with him.

2:30 p.m.: Conference call with CFO of company XYZ.

3:30 p.m.: Discuss the call with the portfolio manager. We agree to hold onto the position.

4:00 p.m.: Go through email and return phone calls.

6:00 p.m.: Prepare for earnings releases of three companies for the next day.

7:00 p.m.: Go home.

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Leveraged Finance

WHAT IS LEVERAGED FINANCE?

The financial markets can be divided into two major sections: debt and equity. Under this overarching organization structure, think of leveraged finance as the intersection of investment banking, commercial banking, hedge funds, private equity, and sales and trading on the debt side of the financial markets.

Generally speaking, leveraged finance is a platform in all major investment and commercial banks. It is a function that taps into two major financial markets (the high-yield bond market and the leveraged loan market), is accessed by nearly all private equity shops and hedge funds on a regular basis, and has been one of the booming profit centers of Wall Street for the past two decades. For analysts and associates, it has become a prime training ground for the most elite private equity shops and hedge funds. Subsequently, for careers on Wall Street, leveraged finance is one of the most sought-after fields.

Why leveraged finance?

Along with its role as a potential springboard to careers in private equity and hedge funds, leveraged finance is also unique from a career perspective because it provides a vantage point into most of the other areas of investment banking, as well as sales and trading. For analysts and associates, working in leveraged finance allows one to see what else is out there career-wise in the financial markets, without ever having to leave the field.

Another advantage of working in leveraged finance is that in general, it is an area of investment banking that is focused on closing transactions. In a corporate finance role within a coverage team in an investment bank (a team that covers a specific industry and pitches deals to companies in that industry), one analyst might close one or two deals a year in an investment bank. By contrast, in leveraged finance, it's feasible to close five to 10 transactions a year. Leveraged finance affords analysts and associates a continually busy pace and good deal and client exposure along the way.

Major deals

One of the great advantages to working in leveraged finance is that you will typically work on notable transactions. As an analyst or associate in a major leveraged finance firm, you may even see at least one of your deals make the cover of *The Wall Street Journal*. Notable brands like RJR Nabisco, Burger King, United Airlines, Domino's Pizza and Sony MGM have all accessed the leveraged finance markets. From multibillion-dollar leveraged buyouts to major corporate restructurings, there are plenty of headline transactions across the field.

The industry today

The leveraged finance sector didn't escape the ruthless U.S. recession. In fact, the sector did everything but get a free pass when it came to surviving these tough times. In 2008, Citigroup, Deutsche Bank and J.P. Morgan all made deep cuts within their leveraged finance business (the latter two companies cut 40 percent each of their leveraged finance staff). And even simple contact with the sector seems to spell bad news for firms lately. For example, UBS, which lost $6.85 billion in the fourth quarter of 2008, partially blamed its exposure to leveraged finance as the cause of its deep hit.

While the sector's immediate future remains indeterminate, it seems like a safe bet to say that 2009 probably isn't going to be leveraged finance's year.

LEVERAGED FINANCE VS. CORPORATE FINANCE/INVESTMENT BANKING

Are the leveraged finance and investment banking the same animal? Sort of. As leveraged finance was originally a commercial banking function, most of the premier leveraged finance shops can be found within the investment banks of the largest finance institutions, such as JPMorgan Chase, Bank of America and Citigroup. Because of the sheer amount of leveraged finance deal volume at these institutions, there will typically be entire floors and groups dedicated to "originating deals" (proposing deals to existing or new clients), following the capital markets, trading in and out of loan/bond positions, selling these products to investors, and monitoring the firm's exposure to loans and bonds of issuers. Naturally, at pure investment banks such as Goldman Sachs that do not originate as many of these types of debt transactions, there will typically be smaller groups dedicated to following the markets, in more of a debt capital markets generalist role. However, in both types of institutions, the leveraged finance platform is typically part of a debt capital markets group—it just depends on the volume of deals to determine how specific and/or large the groups will be.

A common misperception is that traditional investment banking only involves providing solutions and advice to companies (such as mergers and acquisitions advice). In this regard, leveraged finance is different from investment banking, since a leveraged finance bank is not only offering advice for a financial problem, but also a product as a solution. However, most people these days broaden their definition of investment banking to include both offering advice to companies, as well as executing a financial transaction, such as an initial public offering (IPO). In this sense, leveraged finance is identical—just as an investment bank covers a company in an industry coverage group and works with its equity capital markets team to structure an IPO, so does it provide the same service for leveraged finance transactions. In the case of a leveraged finance transaction, the investment bank also covers the company and works with people from its debt capital markets team to structure a syndicated loan and/or high-yield bond.

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Unlike investment banking, however, there exist a number of other financial institutions, such as General Electric or CIT Group, that arrange these similar financing packages for companies, but do so without a coverage group or an industry platform (which an investment bank would have). These financial institutions still have relationships with companies, but they don't typically provide M&A or IPO advice like an investment bank. The loan market is a private market, and as such is not limited in terms of what type of firm can provide lending solutions. If you're a treasurer of a multibillion dollar company and you need a large loan for an acquisition, you'll go to the firm with the best interest rate, regardless of whether it's an investment bank or not. In this regard, leveraged finance is more similar to commercial lending (e.g., lending to a company so that they can buy copiers, printers, etc.) than it is similar to investment banking.

Different experiences: working in the coverage group of an investment bank vs. leveraged finance

Working in a coverage group or M&A at an investment bank differs greatly from working in a debt capital markets (DCM) or equity capital markets (ECM). There is more execution of deals in a DCM or ECM role. Whereas someone in this role may not be as familiar with every facet of an industry like their counterpart in a coverage group, they will generally have more breadth of financial market knowledge.

This breadth vs. depth trade-off is directly related to the amount of transaction experience offered in leveraged finance. For example, the day-to-day grind might be a little more hectic in a leveraged finance role, as a deal team could potentially be closing two multibillion-dollar transactions on the same day—something that would be quite unlikely in a coverage role. However, this transaction-oriented environment involves substantially less idea generation and pitching of ideas to clients than one would find in an investment banking industry coverage group. That is not to say that someone in leveraged finance will not do any pitching—quite the contrary. While the industry coverage group might come up with and pitch the idea of a syndicated loan or high-yield bond to finance an M&A deal, they will surely bring along the appropriate people from the leveraged finance platform to comment on the markets, comparable transactions and provide other relevant advice.

If you are beginning your career in finance, it is important to think about your long-term career goals when considering a role in investment banking coverage versus leveraged finance. If your goal is to work in a specific industry—let's say running a health care company—you would probably be better served in a health care coverage group at an investment bank. However, if you are interested in working at a hedge fund or private equity shop, working in leveraged finance will give you the opportunity to interact with many of these firms, as you close numerous deals of theirs. Furthermore, you will be trained in certain debt metrics (what's typically called "credit" training), which are useful in understanding the industry and are not typically emphasized in the coverage side of the bank. This is not to say that moving from a coverage group to a private equity shop or hedge fund can't happen—it certainly does, and even the top-tier PE shops and hedge funds seek people with very specific industry knowledge. However, it's definitely the case that your exposure (most likely in late-night financial modeling revisions) to the private equity shops will be higher in leveraged finance groups when compared to your exposure working in an industry coverage group. In an industry where relationships are everything, this exposure will definitely matter.

Types of leveraged finance deals

There are a wide variety of deals executed within leveraged finance. Most common are syndicated loans and high-yield bonds for working capital or general corporate purposes (day-to-day financing needs). However, in leveraged finance you'll also find leveraged buyouts, when private equity shops and financial sponsors use borrowed money to purchase companies. There are also corporate restructurings and DIP (Debtor-in-Possession) facilities, where companies are entering/exiting bankruptcy and are trying to avoid Chapter 7 bankruptcy (liquidation). In this case, the companies will work with both the financial institutions' leveraged finance groups and the federal bankruptcy court to get financing packages in order to stay in business. Leveraged finance also covers dividend transactions, where loans/bonds are used to pay out the owners of a business, recapitalizations, where a company's financial structure is changed, IPO/spin-off financings, where the proceeds of a loan/bond are in tandem with an IPO or a spin-off of a business unit, and even general debt refinancings, where an existing loan/bond is taken out with a new loan/bond.

OPPORTUNITIES IN LEVERAGED FINANCE

There are so many different areas within leveraged finance and so many related to the field that there is place for almost everyone. For example, there is deal origination, for the person who enjoys managing numerous processes such as putting together presentations, financial modeling and pitching. There is also capital markets work (for both syndicated loans and high-yield bonds) for the person who enjoys understanding the flow of the markets and conducting research about the market's trends. For the person who enjoys the asset management aspect of managing a firm's exposure to the syndicated loan/high-yield bond markets, there are positions in internal credit/portfolio management work. Finally, there is a sales and trading function for both syndicated loans and high-yield bonds.

However, very generally speaking, leveraged finance refers to the deal origination function—when a team goes out to pitch a client, wins the mandate, structures the loan/bond, markets it to investors, sells it, and then closes and funds the transaction. This role as an analyst or associate caters to the individual who enjoys managing numerous deals throughout this process, who is a jack-of-all-trades from financial modeling to talking to investment firms, and who thrives in the pace of a seemingly never-ending day. Furthermore, when considering if leveraged finance is/is not the field for you, it is important to realize that some firms are organized in a typical investment banking "cubicle/office" atmosphere, whereas some are organized like trading floors. Some people feed off the energy from a football field-sized area crammed with people chatting all day long, while others would prefer

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the quieter nature of a cube or an office, where personal phone calls are not heard by their neighbors and neighbor's neighbors. This type of setup can make a substantial difference in the day-to-day enjoyment of someone's role in leveraged finance.

The culture of leveraged finance depends almost entirely on the culture of the firm in general. At a pure investment bank such as Goldman Sachs, you might find the culture to be almost entirely opposite from that of the commercial lending arm of a larger financial institution, such as General Electric Commercial Finance. Whereas one might be very rigid and hierarchical, the other might be golf shirt and khakis on Fridays, where an analyst can chat it up with any managing director at any time.

Structuring/organization

Within structuring/origination, there are four major roles: managing director, vice president, associate and analyst. As the hierarchy is structured, there are generally more analysts than associates, more associates than VPs, and more VPs than MDs. At most firms, the ratio tends to be one MD for every one to two VPs, two to three associates, and three to four analysts.

Managing director

Sitting at the top of the leveraged finance food chain, the MD generally spends most of his/her time speaking with treasurers and CFOs of companies, in order to assess their financial status and need for debt facilities. The MD is usually the key relationship manager for the bank because of continuous dialogue with the client. As senior members of the deal team, MDs have something of a sales role, and interact with a limited number of clients with whom they have worked throughout the years. The top MDs are group heads, who may have contracts outlining their compensation structure.

Managing directors will spend quite a bit of time pitching ideas to clients, as their salary is typically determined based on the fees they earn from their deal flow. In this sense, it is not uncommon for the best-of-the-best MDs to command multiple-millions of dollars in compensation in good years (think $3 million or more in bonuses). Naturally, it pays to be an MD in a leveraged finance group that executes a high volume of exceptionally profitable LBOs, DIP facilities, and recapitalizations. However, more often than not, the salary of an MD is enough to support his/her basic lifestyle and the bulk of pay comes in the form of a bonus paid with stock options that must vest over a certain period of years. These "golden handcuffs" are usually incentive enough for senior MDs to stay at their current firms for long periods of time, which generally ensures consistency at the most senior ranks.

As for lifestyle, managing directors typically work "market" hours—from 8 a.m. to 7 p.m. However, when working on more complex transactions, they will often work later, reviewing financial presentations and editing offering memorandums. Rarely is a weekend worked from the office, but it is not uncommon for an MD to review materials and make calls from their homes on the weekend or on the train ride home from work. MDs also tend to have access to corporate expense accounts, in order to entertain clients over lunch, dinner, a ball game or on the golf course.

Vice president

The vice president on a deal team is the right hand man of the MD. Once a mandate has been won, the VP generally takes over and manages the process going forward. From the negotiating and signing of legal documents to the final signoff of the information memorandum, the VP's role is to ensure that everything in the deal goes smoothly. Throughout the deal lifecycle, a VP will often act as the relationship manager, delivering the periodic client update call and subsequently laying the future foundation for his promotion to MD.

Although, like MDs, VPs interact frequently with clients, VPs tend to be salaried and not commission-based they way MDs typically are. The very best VPs are paid extremely well, commanding salaries in the multiple hundreds of thousands of dollars, like their other corporate finance investment banking counterparts. In great years, it is not uncommon for a top performing VP in a very active team to clear $1 million. However, in bad economic times, or working in groups that do not originate many transactions, these VPs tend to make closer to $250,000.

The high performing VPs are generally on the fast track to promotion, spending three to four years in the role before becoming a managing director. At some firms a vice president will be referred to as a "principal" or "director"—the main distinction of this role from that of a managing director is a lower salary. VP titles are also quite often awarded to those who spend a good amount of time interacting with clients.

Associate

Either fresh out of a top-tier MBA program or recently promoted from third-year analyst, the associate role is highly soughtafter. For those top-performing analysts fortunate enough to land the analyst-to-associate ("A-to-A") promotion, this position has a lot of upsides. Able to hit the ground running more quickly than their just-out-of-B-school counterparts, these associates stand a much higher chance to be ranked near the top of their class. The downside is that an A-to-A might have trouble separating herself from the day-to-day financial modeling that came with the analyst lifestyle and subsequently, might run the risk of becoming a micromanager. The deal lifecycle is so process-oriented that this can easily become the downfall of an associate.

Associates generally have a very similar lifestyle to that of an analyst. Eager to be promoted to VP, they arrive in the office early. They typically leave late, reviewing work with their analysts to get projects completed. It is not uncommon for even the most senior associates to work 80+ hour workweeks, including nearly every weekend. As is the case with the deal cycle in leveraged finance, there are typically quite a few projects needing to be completed at any given time. This lifestyle lends itself to the never-ending workday.

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However, associates are paid accordingly with other corporate finance investment banking associates, which tends to reward them handsomely for their work ethic. With base salaries as high as $95,000, signing bonuses in the $25,000 to 45,000 range, and full-year bonuses well in excess of $150,000, the first-year associate gets paid well for his efforts. The more experienced associates can expect to be compensated very well in the good economic years. This can translate into bonuses near $300,000, with salaries clearing $150,000 to 200,000. However, in slower years, this bonus amount can easily be cut in half. Whereas analysts are generally very excited to make their base salary in their bonus in a good year, senior associates are hoping to double their salary amount.

Generally staffed by a VP in their team, analysts and associates are usually placed on a variety of deals, which means that they should not all be "live" or closing at the same time. Inevitably, this is never actually the case. This deal variety helps to ensure that these junior resources will be able to work with different issuers, deal teams and financial products. At first, most junior resources are staffed alongside other seasoned ones.

Capital markets/loan sales and distribution

Managing director/vice president

In a capital markets function, the managing director and vice president often have very similar job responsibilities; one's title reflects not job responsibilities but years of experience in the field. As loan sales and distribution is typically grouped with these capital markets professionals (if not one and the same at most firms), these positions are compensated similarly. Managing directors and vice presidents spend most of their time advising deal teams and clients on market conditions, as well as delivering these deals to investors.

With years of relevant experience, these professionals generally hail from origination and structuring teams or another section of the investment bank's corporate finance practice, and are typically compensated on a scale comparable to their managing director and vice president peers in origination and corporate finance. Although their function is not specifically "on the line" (they are not directly responsible for generating revenues for a firm), and this means that their pay scale might not be quite the same as those successful at originating many deals, it is generally very close. However, because the pay for a capital markets MD does not depend as much on fee generation as it does for an origination MD, this can lead to more consistent earnings for the capital markets MD/VP year after year.

In this sense, the capital markets and loan sales teams are like head coaches of professional sports teams: whereas the players (the deal team) are out winning the games, the coach is directing the team during games, drawing up new plays (adjusting the terms of the deal in market), conducting research on other competition (market comparables), talking to fans (investors), and interacting with the team's owners (the client). While marquee players bring in extraordinary financial contracts, the very best coaches are generally not too far behind.

As the firm's eyes and ears of the financial markets, the capital markets and loan sales positions tend to work more "market" hours. In at 7 a.m. and out by 7 p.m. is somewhat typical for these senior professionals. However, even the senior capital markets professionals will commonly find themselves working with origination teams and issuers to structure large deals well into the evenings. Loan sales professionals often work late too, but in a different capacity and outside of the office. Often, they are attending dinners/sporting events with investors and/or clients. Regardless, the lifestyles of senior professionals in both capacities tends to be quite hectic: following the markets, talking to clients, answering questions from investors and spending the day attached to a BlackBerry. Weekends for these teams are typically freer than origination teams', but there is always occasional work that needs to be done.

Associate/analyst

As part of the corporate finance program, the associate and analyst role within these teams is much like their peers in other groups. On a junior level, in capital markets these tend to be positions that are more geared towards research, while in loan sales these roles are more focused on investment-grade deals and coverage of smaller clients. Because they are paid on the same scale as an origination associate/analyst, it appears on first glance that the capital markets analyst or associate role would offer a better lifestyle than in origination. However, because of the pace of the job, that's not necessarily true.

While an origination analyst or associate completes a number of different tasks over the span of a week (such as writing an info memo, adding pages to a credit deck, or completing slides in a pitch), the capital markets associate/analyst usually completes tasks on a daily or hourly basis. The nature of the job is like a sprint, not a marathon, often involving numerous fire drills. For example, deal teams might ask for league tables and credential slides, investors might want to know the spread differential between a particular syndicated loan and a high-yield bond, a senior MD of the bank might want a deck of slides outlining market conditions, and a client might want a set of recent second lien LBO deals. These are all likely requests in the first half of a day for a capital markets associate or analyst.

Therefore, it is not uncommon for an associate/analyst in these groups to spend the entire day at his desk, working through a large list of requests. On the upside (if you can call it that), the day will most likely end before midnight (and usually closer to 9 or 10 p.m.) and resume again promptly at 8 a.m. Although the capital markets have closed and the MD and VPs might have gone home, there are always materials needing preparation for early morning meetings and late-night, last-minute requests from deal teams. This is quite different from origination, where the day of an analyst might not end until 4 a.m., but the next day will not usually start until 10 a.m., as there is less market sensitivity in origination/structuring.

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Weekend work for capital markets associates and analysts is usually a regular occurrence. While unlike the weekends of their origination counterparts, weekends for capital markets analysts and associates are usually not spent entirely in the office, the variety of the requests is less predictable than in origination. In origination, there are usually projected deadlines for projects. In capital markets, those deadlines are usually ASAP. As for sales, working on a weekend would be quite out of the ordinary. A quick phone call or BlackBerry message to a client might occur, but not the creation of market update slides or league tables, which usually happens in capital markets.

Credit/risk/corporate banking/ratings advisory

These functions are essential to the leveraged finance platform but are not generally aligned with revenue generation. As such, they are typically compensated on a lower pay scale, and the lifestyle in these groups is better.

Managing director/vice president

Similar to other senior resources, the lifestyles of the managing director and vice president roles within these teams is less intense than their coverage counterparts. With the exception of corporate banking, these roles are not usually the primary client contacts for the firm. Also, since they are not usually aligned with revenue generation, they are compensated on a different scale. Whereas an all-star managing director in origination might get the credit for bringing in $25 million of fees for a deal and will be paid in-line with this fee generation (or lack thereof in a bad year), someone in a non-revenue generation role will have more stable earnings. This means that the top-tier ratings advisory managing director will most likely not earn as much as the top-tier origination managing director. However, when it comes to compensation for group/department heads, all bets are off.

In terms of hours, the senior resources in these functions can expect to work even more predictable hours than those senior professionals in origination. Like their counterparts, weekends are usually free and you will not usually find them in the office at 9 p.m. However, as with any other major leveraged finance function, if a large or complex deal is coming to the market, everyone on a deal team usually works well past their “normal” hours.

Associate/analyst

Much like the origination/structuring and capital markets junior resources, these individuals are part of the corporate finance program at the investment banks. However, the ebb-and-flow of workload in these positions tends to be more similar to origination than to capital markets. Their day-to-day will fluctuate based on their group and or deal-flow, but will generally be long hours, marked with long-term projects and firm deadlines, such as the creation of a ratings agency presentation. Also, the pay will generally coincide with the entire corporate finance program. As for weekend work, junior resources in all of these groups can definitely expect it. Usually working intensely on one or two deals, as opposed to three to five in origination, their weekend lifestyle is slightly more predictable.

Commercial banks and commercial finance companies

Organizationally, commercial banks and commercial finance companies tend to set up their leveraged finance platforms in relation to their deal flow. Whereas some of the larger players like GE have dedicated origination teams to cover large cap and small cap issuers, smaller middle-market players might combine all of their origination, capital markets and sales roles. Typically though, the large players are set up in a manner similar to the investment banks, although they will combine the complementary functions such as sales/capital markets and underwriting/credit/risk. At these firms, the titles/hierarchy are similar to that of investment banks, as is the way that pay for each function depends on how closely tied that group is to revenue generation. However, at the commercial banks, pay and lifestyle are often very different than that at an investment bank.

A DAY IN THE LIFE: LEVERAGED FINANCE STRUCTURING/ORIGINATION ASSOCIATE

7:00 a.m.: It’s a little bit early for you to be up, but you want to get a head start on the day. Since it’s a Friday and your analyst has been cranking late on an info memo for a new deal, you definitely want to get into the office and review it ASAP. Also, your MD has called a 9 a.m. meeting for this deal and you want to be prepared. So, you grab the BlackBerry and head to the office.

8:15 a.m.: Even as a third-year associate, you still are not used to the early morning hours, which follow long evenings. Although you were at work until 11 p.m., your adrenaline still runs high, as you are now on two live deals. One, a multibillion-dollar refinancing, was just mandated, and the second is in market with a lenders’ meeting on Tuesday morning. There’s always plenty going on in this job, which is exactly why you love it. You check emails and start to review the info memo shell that your topnotch analyst worked on late last night. That kid is definitely going places.

8:40 a.m.: Realizing that you’ve got 20 minutes until your meeting, you run downstairs to grab a cup of coffee and a bagel.

9:00 a.m.: You finish your bagel at your desk while reading the info memo, and head over to the meeting where the MD outlines the next tasks for the transaction. The MD is exceptionally pleased to know that the info memo was already started and you all talk about the next steps. You set a firm deadline for the info memo to be distributed to lenders, for a lenders’ meeting to be held and for sit-downs with the sales and capital markets teams. The MD, always on the BlackBerry, forwards you all a note from senior management, which says how proud they are that the deal team pulled off

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another successful pitch. As you have been on quite a number of deals, you recognize that this is the calm before the storm and the crunch time before the deal launches.

10:00 a.m.: With some clear deadlines in hand, you quickly debrief with the analyst, dividing up responsibilities. You agree to meet at the office at 10 a.m. tomorrow, to make sure that everything is on track and to review progress. Since the other analyst on your live transaction is out of the office for recruiting, you are doing all of the heavy lifting for the lenders' meeting and will need all of the help possible on this deal. With two live deals in market, things are busy right now. Thankfully your auctions have gone radio silent, while the owners review bids from the private equity shops and financing firms.

10:15 a.m.: You return to your desk to find some investors have already called about the new transaction, even before the lenders' presentation has gone out. You call them back, giving them some information and passing the word along to your sales team. People are definitely excited about this deal.

10:45 a.m.: As soon as you set down the phone, the VP for this deal comes over to your desk, checking in with you about the presentation. Almost on cue, the client calls, asking to review the lenders' presentation slides you sent last night. Since they will be traveling to New York on Monday for the presentation on Tuesday, they'd like to wrap up any major changes before the weekend.

11:00 a.m.: On the call with the client, you are going slide-by-slide through your newest update to the presentation with the client. You discuss talking points, where you all should meet and any other changes. The client suggests updates to a few slides and you make note of them. Knowing these changes will be made to the info memo, you make note to change those as well. You promise to send them a soft copy of the slides by 4 p.m. so they can print them out before they leave for home.

12:30 p.m.: Immediately after you get off the phone, you begin reviewing the changes. Recognizing that this will take you a few hours, you decide to grab a bite to eat from the cafeteria downstairs, since you know that you can get back to your desk quickly.

12:50 p.m.: While eating lunch at your desk, you start cranking on changes. The VP stops by periodically to ask questions, but otherwise you spend most of the afternoon cranking on the changes and double-checking everything. Since hundreds of investors will be scrutinizing this deck of slides, you want it to be as perfect as possible. Also, since this is going back to the client, you want the work to be topnotch.

3:00 p.m.: With the changes made, you circulate the presentation to the VP and MD to show them what you are sending. Often, the CFO and treasurer will call you directly and vice versa, but you still like to touch base with your deal team. Once you have final approval from them, you send over a copy of the lenders' meeting slides.

3:30 p.m.: Your email to the client has been sent, so now it is time to check in with your other deal team. Meanwhile, the analyst is cranking on the transaction overview section of the info memo and making good progress. You both grab some coffee to take a break, while you discuss the weekend and career stuff.

4:00 p.m.: Once back at your desk, you check emails and voicemails. You make some calls to friends, check CNN and *The Wall Street Journal*, and catch up on the rest of your day. About this time, the analyst from your deal has arrived back in the office from the high-yield bond roadshow, completely exhausted. You both sit down to update on what has happened with the lenders' presentation, while you strategize what needs to happen before Tuesday's meeting. However, since the final approval for the deck of slides has not yet been given, you are really in a holding pattern on that front. Yet, updates need to be made to that info memo so that it can be sent to investors immediately after the meeting. This will definitely be your weekend work.

5:00 p.m.: Before your MDs leave for the weekend, you check in with each of them to make sure they know where everything stands. The lenders' slides for the first transaction look great, the shell of the info memo for the refinancing transaction is underway and your auctions still remain quiet with no news. From the looks of it, you might actually have something of a weekend. You also make sure to check in with the VPs, since they are leaving shortly too. As one of them is drafting part of a credit agreement this weekend, she invites you to hop on a conference call tomorrow morning at 11 a.m.: Since you will be in the office anyhow, this is fine by you.

6:00 p.m.: You stop by both analysts' desks to see how they are doing. You divide up some minor tasks, so that everyone can get out of the office tonight, since it is a nice evening outside. With only a few hours of work on Saturday, you feel great about this weekend.

7:00 p.m.: You shut down the laptop, remind the analysts not to stay late since a lot of that work can be done tomorrow, and you head home. As for a 7 p.m. departure on a Friday, you have seen a lot worse!

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Managment Consulting

WHAT IS CONSULTING?

Strategy holding steady

While 2007 marked the consulting industry's third consecutive year of growth, the state of play in 2008 was much less clear cut. Like much of the rest of the economy, consulting's year was dominated by movements in the global economy. These led to a reasonable first half of the year, followed by revenue falling off a cliff in the latter half, when the full effects of the various financial crises were recognized. Where the robust economy in 2007 had seen clients interested in implementing improvements—and willing to spend top dollar to get the right advice—the events of 2008 saw an understandable urge for those same clients to cut back on nonessential expenditures. And, as positive economic conditions, such as the boom in private equity, gave way to a climate of fear, so the major revenue sources in the consulting industry shifted—from advising work driven by an all-time high in M&A activity to a focus on corporate turnaround and restructuring as the economy took its toll. Even so, in the United States, which accounts for almost 50 percent of the worldwide consulting market, revenue hit $160 billion for 2007, up from $156 billion in 2006.

Though business was strong throughout most of 2007, by its end, the subprime mortgage crisis had changed the economic climate dramatically. Fallout from years of dubious lending policies motivated corporations across the industry spectrum to rein in their strategy spending—a situation that only worsened in 2008. That hasn't meant only doom and gloom for the consulting industry, however; the general rule of thumb is that wherever there are management and strategy decisions to be made, then management and strategy consultants will likely be of use. In the short term, the various calamities are actually providing work in some sectors of the industry. Financial services firms, for example, are looking to consultants for help with crisis management and recovery strategies. That has seen companies such as FTI Consulting benefiting from an unprecedented surge in demand for the type of services it offers—especially its forensic accounting division, which has shown marked growth since 2007.

As the crisis has deepened into a recession, demand for corporate turnaround services has also spiked, with firms such as Alvarez & Marsal and AlixPartners taking on the responsibility for guiding the management of some of the biggest casualties of the economy so far (the unwinding of Lehman Brothers and the Bernard Madoff case, respectively).

Weathering the storm

One thing is for certain: consultancies are better prepared this time around. After the dot-com trauma of the early 21st century, clients became more sophisticated buyers, demanding more value, deeper expertise and targeted solutions. Many now insist that their projects be staffed by senior-level consultants—industry experts who really know their sector—rather than fresh-out-of-school generalists. In response to such client selectivity, over the last decade, consulting firms have shifted strategies, offering specific industry knowledge and emphasizing quantifiable results. To differentiate themselves in the marketplace, many firms are now focused on niche areas such as economic consulting, security or globalization strategy. And rather than honing in solely on strategy, firms have also started offering a wider range of services, including IT, restructuring and compliance.

Anybody's game

With clients demanding targeted services, more niche firms (many spun off from larger consultancies after the dot-com bust and its ensuing layoffs) have entered the landscape, jousting with the larger, well-established consulting shops for projects. Competition in the consulting world has no doubt become tougher, since small firms are often able to undercut the fees of blue-chip houses by keeping overhead and staff expenses low. Smaller firms may also get a foot in the door by accepting projects that aren't as "sexy," such as implementation or data migration, before taking on actual strategy work.

Further heating up competition are the Big Four accounting firms that have re-entered the consulting arena. After the Enron scandal, the Securities and Exchange Commission tightened independence requirements, prompting several of the Big Four to separate their consulting divisions from their audit and accounting wings. Then 2007 saw the end of the five-year noncompete agreements that Ernst & Young, PricewaterhouseCoopers and KPMG signed with their spin-offs. The companies were effectively released back into the consulting fold, and cranked up their business advisory services and financial and risk consulting divisions accordingly.

The hiatus has not diminished their brand value in clients' eyes, however; in the 2008 fiscal year, consulting and advisory services continued a pattern of remarkable growth for all three firms, leading to some impressive financial results despite the economy. That year, Ernst & Young posted a 7.8 percent increase in revenue from its assurance and advisory services division, while KPMG's advisory division enjoyed a 13 percent increase and PwC's advisory service line brought in 14 percent more than in 2007. Deloitte, the only of the Big Four firms not to cast off its consulting practice, also enjoyed success in this area, with its advisory and consulting divisions generating approximately 18 percent more revenue in 2008 than in 2007.

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Servicing financial services

A large part of the recent growth in strategy consulting was propelled by record-level M&A activity. Strong profits and cheaper debt drove up corporate demand for deals, while private equity firms rife with cash were eager to get in on the action. In 2007, the value of the global M&A market was $4.3 trillion (of which $1.4 trillion came from the United States), up 20 percent over 2006, and the frenzy created a new client base for consulting firms. As these transactions increased in value and grew more complex, consultants were called in to evaluate potential deals, analyze markets, conduct due diligence and smooth post-merger wrinkles. Bain & Company's mergers and acquisitions practice, for example, provides acquisition screening, due diligence, integration advisory and other M&A services aimed at growth and facilitation. Bain reported that 2007 M&A activity was strongest during the second and third quarters.

In 2008, however, as M&A and private equity activity dropped off, a range of other financial services pumped demand for consulting services. With the market becoming more dynamic (read: risky) and more global, businesses are placing higher priority on risk management, raising demand for risk and security consulting. Another hot area is regulatory consulting, as banks navigate Basel II requirements and Sarbanes-Oxley compliance issues.

America's got talent

Despite the downturn, top graduates entering the consulting field in 2009 will still have a spectrum of options in front of them. Some will no doubt be attracted to the name and prestige of a blue-chip firm or a public entity that can offer stock options. Smaller, niche firms, on the other hand, may appeal to candidates who wish to accrue specialized experience. Although large public companies are typically able to offer higher salaries, smaller or private firms can lure candidates with the promise of more client exposure, faster career progression or profit sharing from an early stage in their career.

Recruiters are also scouring campuses for MBA candidates who have particular industry expertise, rather than a broad, generalist background. That fact was highlighted in March 2009, with figures in *The New York Times* indicating that more than 15 percent of MBA graduates go on to careers within the consulting industry—significantly more than come from the industry to MBA programs. Additionally, as firms seek to add value in a business climate where engagements are more complex and clients are pickier about whom they work with, specialist consultants are in high demand. Candidates with a track record in the public sector, compliance, risk or crisis management and corporate turnaround will likely have their choice of firms. Consultants with a few years' experience are also in demand, as companies seek out hires who can hit the ground running.

Cashing in

Due to the incredible amount of competition for jobs within the industry, pay levels in consulting—both in terms of base salary and bonuses—have remained relatively flat. Some firms do offer an incentive-based compensation structure, tying bonuses to individual and group performance, and to that of the firm as a whole. As consultancies traditionally haven't been able to compete with the lucrative bonuses offered by hedge funds or private equity groups, many are sweetening employment packages with lifestyle perks like flexible schedules, work-from-home options, sabbaticals or part-time career tracks. The strategy seems to be working; despite the unimpressive salary increases, the consulting industry remains one of the top picks for new MBA grads (and the stream of layoffs in the financial sector has no doubt enhanced the industry's allure for students).

Outsourcing's second wave

Well after the first wave of business process outsourcing projects took customer service and software development overseas, the BPO market is still providing loads of work. In an ongoing effort to boost efficiency and save money, companies are now outsourcing more complex operations like finance, payroll and human resources. In 2007, the National Outsourcing Association estimated the North American BPO market at over $127 billion—more than half of the $217 billion global market. Consulting firms are getting a piece of this lucrative pie by assisting clients with global sourcing strategies and helping to transform their business operations to a BPO model.

Although the BPO market is still going strong, the business is trending away from the megadeals ($1+ billion engagements) of the past. In North America, total contract value in 2007 dropped, as did contract duration. As *Consulting Times* posits, 2007 was the first time total contract numbers declined—by 12 percent. Part of the drop is due to the maturation of the market; businesses are increasingly using several specialist providers, and contracting each for just one piece of the whole BPO project, instead of using a single outsourcing provider for all. According to Gartner Research, the highest demand for BPO services comes from the financial services and multi-process markets. That spells at least short-term trouble for outsourcing firms in 2009—a fact underlined by a Goldman Sachs report that estimated a decline in IT spending of around 9 percent throughout the year.

India and beyond

India continues to be a hotspot for growth, both for outsourcing and for advisory service lines. Between 2005 and 2007, IBM doubled its employee numbers in India to over 53,000, and in 2008, KPMG announced plans to raise its headcount in the country from 3,000 to 5,000 by 2010. Accenture has also taken a substantial interest in the Indian market—it maintains 12 global delivery centers in the country, and plans to increase its headcount there to 50,000 by the end of 2009, up from around 37,000 in 2008. In early 2009, meanwhile, the world's fourth-largest consulting firm, Roland Berger Strategy Associates, expressed its confidence in the future of the Indian market, forming an alliance with Indian firm Tata Strategic Management

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to create a foothold in the country. Striking an ebullient note about the potential for growth in the Indian market, founder and CEO Roland Berger told *The Economic Times* that "volumes will certainly go down a bit in certain countries like Germany, Japan and the United States, but the more significant change will be in the kind of work we do. There will be a lot more restructuring—not only certain processes, but entire companies will have to be restructured."

Though most consulting firms are still investing resources in the subcontinent, India's rising labor costs and shortage of talent have firms eyeing China. In fact, according to a 2007 report from research firm IDC, China is expected to overtake India as the top outsourcing destination by 2011. Deloitte aims to have 20,000 employees in China by 2015, up from 8,500 in 2007, and Ernst & Young plans to expand from 8,000 to 30,000 in the country over the next decade, adding two or three new branches in Asia annually within the next few years. Additional areas popping up as prime BPO centers include Vietnam, Singapore and the Philippines. In fact, IDC predicts that the Asia Pacific BPO market as a whole will expand to $14 billion by 2010.

The next big thing

Consulting firms are also seeing business take off in other developing economies, such as Eastern Europe. Outsourcing in the region has been ramping up, thanks to the availability of highly educated, multilingual workers who demand less in salary than their Western European counterparts. The region's outsourcing industry, estimated at $2 billion in 2007, is expected to grow 30 percent by 2010. But Eastern Europe is now more than just an outsourcing destination; it is becoming a strong market for strategy consulting. As more countries in the region meet European Union economic standards, and as formerly state-owned industries—such as telecommunications—deregulate, multinational businesses are establishing a presence in Turkey, Romania, the Czech Republic and Russia. As such, consultants are being tapped by banks, financial services and telecom clients to help them navigate these new markets. Kennedy Information predicts that growth in the $4 billion Eastern European consulting market will outpace that of the Western European market through 2009.

Earthy efforts

Environmental awareness has become an emerging focus for the consulting industry since 2007. The pitfalls of global warming prompted a number of firms to adopt long-term initiatives with the stated goal of reducing their carbon footprint—many even hoping to achieve carbon neutrality. L.E.K., Capgemini and A.T. Kearney, as well as others, have all launched formal green programs in the last few years. Among their resolutions are increased use of recycled and recyclable office materials, reduced energy waste in daily operations and minimization of air travel to client sites. These firms and others also spearheaded environmental advisory practice areas, applying the lessons of conservation learned in their own programs created to assist clients, especially those in industries such as oil and gas, chemicals and energy, which face increasingly stringent compliance standards.

CONSULTING MYTHS

All this might sound great, but before we go on, we should address some common misconceptions about consulting.

- Implementation—You might be thinking, "All consultants do is figure out problems at companies and explain them. Awesome. I'm going to be making great money for doing something really easy." Unfortunately, that's not true. Spotting a client's problems is a mere fraction of the battle. (Most people with a fair amount of common sense and an outsider's perspective can identify a client's problems. And in many cases, clients also understand where the problems lie.)

  The job of the consultant, therefore, isn't just about knowing what's wrong. It's about figuring out how to make it right. Even finding the solution isn't the end of the story. Consultants must make sure the solution isn't too expensive or impractical to implement. (Many consulting firms have what's called an 80 percent rule: it's better to put in place a solution that takes care of 80 percent of the problem than to strive for a perfect solution that can't be put into place.) A corollary to this is the 80/20 rule: 80 percent of a problem can be solved in 20 percent of the time. Consultants must also get buy-in from the clients. Not only does bureaucracy often make implementation tough, but consultants must also convince individual client employees to help them make solutions work. It's tough to solve problems—and that's why clients hire consultants.

- Glamour—Consulting can indeed be exciting and high profile, but this is the exception, not the rule. Chances are, you won't be sitting across from the CEO at your next project kickoff, and you probably won't be staying in four-star hotels in the coolest cities in the world (though both are possible). Depending on the industry and location of your client's business, your environment might be a mid-range hotel in a small city, and you might be working with the senior vice president of one of the company's many business units.

- Prestige—Consulting is widely thought of as a prestigious career among business circles, particularly MBAs. But you should realize that in contrast to work in investment banking, your work in consulting will probably never get mentioned in *The Wall Street Journal.* Very few consulting firms are publicly recognized for the help they give.

  As a result, few people outside of the industry really understand what consulting is. In fact, a running joke about consulting is that no one can explain it, no matter how hard or many times one tries. If you want a job you can explain to your grandmother, consulting isn't for you. Most "civilians" won't have heard of your firm—unless it has been involved in a scandal, that is.

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- Income—The salary looks attractive on paper, but remember, it's not easy money. Divide your salary over the (large) number of hours, and the pay per hour isn't much better than other business careers.

So what does a consultant actually do, anyway?

Most "non-consultants" are mystified by the actual job and its day-to-day responsibilities. There are good reasons why this is so. While you're used to giving advice and solving problems, you may not understand how this translates into a career path. The problem is compounded because consultants tend to use a very distinctive vocabulary. You may not know what your skill set is, or how not to boil the ocean, or what the heck consultants mean when they talk about helicoptering. In addition, many consulting firms have their own specific philosophies and problem-attacking frameworks, which only raise the level of jargon.

The short answer is that you will be working on projects of varying lengths at varying sites for different clients. What you do will depend on your seniority, experience, phase of the project and your company. If you are a partner, you are selling work most of the time, whereas if you have a recent MBA degree, you are probably overseeing a couple of entry-level consultants doing research. For the most part, we'll describe the job that entry-level and midlevel (MBA or the equivalent) consultants do. Generally, projects follow the pitching/research/analysis/report writing cycle.

Depending where you are in the project lifecycle, here are some of the things you could be doing:

Pitching

- Helping to sell and market the firm (preparing documents and researching prospective clients in preparation for sales calls)
- Helping to write the proposal
- Presenting a sales pitch to a prospective client (usually with PowerPoint, Microsoft's presentation software)

Research

- Performing secondary research on the client and its industry using investment banking reports and other research sources (these include Bloomberg, OneSource, Hoover's Online, Yahoo! News and SEC filings)
- Interviewing the client's customers to gather viewpoints on the company
- Checking your firm's data banks for previous studies that it has done in the industry or with the client, and speaking to the project leads about their insights on the firm
- Facilitating a weekly client team discussion about the client company's business issues

Analysis

- Building Excel discounted cash flow (DCF) and/or other quantitative financial models
- Analyzing the gathered data and the model for insights
- Helping to generate recommendations

Reporting

- Preparing the final presentation (typically a "deck" of PowerPoint slides, though some firms write up longer reports in Microsoft Word format)
- Helping to present the findings and recommendations to the client

Implementation

- Acting as a project manager for the implementation of your strategy, if your firm is typically active during the implementation phase of a project
- Executing the coding, systems integration and testing of the recommended system, if you work for an IT consulting practice
- Documenting the team's work after the project is over

Administration

- Working on internal company research when your firm has no projects for you. (Being unstaffed is referred to as being "on the beach," a pleasant name for what is often a tedious time.)
- Filling out weekly time tracking and expense reports

Keep in mind that the analysis phase—usually the most interesting part—is probably the shortest part of any assignment. Consultants staffed on projects typically do a lot of research, financial analysis, Excel model building and presentation. You will attend lots of meetings in your quest to find

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the data, create the process and meet the people who will help you resolve the issues you've been hired to address. And, when you're not staffed, you will spend time "on the beach" doing research on prospective clients and helping with marketing efforts. (It's called "on the beach" because the time when you're not staffed on a paid engagement is usually less frenetic—though not always so!) Consulting firms spend a lot of time acquiring the work, and depending on how the firm is structured or how the economy is doing, you could spend significant amounts of time working on proposals. For you, this usually means lots of research, which is then elucidated on the omnipresent PowerPoint slides.

To some extent, though, the boundaries of the job are virtually limitless. Each project carries with it a new task, a new spreadsheet configuration, a new type of sales conference, or an entirely new way of thinking about business. To top it all off, you often must travel to your work assignment and work long hours in a pressurized environment. It's not easy.

PRACTICE AREAS

Operations and implementation

Operations consulting is what puts strategy into action. In years past, operations consulting focused on saving money and increasing efficiency. In the recent booming economy, however, clients were more focused on expansion and profit growth, so operations consulting revolved around responding to market changes, globalization and customer interaction. Today, with clients taking a cautionary stance toward spending, there has been a slight shift back to earlier conventions. While strategy involves marking out clear goals, operations consulting focuses on the practical means of reaching these goals, which might include allocating resources, shifting value chain priorities, evaluating benefits of outsourcing or examining customer service and distribution—all to help clients alter processes in response to competition or react to shifts in the market. Kennedy Information estimates that the $45 billion operational consulting market will grow at a compound annual growth rate of 7.1 percent through 2010.

Typical engagements may include:

- Evaluating procurement, sourcing and supplier relationships for a manufacturer
- Developing a global financial reporting system for a multinational business
- Implementing a customer loyalty program to help a credit card company attract and retain customers

Human resources consulting

Even with fine-tuned strategies and streamlined operations, businesses won't succeed without the right people in place. HR consulting addresses the issue of maximizing the value of staff and placing the right employees in roles that suit them. HR consulting firms are also hired for organizational restructuring, talent management, HR systems implementation, benefits planning and compensation. Despite the recent downturn, this segment is expected to weather the recession, even if a 2007 prediction by Kennedy Information of a compound annual increase of 83 percent now seems somewhat optimistic. Increased demand for benefits consulting, due to revisions in the U.S. Pension Protection Act and Financial Accounting Standards Board changes to pension plans, is helping to keep the market afloat, as is an upsurge in firms seeking alternatives to layoffs as a means of reducing costs to cope with the downturn.

An important subsection of HR consulting is HR outsourcing. Increasingly, clients are turning to HR consulting firms to manage their internal HR systems. Kennedy Information reports that the combined global market for HR outsourcing and HR BPO was worth $31 billion at the end of 2007.

Examples of typical human resources consulting engagements include:

- Helping a business devise a leadership development plan for its junior employees
- Evaluating the financial consequences of changing benefits plans
- Developing a retention strategy for a firm that has experienced high turnover

Health care/pharmaceuticals consulting

With a market worth over $20 billion, health care consulting continues to be a core growth area. As the U.S. population and that of other industrialized countries ages, as scientists make further advances in genetic engineering and as patents for blockbuster drugs expire, the health care industry thrives.

The National Coalition on Health Care reports that total U.S. health care expenditures were $2.3 trillion in 2007, and are expected to hit $4.2 trillion by 2016. Furthermore, health spending in the United States—at 16 percent of GDP—accounts for a larger share of GDP than in any other major industrialized country. With so much cash at stake, the industry is predictably overrun with players. That's where health care and pharmaceutical consulting firms come into play—helping clients, such as life sciences firms, hospitals, HMOs and drug companies, navigate a complicated maze of legislation, tackle competition, manage costs on vendors and equipment, and implement new technology.

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Examples of typical health care/pharmaceutical engagements include:

- Developing an electronic medical records system for a hospital
- Analyzing market competition for a new pharmaceutical product
- Helping an insurance company manage reimbursements

Economic consulting

With global economies becoming progressively intertwined, businesses in the U.S. are no longer isolated from economic shifts in other parts of the world. Thus, clients often turn to think tank-like economic consulting firms for guidance. These firms, typically loaded with economics PhDs and MBAs, as well as industry experts, investigate the economic factors that help clients resolve competition, antitrust, public policy and regulation issues, both domestic and global. Quantitative analysis, statistical studies and modeling services often form the core of economic consulting engagements.

Examples of typical economic consulting engagements include:

- Helping a client comply with a multitude of tax regulations in the various countries in which it operates
- Projecting the financial impact of a new environmental regulation
- Assessing the implications of a proposed merger

Financial consulting

In 2007, consulting spending by the financial services industry topped $60 billion, and is projected to hit $74 billion by 2011, according to Kennedy Information. Growth in the sector is predicted to remain strong over the long term, despite (and largely due to) current credit woes. The market has gained momentum as consultants step in to assist companies manage crises, deal with global market competition, develop offshore establishments, and find new markets and customers. Other financial service areas driving expansion are regulatory compliance, M&A, divestitures, private equity and risk.

Financial consulting firms tend toward two types of service offerings; either they work with financial services firms to enhance their strategies and performance, or they use a specific financial model to enhance client performance. In both cases, the focus is typically on boosting shareholder value.

Examples of typical financial consulting engagements include:

- Applying a proprietary financial model to improve performance
- Helping an investment firm identify a strategy to reach a new target market
- Evaluating liquidity for a private equity firm

CONSULTING SKILL SETS

Consultants focus their energies in a wide variety of practice areas and industries. Their individual jobs, from a macro level, are as different as one could imagine. While a supply chain consultant advises a client about lead times in their production facility, another consultant is creating a training protocol for a new software package. What could be more different?

Despite the big picture differences, however, consultants' day-to-day skill sets are, by necessity, very similar. (Before we go any further: by skill set, we mean "your desirable attributes and skills that contribute value as a consultant." Skill set is a handy, abbreviated way to refer to same.)

Before we talk about the skill sets, keep in mind that there is a big difference between the job now and the job six to eight years from now, if and when you are a partner. We are going to talk about whether you would like the job now, but you should think about whether this might be a good long-term career for you. Is your goal to see it through to partner? If you would rather have an interesting job for six years, you just have to know you have the qualities to be a good consultant and manager. To be a partner, you have to be a persuasive salesperson. You will spend nearly 100 percent of your time selling expensive services to companies who don't think they need help. Your pay and job security will depend on your ability to make those sales.

Do you have the following characteristics in your skill set?

- Do you work well in teams? Consultants don't work alone. Not only do they frequently brainstorm with other consultants, but they also often work with employees at the client company, or even with consultants from other companies hired by the client. Consultants also frequently attend meetings and interview potential information sources. If you're the sort of person who prefers to work alone in quiet environments, you will not enjoy being a consultant.

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- **Do you multitask well?** Not only can consulting assignments be frenetic, but consultants are often staffed on more than one assignment. Superior organizational skills and a good sense of prioritization are your friends. Would your friends describe you as a really busy person who's involved in a ton of activities, and still able to keep your personal life on track?
- **Speaking of friends, do you like talking to people?** Do you find yourself getting into interesting conversations over lunch and dinner? If you consider yourself a true introvert and find that speaking to people all day saps your energy, you will likely find consulting quite enervating. On the other hand, if you truly relish meetings, talking to experts, explaining your viewpoints, cajoling others to cooperate with you and making impromptu presentations, you've got some valuable talents in your consulting skill set.
- **Did you love school?** Did you really like going to class and doing your homework? There's a high correlation between academic curiosity and enjoyment of consulting.
- **Are you comfortable with math?** Consulting firms don't expect you to be a math professor, but you should be comfortable with figures, as well as commonly used programs like Excel, Access and PowerPoint. If you hate math, you will hate consulting. On a related note, you should also relish and be good at analysis and thinking creatively. Consultants have a term, now infiltrating popular culture, called "out of the box thinking." This means the ability to find solutions that are "outside the box"—not constrained by commonly accepted facts.
- **Are you willing to work 70, even 80 hours a week?** Consultants must fulfill client expectations. If you must work 80 hours a week to meet client expectations, then that will be your fate. If you have commitments outside work, for example, you may find consulting hours difficult. Even if you have no major commitments outside work, understand what such a schedule means to you. Try working from 8 a.m. to 10 p.m. one day. Now imagine doing so five days a week for months on end.
- **Last, but certainly not least, are you willing to travel frequently?** (See the sidebar on the next page for a discussion of travel in consulting.)

Be truthful. If you can't answer most of these points with a resounding "yes," consulting is most likely not for you. The point is not just to get the job, but also to know what you're getting into—and to truly want to be a consultant.

WHO HIRES CONSULTANTS, AND WHY?

Corporations, governments and nonprofit institutions hire consultants for a number of reasons. Every consulting project springs from a client's need for help, or at least the kind of help that short-term, internal hiring can't solve. Some clients, for example, need to overhaul their entire IT infrastructure, yet they're out of touch with the latest back-end systems or don't have the staff resources for such a large project. Other clients may be merging, but lack any experience with post-merger staffing procedures and need a neutral party to mediate. Some clients may need an outsider's perspective on a plant shutdown. Perhaps a client wants to bring in extra industry knowledge.

Consultants get hired for political reasons too. Launching big projects can be very cumbersome, particularly at Fortune 500 companies. In order for a single dollar to be spent on such a project, most companies require senior executive approval. And without a major consultancy brand name attached to the project, approval can be hard to get. But once a consulting firm steps into the picture, everyone involved has plausible deniability in the event that the project fails. There is an old adage: "No one ever got fired for hiring McKinsey" (or a similarly prestigious consulting firm). Some clients still adhere to this as a rule of thumb.

Second, even if a giant project gets the green light, there's no guaranteeing it will be implemented. The reason? Simple bureaucratic inertia. Senior executives lose interest. Direct reports move on to other issues. In short, companies lose their focus. (An insider at a large private global corporation reports that steps from a major consulting report from 1996 were approved but, as of September 2002, had not yet been implemented.) By bringing in consultants to oversee large projects, companies ensure that someone is always watching the ball. In many cases, the correct solution may be quite evident to many, but having it confirmed by an outside party makes implementing a plan easier politically.

In the era of downsizing, consultants have another political use. Companies with an itch to fire a percentage of their workforce often like to bring in consultants. When the consultants recommend a workforce reduction, the company can fire at will, blaming their hired guns for the downsizing.

For some types of consulting (particularly outsourcing or IT), consultants are actually a form of cost-effective labor. It costs the firm less money to hire some outsiders to help them with a project, rather than hire some folks full time at the expense of a competitive salary and benefits package. Consultants may also get the job done faster, not because they are necessarily better, but because the company might not get away with forcing regular employees to adhere to a compressed time frame by staying late hours. By definition, consultants are hired to work not at the pace of the corporation but at a differently prescribed pace. A contingency performance basis makes this an even better deal for the client.

Whatever the reasons for hiring consultants, they're bound to be compelling—because, even despite the cost-effectiveness argument in some cases, consultants are very costly on average. Given travel expenses, hotel bills and actual project fees, hourly prices for consultants can easily climb into the $500 per hour range.

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The worker behind the curtain

Consultants are a backroom breed of professional. In joint projects with their clients, they do much of the work and can expect none of the recognition. All consultants must deliver bottom-line value, and often spend countless hours huddled in cramped spaces to do just that. If you do a great job, chances are your client will thank you, but you may never hear about it again. In some cases, you will leave your project before its completion and may never know whether it succeeded or failed.

If you enjoy recognition and completion, you will want to consider the type of consulting firm you join. Does your firm have a history of repeat business? If so, you will have a better chance of seeing the client through different projects and business cycles; you may even work with the same client on different engagements. (Marakon Associates, for example, boasts that 90 percent of its work comes from engagements with previous clients.) Other firms might offer a methodology that isn't as repeatable. If your firm focuses solely on competitive analysis studies, chances are good that, if your client stays in the same industry, you won't need to sell that service to them again.

Economic consulting firms, like Charles River Associates and the Brattle Group, often help law firms with litigation support, including research, economic analysis and testimonies. This can be very interesting work, and since you're supporting one side or the other of a public dispute, you will certainly know how the fruits of your labor will turn out. Depending on the size of the dispute, so might everyone else who follows the business news.

Another example is M&A consulting. Some firms, like L.E.K. Consulting, have practice areas specifically focused on due diligence, company analysis and transaction support. The bad news is that on such projects, you are subject to the even longer and more erratic hours suffered by other M&A professionals. On the bright side, you will eventually read in *The Wall Street Journal* about any triumph enjoyed by your client. Your firm may not be mentioned, but at least you will be able to see the results of your hard work become a reality. (It'll also be easier for you to transition to other financial work in the future, if that is your wish.)

So, think about the level of recognition and completion you need for your work, and look for a firm that does the type of work that suits your level. If you find that you require higher levels of recognition and completion than any type of consulting can offer, then you may want to look into other professions.

The Traveling Salesman Problem

A lot of people go into the consulting field with the notion that travel is fun. "Traveling four days a week? No problem! My last vacation to Italy was a blast!" However, many soon find the traveling consultant's life to be a nightmare. Many consultants leave the field solely because of travel requirements.

Here's what we mean by consulting travel. Different consulting firms have different travel models, but there are two basic ones:

- A number of consulting firms (the larger ones) spend four days on the client site. This means traveling to the destination city Monday morning, spending three nights in a hotel near the client site, and flying home late Thursday night. (This will, of course, vary depending on client preference and flight times.) The same firms often try to staff "regionally" to reduce flying time for consultants.

- The other popular travel model is to go to the client site "as needed." This generally means traveling at the beginning of the project for a few days, at the end of the project for the presentation, and a couple of times during the project. There is less regularity and predictability with this travel model, but there is also less overall time on the road.

Here are some variations of these travel modes that pop up frequently:

- International projects involve a longer-term stay on the client site. (Flying consultants to and from the home country every week can get expensive.) For example, the consultant might stay two or three weeks on or near the client site (the client might put you up in a corporate apartment instead of a hotel to save costs) and then go home for a week, repeating the process until the end of the project.

- Then, there is the "local" project that is really a long commute into a suburb, sometimes involving up to two hours in a car. Examples of this include consulting to Motorola (based in not-so-convenient Schaumburg, Ill.) while living in Chicago, or consulting to a Silicon Valley client while living in San Francisco. In these cases, you might opt to stay at a local hotel after working late, instead of taking the long drive home. This is not very different from nonlocal travel, and it can be more grueling, due to the car commute.

You need to ask yourself a number of questions to see if you are travel-phobic. For example, when you pack to go on vacation, do you stress about it? Do you always underpack or overpack? Do you hate flying? Do you hate to drive? Do you mind sleeping in hotel rooms for long periods of time? Are you comfortable with the idea of traveling to remote cities and staying there for three or four nights every

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week for 10 weeks? If you're married, do you mind being away from your spouse (and children if you have them) for up to three nights a week? Does your family mind? Will your spouse understand and not hold it against you if you have to cancel your anniversary dinner because the client wants you to stay a day later? If you and your spouse both travel for work, who will take care of the pets? Does the idea of managing your weekly finances and to-do lists from the road bother you?

If these questions make your stomach churn, look for consulting companies that promise a more stable work environment. For example, if you work in financial consulting and live in New York City, most of your clients may be local. But because consulting firms don't always have the luxury of choosing their clients, they can't guarantee that you won't travel. Moreover, many large companies build their corporate campus where they can find cost-effective space, often in the suburbs or large corporate parks. (If you absolutely cannot travel, some of the largest consulting firms, such as Accenture, have certain business units that can guarantee a non-traveling schedule—ask.)

Note that travel is common in the consulting field, but not all consultants travel. And not all clients expect you to be on site all the time. It absolutely depends on the firm's travel model, industry, your location and, most importantly, your project.

A DAY IN THE LIFE: ASSOCIATE STRATEGY CONSULTANT

Greg Schneider is an associate at the Boston office of a top strategy consulting firm office. He kindly agreed to share a "typical" workday with Vault, noting that no day at any consulting firm can be called typical.

6:15 a.m.: Alarm goes off. I wake up asking myself why I put "run three times per week" into the team charter. I meet another member of the team, and we hobble out for a jog. At least it's warm out—another advantage of having a project in Miami.

7:15 a.m.: Check voicemail. Someone in London wants a copy of my knowledge building document on managing hypergrowth. A co-worker is looking for information about what the partner from my last team is like to work with.

7:30 a.m.: Breakfast with the team. We discuss sports, Letterman and a morning meeting we have with the client team (not necessarily in that order). We then head out to the client.

9:00 a.m.: Meet with the client team. We've got an important progress review with the CEO next week, so there's a lot going on. We're helping the client to assess the market potential of an emerging technology. Today's meeting concerns what kind of presentation would be most effective, although we have trouble staying off tangents about the various analyses that we've all been working on. The discussion is complicated by the fact that some key data is not yet available. We elect to go with a computer-based slide show and begin the debate on the content.

10:53 a.m.: Check voicemail. The office is looking for an interviewer for the Harvard Business School hell weekend. The partner will be arriving in time for dinner and wants to meet to discuss the progress review. A headhunter looking for a divisional VP. My wife reminding me to mail off the insurance forms.

11:00 a.m.: I depart with my teammate for an interview. We meet with an industry expert (a professor from a local university) to discuss industry trends and in particular what the prospects are for the type of technology we're looking at. As this is the last interview we plan to do, we are able to check many of our hypotheses. The woman is amazing—we luck out and get some data we need. The bad news is, now we have to figure out what it means.

12:28 p.m.: As I walk back in to the client, a division head I've been working with grabs me and we head to lunch. He wanted to discuss an analysis he'd given me some information for, and in the process I get some interesting perspectives about the difficulties in moving the technology into full production and how much it could cost.

1:30 p.m.: I jump on a quick conference call about an internal knowledge building project I'm working on for the marketing practice. I successfully avoid taking on any additional responsibility.

2:04 p.m.: Begin to work through new data. After discussing the plan of attack with the engagement manager, I dive in. It's a very busy afternoon, but the data is great. I get a couple "a-ha"s—always a good feeling.

3 :00 p.m.: Short call with someone from legal to get an update on the patent search.

6:00 p.m.: Team meeting. The engagement manager pulls the team together to check progress on various fronts and debate some issues prior to heading to dinner with the partner. A quick poll determines that Italian food wins—we leave a voicemail with the details.

6:35 p.m.: Call home and check in with the family. Confirm plans for weekend trip to Vermont. Apologize for forgetting to mail the insurance forms.

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7:15 p.m.: The team packs up and heads out to dinner. We meet the partner at the restaurant and have a productive (and calorific) meal working through our plans for the progress review, the new data, what's going on with the client team, and other areas of interest. She suggests some additional uses for the new data, adds her take on our debates and agrees to raise a couple issues with the CFO, whom she's known for years. She takes a copy of our draft presentation to read after dinner.

9:15 p.m.: Return to hotel. Plug in computer and check email, since I hadn't had a chance all day. While I'm logged in, I download two documents I need from the company database, check the Red Sox score, and see how the client's stock did.

10:10 p.m.: Presleep voicemail check. A client from a previous study is looking for one of the appendices, since he lost his copy. The server will be down for an hour tomorrow night.

10:30 p.m.: Watch SportsCenter instead of going right to sleep, as I know I probably should.

Note: Had this been an in-town study, the following things would have been different: I wouldn't have run with another member of my team, and we'd have substituted a conference call for the dinner meeting, so we could go home instead. Also, I probably wouldn't have watched SportsCenter.

VAULT Q&A: HEATHER EBERLE, DEUTSCHE POST WORLD NET INHOUSE CONSULTING

Before attending Thunderbird, the Garvin School of International Management, Heather Eberle worked as an external consultant. Once at business school, she focused her job search on lesser known internal consulting opportunities. After graduating, she joined the in-house consulting division of international shipping giant Deutsche Post World Net (DPWN). She spoke with Vault about her experience with internal consulting at DPWN, especially in light of her previous experience as an external consultant.

Vault: Tell me about your background prior to getting your MBA.

Eberle: I was in consulting for five years at a smaller HRIS/strategy implementation firm.

Vault: So when you went to get your MBA, were you specifically looking for internal consulting positions?

Eberle: Yes, consulting or operations. Internal consulting had always appealed to me because it seemed like the work/life balance was better than the external consulting opportunities.

With external consulting, the travel is difficult. Maybe you are home on a Thursday night, but then leave Sunday night—every week. You are lucky if you get 48 hours at your house every week.

Vault: How did you find the position at DPWN?

Eberle: Alumni recruiting at school. We also had alumni postings for other in-house consulting positions, which opened my eyes to the size and scope of this job market. In my experience, these in-house jobs were often referred to as "in-house consulting" or "strategic projects group" along with some other key phrases. PMOs—project management organizations—which plan and manage projects are also an option and can be similar to consulting organizations.

Vault: How large is the DPWN InHouse Consulting group?

Eberle: In total around 150 people with about 20 each in our Fort Lauderdale and Singapore offices and the remainder in Bonn, Germany.

There is quite a bit of movement between offices as projects change. The organization is large enough to accommodate those who choose not to travel, but offers the opportunity for those who would like to work in another office. In addition, because of the group's worldwide footprint, there are project opportunities in many different countries and regions.

The consulting practice started in 1999 in Germany and the U.S. group was incorporated a year ago. We just returned from the annual InHouse Consulting conference in Germany where one of the main goals was to build up the ties between the groups and networking.

Vault: Is it mostly MBAs or also undergrad analysts?

Eberle: Mostly MBAs.

Vault: How does the work at DPWN compare to your previous experience in consulting?

Eberle: I would say that it is pretty similar to what you would expect with respect to the typical consulting engagement—all projects differ based on client needs.

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Within DPWN there are organizational strategy projects that last six to nine months, operations projects that last three months and incremental improvement projects that last a month or two such as sales force optimization. It all depends on the scope of the project.

Vault: How is staffing done?

Eberle: Staffing is based on availability and skill set. DPWN probably does a better job than some eternal consultancies, which have a tendency to move consultants around frequently. At DPWN you would not be pulled off your project and moved to a new project unless you have some very specific expertise that is needed and unavailable elsewhere within the group.

Vault: So who are your "clients" when you're working on an engagement?

Eberle: We only accept projects that are sponsored by a member of the management board. However, the client may be a director, SVP or EVP with P&L ownership. In these cases we add them into the discussion regarding the consulting approach in-house consulting will employ. If there is no agreement, we decline to take the project.

Vault: And how are the projects requested? Or is it that they're not requested but that the CEO or some other high-level manager wants your group to go in and work with a group?

Eberle: In many cases, the business is requesting assistance either because they lack the project expertise or need someone from outside their department who is better able to identify key issues or manage pressure from disparate stakeholders.

In other cases, we identify a business issue that appears to be similar to another project we have worked on. If we felt that the methodology and expertise of InHouse Consulting could help the business, we would prepare a proposal—however, this is less common.

Vault: And so it's not often that it's because of poor performance that you're there and they don't actually want you to be there?

Eberle: I think that it is less the case that the business does not want us to be there for two reasons. One, InHouse Consulting does not engage in projects that are unlikely to secure buy-in and therefore success. Two, as DPWN employees our goal is to increase the success of the group—not get paid a fat bonus for a solution that won't work, and I think others in the business recognize this.

This is reflected in the amount of information you can get regarding the problem and solutions. I have found that it is really fun to get into the nitty-gritty because it is much more challenging to say here's 10 general best-practice recommendations versus here's 10 extremely detailed recommendations you can begin implementing tomorrow.

Vault: Why are you able to get into more detail?

Eberle: Because we are part of the company, there is zero likelihood we, as a consulting group, would data mine information from one project and use it for a competitor's project. For example, the five-year strategic operations roadmap for a business is not going to be shared with other consulting groups due to security concerns. By having access to the roadmap we may find out about an acquisition target that would change our recommendations.

The other great thing about InHouse Consulting is all the specialized knowledge we have within the group. It is enormously helpful to have a network to rely on if you have a question about anything logistics related. If you worked at an outside consulting firm unless you had a large logistics practice, it could take you days to come up with answers to some of the specialized logistics questions.

At InHouse Consulting everyone is extremely supportive and friendly. The best part is that we all work together, working towards the same goal of increasing the organizational effectiveness of DPWN. I didn't always get that feeling as an external consultant.

Vault: What sort of projects have you worked on?

Eberle: I worked on a project investigating market opportunities, which was great fun. I have worked on project working on sales force optimization and I am currently on a project looking at finance and accounting. The projects are quite different but each has been very interesting.

Vault: Were all these projects in Florida?

Eberle: They were all based in Fort Lauderdale but have included components from all regions of the world. The great thing about DPWN is that every project has a high degree of internationalization to it.

Vault: What are your hours like?

Eberle: Usually, 9 to 7. The group generally does not work weekends, which has been nice. There may be some travel, but it is not the weekly grind and usually you get to come home to sleep in your own bed—which means you are pretty much guaranteed to get a good night's sleep.

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Vault: What are some other advantages of in-house consulting versus external consulting?

Eberle: One of the key advantages is that many in-house consulting groups have strong ties within the management level of the organization, which often allows for movement directly from the consulting group into the management track.

In this respect in-house consulting is similar to project based management development programs, but in-house consulting groups typically have a higher degree of project diversity. Because you have worked on projects for a variety of functions within the organization, you can often follow an accelerated career path.

In-house consulting also allows you to build a really strong network due to the number of clients you work with. With external consulting, while there are opportunities to join the companies you're consulting with, you probably don't have experience working with a number of functions within the client organization.

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Manufacturing

INDUSTRY OVERVIEW

Got the motor running …

America's manufacturing industry is a powerful engine that drives the nation's economy, constituting close to 10 percent of employment and 12 percent of the U.S. gross domestic product (GDP) of $14.3 trillion in the 2008 fiscal year. In the past decade, the industry contributed 22 percent of the country's economic growth—28 percent with the addition of software production. Through a phenomenon known as the multiplier effect, manufacturing generates business in other industries because it requires intermediate goods and services in its production process—so that, according to the National Association of Manufacturers (NAM), every $1 of a manufacturing product sold to a final user has created an additional $1.37 in intermediate economic output, more than from any other economic group. The United States continues to lead the world in many manufacturing areas, including automobiles, aerospace, steel, telecommunications and consumer goods. In addition, the United States is the No. 1 exporter of manufactured products worldwide, and its total manufacturing output in dollars ($1.7 trillion in the 2008 fiscal year) surpasses the GDP of all but eight of the world's countries. The manufacturing and exporting of goods is critical to maintaining a strong currency and economy, so it's no wonder economists pay close attention to manufacturing stats and figures.

The manufacturing process is a part of a wide array of businesses, from mineral products, metals, chemicals, plastics, machinery, computers and electronics to motor vehicles, furniture, paper, textiles and clothing. Several of the more important sectors are discussed in the paragraphs below, as well as in the consumer products chapter, which contains information about the manufacturing and marketing of food.

Greener pastures

The current media focus on global warming and greenhouse gases has begun to trickle down to manufacturers' corporate officers, who (in some cases) look forward to devising environmentally friendly policies and products. DuPont chief Chad Holliday has made no secret of his decade-long involvement with eco-positive projects, and estimates that $5 billion of DuPont's annual $30.5 billion revenue (for 2008) comes from items that are either energy-efficient or non-harmful to the planet. Moreover, the company plans to increase that amount by $2 billion by 2015. DuPont's pet projects include biofuels and a miracle fiber called bio-PDO (made from genetically adjusted corn sugar).

DuPont, Alcoa, Caterpillar and other firms are part of the U.S. Climate Action Partnership (USCAP), which proposes a market system that would lower the cost of cutting greenhouse-gas emissions, giving companies an incentive to do so. And in April 2007, Ford CEO Alan Mullaly said that he clearly believed in the reality of global warming, and created an executive slot devoted to environmentally friendly strategies, the first such staff position for an automaker.

Auto manufacturing for the people

Manufacturing has long been closely tied to automobile production, and big-ticket purchases like cars are closely tied to consumer confidence. Indeed, for a long time, a Michigan assembly line was exactly what many people think of when they hear the word "manufacturing" … but perhaps not anymore. Up through 2008, the United States has been able to weather the competition from Japanese companies, but just barely. For decades, General Motors remained the world's largest auto manufacturer, but its share of the U.S. market hit its first 80-year low (24.6 percent) in 2006. It faced a big threat in Toyota, which overtook Ford Motors as the No. 2 manufacturer and seller for several months in 2007 by continuously, and thoughtfully, improving product quality—it ceded the crown to GM, missing by just 3,100 vehicles. In 2008, however, Toyota came out on top, selling 8.97 million to GM's 8.35 million. Recently, the so-called "Big Three" automakers (General Motors, Chrysler and Ford) claimed about 55 percent of the U.S. passenger car market—until American-made staples like the Ford Excursion and Chevy Tahoe witnessed a steady erosion in sales. The main culprits in the auto industry slump include the hike in gas prices, culminating in record-high levels per gallon during summer 2008 and the rapidly increasing price of steel per ton, which more than doubled from $580 in midyear 2006 to $1,100 in July 2008 (according to purchasingdata.com). In turn, the steel industry and other automotive-related sectors experienced a negative ripple effect from manufacturing slowdowns.

To pique public interest, automotive companies have increasingly combined with major electronics manufacturers to provide a variety of in-vehicle add-ons like satellite radio, crash avoidance systems and iPods. At the same time, though, such developments also increase automotive warranty costs and the possibility of vehicle recalls. Furthermore, expected changes in regulation of emissions and fuel efficiency, and consumer leanings away from gas-guzzling cars in these times of lofty gasoline prices—not to mention their precarious financial positions—are forcing the larger U.S. automakers to more seriously consider their contributions to the global warming problem. GM is toying with a battery-powered car (the Chevrolet Volt) and Ford has created an executive position devoted to environmentally friendly strategies. As the auto industry attempts to rebound in the face of crashing demand for trucks and sport utility vehicles, analysts warn that U.S. companies need to look to the East, as Asian markets improve and manufacturers like Toyota and Honda pick up the pace.

Enhanced competition has also arrived via BMW, Honda, Hyundai and Toyota, as these foreign companies moved their manufacturing plants to the Southeast U.S. In the past 20 years, they have quietly cut down on the number of imports to the U.S. and increased domestic production by seven times—in fact, 2005 was the first year that Japanese car makers made more cars in the United States than in Japan. The Association of International Automobile Manufacturers estimates that by 2009, these foreign automakers will have invested $3.3 billion.

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Steely resolve

Steel is another U.S. manufacturing mainstay. Generally, the industry is strong and steady—in fact, demand for steel has been bolstered in recent years by the developing economies of India and China (which is responsible for approximately one-third of the world's demand). Worldwide, the sector is made up of a lot of very rich ($20+ billion in annual sales) firms, but the top-10 producers only account for 350 million of the 1.3 billion tons manufactured each year. The steel market hasn't always been so healthy, however. Prices in 2002 were low, with seven companies controlling nearly half of American steel production. Along with rising prices and increased efficiency, a spate of acquisitions revived the industry. In 2006 alone, 241 buyouts or mergers were announced, to the tune of $82.3 billion (with another 129 agreements signed in the first half of 2007) and the Standard & Poor's Supercomposite Steel Index soared 63 percent. The largest domestic manufacturer, U.S. Steel, purchased Lone Star Technologies for $2.1 billion in early 2007 to command the top spot as producer of pipes for gas and oil interests, and intrigued speculators by talking with Germany's ThyssenKrupp (the world's 10th-largest steel concern according to the International Iron and Steel Institute) in June 2007. Analysts were forecasting the wave of industry consolidation to continue as late as August 2008, but the collapse in global economies since then has likely quashed that possibility.

Chemically altered

Besides representing the largest single slice—4 percent—of the manufacturing pie, chemical production is perhaps the most important segment of the industry, since it produces the solvents, dyes and other compounds used in all manner of other manufacturing industries: automobile production, paper processing, pharmaceuticals, electronics and agricultural. (Over 55 percent of all manufacturers say that their production is significantly, directly dependent on chemicals.) In addition, chemical manufacturing companies make the soaps, bleaches and cleaners purchased by consumers for use at home.

During the summer months of 2008, high oil prices drove up the cost of many petrochemical-derived products, and rising prices for natural gas (used as part of many manufacturing processes) added costs as well. In the past, this has resulted in decreased revenue industry-wide, along with an increased drive toward mergers and acquisitions. (For reference, see the June 2006 BASF purchase of the Engelhard Corp., a maker of pigments and chemical catalysts, for $5 billion.) Manufacturers see specialty chemicals such as these as perhaps the best avenue for growth; and companies can retain a competitive edge by producing agents used for highly specific purposes. The failure of banks and credit markets later on in the year brought prices to 60 percent (and sometimes less) of their previous record levels.

Despite estimates of higher production, the Bureau of Labor Statistics expects employment for production occupations within the chemical manufacturing segment of the manufacturing industry to decline by 7 percent through 2016, due to increased efficiency, production outsourcing and more stringent regulation, among other factors. Even before 2008 and "layoff disease," three sectors—basic chemicals, other chemical products and synthetics—were projected to be the hardest hit in upcoming years, losing a total of 80,000 workers.

All roads lead to tech

Electronics manufacturing includes companies engaged in manufacturing power distribution equipment, communications devices, semiconductors, industrial electronics and household appliances, among other things. In particular, the sector plays a vital role in a number of other industries, including telecommunications, medicine and automotives. Electronics demand is thus inextricably tied to the rise and fall of dependent industries, even though innovative new consumer products and advancing digital technology have opened up new markets and avenues of revenue. Despite this, the BLS expects that employment in this sector will increase by just 5 percent through 2016 due to increased efficiency and jobs being moved overseas.

Production grab-bag

Other manufacturing sectors include textiles, apparel, forestry products (furniture and paper), rubber and minerals. Together, these hold claim to roughly 22 percent of all U.S. manufacturing output. Here again, employment figures have plummeted in recent years because of a convergence of unfavorable economic conditions, changes in demand due to the "paperless" business environment, and new manufacturing techniques that use less wood for furniture and cabinetry. For a while, the industry expected solid profits as the demand for lumber increased—driven by a rise in housing and construction activity in the hurricane-damaged Southeast. But the good news didn't last long. A severe depression in the housing market settled in, demand for lumber declined, and new home construction in 2007 and 2008 fell off a proverbial cliff.

Work hard for the money

Though all together the manufacturing industry enjoys higher wages than private industry as a whole (by nearly 25 percent), its component sectors vary wildly. Nonsupervisory workers at apparel manufacturers have average weekly earnings considerably lower than the average for all manufacturing ($351 and $659, respectively)—and worse, the textile sector projects a loss of 46 percent of its staff in the coming years due to imports and technological advancements. Steel workers and manufacturers of automotive and aerospace products have the highest salaries in the group.

Nonetheless, the industry has experienced a great deal of pricing pressure in the mid-2000s. The price of natural gas, used in many processes, has jumped, and a combination of higher costs (corporate taxes, insurance and legal costs, pollution abatement fees and employee benefit programs) has put the United States at a significant disadvantage. In a report, the NAM and AMR Research calculate that these "add 31.7 percent to the cost of

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doing business in the United States compared to our nine (largest) trading competitors." And as the proportion of exported goods has risen, passing these costs along to the consumer has become extremely difficult. These facts point to possible escalating encroachment on the manufacturing industry by foreign firms.

A shifting outlook

Following a boom that spanned most of the 20th century, manufacturing employment declined sharply during the 2001-2003 economic downturn. Despite the economy's general resurgence from 2003 to 2006, industry employment has dropped drastically in the face of 2008's economic earthquake. A combination of circumstances brought the sector to this point; the subprime mess, a dramatic spike in oil and energy prices (especially during summer 2008), banking failures (also tied to subprime loans), and eroding consumer confidence and subsequent pullback on purchases. These factors led to mass layoffs not only at auto manufacturers, as has been widely covered in national media, but also at chemical companies, consumer products houses and chip makers. Cuts of 5 to 10 percent were common—automakers dropped tens of thousands of workers.

In addition, in the past few years, manufacturing (like many other industries) had seen a steady push toward technologies that promise greater efficiency and productivity while reducing the need for manpower. It's likely that many of the factory jobs lost since the beginning of the century will never return, signaling a fundamental shift in the industry as a whole. According to the U.S. Bureau of Labor Statistics, more than 870,000 manufacturing jobs were lost in 2008. That figure, coupled with the fact that unemployment in the industry stands at 11.5 percent as of February 2009, means the sector is suffering Great Depression-level ills.

WHAT IS THE SUPPLY CHAIN?

Suppliers and vendors

A simple definition of supply chain is the network of vendors that provides materials for a company's products, but in reality, the supply chain is more complicated. There is a stream of flows from supplier to supplier until a product reaches an end user. For example, oil is rigged from the ground, sent to a refinery, plastic is made, an injection molding shop buys plastic pellets, makes plastics components, ships the components to a customer, the customer assembles the plastic parts into their machine, and then sells the machine to their customer. The farther away from the customer, the farther "upstream" a supplier is considered to be.

The network of vendors in a supply chain often includes tiered suppliers (meaning a company does not receive materials directly from the supplier, but is involved in getting materials or parts from an upstream supplier to a downstream supplier). The more complex a product, the more significant the upstream supplier's roles are. From a supply chain manager's perspective, his suppliers are primarily responsible for managing their own supply chain but he should have some involvement.

Oftentimes, a manufacturing facility acts as a supplier to a downstream manufacturing facility. For example, a company could have their manufacturing plant in the U.S. and their assembly plant in Mexico. The U.S. plant would be considered an internal supplier, since it's part of the same company. The transportation of materials throughout the supply chain is often called logistics. This includes air, land and sea shipping, as well as customs processing to allow materials to cross borders. The supply chain does not end until the product reaches the consumer. For this reason, distribution centers, distributors and wholesalers are all part of the supply chain. It is not rare for a supply chain to involve a dozen parties.

The relationship between a supplier and a manufacturing company is not as simple as a supply chain manager ordering parts and the supplier shipping them. There are continuous flows between the supplier and the customer. The Supply Chain Flow Process Chart on the next page shows these flows in chronological order from top to bottom. (Note that this figure is for an already established supplier and material.) In the case of a new supplier, a supplier audit (a verification that a supplier has the potential to meet the manufacturer's needs) should be conducted first to determine if the supplier is appropriate for the work.

In the case of new material, the customer must first supply the anticipated number of units required, along with all of the drawings and specifications, to the supplier to get a quotation of unit price and lead time. After the quotes are received and a supplier is chosen, a purchase order should be done for the setup costs and samples. Setup costs can be a few hundred to hundreds of thousands of dollars (mostly tooling costs). A supply chain manager should always present the setup costs along with the piece price quote when working with engineers (so manufacturing methods are not specified solely on unit cost). For example, making a simple part by thermoforming would cost about $50 each, whereas making it by injection molding would cost $5 each. However, injection molding requires a $10,000 mold. If you only need 20 pieces annually, you are better off using thermoforming.

Depending on whether prototypes or the component have already been made or not, the samples ordered may be just to verify the ability of the supplier to make the parts, or to verify the design of the finished product. In other words, the supplier may fabricate a part correctly, but a manufacturer's engineering department may determine that the part needs to be redesigned. This would start the process over.

A manufacturing company has to furnish a forecast (usually annually) so the supplier can then go through his supply chain and make sure that all the materials needed (e.g., material, lubricant, machine capacity, labor resources) for the component the supplier provides will be available. A manufacturer then issues a purchase order, which serves as a commitment to purchase a defined number of units. A purchase order must have terms

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and conditions accompanying it to protect your company. Usually, a customer will not want to receive the entire forecast amount at once. Instead, a manufacturer could issue multiple purchase orders throughout the year, or do what is called a blanket purchase order for a large number and then make releases against that purchase order for small numbers when they actually want it.

For example, a company uses 1,000 rods of aluminum in a year. They may lock into a price for the entire year (the price of aluminum changes daily), but not take delivery of all 1,000 rods at once. Instead, the supply chain manager would request economic order quantity (EOQ) releases. An EOQ is the optimal balance between taking delivery for the entire 1,000 rods at once and paying for material that will not be used for months, and paying transportation, inspection and transaction costs for receiving frequent smaller shipments.

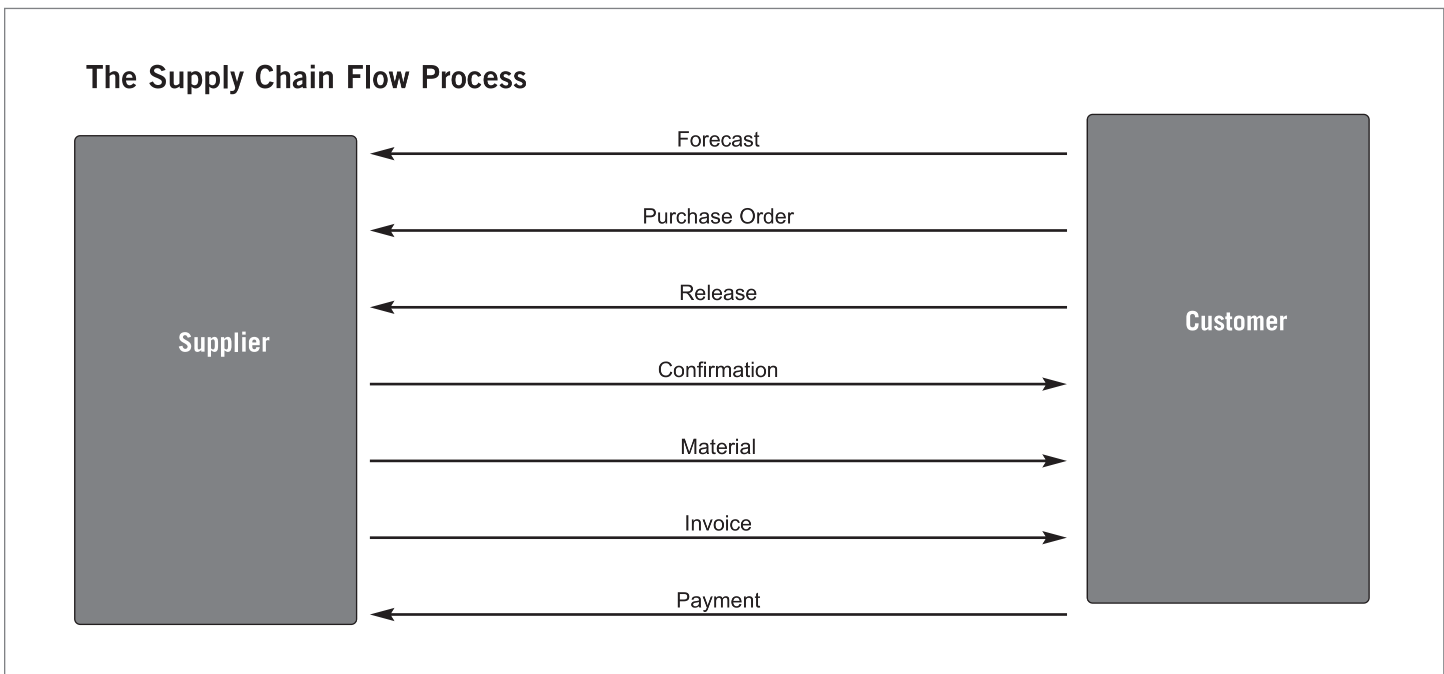
The formula for EOQ is:

$$\sqrt{\frac{2 \times \text{Demand} \times \text{Order Completion Cost}}{\text{Unit Carrying Cost}}}$$

The Order Completion Cost is the total cost of placing the purchase order, paying for a setup at the vendor (if applicable), and paying the transportation and in-house handling to get the components to the production floor. The unit carrying cost is the cost of holding inventory (insurance, warehouse lease, shrinkage costs, security, cost of capital, etc.).

Customers can do releases to the supplier at specific time intervals or specific inventory intervals. With inventory intervals, when a customer gets to a certain number of rods left, they would issue a release for the next shipment of rods.

A supplier should send a confirmation to the customer acknowledging they have received the purchase order and agreed to the terms and conditions described therein. The supplier sends the material per the purchase order and then sends an invoice for the number shipped. Once the goods have been accepted by the customer, a payment is sent to the supplier equal to the amount of the invoice.



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OEM suppliers

There are basically three types of suppliers. In the first, or most conventional scenario, a company provides a design for what they want the supplier to furnish and the supplier makes it to the company's specifications. The second is the original equipment manufacturer (OEM) supplier. In this case, the company does not specify the design for a custom product, but in fact buys a product that the supplier sells to many customers. These products are called off-the-shelf (a screw is an example of a component that is usually purchased as an off-the-shelf product rather than being custom designed).

Contract manufacturers

Contract manufacturers are the third type of suppliers, in which formal contracts between the supplier (the contract manufacturer) and your manufacturing company are relied upon. The contract manufacturer purchases or makes all of the components, assembles the product, tests it, and ships the finished product either directly to the customer or to a warehouse. Companies that want to get out of the manufacturing aspect of their products turn to contract manufacturers. The supply chain manager finds suitable contract manufacturers and manages the relationship after a contract has been signed. A company has to put a huge amount of trust into the contract manufacturer, since the customer does not have the same level of visibility or control over the manufacturing of the product as they do when they are making the product themselves. Contract manufacturing is an option in almost every industry from food processing to semiconductors.

Freight forwarders and transportation providers

Transportation providers and freight forwarders are also controlled by a supply chain management practitioner. Transportation providers pick up product from one location and deliver them to another. Obviously, it is very costly to pick up some cargo in Los Angeles and drive it all the way to New York for delivery. For this reason, these companies consolidate shipments from different places in a departing hub (whether it be a port, a warehouse or an airport), send them to an arriving hub, and then deliver them to their final destination. It is quite common for a transportation provider to hand off a shipment to another company to carry out some or all of the transportation. This is called subcontracting or third party carriers. Specialty transportation providers also exist (i.e., for transporting explosive materials, refrigerated cargo, etc.). Some manufacturing companies have traffic, transportation, or logistics departments that take care of most of this work so a supply chain manager can concentrate on suppliers only.

Freight forwarders specialize in transportation across borders. They coordinate the paperwork, book the space with a transportation provider, and track the goods from pickup to delivery. Because of the complexity of customs requirements, tariff codes and language barriers for different countries, it is better to have freight forwarders involved if a company is dealing with more than a few countries or commodities.

SUPPLY CHAIN CAREERS

Supply chain management occupations

Below are brief summaries of the duties for supply chain management occupations. Not every organization will have all of these positions and the duties of the positions will not be limited to those described here.

Buyer: Buyers do purchasing just like supply chain managers. The difference is that supply chain managers buy parts and materials for the company's products, whereas buyers purchase everything else. Some examples of items that buyers procure are desktop computers, office supplies and hand tools.

Planner: A planner takes the forecast from marketing/sales and breaks that into a build schedule of what products should be built and when they should be built to meet inventory goals. Planners also work with supply chain managers to control inventory of parts and materials.

Purchasing administrative assistant: A purchasing administrative assistant takes care of the filing of paperwork for the purchasing department. He/she will also coordinate travel arrangements.

Logistics manager: A logistics manager is responsible for the traffic of goods coming to and going from the factory. This encompasses air, land, and ocean traffic, both domestic and international.

Supply chain engineer: A supply chain engineer works on technical issues with the supplier. This involves working with suppliers to improve their quality, helping them to analyze failures, and developing new products.

Commodity manager: A commodity manager is similar to a supply chain manager. Some companies separate the ownership of parts and materials for the supply chain managers by product line. For example, if a company makes binoculars, telescopes, cameras and microscopes, and they have four supply chain managers, they might assign one supply chain manager for each product family. Another approach is to distribute the work by commodity. One supply chain manager would be responsible for the optics on all of the product families and one supply chain manager would be responsible for the plastic parts on all of the product families. When this is the case, the supply chain managers can be called commodity managers.

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Receiving inspector: A receiving inspector is responsible for checking the quality of the parts and materials that come from the vendor before they get moved to the production floor for consumption and before the supplier gets paid. There are statistics charts that define the number of samples from a shipment that need to be checked to meet the desired confidence level that the entire lot received is acceptable, so a receiving inspector does not check 100 percent of the incoming items.

Procurement manager: A procurement manager is in charge of the buyers and supply chain managers. The procurement manager sets the goals for the department and provides a level of escalation when a supply chain manager is having trouble managing a supplier.

Receiving coordinator: The receiving coordinator processes the parts and materials delivered. This includes doing a receiving transaction in ERP, moving the parts to their location, and making sure the paperwork the supplier sends matches what was received.

Receiving supervisor: The receiving supervisor is responsible for the receiving department. Besides supervising receiving department workers, the receiving supervisor is in charge of creating and improving department processes.

Accounts payable coordinator: The accounts payable coordinator works in the accounting department and processes the invoices from the suppliers. After verifying the invoices match what was actually received, the accounts payable coordinator sends a payment to the supplier.

THE MBA IN SUPPLY CHAIN MANAGEMENT

MBA graduates seeking opportunities in supply chain management usually pursue either a project manager or director of materials position. Both of these vocations require previous experience in supply chain management, so the likelihood of a new graduate landing one of these positions is low.

A project manager is responsible for large transitions related to supply chain management. One example of these transitions is a plant shutdown. A company may decide that it is more cost-effective to stop manufacturing their products themselves, and instead have a vendor do it for them. The management of a plant shutdown project requires cross-functional teamwork between accounting (working out the costs), engineering (helping the vendors get up and running), human resources (laying off the production workers), and manufacturing (managing the inventory to make a seamless transition). Another example of a transition is a large scale vendor change. A company may have a contract manufacturer in Mexico making its products. In an effort to reduce costs, the company may want to partner with a contract manufacturer in Vietnam instead. Making this transition can be even harder than a plant shutdown, because the existing supplier may become bitter and refuse to cooperate. Most often, these transitions are done without notifying the existing supplier until the new supplier is running at the required capacity.

A director of materials is responsible for the strategy of the purchasing group. He does not get involved in the details of the day-to-day operations of the supply chain management department, but will assume the reins when issues get out of control or need upper-management attention. A director of materials also sets the practices of his departments and approves large dollar item purchases. Similarly, the director of materials participates in vendor relationship management for the suppliers with whom the company spends the most money. In addition to providing strategic direction to the purchasing group, the director of materials spends significant time meeting with the other executives in the company, sharing expertise, championing causes, and staying abreast of issues facing the company. A director of materials also spends a lot of time networking with people outside of the company (i.e., industry experts, competitors and prospective vendors).

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MEDIA AND ENTERTAINMENT MBAS

Not long ago, the creative types in media kept a wary eye on the suits or the bean counters, as the business side of media is known. For years, Wall Street paid little attention to the media biz, an industry it didn't take that seriously. Now, with the rise of the global conglomerates and the aftermath of dot-com meltdown, many media professionals, both on the creative and business sides, are finding it necessary to pursue an MBA.

A new order

"When we started, I had two courses and we had about 40 people in each. Today, in any given semester we have about 400 to 500 students taking one or more classes," says Al Lieberman, executive director of NYU Stern's Entertainment, Media and Technology Initiative. Started in 1996, Stern's EMT program awards a certificate to those students who complete at least nine credits in courses like Entertainment Finance and The Business of Sports Marketing. Over at Fordham Business School, Dr. Everette Dennis, chair of the communications and media management program has also seen an increased interest over the last couple of years, "We have a relatively small program, but we've had probably a 20 to 25 percent increase in applications." Fordham's program, believed to be one of the first in the country, began in the mid-1980s when Arthur Taylor, a former president of CBS, arrived as the business school's new dean and brought in William Small, another CBS executive, to head up the program.

So why are more and more media professionals interested in an MBA? Of course, many can argue that a wave of dot-com dropouts have decided to hide out in business school in the wake of the collapse of the dot-coms and the weak ad market. Lieberman argues that this is no trend. "It's a fundamental change because the competitive factors that are driving this are not going away. They are intensifying." He is talking about the shakeup of the media landscape. Deregulation and mergers have given rise to media behemoths.

Technology, without a doubt, has wrought havoc in the industry, forcing firms to rethink their business strategies. That's one reason why Jason Oberlander, a first-year student at Columbia Business School, finds the business side of media so attractive. "The technology that comes out, it's coming out so quickly that it requires people who are able to adapt and think on their feet and are able to pursue new opportunities in order to be successful and compete effectively."

Consumers today have a rainbow of media products to choose from. Dennis says the media industry has become an important economic engine and Wall Street has taken notice. "All of the sudden this was an industry to be reckoned with." Lieberman points to a shift towards cooperation and the building of alliances as well, in an industry that has been notoriously competitive. The recent negotiations between CNN and *ABC News* would have been unheard of just 10 years ago. Not only has media seen enormous domestic growth, but abroad as well; says Lieberman, "For every dollar that is generated in the United States, 15 years ago the most they could look for was maybe 25 cents outside, as an export. Now it is dollar for dollar."

What does an MBA really offer?

"A few years ago, I would have said, 'An MBA—that would be nice, but it really isn't necessary.' Now, I think an MBA, or at least some exposure to business practices, is probably essential," says Dennis. He cites a growing need for better understanding of market research, audiences, how to manage change and the cash position of a company. In the mid 1980s, Lieberman started a marketing firm focused on entertainment and media. At the time, he couldn't find enough qualified candidates to keep pace with the growth of the firm. He ended up recruiting people right out of one of the courses he was teaching at NYU. "I taught this course that I created, called the Marketing of Entertainment Industries at the NYU School of Continuing Education. Out of the 40 or 45 adults that would come in from all kinds of industries to learn about this, I'd pick one or two that were the best and offer them jobs."

Oberland left Showtime as a communications manager in sports and event programming, but felt an MBA was the only way to increase his chances for advancement. "I felt that doing the transition within the company would have been difficult. I certainly would have had to take a significant step down in title and in compensation." Dennis concurs that an MBA is increasingly becoming a requirement for management in media companies. "I think people on the creative side are not going to move into major management and executive roles unless they either get this kind of background and experience on their own in some way, or they go to a business school and get it where it is taught systematically."

Bridging the gap

"One of the biggest problems was the business people who stepped into this world of creativity, didn't understand the creative product, didn't understand how it made money, didn't understand how to apply the basic strategic thinking, therefore there was a huge disconnect," says Lieberman. It takes two to tango, and the creative side has also contributed to the disconnect. Fordham, recognizing the interest by some creative folks to bridge this gap, will be launching a new MS program soon, "It's really tailored to the people from the creative side who do need to know and understand more about business." Stern is also helping the business types better understand the creative process by encouraging Stern students to take courses in filmmaking at the Tisch School of the Arts. "They're not going to make films, but at least they understand the skills, so they don't come on a set and make complete idiots of themselves." At the end of the day, Oberland argues that you need the overall package to get ahead. "I think someone who balances the creative skills with business skills is the most suitable person to run a business from a general management standpoint."

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MEDIA BUSINESS POSITIONS

Strategic planning

Strategic planning groups are small groups of about five to 40 professionals that serve as in-house consulting and investment banking arms. Not coincidentally, most employees are ex-consultants and bankers. Strategists are involved in valuation and negotiation decisions for acquisitions, business plans for new ventures, the expansion of the current business lines (and sometimes creating new ones), forward-looking financial plans to provide budgeting and overall prognosis for the health of all divisions of the company, and any other high-level issues that the company as a whole may be facing.

Because these projects affect the overall health of the company, meetings are often power sessions in the corporate dining room or top-floor board rooms with the company's senior executives, including the CEO, COO and CFO. While exposure to these individuals is one of the perks of this position, the jobs also tend to be incredibly challenging and taxing, as inordinate amounts of background data, research and information are synthesized and spun into a story prior to the presentation of findings. This group's job is all the more challenging, given that the recommendations that strategic planning groups deliver must necessarily be at odds with decisions that have already been made. Strategic planners, after all, are constantly trying to maximize the returns on the company's capital, which means analyzing and dismissing many current projects.

This function is also sometimes called corporate development, business development or in-house consulting. Because of the frequent exposure to high-level executives, the overall clout of the group and its impact in the major decisions of media conglomerates, these tend to be highly sought-after jobs, mostly filled by top-notch MBAs.

Corporate finance

Corporate finance is a sister group to strategic planning. Corporate financiers are the people who work in concert with investment bankers (or in lieu of them) to price deals, investigate options and plot the course of the company's growth through acquisitions of other companies.

Nearly all the major entertainment companies have grown through major acquisitions in the past two decades, increasing the importance of their corporate financiers. Corporate finance professionals investigate acquisition opportunities, gather competitive intelligence on other companies, determine synergies and negotiate deals. Likewise, they also divest businesses that may be undesirable in exchange for cash.

Most individuals in the corporate finance function are former investment bankers, accounting wizards and CFOs-to-be who bring their expertise in finance and public company performance to the entertainment industry.

Corporate marketing

Corporate marketing assesses consumer reaction to new projects, initiatives and endeavors. Often these groups are direct reports of business units (where each division has its own marketing group), but there are also many cases in which these groups are centralized under corporate and provide their services on an as-needed basis. The benefit of centralized marketing is that it enables the sharing of data across the company since the information is compiled by one group that can then spread the information. It also provides leverage with outside vendors (advertising agencies, media placement agencies, market research firms) when negotiating fees: the more money a company plans on spending with one deal, the better its negotiating position when choosing among competing agencies.

Corporate marketing encompasses many objectives:

- Market research and the execution of both quantitative and qualitative research
- The management of outside vendors who oversee new software, focus groups or large research studies
- Determining revenue projections for new products
- Soliciting consumer feedback on new and existing products
- Creating pricing models
- Estimating market penetration and rollout strategies
- Authoring marketing plans
- Supervising advertising and direct mail
- Overseeing overall brand equity and elements of brand differentiation like logo and identity
- Overseeing product-specific public relations efforts that drive coverage in the media

Corporate marketers often have an extensive background with advertising agencies or marketing consultancy firms.

Corporate public relations

For years, corporate PR was considered to be exclusively for damage control during events like the Exxon Valdez or the Tylenol cyanide scare. Whenever a CEO had problems with the press, the white knights of corporate PR came to the rescue to help avert a worse catastrophe. Corporate PR groups still perform

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this function. However, the work of corporate PR groups is much broader than just handling crisis management. Corporate PR groups now manage corporate spokespersons, serve as experts on media training and public appearances and coach CEOs as they prepare for media appearances and event marketing.

The corporate PR group is also known for initiating major press coverage in industry and business trade publications, as well as corporate-focused articles in general interest magazines like *Time*, *Newsweek* or *Vanity Fair*. PR professionals also develop relationships with government officials and lobbying groups that may have influence over legislation affecting the company's growth and development. Often, this group works with outside public relations agencies like Edelman Worldwide, Bozell or Hill & Knowlton.

Internet strategy

As content becomes increasingly commoditized due to the fact that so much on the Internet is free, there are challenges in protecting the hallowed material that entertainment companies create. While studios would love to use the Internet to hoard their content and prevent anyone else from distributing and profiting from it (sort of a preemptive strike against companies like Napster), the Internet is also an incredibly seductive resource for marketing, mainly because information can be communicated broadly and cheaply—much more inexpensively than TV commercials, billboards and bus shelters. The popularity of *The Blair Witch Project*, a surprise hit, was partially attributed to a very effective website.

This tension (to promote our properties or protect them?) feeds the very complex and critical role that Internet strategy plays in the growth of media and entertainment companies. Because of the constantly evolving and still uncertain nature of the business, there are hundreds of individuals at nearly all major entertainment companies, tracking evolving technologies, coding pages, maintaining fresh website content and otherwise marketing via the Web. Media companies with Internet strategy groups include Walt Disney/ABC and AOL Time Warner.

Real estate development

Real estate development within an entertainment company involves not only theme parks, but also extensions of an entertainment empire's brands, including themed restaurants (Hard Rock Café), sports stadiums, entertainment complexes (Sony Metreon) and other destinations that involve large tracts of land that can both provide steady revenue streams and impress an entertainment-seeking audience. The major entertainment companies often have proprietary lots of their own land that were either part of the company's origin (as Disney does with its land in Florida and Southern California, now managed under the aegis of the Disney Development Corporation), were results of acquisitions or were acquired over time.

As real estate development is its own unique business with special financing rules and its own intrinsic rewards, the field generally attracts individuals from outside the entertainment industry. The most successful individuals in these divisions are those with substantial experience managing vendors, contractors and landscape architects, working with community development offices, leveraging tax benefits and executing visionary blueprints. Real estate development is a particularly exciting division for individuals wishing to combine interests in the hospitality industry, finance and real estate.

OUR SURVEY SAYS: LIFESTYLE AND PAY

Hours

Like so many industries, there is a work/life trade-off that comes in the entertainment industry. "There are tons of trade-offs," says one longtime employee in the strategic planning group of a studio. "The entertainment industry definitely doesn't come to mind when I think about a balanced lifestyle. It's a rare day I don't put in 12 hours."

But that's not always the case. There are many individuals that report (mostly outside of strategic planning and other corporate groups) consistently being home by 6 p.m. While the career trajectory is slower and the compensation is lower in the "business units" (versus the "corporate side"), the hours and the requirements are less demanding. There are always exceptions. Says one theme park executive: "Hours are usually 9 to 6, but every year for a few weeks in the spring during our five-year planning process, it's not uncommon for us to put in 12 hours a day, seven days a week."

One rule of thumb: Corporate jobs that report to the CEO typically face "fire drills" (i.e., urgent deadlines imposed at the last minute) on a regular basis. Jobs that are more predictable (i.e., positions with business units rather than corporate-level positions) generally have more predictable hours.

Pay

"The pay in corporate jobs is usually up there with investment banking and management consulting," reports one former consultant-turned-analyst at a publishing house. The business units, however, are typically known for paying less, both because they are responsible for profit and loss (high salaries come straight out of the topline) and because of the less grueling hours.

At the corporate level, beginning-level analysts out of college typically start at around $40,000, with several thousand dollars in bonuses and a 15 percent raise after a year. Managers make at least $80,000 and directors usually crack six figures. VPs earn in the low $100K range.

In business units, the pay can be anywhere from 10 to 30 percent lower.

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Other perks

Entertainment is attractive partly because of its perks. "Let's face it, I got into the industry hoping to hang out with rock stars," confesses one record industry insider. Employees get discounts on products, invitations to advance screenings of movies and tickets to movie premieres and gala parties. That said, the perks are not nearly as lavish as the expense accounts and freebies that come on the creative side of the business. There are the stories of the business folks who occasionally get free lunches, tickets to movie premieres and celebrity wedding invitations, but these are mostly the result of a person's personal connections.

Another practice, widely considered a perk, is that many within the industry itemize taxes and deduct all their entertainment expenses in the name of the job. "I itemized everything from my stereo to my movie tickets," boasts one corporate finance manager.

Promotions and competition

There is indeed jockeying for certain roles and positions, as there is in any industry, but the business side is not as ugly as the creative side when it comes to competition. Promotion decisions are not based on whether people like you, or on how your last film did, but rather on the body of your professional work. Even though there is an oversupply of people vying for the available jobs, it is a largely meritocratic industry.

A DAY IN THE LIFE: STRATEGIC PLANNING EXECUTIVE

While there's no "typical" day in strat planning at a media company, below are some of the most common day-to-day tasks:

- Interfacing with other business units, domestically and abroad, either in calls or in meetings (25 percent)
- Presentations to the senior executive team on key decisions (25 percent)
- Presentations from the business units on growth initiatives within other groups (10 percent)
- Responding to requests from senior management (25 percent)
- Managing junior team members (15 percent)

If this sounds murky or unclear, read on for an illustration of the specifics. Overall, the hours are long. There are often stories of many executives who do not have families or children, or often forsake them for their careers.

7:00 a.m.: Arrive at work, make conference calls to Europe to discuss progress on a major new initiative to expand in Europe.

8:00 a.m.: Breakfast meeting with a manager in another business unit to update one another on work and "keep both ears close to the ground."

9:00 a.m.: Review a subordinate's presentation, assigned last night. The presentation is due early tomorrow for the CEO—revisions must be made with haste.

10:00 a.m.: Return some morning phone calls. Glance at email for anything urgent.

10:30 a.m.: Leave for an off-site meeting to discuss what to do with a waning division in which the top chief just left.

10:45 a.m.: Call my assistant. Have her type up email responses to some new emails and send them off on my behalf.

10:55 a.m.: Arrive at off-site meeting. Listen to presentations from key leaders on what to do next.

12:00 p.m.: Depart for lunch meeting with a senior VP at another small entertainment company to propose an acquisition.

1:30 p.m.: Return to office to debrief with CFO on the numbers needed for a five-year plan.

3:00 p.m.: Answer emails, review daily trade publications, *The Hollywood Reporter* and *Daily Variety*.

3:45 p.m.: For fun and to build team morale, respond to office pool on what the weekend's box office will be.

3:47 p.m.: Spontaneous meeting with CEO in the hallway—turns out the presentation originally due tomorrow is not that urgent.

4:00 p.m.: Tell junior manager to call off work and go home since she's been pulling all-nighters for a couple of days.

4:10 p.m.: Start reviewing budget requests and expense reports of department employees.

5:00 p.m.: Peruse the proposals from three top management consulting firms, all vying for a piece of a major project.

6:30 p.m.: Make a conference call to Asia executives to discuss progress on their latest initiative.

7:30 p.m.: Answer all outstanding emails.

8:30 p.m.: Leave the office.

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Nonprofit

Imagine what it might be like to say:

"Today at work I helped to provide a safe place for 100 teens in my community to go after school to receive tutoring and homework assistance."

"This year at work I raised $1.5 million to fund a program that promotes better early education for young children."

"Throughout the course of my career I helped to clean up my city's most depressed neighborhoods and developed hundreds of new affordable homes for disadvantaged families."

If being able to do this type of work in the course of your career appeals to you, you may want to consider a career in the nonprofit/philanthropy world. It won't be easygoing, though. In recent years, and especially since the September 11 terrorist attacks, the U.S. has seen a jump in its number of registered charitable organizations. All of these organizations are in need of strong leaders as many in the sector are concerned that our country is not prepared to financially support this recent influx of newly registered charities. It is clear that only the strongest and savviest organizations are certain to survive.

This is where your MBA jumps in. As more and more MBA programs integrate nonprofit management, social entrepreneurship and socially responsible business practices focuses into their curriculum, going into a career in the nonprofit world becomes more viable. Most nonprofit organizations employ wide-eyed and ambitious youth who are striving to save the world, one puppy at a time. With your business and management skills, you can make sure they can. After all, the New York Stock Exchange is a nonprofit!

The rewards can be quite satisfying for professionals who succeed. Such positions come with, at times, a tremendous amount of prestige and respect, interactions with a broad array of people from all class levels and at executive levels, a satisfying salary. Many organizations represent the lifeblood of their communities and are in the daily eye of the local, and sometimes national, public and media.

NONPROFIT DOESN'T MEAN MONEY DOESN'T MATTER

Today's nonprofit organization is a very different institution than it was only a decade ago. In a nutshell, the nonprofit corporate culture has become more professional. An increased emphasis on efficient management has enhanced the sector's approach to program implementation or problem solving through the development of better, more cost-effective strategies for providing services. Just as important, nonprofit organizations have also greatly improved their approach to cultivating and accessing stronger financial support. Many unpredictable variables impact our national economy and subsequently philanthropic donations to nonprofits. The nonprofit/philanthropy field is learning how to protect itself from financial fluctuations.

One common approach to this challenge is to diversify funding sources. An extreme example of this is a church in Jamaica, N.Y. that is running and staffing its own charter bus company, essentially running its own for-profit venture and "donating" the income to the church's operational funds. More commonly, however, nonprofits are branching out into other areas of service in hopes of attracting new donors. This is programmatically justified as a way of making a more comprehensive impact on a single area of service or issue.

Other nonprofits are developing entirely new competencies in hopes of introducing the organization to an entirely new pool of supporters. One example of this is an early education advocacy group, Child Care Action Campaign, which has served as a facilitator and communicator of research and best practices for 20 years. Recently, however, it developed and implemented an early literacy child care provider training program, sending trainers out into neighborhoods to teach providers how to encourage literacy with the young children in their care. This decision was responsible for nearly $300,000 in new support from donors who only fund "direct service" programs (nonprofits that work directly with those it seeks to serve, rather than just training workers who work with them or conducting research), essentially opening a door to a new revenue stream. In this instance, the organization jumped into community or direct service while continuing its work in advocacy and research.

NONPROFIT ORGANIZATIONS

In the largest sense, philanthropy refers to any activity to improve society—to make communities safer, to shelter the unfortunate, to heal the sick, to give voice to the underserved, to feed the needy, among other important goals. Government agencies—from city-run homeless shelters to state art commissions, to federal welfare programs—play an enormously important philanthropic role. But from the perspective of most Americans today, the wide variety of nonprofit or not-for-profit institutions is the heart of modern philanthropy. This guide focuses almost exclusively on careers associated with these institutions, specifically those having the responsibility of raising the money to keep the organizations going. To avoid confusion, we will use the term philanthropic giving from this point forward to describe the work of the professionals who give money away to worthy causes, rather than the more general term of philanthropy, which is associated with the good works of nonprofit organizations to address a social problem or cause.

As direct descendents of the organizations first created by Benjamin Franklin, modern nonprofit organizations are, in the simplest of terms, entities with some formal structure that do not distribute any profits to its owners or leadership, but rather devote all resources toward a cause. As you can imagine, such a definition covers a staggeringly broad range of organizations—youth clubs, churches, schools, trade associations, free clinics,

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homeless shelters, hospitals, libraries, museums, advocacy groups, dance and theater troupes, to name just a few. While it is not required, most of these groups incorporate themselves under the laws of the state in which they operate, primarily to prevent lawsuits against individual staff members, volunteers and directors when someone claims negligence or other wrongdoing on the part of the organization itself. Nonprofit groups vary widely in size and shape, but most are required under state law to establish a board of directors ultimately responsible for the policies, practices and overall direction of the organization. The vast majority of these governing boards are comprised of volunteers, as was true in the days of Benjamin Franklin. And also as was true then, savvy organizations try to recruit board members with political and/or financial clout. Most nonprofits also have a formal leadership structure (an executive director or president at the very least) responsible for overseeing day-to-day operations.

Tax exemptions

Generally, nonprofit organizations also apply for tax-exempt status under the federal tax code. Such exemptions have been in place since the modern tax code was in enacted, but today's tax-exempt designations emerged in 1954, when Congress approved the first major overhaul of the code. Under current federal law, there are several tax exemption categories for nonprofit groups, depending on their activities. Most groups are public-serving organizations, as outlined in section 501(c)(3) of the Internal Revenue Code. As defined in section 501(c)(3), such as a group must be "a public charity or private foundation, which is established for purposes that are religious, educational, charitable, scientific, literary, testing for public safety, fostering of national or international amateur sports or prevention of cruelty to animals and children." A 501(c)(3) nonprofit organization is not only exempt from federal taxes (and in most cases state taxes as well), but they are also allowed to receive donations that individuals can deduct from their personal income taxes. It is important to note that the 501(c)(3) category covers both charitable organizations that provide services or advocate for a cause and the foundations and other institutions that fund these groups. You should also be aware that there are other tax exempt designations for nonprofit groups; for example, organizations exclusively devoted to lobbying and political activities can apply for tax exempt status under section 501(c)(4) of the Internal Revenue Code. Such groups can also seek donations, but these gifts are not tax deductible.

According to the National Center for Charitable Statistics, nearly 1.5 million registered, tax-exempt, nonprofit organizations operate throughout the country, including 501(c)(3) charities (from homeless shelters to grant-giving foundations), political advocacy groups, and membership organizations (such as trade associations, chambers of commerce and churches). This number does not account for the scores of smaller, informal groups (including many individual church groups and congregations) serving every population, every community and every cause that exists. The nonprofit or independent sector has evolved into a vibrant part of American life and its economy, regarded as separate from but in balance with public agencies and private, for-profit businesses.

MANY CHOICES

The sheer size and diversity of the nonprofit sector can be daunting to contemplate. With so many different groups taking different approaches to different causes, it's more than a little difficult to talk about the general character or personality of nonprofit organizations.

The IRS, the U.S. Bureau of Labor Statistics and numerous universities and think tanks that study the sector do lump nonprofit organizations into several different categories largely based on approach and purpose. The most common categories used are health, education, social or human services, religious, civic and advocacy, international relief and development, arts and culture and funders. It's a crude kind of taxonomy and definitely not infallible, since many nonprofits fall into more than one category. (The IRS and Bureau of Labor Statistics use a more complicated classification system to capture specific information about the number and kinds of nonprofits; for instance, they try to determine how many community hospitals there are or how many nonprofit theater groups.) But organizations that exemplify one category or another do share with one another characteristics in size, infrastructure, and to some extent, the kinds of people who work there.

Here's a bit more information about the kinds of groups in each category that might help you make some decisions about where you would like to work. Again, the descriptions here are very general and cannot be applied to every organization in any particular category. Moreover, no one kind of nonprofit has cornered the market on efficiency and dynamic leadership, nor mismanagement and dysfunction.

Health organizations

Health organizations—such as hospitals, clinics, nursing homes, hospice facilities and drug rehabilitation centers—take up the largest piece of the nonprofit pie, in terms of revenue, expenses and the number of people they employ. According to the latest version of the Nonprofit Almanac published by the Urban Institute, more than half the revenue earned by or contributed to the entire nonprofit sector goes to organizations providing health services. Perhaps because of their relative wealth, or the demands of physicians, salaries at health organizations (especially hospitals) tend to be among the highest in the nonprofit world. Along with healing the sick, health organizations nurture extensive bureaucracies to deal with stringent state and federal regulations, concerns about patient privacy and the need to navigate complicated health insurance programs—including Medicare and Medicaid—which provide the lion's share of revenue. So as a fundraiser, you are just as likely to work with a hospital administrator of some sort as you are a doctor or nurse. In some health organizations, politics may go hand in hand with treatment of the sick; hospital associated with universities will have interns, residents and researchers vying for the best residencies, teaching and administrative positions. You may also see different departments at a hospital competing with one another for funding, especially for clinical research. Facilities focused on community health (including hospice care and community hospitals) are known to have warmer, friendlier environments. It's important to remember that even if you are squirreled

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away in the administrative offices as a fundraiser, sickness and death will be a part of your everyday existence. Some find that fulfilling; others find it depressing.

Educational institutions

Primarily universities, colleges and private, independent schools (meaning those that are not part of the system of public schools), educational institutions are the second-largest category based on revenue and employment. For the most part, universities and schools rely heavily on tuitions, as well as funding from individuals, foundations, and state and federal agencies. Schools are also among the oldest American nonprofit institutions; indeed Harvard University, founded in 1638, is considered to be the first nonprofit in the U.S. Thu, many schools have a strong sense of history of which staff and alumni are rather proud. There is, however, a big difference in the size, infrastructure and organizational culture between a university and an independent school. Universities are large (employing hundreds of people), hierarchical and extremely political places, exacerbated by the fact that professor/scholars tend to have strong personalities. So associate professors jockey for tenure, tenured professors squabble among themselves about their scholarly pursuits and publishing opportunities and different departments fiercely compete for dollars. Given their size and the myriad demands for resources, universities maintain large fundraising programs with well-paid staff. Independent schools—ranging from Montessori to Catholic, to boarding—are considerably smaller. Some mimic universities in style and structure, but most are far less formal. Fundraising teams are also small with as little as two staff. Salaries are also considerable smaller than at universities. Many independent schools have religious affiliations, which you may be expected to uphold as an employee. Both universities and independent schools focus most fundraising activities on alumni, and there may be opportunities to meet distinguished former students who have gone on to Hollywood or politics. Most fundraisers for schools and universities find interactions with students, parents and alumni to be the best part of their jobs.

The social or human service category

This category encompasses a broad array of groups that provide resources and services for the disabled and disenfranchised, including legal aid societies, housing assistance programs and homeless shelters, soup kitchens, job training centers, child welfare groups, day care operations, immigrant assistance organizations, rape crisis centers and mental health counseling facilities, among many, many others. While this class of nonprofits places third in terms of total revenue for the sector, the sheer number of such groups far exceeds any other category. As a result, many scholars in the nonprofit field describe social service agencies as the face of the nonprofit world, the kind of group that most people think of when they hear the word "nonprofit." The size and scope of work for these organizations is extraordinarily diverse, ranging from the Salvation Army's multi-faceted programs for the poor to a soup kitchen. Most social service operations heavily rely on state and federal funding, either through grants or contracts and are therefore subject to myriad regulations from those for food preparation to client privacy. Social service agencies must also wrestle with establishing rigorous and somewhat cumbersome self-evaluation processes, since many government agencies and private foundations award contracts and grants based on performance. This is an issue that the entire nonprofit sector contends with, but it's a particular challenge for social service groups because of their heavy reliance on public funding. Moreover, the United Way (a major funder for social services groups) also requires that its beneficiaries establish benchmarks and performance outcomes. Aside from organizations like the Salvation Army, Catholic Charities or the YMCA, most social services groups are small and lean without much of infrastructure beyond what is required of them by state agencies and the federal government. As a result, fundraising teams are often small and are not paid top dollar. As a fundraiser, you are most likely to work with social workers and clinicians, who are generally a compassionate and caring bunch. They are not, however, necessarily very educated about or interested in fundraising.

The category of religious organizations

Congregations of various religious sects (Christian, Muslim, Jewish, Buddhist, etc.) and any denominations or associations under which congregations may organize constitute the category of religious organizations. There are many hospitals, schools, social services agencies and advocacy groups with religious affiliations (such as the Salvation Army or Catholics for Free Choice), but these organizations fall under the category of the cause that they serve or the assistance they provide. The primary purpose of a congregation is to offer religious guidance and education to the individuals that belong to it, while denominations are regional or national associations that provide additional leadership and support services to individual congregations. It is important to note that a congregation in any given community may be completely independent from a particular denomination. While there are a few large congregations with several paid staff (including fundraisers), most are very small and run entirely by volunteers, aside from the priest, pastors, ministers, rabbis, etc. providing religious instruction. Likewise, any social services that a congregation provides (such as clothes or housing to the needy) are almost entirely volunteer operations. And as you would expect, congregations are almost entirely reliant on donations from its members. There are therefore few opportunities to work for a congregation or denomination as a professional fundraiser. However, there are many opportunities with other nonprofit organizations with religious ties. As you would expect, the character of congregations and denominations is determined by the structure and culture of the faith, the religious leadership and the individual members.

Civic and advocacy organizations

These organizations comprise a relatively small (in terms of revenue and number of people they employ) category of nonprofits focused on changing policies around a particular issue or problem. Such prominent groups as the Sierra Club, National Organization for Women, American Civil Liberties Union, National Association for the Advancement of Colored People, American Association of Retired People and the Christian Coalition fall into this category, as well as a range of smaller groups focused on specific issues in their communities. Generally these groups engage in four basic activities: (1) educating and organizing people to engage their local policy-makers (county commissioners, state agencies, Members of Congress, etc.); (2)

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generating interest in an issue with the media; (3) analyzing changes in policy and educating the general public on their impact; and, (4) directly advocating for policy changes with local, state and federal officials. Many of these groups are centered in major metropolitan areas near seats of government. As you would expect, the largest groups have headquarters in Washington, D.C. Advocacy organizations are not political action committees or private lobbying firms, and as public institutions are subject to strict regulations regarding direct lobbying of policy-makers. Most receive very little support from government agencies. Rather, the major sources of funding are individuals, corporations and foundations (although foundations have requirements on what kind of advocacy activities they can support). The largest advocacy groups will pay top-dollar for experienced fundraisers; smaller groups in communities often employ one fundraiser who relies heavily on program staff for assistance, especially in foundation relations, proposal development and report writing. Core staff at advocacy groups is usually comprised of some combination of lawyers, public relations and communications specialists, and organizers who tend to be passionate, driven and somewhat aggressive. The pace at advocacy groups can be more intense, especially when Congress and state legislatures are in session. Some find it energizing, while others quickly burn out.

International relief and development groups

Known abroad as non-governmental organizations (NGOs), international relief and development groups focus on activities to improve the quality of life for communities outside of the United States, primarily in developing countries. Groups like the American Red Cross and Oxfam provide immediate, direct relief in the wake of war and natural disasters, while other groups devote time and energy to education and building local economies. This category of nonprofits also includes organizations who do not provide direct assistance to communities but peripherally impact quality of life—environmental organizations like the Ocean Conservancy and Conservation International are examples. Most groups also have a dual focus on direct relief activities and advocacy. According to the Nonprofit Almanac, more than 5,000 such groups are incorporated in the United States. The majority of the United Nation's and U.S. government's humanitarian relief funds are funneled through these international groups, which usually have headquarters in Washington, D.C. or New York (to connect more directly to the United Nations), as well as field offices in the countries where they work. Fundraising teams usually work from headquarters with opportunities to travel abroad. Like advocacy groups, the largest of the international relief agencies will pay their fundraising staff well. Since there's a heavy reliance on government funding, there's also a heavy focus on proposal and report writing, so fundraisers are usually strong writers. The rest of the staff is usually comprised of policy experts from the U.S. and abroad with field staff who are largely from the country in which they are working. The work is rewarding, exciting, dangerous and stressful. In some countries, field staff are at considerable risk from terrorism and civil strife, and most are used to living without much luxury. With a truly global workforce, cultural difference is a challenge, especially in navigating different communication styles.

The category of "arts and culture" organizations

These organizations include community and professional theaters, dance companies, nonprofit art galleries and museums, orchestras and symphonies, literary and cultural magazines, as well as a range of arts appreciation groups. While there are almost as many arts groups in the country as there are in health care, the arts community is far less wealthy. Revenue to health care groups is in fact 25 times greater than what goes to the arts. Salaries are therefore considerably smaller at arts organizations, although there are many cases where a development director is paid more than the artistic director. Most revenue comes from ticket sales, so marketing and audience development is an important concern and a constant challenge. Arts groups in fact are always looking for ways to engage new constituents, especially the Generation X'ers who have accumulated some wealth by now. Art organizations also tend to work in close partnership with schools to support arts education programs. They also try to foster relationships with corporate interests that see a variety of opportunities to elevate their profile through the arts. Most arts groups struggle to keep qualified and experienced administrative staff because of the lower salaries, long hours (especially when working for a performance group) and the strong temperament of artistic directors and boards. It is not at all unusual for highly public and bitter fights to break out between boards and organizational leadership over the artistic direction of an organization. That said, the passion, dedication and talent of artists involved with these organizations is intoxicating.

Grant-giving organizations

Like private foundations and federated charities, grant-giving organizations fall into the "funders" category. These groups generally do not engage in any other activity other than giving away money, although there are exceptions, such as the Pew Charitable Trusts, which provides grants and is also involved in advocacy work. While private foundations like the Ford Foundation are the most commonly known, there are in fact a variety of nonprofit organizations that function as grant givers. Federated charities are organizations that collect donations from individuals and distribute them to a chosen group of nonprofit organizations. Those charities that wish to receive funds usually go through an application process to demonstrate that they are legal and viable nonprofits. Most people are familiar with the United Way, but there are other such groups, such as Jewish federations and societies that raise funds for research and treatment of diseases—an example is the Leukemia and Lymphoma Society. Investment firms can also establish donor-advised funds that are registered as nonprofit organizations. These funds are comprised of donations from wealthy individuals and are managed by a financial advisor who may either follow the instructions of the donor on which charities to support or may make those decisions on their own. Most community foundations also create donor-advised funds to help donors in any given location be effective in their philanthropy. Like other nonprofit organizations, a board of directors (usually known as the board of trustees) oversees the general direction of grant-giving. A professional staff of financial advisors, policy experts and those with expertise in nonprofit management make day-to-day decisions about how to wisely invest the pool of funds and how to distribute grants. Like the rest of the nonprofit sector, there are far more small family foundations and donor-advised funds run by one or two staff than large, professional

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foundations run by many. The larger foundations and federated charities generally pay well and provide rather generous benefits. As we will discuss later in the guide, jobs at foundations are among the most competitive in the fundraising and philanthropic giving field.

PHILANTHROPY AND FUNDRAISING

Interested in a career in fundraising and/or philanthropy? You are in good company. You are, in fact, entering the ranks of Christian saints and Buddhist monks, the world's greatest thinkers (Plato and Benjamin Franklin, for example), industry giants like Andrew Carnegie, Bill Gates and Warren Buffett, leaders of social change like Booker T. Washington, and celebrities of all sorts, from Robert Redford to Angelina Jolie, to Bono.

It is a profession honored throughout time and a practice undertaken by every kind of society and institution—from the Lakota tribe of North America to the villages of Sub-Saharan Africa, to the Buddhist temples of Japan, to Ghengis Khan's Middle Eastern empire. The fundamental principle of the profession—that one should give one's wealth to help the less fortunate and improve the conditions in which we all live—is deeply woven into the fabric of religious doctrine and codified in the earliest laws.

As such, the field of fundraising and philanthropy is truly global with opportunity to interact with any and every strata of society. And it is a field that in America alone generates nearly $300 billion a year for social causes and over a million different charitable organizations in America afloat. The role of fundraising and philanthropy in American society has never been so prominent, as foundations grow larger, the wealthy grow wealthier, and the nonprofit community grows into an influential sector of the overall economy. In fact, *U.S. News & World Report* recently named fundraising as one of the 25 best careers to enter.

Professional fundraising

It would seem that from either side of the fence—as the philanthropic giving professional looking out to the sea of nonprofits or as the fundraiser looking to land the big fish donor—the primary focus is money, either asking for it or distributing it. Well, let's throw that notion back out to sea, for most professionals in the business will quickly let you know that the focus of their work is fundamentally different.

People generally have one of two reactions to the whole notion of professional fundraising. It's either, "God, how awful to beg people for money all day," or "How hard can it be to ask people for money all day?"

Here's the most worst-kept secret among fundraisers: you actually spend very little time "begging" for money. In fact, if you are asking every person you meet to write a check (and you've seen those eager young folks on street corners with their clipboards), or running through a list of telephone numbers like a telemarketer, you are unlikely to have much success.

The mantra of the professional fundraiser is very simple: people give to people. So in order to get someone to invest in your organization, you need to help that person get invested in you and that organization. And that's about establishing and strengthening a relationship with people who care about your cause. As one fundraising consultant puts it, "No matter if you're creating an individual donor campaign or writing a letter of inquiry to a foundation or meeting with a possible major donor to your organization, it's all about nurturing and building relationships for the long haul."

So asking for money from someone who deeply cares about your organization is the easiest thing in the world. The hard part is finding those people, establishing a rapport with them, and giving them the right information and arguments to convince them that their support of your organization over time will make a fundamental difference in the world. Therefore, a fundraiser's daily activities (no matter what his or her particular specialty) revolve around five basic strategies:

Identify the right people—If you surround yourself with wealthy people, this may seem obvious and easy. As one fundraiser for a national environmental group states, "If you happen to be best friends with Bill Gates, sure, chances are he'd support your cause." But if your best friend with a trust fund doesn't care about the issue that your organization addresses, then you actually don't know the right people. In fact, identifying potential donors, also known as "prospects," takes careful research. A successful fundraiser develops a list of potential donors who (1) have the ability to give, (2) the interest in your issue, and, (3) feel connected to your organization. Most large nonprofit organizations (those with budgets of $10 million or more) employ either a part-time or full-time prospect researcher solely responsible for identifying likely prospects and keeping fundraisers apprised of changes in people's finances and their giving habits. The more information you have, the more likely you are to get someone interested in your organization.

Establish a relationship—Fundraisers spend the vast majority of their time finding ways to get to know and engage potential and existing donors, whether they are program officers at a foundation or people writing up their wills. They meet with donors, invite them to events and informational presentations, alert them to important events, inform them of major victories and simply thank them for their support. Like any good friendship, a strong relationship with a donor is open, honest and warm. As described by a fundraiser:

"One of the best moments I've ever had in fundraising was when a major funder told me that she had worked with hundreds of nonprofits and had 'never seen it done better' than by us. Her accolade spelled out everything I work for: not only was she donating at a major level, but she completely believed in us and the organization, and in turn, we could be completely open with her, use her expertise and, of course, count on her for continued funding. She has even helped get us new funders."

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This is the kind of relationship a fundraiser hopes to have with every donor.

Ask at the right time—Yes, there comes a time when you need to sit down with a donor and ask for that check, or in the case of a foundation, submit that proposal for support. But it's all in the timing. You may have the most enthusiastic donors in the world, but if they are in the midst of starting a new business, they may not have the money to spare. And if that foundation's assets have been hit by a bad break in the stock market, they may not be able to fund a six-figure grant request. You also need to know if these donors have already given or are about to give to another organization with a similar mission, and are therefore tapped out, or if a foundation board is about to undergo strategic planning and fundamentally changes the direction of their giving interests. Again, you need to know your donors to know when to ask for money.

Thank the donor—This may seem like another obvious step in fundraising, but the importance of a prompt and proper thank you for a gift cannot be overemphasized. Every donor—whether he or she has given $5 or $5 million—wants to know that his or her gift has made a difference, and that you as a fundraiser appreciate the person behind the gift. Indeed, that thank you alone can guarantee another gift in the future. Most development operations have a rule of thanking major donors (including foundation officers and corporate community relations directors) within 48 hours with a personalized thank you letter from the executive director, often coming on the heels of a phone call from the development staff person. The process of thanking members for their donation is often more elaborate than the membership drive itself, for the staff must generate personalized thank you letters for hundreds or thousands of donors and send out the membership gifts. The procedures for generating these thank you letters is also known in the business as the "acknowledgement process" and is often supervised by the development assistant, with input from other development staff that have been involved in cultivating the relationship with the donor.

Strengthen the relationship—To paraphrase The Carpenters' classic ballad, you've only just begun when your donor writes that check or that grant comes in. Your donor needs just as much time and attention afterwards, especially if you think he or she is capable of giving more money in the future. A good fundraiser reports back regularly to donors, telling them how their money was spent, informing them of new activities or directions, and engaging them with others in the organization. A fundraiser is also likely to be the one to discuss problems and challenges with donors, which can be just as important as outlining the opportunities that an organization is pursuing. For example, many fundraisers need to explain how shrinking state and federal budgets impact the organization, both positively and negatively.

Professional philanthropy

The same basic framework for relationship building holds true for the professional philanthropist who gives money away, the only real difference being that you are looking to give (rather than ask) at the right time and to the right charitable cause. Whether you are advising someone with a charitable trust or supervising a grant-giving program at a foundation, you want the money to make the most impact as possible. Therefore you need to identify the organizations that fit the interests of the donor or the guidelines of the foundation and that you believe are effective in what they do. You also need to build a relationship with those groups, understand their unique role in the nonprofit community, their challenges and capacity needs, and their strategies for addressing an issue. And you need to track the progress of the groups to whom you donate, both to assess the effectiveness of your gift or grant and to better understand the challenges and opportunities that they face.

As was true 140 years ago when the first foundations invested in education for freed slaves, philanthropists are active participants, and more than ever want to build long-lasting partnerships with the nonprofit organizations that they care about. Moreover, donors at all levels look for creative ways to support communities, causes and organizations, and this means that partnerships take many different forms and include many different players. Giving institutions often establish and drive these partnership—community foundations in particular bring together wealthy individuals, community leaders, policy experts, mayors, county commissioners, Members of Congress, businesses, activists and nonprofit organizations to address the problems of a community, such as immigration, homelessness or health care coverage. But sophisticated donors also deeply invest in organizations and issues to become important partners for social change.

So in truth, fundraising and philanthropy boils down to people and the relationships between donors, organizations and causes. Money is the means to an end and not to be forgotten. But most fundraisers and philanthropic giving professionals would describe themselves as more than money managers or salespeople. A good fundraiser may be able to work a cocktail party, chatting up the entrepreneur who just sold his company or the socialite with the big inheritance. And an effective philanthropic giving professional is keenly aware of his or her responsibility to make sound investment decisions to grow foundation endowments and donor-advised funds. He is also perfectly willing to use money as an incentive to ensure cooperation from nonprofit organizations. But the best in the field consider themselves advocates for a cause, a calling beyond schmoozing and sound investment portfolios. They are mediators and facilitators, building crucial relationships toward successful philanthropy in that larger sense of serving people, communities and causes.

Is this a higher calling? Many in the field will say yes. The director of development at a breast cancer awareness group describes the most successful fundraisers and giving professionals as possessing the same qualities of great social leaders and thinkers. They have Martin Luther King Jr.'s passion about a cause; President Clinton's charm and confidence to make a case for someone to donate; Stephen Hawking's deep knowledge about an organization, its programs, its fundraising practices, its financial health; Sigmund Freud's listening skills; and Lance Armstrong's resilience when the inevitable "no" comes your way.

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FOUNDATION/PROGRAM OFFICER

Perhaps the most prestigious job in the philanthropic giving world is that of a foundation officer, also known as a program officer. At the largest foundations, program officers are the elite, intellectual powerhouses behind philanthropy in America and the world. They are admired, courted and feared by fundraisers and nonprofit executive directors alike.

In the simplest terms, a foundation officer is the gatekeeper at a foundation, determining how to distribute a pool of grant funds each year to worthy nonprofit organizations. Foundations are themselves nonprofit organizations but with the single purpose of supporting other nonprofits through grant-making programs. A foundation is built from a pool of assets carefully invested over time. Those assets can come from a variety of places—from the pocket of a wealthy individual (in the case of a family foundation), a percentage of corporate profits (in the case of a corporate foundation) or from a group of different funds of varying size (as is true for the community foundation). Foundations with a single source of assets are referred to as private foundations; those with multiple sources are known as public foundations. By law, foundations are required to distribute 5 percent of their assets in any given year, and most give away about that much. However, some foundations are set up to dissolve at a point in the future and therefore program officers are tasked with spending down assets in a more aggressive manner. Like all other nonprofit organizations, foundations must establish a board of trustees to oversee operations. A foundation's board of trustees is ultimately responsible for the financial health of the foundation and the effective distribution of grant funds.

What does the foundation officer do?

As a gatekeeper, the foundation officer is the primary contact to nonprofit organizations seeking grants and the key coordinator of the foundation's grant-making process. Every foundation has a different way of doing business. Foundations that employ program officers—and this is a very small percentage of foundations, since the vast majority of foundations are run by volunteer boards of trustees—usually establish a formal and rigorous process for reviewing grant applications.

Most foundations today will not accept unsolicited grant proposals; there are simply too many groups seeking grant funding for program officers to keep up with requests. So the grant-making process usually begins as a series of conversations between foundation officers and the staff of grant-seeking organizations. Most of the time, initial contact is made by the grant-seeker. An executive director meets a program officer at a meeting, a board member at a grant-seeking nonprofit has a business or personal relationship with a board member at a foundation or a fundraiser writes a compelling introduction letter to a program officer.

A foundation officer then must evaluate potential grantees, determining if they are a good fit for the foundation. The evaluation process usually involves interviewing staff at a grant-seeking organization, visiting the organization's facilities and/or the communities that the grant-seeker serves, as well as meeting with leaders at other nonprofit organizations providing similar or complementary services. Program officers are also guided by the foundation's giving priorities, usually established by the person or corporation that established the foundation, and by strategic planning initiated by the board of trustees. It's not uncommon for a foundation to change its mission and giving priorities over time, especially if founding members pass on. For example, a wealthy entrepreneur may establish a foundation to fund nonprofit organizations in a particular community, such as his/her hometown, but not provide any other guidance on what kind of nonprofit organizations to support. But as that foundation matures, the board of trustees may survey the community and further refine the foundation's mission to meet particular challenges and needs.

If a foundation officer believes that a nonprofit organization is a strong candidate for funding, he/she will ask for some kind of proposal that makes the case for support. The proposal review process at each foundation is different; in some cases, foundation officers have the authority to approve or reject grant proposals with minimal interference from the board of trustees. At other foundations, there are lengthy and complicated review procedures, where the foundation officer serves as the advocate for the grant-seeking nonprofit organization at a series of meetings and presentations with foundation staff and the board. If approved, the foundation officer is then charged with monitoring the progress of the grantee; that may merely mean that they require the foundation to send along periodic progress reports. It can also mean more direct involvement; the foundation officer may want to help the organization further shape program activities and campaigns.

To be in a position to evaluate the potential of nonprofit organizations, you need expertise and experience. Foundation officers are therefore highly educated with a background in a particular issue, such as urban planning, reproductive rights policy or performing arts. They have also spent time working at nonprofit organizations in some capacity. It's important to note that the largest foundations are now looking to the corporate world for leadership, as evidenced by the recent change in guard at the Ford Foundation, the second largest foundation in the country (the largest is the Bill and Melinda Gates Foundation). The foundation recently hired a management consultant from McKinsey to take over as president.

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A DAY IN THE LIFE: FOUNDATION OFFICER

This is the day in the life of a fictional foundation officer at one of the top-100 largest foundations in the country, with a mission to serve nonprofit organizations in an urban region crossing three states along the East Coast. In total, the foundation gives away $50 million a year. The foundation officer is part of a three-person team charged with giving $11 million in grants annually to arts and culture organizations in the region.

8:15 a.m.: Arrive at the office a bit early so that you can answer emails before the phone starts ringing. You've been tied up in so many meetings this week that you have a mountain of messages you haven't even opened yet. About a dozen are from grantees that have sent interim reports due at the six-month point of their grant terms. You shoot them all quick emails thanking them for the report and telling them you will get back to them with any questions. You scan through another six or seven emails with news clippings on various topics—reviews of local theater productions, a profile of the new executive director of the city's chamber orchestra and a feature article in the Enquirer (the primary newspaper for the region) on the status of performing arts in the region. You take a minute to read this article in full. It's centered on a report that the foundation funded and that you helped develop, a survey of performing arts organizations with commentary from several economists on the many ways in which arts and culture activities bolster local economies. You're glad to see that one of the economists that you brought on board to the project, a professor from New York University, is quoted in the article.

You also respond to an email from your boss, the director of the arts and culture program, confirming that you are available for lunch. There's also an email from him asking for a list of the letters of inquiry to be considered at the next review meeting to occur at the end of the month. You quickly tick off the 13 organizations that have sent you letters, a three-page request summary that serves as the first step in the proposal submission process for the foundation. You also let your boss know that you have invited two other organizations to submit letters, and you expect to receive them by next week.

9:20 a.m.: Start returning phone messages; you had five from yesterday from various grantees. You call the grant writer at the natural history museum, who had a question about how to update outcome measures in the letter of intent that the museum is about to submit to you. You tell her it's not necessary to update them at all, that the ones submitted last year provided a lot of information to the foundation's board on how the museum was evaluating the impact of new programs on audience attendance. You leave a message for the director of development for a dance company giving her three days next month when you would be available for a site visit. You also ask that she send you a copy of the company's latest marketing plan to review before the visit; the grant the foundation gave last year was to help the company hire a new marketing director and a contract publicist. You're curious to see how the new hires are working out. Then you speak with the executive director of a small puppet theater, assuring him that it's perfectly fine to submit a letter of intent some time next week. He is extraordinarily apologetic that the letter will come several days later than anticipated, explaining that the director of development and her assistant are both out with the flu.

10:15 a.m.: Join the monthly conference call for the Cultural Alliance, a consortium of arts organizations across the region focused on audience development. Your foundation is one of three funders that have invested in an online ticketing and audience management system to be managed by the Cultural Alliance that will allow a broad range of nonprofit arts organizations to manage tickets sales and demographic information. The software developer has set up these monthly calls to discuss progress on the system. Today, the developer is taking the group through an online presentation to introduce the website and interface for the system. It's impressive and seems easy to use. The developer declares he is confident that the system will be up and running in time for three performing arts groups to use it for ticket sales next season.

11:35 a.m.: Step out the door with your boss for a meal at the Chinese restaurant down the block. This is a periodic lunch he schedules so that the two of you can catch up on things outside of weekly staff meetings. You spend most of the lunch describing the presentation by the software developer. Your boss asks if you could arrange a one-on-one meeting with him and the developer so that he can see the system for himself.

You two also discuss the upcoming planning retreat with the board of trustees. The foundation is entering the third year of its five-year strategic plan and the board has asked each of the four program teams to schedule a daylong retreat to discuss progress toward goals and lessons learned. Your boss wants you to give a presentation focused on various projects you are managing, including the performing arts report and various efforts to assist groups with audience development and marketing.

1:15 p.m.: Get back to your office to make a few more phone calls. You catch up with the development directors for two different organizations—a youth orchestra and an art gallery focused on displaying work by at-risk children—and schedule site visits. You also get in touch with the professor from New York University, who is about to catch the train down for a town hall meeting you have helped organize. The meeting is an outgrowth of the report project and is meant to bring urban planning experts and economists, city officials and leaders from the arts community together to discuss the impact of urban revitalization efforts on arts and culture institutions in the city. You assure the professor that he does not need to prepare extensive opening remarks but rather should be prepared to answer questions from the audience. He asks if you can join him for dinner beforehand, but you decline. You just don't think you have time today, especially since you need to try and review a couple of letters of inquiry today and tomorrow.

You notice that while you have been on the phone, you've received three voicemail messages. You don't have time to review them now, since you're a little late for a meeting.

2:05 p.m.: Run down the stairs for a meeting in the conference room on the Regional Arts and Culture Information Project. A group of five funders, including your foundation, have joined officials at local art councils and state cultural agencies to create a new mechanism for capturing demographic

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information about audiences that attend art events, as well as financial data from arts organization to gauge their health and growth. Unfortunately, the project is going slowly. The group has spent many weeks deliberating on what kind of data to compile, a conversation that you think should happen later once you have hired a contractor to design the system. And now the group is struggling to put together a request for proposals in order to hire the contractor. Once again, the team reviews the draft request, which has gone through at least 10 iterations. It looks like everyone is finally ready to sign off on it, and you now hope the project can now move along at a faster pace.

3:45 p.m.: Return to your office and review your voicemail messages. None of them are urgent, so you decide to focus on the draft letter of intent you received yesterday. It's from a fledgling performing arts groups focused on incubating new theater and dance pieces. Six months ago, you read a glowing review in the local paper of one of their workshop productions and attended. You were impressed with the quality of the work and the sophistication of the production. You spoke to the artistic director after the performance and again, you were impressed by her level of sophistication, especially since you guessed she wasn't yet 30. After inviting her to your office for a longer conversation about the direction she wants to take the organization, you asked her to submit a letter of intent.

The basic concept described in the letter is exciting; the organization wants to link up with the local theater fringe festival to showcase new work and then promote those productions that are successful at the festival to other local theater and dance companies. Unfortunately, the letter is poorly written and riddled with typos. And the artistic director doesn't seem to quite understand what an outcome measure is. You just don't think the letter will make it through the first step of the review process. You decide to give the artistic director a call to talk about the possibility of a small planning grant for the organization; perhaps you can help them hire some contractors to help with fundraising efforts. You also make a note to talk with your colleague at another foundation with a technical assistance fund for small arts organizations.

4:35 p.m.: Leave the office in order to grab the train to the city. You should be able to get to the central library, where the town meeting is to be held, with just enough time to grab a sandwich beforehand.

5:30 p.m.: Arrive at the library full from a triple-decker sandwich from a nearby deli. The meeting starts in a half-hour, and you see that the panelists and a number of your colleagues from other foundations have arrived. You chitchat outside the meeting hall for a bit with your professor friend from New York University and a colleague from a community foundation. The primary host of the meeting, the president of the Cultural Alliance, takes the professor away to get fitted for a microphone. You and your friend from the community foundation complain a bit about the meeting earlier this afternoon. She is part of the team leading the Regional Arts and Cultural Information Project and is just as frustrated as you that it's taking so long just to hire a contractor. As more people arrive, you two separate to shake hands with various participants, most of whom are grantees. But you're pleased to see that members of the local actor's union have come, as well as some local store owners and one of the big real estate developers in the area.

6:15 p.m.: Sit down as the town meeting gets underway. It's starting a bit late, but that's largely to accommodate a large crowd who came in at the last minute. The large meeting hall is three-quarters full. The discussion is lively and there's some strong statements made against real estate developers. You're glad that the facilitator, the director of the arts administration program at the University of Pittsburgh, is strong and unflappable. There's a rich conversation about the importance of festivals in creating a sense of unity in neighborhoods. The theatre fringe festival and the Get on your Feet Dance Jamboree are mentioned repeatedly—two festivals that your foundation has funded since their start.

7:50 p.m.: Grab a bottle of sparkling water at the drinks table and join the reception. You catch your boss' eye, and he wanders over. He joined the meeting about a half-hour late. He's very excited about the discussion of the theater fringe festival; it's one of his pet projects. You talk to him about the letter of intent you read this afternoon from the small theater group focused on new work. You all discuss ways that the foundation might find some mentoring opportunities for the artistic director around fundraising.

As your boss heads out the door, you catch up with the professor and congratulate him. You two talk a bit about how to build better relations between arts groups and real estate developers. He mentions an initiative in Chicago where the city arts commission worked with local foundations and bankers to convince a real estate developer to set aside a few units of artist housing in a new apartment complex on the south side of the city. The professor wonders out loud if it would be possible to replicate that model elsewhere. You make a mental note to continue this conversation with your boss; perhaps the foundation can find a little money for a study to determine the viability of such a project in this region.

9:15 p.m.: Arrive home after the reception. You're quite full (the hors d'oeuvres were tasty and you had one too many bruschetta) and quite tired. You send a quick email to your boss to remind him that you will be working from home in the morning. You want a little quiet time to review letters of intent without interruption.

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EMPLOYER DIRECTORY

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www.aarp.org

American Cancer Society, Inc.
1599 Clifton Road NE
Atlanta, GA 30329
Phone: (404) 320-3333
Fax: (404) 982-3677
www.cancer.org

American Civil Liberties Union (ACLU)
125 Broad Street, 18th Floor
New York, NY 10004-2400
Phone: (212) 549-2500
Fax: (212) 549-2646
www.aclu.org

American Heart Association, Inc.
7272 Greenville Avenue
Dallas, TX 75231
Phone: (214) 373-6300
Fax: (214) 706-1191
www.americanheart.org

American Red Cross
2025 E Street NW
Washington, DC 20006
Phone: (202) 303-4498
www.redcross.org

American Society for the Prevention of Cruelty to Animals (ASPCA)
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New York, NY 10128-6804
Phone: (212) 876-7700
Fax: (212) 423-9813
www.aspca.org

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www.americares.org

America's Second Harvest
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Phone: (202) 606-5000
www.americorps.org

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Fax: (212) 627-1451
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Fax: (972) 580-2413
www.scouting.org

Boys & Girls Clubs of America
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Fax: (229) 924-6541
www.habitat.org

Human Rights Watch
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www.hsus.org

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White Plains, NY 10605
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Fax: (914) 428-8203
www.marchofdimes.com

Médecins Sans Frontières
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Fax: +32-2-280-0173
www.msf.org

National Women's Law Center
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Washington, DC 20036
Phone: (202) 588-5180
www.nwlc.org

Open Society Institute
400 West 59th Street
New York, NY 10019
Phone: (212) 548-0600
Fax: (212) 548-4679
www.soros.org

The Peace Corps
1111 20th Street NW
Washington, DC 20526
Phone: (202) 692-2230
Fax: (202) 692-2901
www.peacecorps.gov

Planned Parenthood Federation of America, Inc.
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New York, NY 10001
Phone: (212) 541-7800
Fax: (212) 245-1845
www.plannedparenthood.org

The Rockefeller Foundation
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New York, NY 10018
Phone: (212) 869-8500
Fax: (212) 764-3468
www.rockfound.org

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www.rotary.org

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www.si.edu

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315 West 36th Street, 7th Floor
New York, NY 10018
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Fax: (212) 279-2081
www.teachforamerica.org

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New York, NY 10017
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Fax: (212) 887-7465
www.unicef.com

United Nations
1st Avenue at 46th Street
New York, NY 10017
Phone: (212) 963-1234
Fax: (212) 963-3133
www.un.org

United Way of America
701 North Fairfax Street
Alexandria, VA 22314
Phone: (703) 836-7100
Fax: (703) 683-7840
national.unitedway.org

YMCA of the USA
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Pharmaceuticals and Biotech

WHAT'S IN A NAME: BIG PHARMA AND BIOPHARMA

Small molecules and large companies

Strictly speaking, the term "pharmaceuticals" refers to medicines composed of small, synthetically produced molecules, which are sold by large, fully integrated drug manufacturers. The largest of these players—companies like Pfizer, GlaxoSmithKline and Merck—as well as a handful of others are known as "Big Pharma" because they are huge research, development and manufacturing companies with subsidiaries around the globe. Indeed, Big Pharma is where most of the industry's sales are generated. During the 2008 fiscal year, the top-20 companies in the industry posted about $387 billion in global receipts. By 2012, the total for all the industry's worldwide players is expected to surpass $1 trillion.

According to the Kaiser Family Foundation, from 1995 to 2002, the pharmaceutical business was the most lucrative industry in America. Pharmaceutical manufacturers didn't fare as well afterward, however, bouncing within the top five. In 2005, it ranked fifth, and by 2006, the pharmaceutical industry moved up to second. In 2007, it slid back to third.

From aspirin to Herceptin: a brief history of the industry

Many of today's big pharmaceutical firms have roots that go back to the late 19th or early 20th century. Not all of these companies started out as drug manufacturers. For instance, Frederich Bayer founded Bayer in Germany in 1863 to make synthetic dyes. In the 1920s and 1930s, scientists discovered miracle drugs such as insulin and penicillin, and pharmaceutical companies began to market researchers' lifesaving inventions. During the 1950s and 1960s, companies started to mass produce and market new drugs, including blood-pressure medications, birth control pills and Valium. Pharmaceutical companies researched and developed new cancer treatments, including chemotherapy, in the 1970s.

The modern biotech business was born when Herbert Boyer and Robert Swanson founded Genentech, which eventually made the breast cancer biologic Herceptin. In the 1980s, drug companies faced new environmental and safety regulations and mounting economic pressures. For Big Pharma, the 1990s were filled with turmoil. There were lots of mergers and acquisitions in the industry during that decade, and pharmaceutical companies also began to use contract research organizations for more of their R&D efforts.

Big Pharma

Big Pharma is responsible for all those television commercials urging us to contact our doctors if we suspect we suffer from restless leg syndrome or social anxiety disorder. Yet despite lifesaving, cancer-fighting drugs and significant corporate philanthropy, more recently, Big Pharma's product recalls and concerns over drug safety have made it the industry many people love to hate. In 2007, diabetes medication Avandia made the headlines after researchers found it increased patients' risk of heart attack.

Before we help you chart a career in the industry, we should point out that both the scope of players and the types of products the industry produces are moving targets. This is because the pharmaceutical and biotech industries are gradually integrating into one industry.

Most of the largest Big Pharma players have either gobbled up small biotechs through outright acquisitions or, alternatively, have entered into licensing agreements. For example, in 2006, AstraZeneca acquired small biotech firm Cambridge Antibody Technology Group and Merck purchased GlycoFi and Abmaxis. During 2007, there were 417 pharma-biotech alliances forged, 473 inter-biotech project partnerships, and 126 mergers and acquisitions. And Roche launched a massive $44 billion hostile takeover bid for Genentech in July 2008—Forbes.com went so far as to say that, with the companies' pre-existing alliance with regards to several pharmaceuticals, "most of Roche's drug sales now come from products Genentech invented." (The deal likely spurred Eli Lilly's $6.5 billion strategic annexation of ImClone Systems, too.) This trend is likely to continue in 2010 and throughout the rest of the decade—since it's increasingly difficult to find innovative new drugs through traditional science—though the pace is expected to slow considerably (due to credit concerns) at the end of the decade compared to the boom period between 2000 and 2006.

In fact, innovation is the industry's biggest current challenge. Companies regularly use acquisitions and alliances to round out their product pipelines and meet investor expectations. Big drug manufacturers can now claim to research, manufacture and sell two general classes of drugs: synthetic small molecules (or old chemistry), and injectable large molecules (or biologics).

Complex structures

Pharmaceutical companies are generally organized around the "blockbuster" model (i.e., they derive most of their sales and profits from a handful of broadly acting drugs). By industry consensus, a "blockbuster" is a drug with an annual revenue that reaches or exceeds $1 billion. One example of a Big Pharma blockbuster is AstraZeneca's cholesterol-lowering Crestor, which earned more than $3.6 billion in sales in 2008 and has been prescribed to more than six million people.

The biotech firms, on the other hand, tend to be focused around smaller franchises (i.e., their products are targeted to small patient populations with rare genetic diseases). Their biologics are sold by specialty sales representatives, who often have a relatively high degree of scientific knowledge. Because of these characteristics, biotech products are often referred to as specialty pharmaceuticals. To complicate matters, some biologics reach

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revenue blockbuster status, since they are usually much more expensive than synthetics. Considering that some biologics cost $10,000 per patient per year, you would need only 100,000 patients to reach $1 billion in revenue.

Introducing "biopharma"

The dividing line between the pharma and biotech industries continues to blur. That leaves us with the problem of how to refer to the emerging industry. We'll use the term "biopharma" to include both types of products.

One final comment about the industry's products: both synthetic and biologic drugs are directed toward the treatment of disease. The industry refers to this broad category of drugs as "therapeutics," since they have a therapeutic effect on the disease condition. But the biopharma industry also has another group of products aimed at helping medical scientists more accurately determine (or diagnose) a disease condition from a patient presenting multiple, difficult-to-interpret symptoms. These products are called "diagnostics" and may come from biologic sources. Often, diagnostic agents (they are not called drugs) are used in conjunction with a medical device or instrument. A good example is the diagnostic imaging agent technetium 99m, which helps MRI machines create clearer cross-sections of the human body.

THE MISSING LINK: BIOTECH

What is biotechnology?

The biotechnology industry is unique because it isn't defined by its products, but rather by the technologies used to make them. The United Nations Convention on Biological Diversity defines biotechnology as "any technological application that uses biological systems, living organisms, or derivatives thereof, to make or modify products or processes for specific use." In other words, biotechnology is any technology based on biology. Ancient practices, such as using microorganisms to ferment beverages or leaven bread, could be considered biotechnology. So could farmers' alteration of fruits and vegetables through breeding them with other plants.

Today, biotechnology is used in four major industrial areas: crop production and agriculture, environmental uses, nonfood use of plants (such as biofuels) and health care. For the most part, when people hear the word "biotechnology"—or "biotech" for short—they think of its applications in medicine. Biotechnology companies have created new vaccines and therapies for diseases such as diabetes, cancer, autoimmune disorders and HIV/AIDS.

Modern biotech's beginnings

In 1973, Stanley Cohen of Stanford University and Herbert Boyer of UCSF created a new recombinant DNA technique. Together with venture capitalist Robert Swanson, Boyer went on to found Genentech in 1976, which considers itself "the founder of the biotechnology industry." Today Genentech is one of the largest and most successful biotech companies. The firm's top-selling products include cancer treatments Rituxan, Avastin and Herceptin.

By the 1980s, some small biotechnology firms were struggling to stay afloat. Some big pharmaceutical companies purchased smaller biotech companies; other biotechs formed partnerships with Big Pharma. The industry turned around, and the biotechnology industry has expanded rapidly since the 1990s. The Biotechnology Industry Organization (BIO) reports that there were 1,415 biotechnology companies in the United States in December 2005, and increase from about 1,300 in 1994. Of the more than 1,473 biotech companies in business today, 314 are publicly traded companies. The rest are private, discovery research-oriented firms. In 2005, the health care biotech industry's revenue topped $50 billion in the United States.

Small vs. big biotech

Most health care biotechnology firms are small research-oriented companies dedicated to applying genetics to curing a multitude of diseases, from Alzheimer's to multiple sclerosis. A handful of companies—such as Amgen and Genentech—have broken through the rest of the pack to become "fully integrated" like their Big Pharma cousins. The term "fully integrated" means that they manufacture as well as sell their own products. The largest biotechs are sometimes called "Big Biotech," though they are actually midsized pharmaceutical companies in the way they function. Like midsized or large pharmaceutical companies, they are vertically integrated companies that research, develop and market their products. And like larger companies, Big Biotech sometimes has big profits. For example, in 2008 Genentech's revenue topped $13.4 billion with $3.4 billion in earnings, while Biogen Idec brought in more $783 million in profit on sales of $2.8 billion.

Many smaller, younger biotech companies, on the other hand, have yet to see a profit. These firms are counting on drugs in the pipeline, which they hope will be big hits down the line. In recent years, to stay afloat, some small biotech companies have entered into partnerships with Big Pharma and Big Biotech. For example, California-headquartered Amylin, which has developed new medicines (exenatide, for one) for the treatment of type 2 diabetes, has a collaboration and supply agreement with Eli Lilly. Nuvelo (now ARCA biopharma, Inc.) has collaborated in the past with Bayer and Amgen. And in April 2008, GlaxoSmithKline brokered a $600 million alliance with one Regulus Theraputics (itself a joint venture between Isis Pharmaceuticals and Alnylam Pharmaceuticals), a firm that is studying microRNA, which regulates the expression of characteristics "ordered" by specific genes.

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Biologics

Biologic drugs go beyond experimental gene therapies. Anything used to treat, prevent or cure a disease that's also made from a living organism is a "biologic." Some medical products that have been around for decades fit into this category. Because vaccines are made from living organisms, they're considered biologics. Insulin—created by extracting the gene for insulin from a human cell—is also considered a biologic drug. In fact, Novo Nordisk, which makes diabetes treatments including insulin, and competitor Lilly have said they oppose any FDA action that would approve the production and sale of generic insulin without clinical studies. The availability of generic insulin would put price pressure on branded insulin. The approval of generic insulin could also open the door to the development of generic versions of other biologics.

Therapeutics vs. diagnostics

Both synthetic and biologic drugs are directed toward the treatment of disease. The industry refers to this broad category as "therapeutics," since these drugs have a therapeutic effect on the disease condition. But the industry also has another category of products focused on helping medical scientists more accurately determine (or diagnose) what's wrong with a patient presenting multiple, often difficult-to-interpret symptoms. These products are called "diagnostics" and may come from biologic sources. Often, diagnostic agents (they are not called drugs) are used in conjunction with a medical device or instrument. A good example is the diagnostic imaging agent technetium 99m, which helps MRI machines create clearer cross-sections of the human body.

Organizational structures

Pharmaceutical companies are generally organized around the "blockbuster" model, meaning they derive most of their sales and profits from a handful of broadly acting drugs. By industry consensus, a "blockbuster" is a drug whose annual revenues reach or exceed $1 billion. An example of a Big Pharma blockbuster is AstraZeneca's cholesterol-lowering Crestor, which had more than $3.6 billion in sales in 2008 and has been prescribed to more than six million people.

The biotech firms, on the other hand, tend to be organized around smaller franchises. Often, their products are targeted to small patient populations with rare genetic diseases. Because of this focus, biotech products are often referred to as specialty pharmaceuticals. To complicate matters, some biologics reach blockbuster status with respect to their revenue, since they are usually much more expensive than synthetics. For example, Genzyme's biologic drug Cerezyme topped $1.2 billion in sales in 2008, but fewer than 10,000 people worldwide use the biologic for the treatment of a rare genetic condition called Gaucher disease. However, Cerezyme costs on average more than $200,000 a year.

Re-introducing "biopharma"

As discussed earlier, some biotech firms have grown so diverse that they're similar to large pharmaceutical companies. At the same time, pharmaceutical companies have been snapping up biotech businesses in order to beef up their pipelines. Some people refer to the emerging industry as "biopharma." In an April 2007 article in Science, writer Gunjan Sinha argued that the line between pharmaceutical and biotech companies is blurring. Sinha said that, as little as 15 years ago, the industries were distinct, but today the question of whether to work in biotech or pharmaceuticals may not matter.

Battle over biogenerics

In May 2007, U.S. presidential hopeful Hillary Rodham Clinton presented parts of her health care proposal. Among other things, Clinton suggested Americans could save money on health care through the creation of a regulatory pathway for approval of generic copies of biopharmaceuticals. Generic versions of biologic drugs are sometimes called "biogenerics" or "biosimilars," and they are controversial.

Typically, generic versions of conventional drugs hit the market shortly after patents have expired on brand-name pharmaceuticals. Generic drug companies simply need to show that the generic contains the same active ingredients, purity and quality as the brand-name version, and that the copycat version provides "bioequivalence" (the same level of the drug in the blood over time as the original). Biologics, however, are made from cultures of living material rather than from chemical recipes. Brand-name drug makers and many scientists have urged caution in the development of generic biologics. These individuals say biologic drugs are inherently variable and difficult to duplicate, and that patients could develop allergic reactions.

Not just health care

Biotechnology is used to find possible new cures for cancer, but it's also used in other fields. Verenium Corporation, for example, is applying its enzyme expertise to develop alternative fuels. The firm also customizes enzymes for manufacturers in the industrial, health and nutrition markets.

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THE GLOBAL PHARMACEUTICAL INDUSTRY

Three major market segments dominate the global industry. North America is the largest and comprises more than 47 percent of the total market; Europe is second with some 30 percent. Japan comes in third at about 10 percent. Although these combined markets account for nearly 90 percent of global sales, the remaining emerging market segments are growing rapidly. According to IMS Health, Inc., a health care research and information company, in 2007 sales in Asia (except for Japan) were $78 billion, a 13.3 percent increase from 2006. The increase for China (25.7 percent) was particularly robust. Global pharmaceutical sales in Latin America in 2007 were $42.4 billion, an 11.6 percent increase from the previous year.

Although a handful of super-large companies rake in most of the pharmaceutical industry's revenue, the global industry is actually highly fragmented. Over 2,000 pharmaceutical and biotech companies exist worldwide. We've already discussed top-tier Big Pharma; the middle tier is composed of specialty companies. Many large companies tend to absorb second-tier companies before they can grow large enough to pose a competitive threat. That trend has a contracting effect on the number of middle-tier firms. The opposite happens on the third and lowest tier, which is composed of an ever-increasing group of startups mostly focused on discovery research.

According to IMS Health, the global pharmaceutical market was valued at $334 billion as recently as 1999. By 2007, total global sales had more than doubled to $712 billion—almost three-quarters of a trillion dollars. (IMS derived this figure from retail sales in major global markets.) This astonishing growth reflects the increasing role of pharmaceuticals as a first-line treatment option for many disease conditions in the developed world. The term "first-line" means that physicians opt to prescribe a pharmaceutical first in lieu of a more invasive procedure, such as surgery. For example, for some cancers, physicians now have the option of recommending a tumor-shrinking drug before operating to minimize the scope of invasive surgery.

In the United States

The U.S. pharmaceutical industry is comprised of approximately 100 companies, according to the Pharmaceutical Research and Manufacturers of America (PhRMA), a leading industry trade and lobbying organization. Of those, the top-10 companies are referred to as Big Pharma. The top-three U.S. firms are Johnson & Johnson, Pfizer and Merck & Co., while the top European-born companies are Bayer, GlaxoSmithKline and Novartis. According to the Biotechnology Industry Organization (BIO), there are also more than 1,400 biotech companies in the United States.

Not only does the United States have the largest pharmaceutical market in the world, but it is also the only nation without government price controls. Both are a consequence of the privately owned system prevalent in the United States and a strong industry lobby, which has resisted government incursions into its market-based pricing. Other developed economies with universal health care access (European Union, U.K., Japan) exert stringent controls on the prices companies can charge. A big consequence is that, with thin profit margins, the incentive for innovation is curbed, and former leaders, especially in the E.U. (German and French companies, in particular) lost the lead in innovation in the 1990s. Standard & Poor's expects the United States to continue to be the largest of the top-10 pharmaceutical markets for the foreseeable future, as well as the fastest growing.

Although pharmaceutical companies are scattered throughout the continental United States, the industry is geographically concentrated in the Mid-Atlantic States (New York, New Jersey and Pennsylvania) and on the West Coast in California. A handful of companies can also be found in Massachusetts, Illinois and North Carolina. New Jersey is the heart of the industry and has, by far, the largest number of companies within a single state. As for biotech, according to the California Healthcare Institute, roughly a quarter of U.S. biotech jobs are in sunny California.

Medicare change boosts drugs sales

Before January 1, 2006, Medicare (the federal health program for the disabled and elderly) didn't pay for outpatient prescription drugs. Beginning that day, the Medicare Prescription Drug, Improvement and Modernization Act—known as Part D—gave Medicare beneficiaries the option to enroll in private drug plans. Due to the changes, Medicare became the country's largest public customer of prescription medications in 2006. The change to Medicare helped boost prescription sales in the United States, but the U.S. Department of Health and Human Services doesn't think it will have a huge impact on drug spending in the future.

Growth in generics

In 1984, the passage of the Drug Price Competition and Patent Term Restoration Act (also called the Hatch-Waxman Act) increased generic drug manufacturers' access to the marketplace. Since then, generic drug sales have boomed. The biggest generic drug manufacturers are Israeli firm Teva (with $11.1 billion in sales in 2008) and U.S.-based Mylan Laboratories ($5.1 billion). In December 2008, Teva completed its acquisition of Barr Pharmaceuticals, another American company with $2.5+ billion in revenue in 2007. According to Pharmalot.com, in 2008, more than 60 percent of prescription market volume was dispensed as generic. However, the rapid sales increases have slowed; in the 12 months through September 2008, the annual bump was only 3.6 percent—very low compared to 11.4 percent in the prior period. The United States is host to the largest global generics market, near 42 percent of the $78 billion global total.

In the United States, managed health care has contributed to the rise in generic drugs. Managed care programs, such as HMOs, often ask their doctors to prescribe generic drugs in place of more expensive brand-name products. Recent changes to the Medicare program in the United States are also likely to lead to an increase in generic drug sales. Under Medicare Part D, through "multitiered pricing," plans can charge patients more for brand-name drugs than generics. In addition, plans can ask doctors to fill out prior authorization forms for patients to obtain branded drugs.

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The expiration of patents on branded pharmaceuticals has also increased generic drug companies' revenue. As more brand-name drugs go off patent in coming years, generic drug manufacturers' profits are likely to increase. Big pharmaceutical companies that make brand-name drugs aren't taking this lying down, however, and usually try to extend their drugs' exclusivity and prevent generic competition. They do this in various ways, including litigation. Some big pharmaceutical companies have responded to generic competition by entering into licensing agreements with generic drug manufacturers.

To complicate things further, some pharmaceutical companies generate a mixed product line of generics and branded drugs. For example, Novartis has a generics division called Sandoz. Some generic companies also sell branded pharmaceuticals. For instance, generic drug manufacturer and Barr's subsidiary, Duramed Pharmaceuticals, develops, makes and sells the firm's proprietary pharmaceuticals, mostly female health care products, such as Seasonale and Seasonique oral contraceptives.

Generic drug companies have also branched out into generic versions of biologic drugs. In 2006, Barr Pharmaceuticals announced it had completed its acquisition of Pliva, a Croatian pharmaceutical company, for $2.5 billion. The company made a version of Neupogen, a white-blood-cell booster made by Amgen. Barr also broke ground on a $25 million biotech factory in Croatia.

A rise in CROs

Increasingly, pharmaceutical companies have been outsourcing drug research and development. As a result, contract research organizations (or CROs) have been on the rise. In 2005, a survey by Cambridge Healthtech Advisors found that 45 percent of pharmaceutical companies expected to outsource at least 60 percent of their clinical development work by 2008. Examples of CROs include New Jersey-based Covance and North Carolina's Quintiles Transnational Corporation. Covance works with more than 300 biopharmaceutical companies, ranging from small and startup organizations to the world's largest pharmaceutical companies, and oversees more than 15,000 clinical trials in 100 countries. Quintiles has helped develop or commercialize the world's 30 best-selling drugs.

MBA-LEVEL SALES AND MARKETING JOBS

Most companies consider sales and marketing to be one function, but with two basic areas of activity. Within the sales function, you can typically find three career tracks: field sales, sales management and managed markets. A fourth track, sales training is closely associated with sales and is distinct from the broader training and development function, which is usually associated with human resource departments. Sales training groups bridge the sales and marketing function: in some companies, they are considered part of marketing support, and hence part of the marketing function. The main point, however, is that all companies that have field sales forces have rigorous sales training departments.

Within the marketing function are two main areas of activity: marketing management and marketing support. The latter is actually composed of several distinct groups, some of which are quite large, but all of which serve essentially the same purpose: to provide support services for marketing managers. Depending on the size of the company, the distinction between the two areas may be either blurred or nonexistent. Typical groups include training and development, advertising and promotion, market analysis, customer call center, e-business, and commercialization and strategic planning.

Fully integrated Big Biotech companies have their own sales and marketing infrastructure and essentially the same job classifications. The main difference from their Big Pharma cousins is that biotech sales reps are specialty reps, who market products to specific and highly defined patient groups. On an experiential level, the big difference is that that very focus prevents the overreaching to the mass market that is now plaguing the marketers of broadly acting agents.

The good thing about the sales and marketing function in the biopharmaceutical industry is that, once you get hired in a particular work area, it is possible, and even encouraged, to gain experience in other areas.

Sales management

Managing a sales force can be one of the most lucrative tracks in the pharmaceutical industry. District sales manager is the first rung on the management ladder, followed by regional sales manager, area sales director and vice president of sales. Each level has increasing responsibility for the sales of a broader geographic area. This is not an entry-level job and usually requires several years of direct sales experience plus evidence of leadership potential. In particular, the first level, district sales manager, is a position people from several areas of activity can move in and out of to get perspective on sales activity.

Like field reps, the responsibilities of a sales manager fall into three distinct categories. Management responsibilities require a sales manager to lead assigned sales district in meeting upper management goals; recruit, hire and train sales reps; ensure efficient coverage of their assigned geographic area; plan and lead meetings to review sales achievements; and manage reps' activities when coordinating educational events (e.g., symposia, speakers bureaus, seminars, etc.). Administrative responsibilities require sales managers to develop business plans and plans of action (POAs), implement market strategies, monitor progress of ongoing sales activity, stay current on industry and company issues that impact the sales force, ensure optimal distribution and consistent stocking of product samples, monitor the district's budget, and control its expenses. Professional development

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responsibilities require the sales manager to maintain a work environment that maximizes motivation, act as a coach and mentor to the sales reps, and create individualized development plans for each direct report.

Marketing management

Marketing management is the core work of the marketing function and is where strategy is formulated and implemented. Many companies organize marketing management according to therapeutic areas (i.e., oncology drugs, cardiovascular drugs, anti-hypertensives, etc.). Until recent years, marketing had a single upward path to senior positions. With large companies merging into mega-companies (e.g., Pfizer acquired both Warner-Lambert and Pharmacia to become the largest company in the industry), some companies have opted to organize therapeutic areas and their associated products into separate business units, so that marketing management decisions get made with fewer layers of oversight and with closer contact with customer physicians and targeted patient groups.

The main job title in marketing management is product manager and is consistent throughout the industry. From there, titles like product director, group product manager, and vice president of marketing represent higher level marketing management jobs. None of these are entry-level positions at the BS level, although MBAs with previous marketing experience can work in product management groups, as assistant or associate product managers.

A product manager's responsibilities fall into two main categories. Product management responsibilities require the product manager to develop and manage the short-term product strategy and marketing plans for assigned products, oversee development of business plans, specify the positioning of a product among its competitors, monitor those competitor products, acquire both a quantitative and intuitive feel for customer needs, and act as an in-house champion for a product or brand. From an administrative perspective, a product manager must develop budgets, maintain records of expenses, and manage and develop entry-level support staff.

In companies organized as business units, product managers effectively become mini-CEOs and are involved in virtually every aspect of getting a product to market. Most product managers also have substantial communication and negotiation skills, as they are required to interact with professionals from every part of the organization.

Marketing support: market analysis

Market analysis groups are responsible for gathering and analyzing business information in specific geographic areas to understand the economic profile of specific disease conditions in which the company specializes, the associated targeted patient populations—including demographic trends and shifts and progression of disease conditions—and the competitive landscape for the products under development. Jobs have titles like market analyst or regional analyst. Although these jobs are usually not entry-level with only a bachelor's degree, many MBAs target market analyst jobs after graduation and can land them if they have basic science education and can demonstrate evidence of some understanding of the industry's marketing issues.

A market analyst has primarily analytical responsibilities, which are consistent throughout the industry. Typical tasks are to perform local health care marketplace assessments, provide analysis and consulting support to sales and marketing management, develop and implement tools and processes for standard sales performance measurement, identify opportunities and assess threats for the company's products, measure financial ratios (e.g., return on investment or ROI, market share, etc.), and analyze tactical plans based on historic performance.

BUSINESS DEVELOPMENT IN BIOTECH

On the business development side, research analysts provide the extensive research and analysis needed to determine how and with whom a biotech company should partner with. Analysts generate the assessments that help business development management determine how to meet its goals. Analysts answer such questions as, "Should we expand organically or acquire other companies to grow?" and "Who should we partner with to become more competitive?" Research analysts work with attorneys to assess intellectual property and licensing issues, help develop and enforce agreements, and secure licenses for ongoing operations. Many companies have senior analyst positions with the same responsibilities, but operating more autonomously. Analysts can bring home salaries ranging from $90,000 to $110,000.

It's a significant step up to manager of corporate planning, a job that generally appears at the larger companies. They prepare long-range and strategic plans (usually several years out) and short-range/tactical plans (up to a year out). Other activities include designing and executing financial planning processes, setting targets and planning guidelines. The manager of corporate planning works closely with the CFO to develop the company's financial plans for senior management, industry analysts and investors. They complete competitive analysis and continually assess the prospects for the company. This senior position usually has salaries ranging from $110,000 to $120,000.

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At the head of the group is the vice president of business development, a very important position in most biotech companies. The VP of biz dev oversees all efforts to identify, evaluate and pursue potential strategic partners, joint ventures and alliances. This person also directs the assessment of the licensing potential of targets, leads and drug candidates as well as the managing of all collaborations. They maintain partnership agreements and address the inevitable issues that arise in any relationship. Most companies ask for impressive credentials to reach this level: an MBA, a science degree and nearly a decade of experience that includes knowledge of due diligence, asset valuation, alliance integration, and portfolio management. As an executive, the VP can expect to earn a salary ranging from $160,000 to $190,000 and also receive additional incentive compensation.

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Private Equity

WHAT IS PRIVATE EQUITY?

In its broadest sense, private equity is an investment derived from a nonpublic entity. Of course, under that definition, any individual who owns a single share of stock is, indeed, a private equity investor. The kind of private equity we're talking about is much bigger; these individuals don't just invest in stock—they buy whole companies.

In modern private equity, a pool of capital is created from private investors, ranging from university endowments and pension funds to hedge funds, Wall Street investment banks and high-net-worth individuals. The managers of these private equity pools, or funds, then try to put that capital to work, generally by purchasing private or public companies, "fixing" them so they generate more revenue, cash and earnings, and then "flipping" them by selling the improved company to another buyer or taking it public on the equity markets.

Private equity investments aren't just about buying and selling companies, however. Many private equity firms invest in debt, helping a company salvage itself by loaning it money in exchange for an equity position or another form of return. Some private equity firms target funds at startup companies—these are called venture capital firms, though a diversified private equity management company will often include venture capital activity alongside acquisitions and debt purchases. Venture capital investments are often made in exchange for equity in the private company that, the firm hopes, will turn into big profits should the startup go public or get sold.

Who are private equity investors?

The institutions and people who invest in private equity funds are some of the wealthiest in the world. Major pension funds, such as the California Public Employees Retirement Systems (CalPERS), place some of their money with private equity funds to boost returns. Major Wall Street investment banks also place investments in private equity funds—unless, of course, they create their own in-house private equity funds as did Goldman Sachs and Morgan Stanley. Hedge funds often invest in private equity funds due to the outstanding performance these funds have amassed through the years. Indeed, a few hedge funds have blurred the line between themselves and private equity firms by taking part in public company buyouts either on their own or in partnership with more traditional private equity firms.

And finally, the firms themselves are often heavily invested in their own private equity funds. The private—and, recently, public—companies that manage private equity pools ensure their interests are aligned with those of their investors by placing a large chunk of their own wealth in the mix. This has, of course, resulted in the creation of a breed of private equity deal makers that have joined the billionaires' club, most famously Henry Kravis at KKR or current industry poster boy Steve Schwarzman of Blackstone.

THE MODERN PRIVATE EQUITY FIRM

Today, private equity firms are primarily dedicated to the purchase of companies or stakes therein. Yet some, including Bain Capital and The Blackstone Group most notably, have entered other businesses, including distressed debt and real estate. At the same time, hedge funds have started dabbling in private equity as well, mostly through placements, but occasionally through their own, active efforts as well.

Yet the average private equity firm remains dedicated to the concept of the buyout. Over the long haul, the returns from a private equity placement have yet to be rivaled consistently by any other asset class, including hedge funds. There simply aren't any other investments where returns can reasonably be as high. And even with questions arising about the current M&A and LBO environments, private equity funds have proven their worth to investors time and again.

Private equity in the U.S.

There are only about 200 private equity companies operating at any one time in the United States, and that number can vary due to openings and closures on the small end of the scale. But the money they manage is impressive. According to the Private Equity Council—formed by firms in response to increasing pressure from Washington on their activities and profits—private equity firms were responsible for $406 billion in transactions in 2006. They had already eclipsed that mark by mid-2007.

Like their venture capital cousins, private equity firms generally find specialties within the industry. Some firms will focus on middle-market, mid-cap transactions, while others take aim at overseas purchases. Still others look at small, public companies or those within a specific sector.

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And then there are the big ones. They have the money and clout to go after the biggest deals in a variety of sectors. Here's a list of the biggest and most noteworthy firms in private equity today:

Apollo Advisors
Bain Capital
The Blackstone Group
The Carlyle Group
Cerberus Capital Management
Kohlberg Kravis Roberts & Co. (KKR)
Providence Equity Partners
Texas Pacific Group
Thomas H. Lee Partners
Warburg Pincus

Private equity today

In the world of private equity, fortunes began to slip away from its inhabitants as the U.S. recession slammed nearly every financial sector. In March 2009, 12 of private equity's billionaires disappeared from *Forbes* magazine's annual list of billionaires (as compared with the previous year's list). Almost all of the other private equity billionaires who still made the list also saw their wealth diminish substantially.

Private equity firms, of course, also took a big financial hit. KKR saw a large downturn, posting a $1 billion net loss for 2008 (compared with a $100 million net loss in the previous year). Another private equity bigwig, The Blackstone Group, posted a $1.16 billion net loss for 2008 compared with $1.62 billion in net income in 2007. The private equity job market has suffered a number of setbacks as well—in late 2008, the Carlyle Group, Investcorp and 3i Group all laid off workers. Some recruiters have also indicated that they're seeing more and more resumes from workers in the private equity sector.

But there may be hope on the horizon for the private equity sector. In 2009, President Barack Obama introduced a provision within his tax stimulus plan that some insiders are saying may keep a number of private equity-supported companies afloat—and out of Chapter 11 bankruptcy. The clause, which lets some businesses delay paying taxes on income they gained through cancelled debt, may help out these distressed companies. Whether the plan will be private equity's saving grace remains to be seen, but so far it has brought hope where matters looked grim.

THE PLAYERS IN PRIVATE EQUITY

So who's doing all of this? Who makes the private equity industry run? Like the rest of the financial sector—and really, much of the American economy these days—private equity is fueled by human capital. And when an industry has as many moving parts as private equity does, it takes a breadth and depth of experience unmatched by nearly any other business today.

From finding investors and researching companies, to making the deal and executing exit strategies, a private equity firm relies on a diverse group of players. The following is a look at the various roles in a typical private equity firm.

The fund raisers and investor relations

A private equity firm won't get anywhere without money. To that end, private equity firms employ fund raisers to help attract the capital needed. These roles are quite similar to investor relations positions at public companies, institutional banks and mutual funds. Their job is to sell the ideas behind the firm's latest private equity fund, convincing major institutions—hedge funds, banks, pension funds and the like—to give the firm hundreds of millions of dollars to manage.

These people also serve as investors' point of contact. They help manage investors' accounts, let them know when they can expect returns and assuage any fears they may have. For major accounts, they also bring in some of the firm's top leadership as needed to help close major investments.

Naturally, those in these roles are exceptional salespeople with experience in dealing with major financial institutions.

The researchers

The key to unlocking value is knowing where to look, and that falls to the researchers at the private equity firm. These are the people who comb through volumes of analyst reports, news releases and articles, looking for opportunity. They investigate potential targets thoroughly for signs of possible value. They're tenacious and determined, with the ability not only to crunch numbers but also to get a "feel" for a company in admittedly subjective ways.

First, researchers identify targets. Again, some companies make it easy by putting themselves on the block or having a proxy, like an investment bank, contact the private equity firm. Other times, an article or research report on a company highlights a potential problem that the firm's experts are known

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for fixing, or an analyst may simply note that a company's share price has been flat for a long time. That can trigger an intensive and somewhat covert investigation into the company's fortunes. The firm's researchers gather and collate all existing Wall Street research and media reports on the company. They'll contact the company's suppliers and clients. They may even reach out to a handful of key people within the company on an informal basis.

Then, the researchers coordinate with the deal makers to agree on whether the company is a potential target. Once the company is approached and enters into negotiations, there's a whole new set of data that needs to be explored. The would-be target opens its books and operations to the firm's researchers. At that point, the firm's overall investment thesis is tested and, hopefully, proven. Some avenues of potential value are discovered, and others are abandoned.

Finally, the researchers come up with a final investment thesis for the company that serves as not only the basis for negotiations, but the agenda for the company's entire ownership. This thesis outlines areas of savings, cost-cutting plans, new ventures, the state of the company's balance sheet and how much debt it can take on—everything. The researchers come up with the plan that will ultimately be executed.

Needless to say, it takes someone with an incredible depth of knowledge to engage in this kind of work. Most have a strong financial bent, and some have spent time in corporate finance, Wall Street buy-side or sell-side research shops, or both. A few actuaries have found themselves crunching numbers for private equity firms as well.

The deal-makers

Once a target has been identified and the investment thesis proven, the deal-makers go to work. They're the ones responsible for obtaining the company at the best possible terms. In many cases, they work not only with the target company, but also with sources of financing, including investment banks and hedge funds, to obtain the necessary leverage at low enough rates to make the deal work. They are the old-school Masters of the Universe, making deals worth billions that can affect the lives of thousands. This is heady stuff, to be sure.

In most firms, the chief deal-maker and the head of the firm are often one and the same. Deals don't get done, after all, until the top guy signs off on them, and men like KKR's Henry Kravis and Blackstone's Steve Schwarzman are renowned deal-makers. That's not to say that they're the ones sitting at the table—though sometimes they are if the deal's big enough. But they're directing the firm's negotiations and making sure that the deal jives with the overall investment thesis.

Some firms employ their own negotiators who answer to the company's top leadership. Other firms don't—like any other would-be buyer, many simply hire an investment bank to do the negotiating. But at most private equity firms, at least one of the firm's top managers, if not the founder, is really calling the shots at the table, while the I-bankers are there in more of a research and advisory role.

The operators

Once a deal is done and the target becomes a portfolio company, the firm's operators go to work. Few are actually full-time employees of the private equity firm, though each portfolio company is supervised by one or more managing directors and their accompanying staffs. The private equity firm's staff acts as both top-level managers and consultants, making sure the portfolio company meets its targets, as outlined by the investment thesis, and offering advice on how to get there.

There's also a whole other level of operators that firms use: established corporate executives who go from company to company on behalf of the private equity firm. They take on top leadership roles at the newly acquired company and get things done. These "hired guns" are generally successful C-level executives noted for their turnaround expertise and willingness to do whatever it takes to get the company where the private equity firm wants it to be.

To put it in another perspective, the private equity firm's representatives are the portfolio company's board of directors, and the hired guns take over the top-level positions and get the job done.

The in-house operators and hired guns must work together, though there have been times when the CEO installed by the private equity firm sees things differently than the researchers who came up with the investment thesis or the firm's assigned in-house operator. This is particularly true if the hired gun has more experience than the firm's assigned supervisor. This can generally be ironed out, though only after a managing director or a member of the firm's executive committee gets involved.

Hitting a moving target

All of the roles and people within a private equity firm continue to interact throughout the investment's lifespan. The researchers are often revisiting their thesis with input from operators on the ground, and the deal-makers are often pulled in to iron out the investment's exit strategy, especially if it involves a direct sale. Investor relations personnel answer questions, provide updates on investments, assuage disgruntled stakeholders and make sure everyone gets their money in the end—and can often assist in IPO road shows, too.

And of course, these are positions in firms that, generally, have fewer than 500 full-time employees around the globe. Each person at your typical private equity firm can fit into one of these roles, but they're handling multiple funds, targets, deals and/or portfolio companies. And the top managers

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are often shuttling between different roles—approving the investment thesis, sealing the deal, ensuring operations go smoothly and glad-handing the firm's fund investors.

A DAY IN THE LIFE: THE DEAL MAKER

6:00 a.m.: Up and reading the presentation books drawn up by the associates the night before. Phone calls to the associates ("to wake them up") to get some changes going before the day's meetings begin.

7:30 a.m.: Picked up by the car. More emails and phone calls.

8:30 a.m.: At the office. Check in with the managing director for an update of the previous day's negotiations and what's planned for today.

9:00 a.m.: Meeting with the team. We'll have the updates in the presentation book done, we'll have a strategy mapped out. This is simply kind of a double check before we head over.

9:40 a.m.: In the cars and heading to the investment bank. We have a war room set up there, too, but we're only 15 minutes away, so we do a lot of work back at the office.

10:00 a.m.: First negotiating session. The target company always tends to come up with a new wrinkle over night, as do we. So we spend the first few hours going through those. Sometimes we can just call each other on our B.S. and move on, but sometimes we have to retrench and figure out what they're saying.

12:30 p.m.: Break for lunch. Hit the phones to figure out countermoves based on the morning's presentations.

1:30 p.m.: The real session. This is where stuff gets done. Today we drilled down and agreed upon a value for their major business arm, which was key. We got a lot more than they did out of it.

6:00 p.m.: Have dinner sent over. Informal chatting between the two sides over dinner.

7:00 p.m.: Wrap up the day's talks.

7:30 p.m.: Convene with the team in the war room and dole out assignments for the overnight. Make a few phone calls to key people and update the MD again.

9:00 p.m.: Call the car and go home.

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Private Wealth Management

THE STATE OF THE INDUSTRY

The private wealth management sector, while emerging badly bruised, ultimately remained mostly intact following the economic collapse that shook the nation. Still, there's no doubt that some companies were hit hard. When it comes to large private wealth managers, none felt the effects of the economic crunch more acutely than UBS, which accumulated more than $50 billion in write-downs, handed out about 11,000 pink slips and was forced to raise approximately $32 billion in capital from investors. All in all, the firm posted a $17.6 billion loss for 2008.

That wasn't the extent of UBS's woes, either. Bankers at the firm pleaded guilty to assisting American billionaires in evading millions in federal taxes by helping them stash funds in offshore Swiss bank accounts. Some of UBS's clients were even told to conceal valuables they purchased with stashed money and to use Swiss credit cards so their purchases would be untraceable, some bankers admitted in court statements. UBS had to concede a title in 2008 as well. When Bank of America bought the failed Merrill Lynch in 2008 for $50 billion, BofA became the biggest wealth management business in the world, overtaking UBS's spot.

Another big takeover came about in January 2009, when Morgan Stanley agreed to pay Citigroup $2.7 billion for a majority share of a merged firm that would include Citi's famed wealth management unit, Smith Barney. The new firm, which will be called Morgan Stanley Smith Barney, will have $1.7 trillion in client assets and 20,000 advisors.

Despite the fiscal carnage in the sector, some industry watchers have indicated that private wealth management (along with boutique banks and risk management) is the industry to try to break into in 2009. Private wealth management, after all, focuses on individuals, not organizations, and some analysts have pointed out that the opportunity to provide guidance in personal investment choices is still a service that will be badly needed in 2009, 2010 and beyond.

WHAT DO PRIVATE WEALTH MANAGERS DO?

The private wealth management industry integrates the varied and complex business of managing wealth by accounting for income needs, taxes, estate preservation and asset protection for the wealthy. Typically, private wealth management is a smaller division of a much larger investment firm or bank. The private wealth manager leverages the expertise of the various departments inside the firm (such as the trust department) to present clients with solutions to wealth management issues. Though not required to be expert in one particular area of wealth management, private wealth managers must know enough about each area to represent their clients' best interests and, where appropriate, offer advice.

Creating income

It is the first job of private wealth managers to help create, from among various investment strategies, income or growth sufficient for the everyday needs of their clients. In addition, they must provide enough excess growth to account for inflation in order that their client's purchasing power does become eroded over time. Let's face it, $1 doesn't buy as much as it used to for Jed and Granny. In addition, hopefully the wealth manager will continue to grow the clients' assets so that they become richer.

Because the rich wealthy often need to live solely off of their investments, today's private wealth managers must use a variety of investment techniques to help clients create enough income every year to live off of. Sounds easy enough right? Not really. When you consider that someone who invests $1 million in a conservative corporate bond returning 5 percent creates a modest $50,000 a year in income, it becomes obvious that having a million dollars or so just isn't as a big a deal as it used to be. Sure $50,000 is a lot of money for doing nothing. But living on champagne and caviar is out of the question. With average wages in the U.S. at a little over $38,000 per year as of 2006, according to the Social Security Administration, the average typical family with two income-earners can earn more than someone with $1 million in the bank who lives off of his or her investments. Indeed, because of inflation, the portfolio with a $1 million must return in excess of 7.5 percent just to keep up with the two-worker household that can possibly expect to get raises every year. With rates of return in the stock market sometimes as high 20 percent or more, 7.5 percent may not seem a very high return, but when you consider that the S&P 500 over the last six years has returned less than 1 percent annually, you'll see that the job of private wealth managers in creating income for their clients isn't always easy.

Paying taxes

Another problem wealthy clients often encounter is taxes. None of us like paying taxes. For most of us, however, we would willingly pay additional taxes if it meant that we were making additional income. For the wealthy, it isn't quite as simple. When managing large pools of assets, small differences in tax rates can translate into big changes in after-tax returns. Various types of investments used by the wealthy are treated and taxed differently by the IRS. For example, income derived from the interest rates of bonds is taxed differently than long-term capital gains derived from selling stock. It is the private wealth manager's job to balance assorted types of investments to create the most tax efficient combination for the client.

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Asset protection

In today's society, people with money are sometimes targeted with lawsuits just because they happen to have money. So, an increasingly popular area of practice for private wealth managers is called "asset protection," which helps the wealthy guard against losing their money in civil lawsuits. There are several techniques used to protect assets, including U.S. trusts laws and foreign, offshore banks. Advocates of asset protection methods contend that making their clients impervious to lawsuits doesn't just protect assets, but also prevents lawsuits from even happening.

CAREER PATHS

The primary role in private wealth management is the private banker, also called the investment or financial advisor. This is the person who evaluates a client's financial position, recommends solid investments, helps with the fiduciary aspects of their client's accounts (regularly consulting tax and accounting experts within the firm), and even sets up a family office for wealthier clients to pay bills, staff and make sure family members are appropriately taken care of, or "given their allowances" as one banker put it.

Analysts

The career track for the private banker is fairly cut and dry at the major corporate banks and Wall Street brokerage firms. Undergrads coming in are called analysts, just as they are in the sales and trading division and the investment banking arm and everywhere else within the corporation. They're the ones who do all the researching, number crunching, report writing, and yes, coffee fetching on occasion, for the higher ups who are actually working for the clients.

Associates

The next rank up is associate, or just plain old private banker at the smaller firms. These are the guys who work with the clients and attract new business, the real face of the private bank for most clients. This is considered a very entrepreneurial job, in that you'll be expected to not only serve clients, but attract new clients as well. At many firms, you'll also be expected to attempt to sell your clients on the company's proprietary financial products, though the practice is starting to be curtailed at some firms.

Associates will work closely with clients to create an overall financial strategy that encompasses not only investment, but also income management, budget, real estate holdings, taxes, small business partnerships, estate planning and even paying the day-to-day bills of the household, all depending on the level of service the client wants (and the fees he or she is willing to pay, but at this level, fees are a secondary consideration to impeccable service and peace of mind).

Associate pay generally mirrors other Wall Street positions, with a newly minted associate making about $75,000 to $85,000 per year. Bonuses can vary, however, depending on how the firm structures compensation. Some private bankers receive bonuses solely on selling the client new services and the company's investment products, getting a percentage of the business the private bank brings in from that client. Others have more complex metrics, measuring performance against the client's stated goals. For example, some private wealth management clients may not want anything more complex than safe fixed-income investments that generate income with little or no risk, with a stated goal of five percent yield each year. If the private banker reached that goal, he would get a larger bonus than he would have if the investment only yielded 4.85 percent. Or if the banker managed to get 5.35 percent—without altering the client's risk profile or otherwise deviating from the state goals—the bonus would be higher.

Some private wealth managements eschew commission bonuses altogether, preferring to grant bonuses that do not give clients the appearance that their banker is simply interested in selling them on products. These firms' bonus metrics are primarily based on fulfilling the clients' goals—a few firms even ask clients to review their bankers each year. Of course, firms will always appreciate it when associates convince their clients to use the private bank's estate planning services instead of someone else's, and in that sense, selling a non-investment service is seen as very bonus-worthy.

Likewise, associates are expected to drum up new business, and bonuses can come if you manage to gain new clients. Sometimes this will come from word-of-mouth, as current clients recommend the associate to their high-net-worth peers. It also comes from good old-fashioned networking, which means an investment on the associate's part in both time and, at times, money—especially when belonging to the right club or attending the right charitable event can mean a room full of potential clients. Some private banking firms organize cultural events or sports outings for their clients as well, with the hopes that they'll bring well-moneyed colleagues or friends for associates to network with.

Vice presidents

In time, salaries and bonus money for motivated, skilled and trusted associates can top $500,000, usually anywhere from five to eight years, depending on the firm and opportunities that have presented themselves, and up to $1 million within 10 to 13 years of private banking. At that level, however, an associate has often already been promoted to the level of vice president. As such, he or she can be placed in a position overseeing a number of associates, or even a regional office. Alternatively, an associate that has specialized in spotting unique investment opportunities or has helped come up with new products can branch off from the client business and into an investment specialty. They may end up as market strategist or in-house portfolio consultants, gaining a smaller piece of individual clients' business, but making up for it by consulting with larger numbers of clients.

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Managing directors

Finally, after years of service-and income that can top $2 million or more for the best performing vice presidents—a successful, entrepreneurial, client-driven VP can be named a managing director. In these positions, an MD can expect to be in charge of associates in a major branch office, or even in the headquarters city. They can be given the highest-net-worth clients, or the problem clients whose money is just too valuable for the firm to lose. In specialty positions, they may end up as the private bank's chief investment officer, chief fiduciary officer or general counsel. There are generally only a handful of MDs within any private wealth management firm, and they are often on the executive committees of the firm. At this level, salaries enter a realm in which the MD may want to find a private banker of his own—and are generally high enough that firms don't discuss them, though still nowhere near the level where they have to be reported to the Securities and Exchange Commission!

JOB RESPONSIBILITIES

Do wealth managers need to be good at sales? Marketing? Investing? Schmoozing?

The answer to all of these questions is yes. A private wealth manager must be good at many things—he or she must be as skilled at developing relationships as investing.

Sales

Among the responsibilities of a private wealth manager are sales and prospecting for sales. If your heart fell a little when you read that you'd have to, gasp, gulp … s … s ... sell, then hold on for just a minute. The first stop on the road to success for any private wealth manager (or any other salesperson or manager for that matter) is to improve his or her listening skills. A good private wealth manager will be able to draw out a client's needs by asking the right questions then actively listening to the answers for cues and clues as to what the client might be thinking.

Money can be a very uncomfortable subject for people. Studies have shown that many people are more uncomfortable talking about money then they are about being naked in front of a strange doctor. Like a doctor, a private wealth manager's bedside manner, so to speak, will go a long way to identifying a client's needs.

When you improve your listening skills, you will find that you become a true professional salesperson. Such a professional salesperson is not someone who can simply talk another person into anything. A professional salesperson, rather, is an expert at listening to what clients need and filling that need by identifying a product or service appropriate for them. This means that often you are not selling anyone anything at all. Rather, you are listening to clients, building relationships with them, and understanding what their goals are. That's what sales is really all about. If you let it, it can be one of the best parts of your job.

Marketing

Marketing is the art of telling people who you are—whether you're a product or service—and why people should want to do business with you. This last part (why people should want to do business with you) is the most important aspect of promoting your business. And since private wealth management is a highly regulated industry, there are some notable challenges to marketing.

When it comes to marketing itself, the private wealth management industry has more restrictions on what it can lawfully claim than some other industries. For example, if you had owned an oil company and sold gasoline, like Jed Clampett, you could say that your gasoline made cars more fun to drive to promote your particular brand of gasoline. In the private wealth management business, though, it's a little more difficult to make claims of being "the best," or being "better than" something or someone else. Generally, the marketing is pretty standard, with some notable exceptions. Private wealth management companies might say they offer some sort of superior service quality or a degree of caring that may be missing from a competing firm. For instance, Raymond James and Associates offers BIO (by invitation only) visits to clients meeting certain liquid net-worth thresholds. These potential clients are flown down to Raymond James corporate headquarters and given a tour of the firm's four-acre campus in St. Petersburg, Florida. Clients then can meet with various departments of the firm, including the senior management, right up to the CEO.

What some firms lack in old-fashioned marketing, they allow (and expect) you to make up. Some wealth managers may use newsletters to promote themselves, others network in their community. How you market yourself will be a decision to make after thoroughly evaluating what strengths you can bring to your clients.

Many managers spend time on the golf course to meet prospective clients. But golfing isn't a marketing strategy that can replace the hard work of meeting or calling prospects. It might be one component of a networking plan, which may also include volunteering on community boards, doing charity work and getting involved in other activities that allow a wealth manager to have more contact with wealthy individuals.

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Investing

Private management firms provide their wealth managers with professionals to help them handle their clients' day-to-day investment decisions. This does not mean that wealth managers won't have a lot of input about those decisions or that they could not make those types of decisions themselves given the time. But think for a moment about how their time should be best spent? Talking to clients? Prospecting for new clients? Meeting new contacts? Learning about new estate planning techniques? Or keeping a close eye on the market?

Certainly they need to develop well-informed opinions about investing and various investment strategies. And the most important function of a wealth manager in the investment process will be explaining the implications of the various strategies presented, thereby helping his or her clients select the most appropriate strategy.

UPPERS AND DOWNERS

Like any job, there are pros and cons to a career in private wealth management. The vast majority of private bankers are quite content in their jobs—but then again, they wouldn't be there if they weren't. Here are some uppers and downers that private bankers experience every day.

Uppers

- **Clients.** You'll be helping people realize their hopes and dreams, manage the results of a lifetime of hard work and plan for their futures. They're generally interesting people with fascinating life experiences, and you may end up becoming very close to them.
- **Entrepreneurship**. Once you're an associate or higher, you'll be ultimately responsible for your clients' performance, and you'll have the opportunity to build your own client base. You'll have quite a bit of input into how much money you make, based on your drive and your investment savvy.
- **On-the-job knowledge**. It's not just stocks and bonds. While you'll have backing from experts or consultants made available to you by your firm, you'll end up learning quite a bit about a variety of investments and financial planning tools. From real estate to hedge funds, from prenups to estate planning, you'll only get smarter as time goes on.
- **Philanthropy.** Many private bankers find particular joy from helping their clients give their money away. While it's not a high-commission activity by any stretch, it's certainly good for the soul. And as one banker pointed out, it can lead to more business contacts and potential clients!
- **Lifestyle.** For the most part, you can actually have a life outside of work if you manage your time and client accounts properly. You won't have many eight-hour days, but you can reasonably expect to have weekends free, and you'll be able to take vacations like the rest of humanity.
- **Money.** While you'll never receive multimillion-dollar checks for leading a merger deal, you'll certainly be making plenty of money, enough to easily become a high-net-worth individual in your own right.

Downers

- **Clients.** While the majority of your clients will fall into the "uppers" category, a few will most certainly drive you nuts. They'll ignore your advice, do stupid things with their money, and then blame you for it. A few will call constantly with each tick of the market, and many will need hand-holding or supremely well-thought-out arguments for each move you think they should make. Even your best clients will make you want to pull your hair out every now and again.
- **Conservatism.** Many of your clients will be risk adverse, and investments that could make them (and you) a pretty penny could be summarily rejected despite your best arguments.
- **Income fluctuations.** Feeding into the above, you may end up having a run of low bonuses or commissions due to uncertainty in the markets or a conservative investing trend. Just as your clients can fall prey to the vagaries of the market, your own income will as well.
- **Always on.** While the majority of your clients will leave you alone on weekends, holidays and vacations, you'll constantly have to be ready to spring into action at a moment's notice. Don't think of even heading to the grocery store without your BlackBerry on, and if you're going on vacation, a laptop with a reliable wireless connection is essential. An understanding domestic partner is also important should a client call in the middle of a honeymoon or family holiday.
- **Limited geographic potential.** You're going to have to live where high-net-worth individuals live, which means a major U.S. or world city, with all the expense and headaches that comes along with it. You can certainly live in the suburbs, but if you're hankering for a small town lifestyle, you won't get it—at least not without a major commute.

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Real Estate

INDUSTRY OVERVIEW

A concrete business

Real estate is tangible. It's a piece of land and any building or structure on it, as well as the air above and the ground below. Everyone comes into direct contact with real estate; the places where we live, work, vacation, shop and exercise are all assets to be bought, sold and rented. The real estate industry is usually considered one of the most dynamic sectors in the American economy—people may sell their stocks, but they'll always need a place to buy groceries and somewhere to sleep.

Yes, it's for real

The real estate sector depends on a number of economic factors; small shifts can turn trends significantly. For example, the technology industry boom helped the real estate industry in Silicon Valley in the 1990s. There was more demand for space—both commercial and residential—and asset values skyrocketed. The subsequent technology bust had a dramatic effect on some parts of the sector, too. Commercial real estate firms (which deal with office and retail development projects) found the market glutted with available space, driving prices down. Residential real estate is affected by economic swings as well, in addition to changes in the federal interest rate (which affects mortgage interest rates) and the unemployment rate (which affects both consumer confidence and buying power). In turn, these factors also have effects on mortgage lenders and housing construction companies (such as Lennar, Pulte Homes, Beazer Homes and KB Homes).

Most residential real estate offices are small and focus on properties in their immediate location. But their brand names come from just a few industry leaders. Realogy, a 2006 spin-off of Cendant, has several big names in its stable, including Sotheby's International, ERA, Century 21 and Coldwell Banker. The company claimed it was involved in one of every four U.S. residential real estate transactions in 2007. During that year, Apollo Management acquired Realogy, and the company signed a licensing deal with Meredith Corporation to use the Better Homes and Gardens brand. Realogy's competitors include RE/MAX and HomeServices of America. Most residential real estate companies also deal in commercial sales. Firms that exclusively handle commercial real estate are frequently larger and employ more brokers and salespeople than residential firms; and they may also manage properties or administer real estate investment trusts (REITs).

Real estate roller coaster

In the early part of the decade, the topic of real estate frequently popped up in the news media, as housing prices on both coasts and in urban areas skyrocketed. The reasons for this were numerous: following the market crash of 2000, the Federal Reserve rolled back interest rates from 6.5 percent to 1 percent over a three-year period, and a loosening of lending regulations made getting money to buy a house easier than ever. The influx of cheaper money fueled the boom: housing prices on the coasts shot up 55 to 100 percent (accounting for inflation) in five years. According to an article in *BusinessWeek*, in the first half of 2005, real estate accounted for 50 percent of the growth of the GDP; in normal, less overheated markets it usually accounts for a 10th of that amount.

Since then, the sales market fell hard—and fast. Newly constructed properties—which had been built up rather optimistically from 2000 to 2005—began to be offered cheap to fill up empty units. By June 2006, the National Association of Realtors said existing-home sales were down nearly 9 percent compared to the June one year prior. By 2007, that figure was down another 10 percent to just under 5.8 million—the lowest seasonally adjusted total in four years. And in 2008, that figure plummeted by another 15.5 percent. The number of homes listed for sale at that point (just under 4.5 million, the highest since 1992) was enough to last more than 11 months at current sales rates. In a June 2007 article in *The New York Times*, Mark Zandi (chief economist at Moody's Economy.com) indicated that prices were declining in over 40 percent of metro areas in the United States. The situation was bad in areas of California and dire in Florida, where the problem was compounded by huge property taxes, the hurricanes of 2004 and 2005 and the resultant spiral in insurance costs.

After the housing bubble burst, the subprime mortgage crisis exacerbated the problem in 2007 and 2008, when borrowers started having trouble making payments on adjustable-rate loans with interest rates that had shifted upwards. To make matters worse, many people's homes were now worth less than what they had paid for them. Foreclosure filings increased because homeowners didn't have the option of selling their homes—or couldn't bear to, at values 15 percent to 30 percent less than what their mortgages were good for—and couldn't take out additional loans.

From bad to worse

The situation became even more abysmal in 2008, when banks and other financial institutions suffered huge losses related to increasing mortgage payment defaults and falling real estate values. (Blame it on the looser lending requirements adopted by the industry in 2000.) Major lenders Fannie Mae (the nickname for the Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation)—which together are responsible for about $6 trillion in commitments—had to be rescued by the federal government. Countywide Financial was swallowed by Bank of America and promptly renamed, and Washington Mutual, LandAmerica Financial Group and IndyMac Bank all filed for Chapter 11 bankruptcy protection.

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The Housing and Economic Recovery Act of 2008, which attempted to restore confidence in the U.S. mortgage industry, was passed in July 2008. The act allows the Federal Housing Administration to guarantee as much as $300 billion in new 30-year fixed rate mortgages for homeowners with subprime loans. Also during 2008, the federal government bailed out mortgage lenders Fannie Mae and Freddie Mac, and the Fed made massive loans to fund JP Morgan Chase's acquisition of Bear Stearns, and to keep massive insurance firm AIG solvent.

After investment bank Lehman Brothers filed for bankruptcy, stock markets plummeted on September 15, 2008—a day the news media dubbed "Meltdown Monday." The following week, Federal Reserve Chairman Ben Bernanke and Treasury Secretary Henry Paulson urged Congress to pass a $700 billion bailout package, under which the federal government could purchase bad mortgages and other assets, hopefully preventing further meltdown.

Next on the real estate horizon

The subprime mortgage crisis has had an obvious impact on residential real estate, but it's also created problems in the commercial real estate market. In August 2008, the National Association of Realtors said it expects poor economic conditions to have an impact on commercial real estate over the coming six to nine months. In New York, the financial crisis has slowed big construction projects, such as the Atlantic Yards in Brooklyn and the World Trade Center; and a glut of NYC office buildings (constructed during the good times) will likely have trouble renting out space to companies with downsizing on their minds.

If the economic downturn continues for an extended time, the results will be horrendous, bringing to mind the last time housing prices took a large fall: the Great Depression of the 1930s. Even if the economy and the real estate market recover, it's unlikely that housing prices will hit the historic highs that they saw in 2005 anytime soon.

Valuing Real Estate

There are three generally accepted approaches to valuing real estate: the sales approach, the cost approach and the income approach. Professional appraisers will reach a valuation after carefully considering each approach. You should make sure to review all three approaches before any real estate interview.

The sales approach

The sales approach arrives at a value for a property based on recent sales of similar properties. This approach can be used for both residential and commercial properties. There are proprietary databases that track home and commercial building sales, which make it easier for real estate professionals to access market information used in valuing properties. One of the most popular databases is the Multilisting Service (MLS), which is used to track residential properties. The MLS contains useful information about homes, such as the sales history, tax records and property amenities that can be accessed for an annual fee. In the sales approach, appraisers will use databases, such as the MLS, to look for homes with similar characteristics (e.g., location and house specifics), as the subject property. For example, when valuing a four-bedroom, two-bathroom house in the Pacific Heights section of San Francisco, it is logical to value that property based on the most recent sales information for properties in the same area with similar characteristics. Bear in mind that no two properties are alike, so when valuing a property using the sales approach you must adjust for differences between the properties.

The cost approach

In markets where it is difficult to find similar properties, an appraiser can value a property based on the cost approach. This approach focuses on a few steps. First, you must determine the cost of replacing or reconstructing the improvements or building. Next, the age of the improvements must be considered and an appropriate amount of depreciation is subtracted from the value of improvements. Finally, the value of the land must be taken into consideration. The land value is added to the improvements minus the estimated property depreciation. The cost approach is used for truly unique properties like churches, which cannot use either the sales or income approach to arrive at a valuation.

The income approach

The income approach is the most quantitative of the three approaches. The income approach involves the use of net operating income (NOI) in calculating the value of the property. Think of NOI as the reason most investors buy a building. The investment community talks about NOI incessantly, so make sure to understand this concept if you plan on being involved with real estate investing.

There are two forms of the income approach. One form involves isolating NOI for one year, while the other form involves a longer time horizon. Both forms use a capitalization (cap) rate to calculate a value. The cap rate is a market mechanism, so don't worry about what

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goes in the calculation. Just be concerned with how it is used. In practice the cap rate is generally used in a formula with the NOI to arrive at a property value. For example, suppose you were buying an industrial facility whose net operating income in the following year was projected to be $500,000. If you knew the market cap rate for similar properties, you could arrive an estimated value of the property. Assume the market cap rate for industrial facilities was 10 percent. To arrive at the value of the building, divide NOI by the cap rate. In our example, the value of the building would be:

$$\text{Value} = \frac{\text{NOI}}{\text{Cap Rate}} = \frac{\$500{,}000}{.10} = \$5{,}000{,}000$$

The yield capitalization form uses a longer time horizon. It involves calculating a discounted cash flow to arrive a property value.

$$\text{Value} = \frac{\text{NOI year n}}{\text{11+discount rate}^{+1}} \; \frac{\text{=NOI year n+1 +}}{\text{11+discount rate}^{+1}} \; \frac{\text{residual value}}{\text{11+discount rate}^{+1}}$$

In the example above, the numerator represents the cash flows that the building generates today and in the coming years, which theoretically provides a value for the asset. Note, that there is also a future residual value listed in the formula. The discount rate reflects the cost of capital. Your client may provide this cost, or you may have to estimate the discount rate based on similar transactions and knowledge of the market. The discount rate is necessary because it allows you to bring all the future cash flows back to today's dollars or present value (PV). The discount rate factors in the opportunity cost of money or the return that you could expect elsewhere with the cash flows. The exponent "n" in the denominator represents the period or number of years in the future that you would receive that cash flow. The DCF is calculated based on a stated number of years and adds up the PVs. At some point in the future cash flows you have a residual value because it is assumed the property is eventually sold. The residual value is calculated by taking the NOI of the year after the assumed time horizon and then dividing that year's NOI by an assumed cap rate. Some investors use different time periods when calculating the DCF but 10 years is the generally accepted period to value an asset. The DCF is normally used for income-producing property, while a single-family house is typically valued by the sales comparison approach.

Although there are different ways to value real estate, there are a few common variables such as location, the property's condition and market demand that make real estate valuable regardless of the asset type. There is a popular industry saying, "The three most important things in real estate are location, location, location." You simply cannot underestimate the importance of location. While you can restore and upgrade a property as much as you want, there is no substitute for being located close to: transportation, good schools, attractive retail and an aesthetically pleasing area. While location is important, keeping the property in good working order also creates value because it lessens the need to make improvements or contribute capital to the property. In addition, fundamental macroeconomics plays a major role in real estate values. For example, when interest rates offered by lenders are low, people will rush to buy a house to take advantage of the low financing costs. If this new market demand is greater than the market supply, property prices will increase.

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THE REAL ESTATE MBA

One possible educational route into real estate is to get an MBA at an inttution with a specific real estate program. Some of the best programs, based on *U.S. News & World Report* rankings, are Wharton, University of California-Berkeley's Haas Business School, MIT's Sloan School of Management, University of Wisconsin-Madison and Ohio State University's Fisher School of Business. These schools also have strong real estate clubs that produce annual conferences and other activities.

JOB SEEKING ADVICE FOR REAL ESTATE MBAS

Joseph Pagliari, a clinical assistant professor and director of the Real Estate Center at the Kellogg School of Management, says, "There are host of opportunities in real estate for MBAs. The issue is identifying the best fit for the candidate. Positions that are good fits for MBAs are with firms that supply capital to the industry. Typically these are large, sophisticated, financially-oriented firms. MBAs should identify these institutions and aggressively pursue them for employment. In today's marketplace, this means looking at REITs, mezzanine funds (funds built around mezzanine financing, which combines equity and fixed income investments) and private equity firms.

"In general, the high-profile real estate positions and financially rewarding jobs are on the capital side," adds Pagliari, who is also a principal of a real estate investment firm. "These jobs are almost self-selecting because they are tough to get and you have to be smart and aggressive to succeed. Given that positions in the capital side of the business are reserved for the elite, MBAs should pursue these positions because many of them possess the necessary qualities for these roles."

Employers look for a variety of skill sets. "It is difficult to narrow it to just a few things," he says. "Some positions are very quantitative while others emphasize strong interpersonal skills. Having a combination of both is a competitive advantage. In general, I tell all my students to look for roles that speak to their skill sets. It is going to be hard enough to get the interview, so don't blow it by going after a job that probably doesn't fit your background. MBAs should do their homework on the types of roles out there and match their background and interest with the best fit. However, you still want to shoot for the sky and leverage your MBA."

Job seekers shouldn't be shy about using their contacts "This industry is very tough for outsiders or newcomers to break into and students should be ready to accept that," he advises. "Get in the hunt as soon as possible and network, network, network. Using alums or anyone else you know in the industry is something I always recommend." When you have the interview, be prepared to talk about the local market—or any other in which the company operates. If it's a public firm, check *The Wall Street Journal* for the scuttlebutt. Also, be certain they'll welcome your MBA.

"In the interview you will most likely be asked about why you are interested in real estate and a few technical questions," Pagliari warns. "Be ready to describe a cap rate and market specifics like rental rates and general economic conditions."

To MBA students just starting a real estate program who know they want to enter the industry, he stresses, "Don't rely on simply taking real estate classes, especially if you have no prior real estate experience." You need to demonstrate passion by joining a real estate club or getting active in real estate-related activities at school. "Do whatever it takes to be able to demonstrate your enthusiasm for the industry," he adds. "If it takes starting a real estate club or being the driving force behind an event, then so be it."

The professor also advises individuals who are evaluating MBA programs that offer real estate curriculums to: make sure the professors have some practical experience and the curriculum will give you a skill set that will meet your end goal. Don't sacrifice the overall MBA experience for a school that simply offers a strong real estate curriculum and is lacking in other areas.

For MBA students who are interested in real estate but whose programs do not offer real estate classes, Pagliari offers a solution. "Classes related to finance and economic principles that help you price risks are very useful," he says, noting that the ability to price risk is a strong differentiating factor. Pagliari also recommends taking business law classes because there are many legal issues involved in the industry. "Which is why you should not be surprised to find so many attorneys in the business," he says.

"I was a career switcher and was repeatedly asked in interviews about why I was interested in real estate," says Rich Monopoli, a recent graduate from business school. "Many of the interviewers wanted an explanation of how my background tied to my interest in real estate. I can't emphasize enough how important it is to be prepared to answer the question of why you are interested in real estate."

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Sales and Trading

THE WAR ZONE

If you've ever been to an investment banking trading floor, you've witnessed the chaos. It's usually a lot of swearing, yelling and flashing computer screens: a pressure cooker of stress. Sometimes the floor is a quiet rumble of activity, but when the market takes a nosedive, panic ensues and the volume kicks up a notch. Traders must rely on their market instincts, and salespeople yell for bids when the market tumbles. Deciding what to buy or sell, and at what price to buy and sell, is difficult when millions of dollars are at stake.

However, salespeople and traders work much more reasonable hours than research analysts or corporate finance bankers. Rarely does a salesperson or trader venture into the office on a Saturday or Sunday; the trading floor is completely devoid of life on weekends. Any corporate finance analyst who has crossed a trading floor on a Saturday will tell you that the only noise to be heard on the floor is the clocks ticking every minute and the whir of the air conditioner.

S&T today

Unquestionably, sales and trading is a sector that's undergone a series of changes since the recession struck the United States in full force. A lack of confidence in the market has led to a lack of volume on sales and trading desks—not to mention employee fears about overall job security. So far, a few of the concerns have proven to be founded—on its trading floors, Bank of America and Citi both saw thousands of job cuts in late 2008 and into 2009.

Still, it's not an entirely bleak picture when it comes to breaking into the business. Several financial firms (such as the giant Credit Suisse) are still offering rotational sales and trading programs for students and recent graduates—potential employees can get firsthand experience in the business by rotating across firms' equity, credit, interest rates and prime brokerage desks.

SHOP TALK

Here's a quick example of how a salesperson and a trader interact on an emerging market bond trade.

Salesperson: Receives a call from a buy-side firm (say, a large mutual fund). The buy-side firm wishes to sell $10 million of a particular Mexican Par government-issued bond (denominated in U.S. dollars). The emerging markets bond salesperson, seated next to the emerging markets traders, stands up in his chair and yells to the relevant trader, "Give me a bid on $10 million Mex Par, six and a quarter, 19s."

Trader: "I got 'em at 73 and an eighth."

Translation: I am willing to buy them at a price of $73.125 per $100 of face value. As mentioned, the $10 million represents amount of par value the client wanted to sell, meaning the trader will buy the bonds, paying 73.125 percent of $10 million plus accrued interest (to factor in interest earned between interest payments).

Salesperson: "Can't you do any better than that?"

Translation: Please buy at a higher price, as I will get a higher commission.

Trader: "That's the best I can do. The market is falling right now. You want to sell?"

Salesperson: "Done. $10 million."

S&T: A SYMBIOTIC RELATIONSHIP?

Institutional sales and trading are highly dependent on one another. The propaganda that you read in glossy firm brochures portrays those in sales and trading as a shiny, happy integrated team environment of professionals working for the client's interests. While often that is true, salespeople and traders frequently clash, disagree and bicker.

Simply put, salespeople provide the clients for traders, and traders provide the products for sales. Traders would have nobody to trade for without sales, but sales would have nothing to sell without traders. Understanding how a trader makes money and how a salesperson makes money should explain how conflicts can arise.

Traders make money by selling high and buying low (this difference is called the spread). They are buying stocks or bonds for clients, and these clients filter in through sales. A trader faced with a buy order for a buy-side firm couldn't care less about the performance of the securities once they are sold. He or she just cares about making the spread. In a sell trade, this means selling at the highest price possible. In a buy trade, this means buying at the lowest price possible.

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The salesperson, however, has a different incentive. The total return on the trade often determines the money a salesperson makes, so he wants the trader to sell at a low price. The salesperson also wants to be able to offer the client a better price than competing firms in order to get the trade and earn a commission. This of course leads to many interesting situations, and at the extreme, salespeople and traders who eye one another suspiciously.

The personalities

Salespeople possess remarkable communication skills, including outgoing personalities and a smoothness not often seen in traders. Traders sometimes call them bullshit artists while salespeople counter by calling traders quant guys with no personality. Traders are tough, quick and often consider themselves smarter than salespeople. The salespeople probably know better how to have fun, but the traders win the prize for mental sharpness and the ability to handle stress.

THE MBA IN S&T

Do I need an MBA to be promoted on a sales and trading desk?

Generally, sales and trading is a much less hierarchical work environment than investment banking. For this reason, it is widely believed that you don't need an MBA to get promoted on sales and trading desks. This view is often perpetuated be people who work on trading desks, but just because you hear this once or twice, don't accept it as truth. Whether you need an MBA or not is really a function of the firm you work for and the desk you're on. If the firm you're considering hires both associates and analysts, but you notice that associates are offered twice as much pay as analysts, then this is certainly an indication that MBAs are better paid. This doesn't mean that you can't be promoted without an MBA; you'll just have to work much harder to get recognized. When it's time for a promotion, you may also be somewhat behind in the pecking order. Some firms, on the other hand, don't want MBAs. This may result from budgetary constraints, or explicit firm policy. Some firms also hold the view that it's hard to teach an old dog new tricks, so they will hire exclusively out of undergraduate programs.

A more subtle point to discern are the desk dynamics. A lot about being on a trading desk is about fitting in, and if everyone else, including the boss, doesn't have an MBA, then chances are that having an MBA won't add too much value in this environment. In fact, an MBA degree may even hurt your career prospects if there's a downright disdain for MBA-types. Alternatively, if the desk you're on is populated with MBAs, then not having an MBA could potentially limit your career advancement. Alternatively, you can be in a situation where you're the only MBA and everyone thinks that you're the brain, which can work to your advantage even if the boss has no personal biases about the value of the degree.

The bottom line is that there are no hard and fast rules. Depending on the particular firm and desk, an MBA may not advance your career. Be aware of the aforementioned issues, and ask some good questions to get a better feel for whether an extra degree is a benefit.

What are some of the tangible benefits of an MBA?

The pay is better and you will generally have a faster track for promotion to salesperson or trader. The MBA associate will typically have to do the same demeaning things that an undergraduate analyst does, but mercifully for a shorter period of time. In some cases, MBAs are also more likely to be assigned the desk that they'd like to work for. Undergraduate sales and trading recruiting programs, on the other hand, may hire you as part of a generalist pool and place you on a desk that isn't your top choice.

Another tangible benefit for the MBA candidate is the availability of more exit options.

A DAY IN THE LIFE: SALES-TRADER

Here's a look at a day in the life of a sales-trader, given to us by an associate in the equities division.

6:30 a.m.: Get into work. Check voicemail and email. Chat with some people at your desk about the headlines in the *Journal*.

7:15 a.m.: Equities morning call. You find out what's up to sell. ("I'm sort of a liaison between the accounts [clients] and the block traders. What I do is help traders execute their trading strategies, give them market color. If they want something I try to find the other side of the trade. Or if I have stuff available, I get info out, without exposing what we have.")

9:30 a.m.: Markets open. You hit the phones. ("You want to make outgoing calls, you don't really want people to call you. I'm calling my clients, telling them what research is relevant to them, and what merchandise I have, if there's any news on any of their positions.")

10:00 a.m.: More calls. ("I usually have about 35 different clients. It's always listed equities, but it's a huge range of equities. The client can be a buyer or seller—there's one sales-trader representing a buyer, another representing the seller.")

10:30 a.m.: On the phone with another trader, trying to satisfy a client. ("If they have questions in another product, I'll try to help them out.")

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11:00 a.m.: Calling another client. ("It's a trader at the other end, receiving discussions from portfolio manager; their discretion varies from client to client.")

12:00 p.m.: You hear a call for the sale for a stock that several of your clients are keen on acquiring. ("It's usually a block trader, although sometimes it's another sales-trader. The announcement comes 'over the top,'—over the speaker. It also comes on my computer.")

12:30 p.m.: Food from the deli comes in. ("You can't go to the bathroom sometimes, say you're working 10 orders, you want to see every stock. We don't leave to get our lunch, we order lunch in.")

1:00 p.m.: Watching your terminal ("There's a lot of action. If there's 200,000 shares trade in your name [a stock that a client has a position in or wants] and it's not you, you want to go back to your client and say who it was.)

2:00 p.m.: Taking a call from a client. ("You can't miss a beat, you are literally in your seat all day.")

2:05 p.m.: You tell the client that you have some stock he had indicated interest in previously, but you don't let him know how much you can unload. ("It's a lot of how to get a trade done without disclosing anything that's going to hurt the account. If you have one stock up you don't want the whole Street to know, or it'll drive down the price.")

4:30 p.m.: Head home to rest a bit before going out. ("I leave at 4:30 p.m. or sometimes 5 p.m. It depends.")

7:00 p.m.: Meet a buy-side trader, one of your clients, at a bar. ("We entertain a lot of buy-side traders—dinner, we go to baseball games, we go to bars. Maybe this happens once or twice a week.")

MBA CAREER PATH

First-year MBA students and recent MBA graduates are eligible for summer associate and full-time associate positions respectively. Associates start with similar responsibilities as analysts, but add more responsibility quickly and are typically on a faster track for promotion.

MBAs are also more likely to have the opportunity to get staffed abroad. For example, Goldman Sachs and Morgan Stanley have recently hired MBAs from American business schools directly into their European trading desks. MBAs interested in pursuing sales and trading opportunities abroad must be able to demonstrate local language proficiency, and a strong desire to make a long-term commitment to the region. Each of these firms has recently also offered summer internship opportunities, but these programs are less established than the New York-based opportunities, and therefore shouldn't be counted on as a stable source of MBA hiring demand.

Associate pay: to infinity and beyond

Sales and trading associates will start at about the same base pay as their investment banking counterparts. The going rate has held up around $80,000 to $85,000 per year plus an end of year bonus of $20,000 to $30,000. While signing bonuses were the norm during the bull market of the late 1990s, they are now rare. Salaries increase primarily through performance bonuses, especially if you've become a position trader for the firm. Bonuses are normally computed as a percentage of the trading revenue you generate (or commission dollars that you generate if you're a salesperson), so depending on how cheap or generous your firm is, this number can be normally expected to fluctuate between 0 percent and 10 percent in any given year.

If you make $10 million for the firm, however, don't expect to receive a cool million for your efforts. Wall Street firms are highly conscious of expense control, and the largest expense item is compensation. To keep compensation expense at or below 50 percent of revenue, investment banks hand out compensation packages that include among other things, cash, stock options and restricted stock. Generous stock option grants are a non-cash form of compensation that doesn't hit the income statement, but aren't quite as motivating as cash. Another game in the compensation is the granting of restricted stock. This is a major component of pay as you move up the ladder, and you can only convert this compensation into cash according to a vesting schedule that stretches out for years.

Finally, keep in mind that investment banks are operating across all markets and products sectors. In a simplified world, the investment bank operates a bond desk and an equity desk. The bond traders make more money and the salespeople sell more bonds when the economy is in recession. On the other hand, the stock-traders make more money and the sales-traders sell more stock when the economy is robust. What happens at the end of the year when the compensation committee is determining how big the bond bonus pool and the equity bonus pool should be? Most firms tend to cross-subsidize the equity desk with the bond desk's revenue when the stock market falls on hard times, and to return the favor to the bond desk when the bond market falls on hard times. This makes sense at the corporate level (preventing mass defections, for example), but the immediate consequence to the stock-trader that generated $10 million in revenue and is expecting a $1 million check is that he'll see a lot less than $1 million. The small consolation to the expectant stock-trader is that when he makes substantially less than his budget, maybe the bond desk will stuff his stocking.

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The winding promotion road in S&T

The path to promotion on a sales and trading desk is less standard than it is in investment banking. Investment banking analysts really don't have much too look forward to except perhaps a third year and then back to business school or some other career. By contrast, undergraduate analysts who have a demonstrated ability to add value to a desk have the potential to move up without an MBA.

One common scenario that unfolds is that after several years, the restless undergraduate analyst decides to apply to business school and gets accepted. If this analyst is a prized employee, then the boss might offer the analyst a promotion to associate in order to keep the analyst on the desk.

Promotions on trading desks are generally not much to celebrate, except that it leads to potentially higher pay. Investment banking associates can look forward to moving out of the bullpen and into a real office with a secretary. Salespeople and traders settle for better accounts and more trading responsibility. The focus of promotions shouldn't be to achieve a particular title (vice president, director, managing director, etc.), but rather, to earn real sales and trading responsibility. Of course, if you do your job well, you'll be duly compensated and promoted, but after reaching a level of significant responsibility, you shouldn't be expecting to get promoted every couple of years.

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Technology Consulting

THE STATE OF TECHNOLOGY CONSULTING

The end of the surge?

Until the credit crisis began unfolding in summer 2008, the technology consulting industry had experienced a multiyear upswing in spending. After a period of stagnation resulting from the stock market downturn of 2000 and 2001, the economy started to pick up again in 2004. The positive economic environment encouraged companies to invest in IT improvements to help boost profits and spur business growth. Over 2006 and 2007, tech consulting firms experienced a return to prosperity, thanks to clients with ample IT budgets. In addition, a wave of regulatory changes—like Basel II and China's State Administration of Foreign Exchange in 2006—opened up significant opportunities in the financial services and banking sectors, driving up demand for tech consulting services. Unfortunately, much of that came grinding to a halt in 2008, as clients cut back on spending in a bid to cope with an economic reality in which staying afloat became the new benchmark for success.

Cautious clients

Though work has remained steady at most consulting firms, the ongoing recession that followed 2007's subprime mortgage crisis once again put businesses in a precarious position. As sluggish economic growth and fears of a crash turned into full-on recession and a dramatic slump in the global economy, many companies have been forced to become more cost-conscious. While that has manifested itself most obviously in wave after wave of layoffs, it has also seen companies curb expenditure on "nonessentials" like upgraded data systems. And given the unprecedented nature of the crisis, very little in the way of consistent opinion exists on the outlook for the IT services industry in the near future. Some analysts predict the beginning of a turnaround in the second half of 2009, while others continue to fret about the recession—and therefore a fall in spending—lasting much longer.

Reflecting this reality, in December 2008, leading research firm Forrester Research scaled back its predictions for growth in United States. It now predicts that IT spending will increase 1.6 percent annually in 2009 and 2010, down from an initial projection of 6.1 percent. Meanwhile, the following month, Forrester predicted that the global IT market will decline by around 3 percent—down to $1.66 trillion—ending six consecutive years of growth for the industry. That 3 percent figure seems likely to haunt the consulting and outsourcing world, too, with Forrester predicting that, in 2009, $484 billion will be spent on IT consulting, systems integration and outsourcing services—down 3 percent on 2008's figure. "IT outsourcing services will do a bit better than IT consulting and systems integration services," according to the firm, "with the latter vulnerable to the slowdown in purchases of software to be implemented and integrated."

Over the long term, however, the outlook appears a little more favorable. Prior to the credit crunch, globalization, a growing post-merger integration market and increasing industry deregulation around the world had been helping to keep demand for tech consulting consistent—factors that should still exist on the other side of a recession (mergers, especially), and help to ensure that the industry bounces back quickly. Consulting projects that support core business operations, such as infrastructure or regulatory requirements, are areas that will likely remain in high demand. And outsourcing of some tech functions may actually increase as companies seek to reduce costs by ridding themselves of captive tech units. A recent example of this can be found in cash-strapped Citigroup's sale of its India-based technology services unit to Wipro for $127 million in January 2009—a deal that also netted Wipro a contract to continue providing outsourcing services for Citi for at least six years, guaranteeing the Indian firm some $500 million in revenue. Security consulting, custom application development and web services consulting are also promising areas for tech consultants.

Change is good

Facing a market that's sensitive to economic shifts, tech consulting firms must continually adapt their strategies to suit the current marketplace. With the gradual recovery of the consulting industry that occurred between 2004 and 2007, clients became more sophisticated and now tend to have specific demands relating to their industry sector, forcing consulting firms to really prove their worth. Clients also tend to be more price-sensitive, and want to know what the bottom-line savings will be before projects begin—a phenomenon exacerbated by straitened economic circumstances. As a result, consultancies have had to concentrate on services that add tangible value and boost profit margins. To protect profits, consulting firms have been aiming for short-term projects that require less labor and expense, like implementation, as well as higher profit margin services, like taking over a client's entire business processes in HR or finance.

In addition, consulting firms have gone to greater lengths to differentiate their services, positioning themselves as specialists on the cutting edge, rather that as generic software implementers. Adding new information technologies to their portfolio also helps larger firms extend their target client base. Instead of investing time and money into expensive R&D, consultancies can acquire smaller firms with a niche technology specialty. For example, in 2007, Accenture purchased California-based defense firm Maxim Systems to bulk up its services in that area. Cisco has proven to be a master of this maneuver, having snapped up over 120 smaller companies in its 24-year history.

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EMEA takes the lead

The tech consulting client makeup is also undergoing a geographic shift. Today, the region encompassing Europe, the Middle East and Africa has emerged as a promising market, with the rate of demand quickly eclipsing that of North America. Industry observers have long been predicting that 2009 would be the year that sees EMEA finally outpace the Americas as the largest IT services market in the world—in 2007, the region had already jumped ahead of the Americas in outsourcing activity.

Asia is also rising in prominence as a major market for tech consulting services. Springboard Research forecasts that the Asia Pacific IT services market will grow annually at 10.5 percent until 2011, hitting $55 billion in value that year.

Outsourcing leveling off

Outsourcing remains a core service offering that helps keep profit margins buoyant. While overall demand for IT consulting may slow, the need for IT outsourcing is expected to do so at a lesser rate, according to Forrester Research. When outsourcing took off in the late 1990s, these services revolved around cheap call centers and low-cost data services for clients that needed to find a way to cut costs. Now outsourcing is an almost $400 billion industry—accounting for a major chunk of overall IT consulting revenue—and often involves more complex projects, such as supporting a company's entire IT infrastructure from an offshore location. That new maturity is widely predicted to help the industry to weather the current turmoil—something underlined by the fact that since 2006, many consulting firms have been getting a boost from a second round of work resulting from mature outsourcing projects. Business process outsourcing is the fastest-growing services sector in the market, with clients also demanding applications development and maintenance.

India dominates

Since the outsourcing craze began, India has dominated the market as the go-to location for lower cost labor. A 2007 McKinsey Global Institute report indicated that India's outsourcing industry revenue was expected to expand to $60 billion by 2010. The country's skilled labor market and large English-speaking population have given India a distinct advantage over other developing countries, and American consulting firms continue to pour resources and talent into it to capitalize on the well-established market. In 2007, IBM announced its intention to invest $6 billion in India over the next three years; and in 2008, Cisco announced plans for a talent development program there, aiming to increase its staff in the country sixfold to 360,000 in the next five years. Currently, IBM has almost one-fifth of its employees—about 73,000—in the country, and Accenture has over 37,000 staff there, making India home to its largest workforce, even before it announced plans in 2008 to increase that number to 50,000.

The country's BPO market is still growing steadily, keeping tech consulting firms supplied with a stream of engagements. NASSCOM reports that the BPO market was worth some $12.2 billion in 2008—somewhat short of the $50 billion figure frequently cited as a target for 2012, which is becoming ever less likely as the recession wears on. Despite that, India has developed beyond its former reputation as strictly a BPO and call center location over the past few years; recently, the country has experienced a surge in M&A activity, and has started to become a player in international acquisitions. Indeed, the sight of Indian firms making inroads into foreign markets has become so common that it's no longer something that passes much comment, even in Indian business press. In 2007, for example, Indian firms made over 75 foreign acquisitions.

Since late 2008, however, no media report on the Indian consulting industry has been complete without a reference to its highest-profile escapade to date: the admission by Satyam Computer Services' founder and former CEO, Ramalinga Raju, that the firm's earnings had been significantly inflated by false accounting practices—a revelation that spelled jail for Raju, disaster for Satyam's stockholders and opportunities for its rivals, who moved swiftly to snap up as many of the troubled firm's clients as possible. To date, Satyam is still in existence and still serving clients, but a number of options have been explored for the future of the firm by its government-appointed caretakers—among them a probable sale.

Where will they go next?

While the labor market in India matures, salaries are inching upward at a rate of around 15 percent per year, making it more expensive for consulting firms to hire local staff—something that analysts say may lead to the country soon pricing itself out of the offshoring market. In addition, India faces an impending shortage of workers with IT skills. A 2007 report from Dun & Bradstreet estimated that the country will need half-a-million more tech workers by 2009 to meet expected demand. China, which has also risen recently as an outsourcing hotspot, is facing a similar deficiency in skilled labor.

As such, Western firms have started looking beyond India and China, eyeing other emerging countries for outsourcing opportunities. Indonesia, Vietnam, the Philippines and Eastern European nations are gaining popularity as viable outsourcing centers. In fact, industry observers identify Vietnam as the real up-and-comer, and predict that the country will surpass India and China as a premier outsourcing site by 2012. Thanks to recent economic deregulation and access to the World Trade Organization, companies are now more able to take advantage of Vietnam's skilled labor and low costs.

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The race to the States

As consulting firms compete for the most lucrative engagements, those that were once outsourcing shops are making inroads into the high-end IT consulting market. Outsourcing firms looking to move into higher-profit services are heading to the United States and Europe to gain regional and industry traction, and to get closer to their customers. Tata Consultancy Services recently increased its U.S. presence with a new development center in Cincinnati, Ohio, which opened in March 2008. The firm has not been shy about its intention to steal business from the traditional consulting giants—like EDS and BearingPoint Inc. Management & Technology Consultants (which filed for Chapter 11 bankruptcy protection early in 2009)—and already has 50 U.S. offices and a headquarters in New York. In August 2007, India-based Wipro acquired U.S. infrastructure management vendor InfoCrossing. The firm also plans to recruit about 500 employees for a new development center in Atlanta, Ga., and has two more U.S. development centers in the works.

For the most profitable tech engagements, there's no doubt that American firms have the longstanding relationships it takes to establish client trust—which gives them a distinct advantage over newcomers. This could soon change as competitors willing to undercut these firms' prices establish a stronger presence in the West. However, as those competitors gain a foothold in the U.S. market, they're facing problems of a different kind—namely an increasing volume of objection over their staffing practices. Responding to accusations that firms are abusing foreign worker visas (mainly the H1-B visa) to bring in cheaper labor, the new Obama administration has vowed to take a close look at how the programs operate—something that could lead to tighter restrictions on firms attracting top talent from outside of U.S. borders.

Software, strategy and more

Another rising trend in the tech consulting world is the merging of business consulting and IT services. Many companies are wising up to the fact that technology plays an essential role in meeting strategic goals; in searching for solutions to business problems, clients are increasingly turning to consulting firms that can offer nontechnical solutions as well as IT systems. To expand into business consulting, tech firms often acquire a strategy consulting firm. EDS was one of the first firms to start this trend when it purchased A.T. Kearney in 1995 (and subsequently sold it in a management buyout in January 2006). And until IBM took over PricewaterhouseCoopers' strategy consulting practice in 2002, it had focused primarily on systems integration.

Likewise, strategy firms are recently embracing services, like outsourcing, formerly considered the domain of software implementers and tech shops. Bain, considered a strategy-heavy house, now offers IT business alignment and outsourcing. The firm also publishes research on technology trends to get the word out about its IT expertise. Even McKinsey, long established as an exclusive strategy player, is vying for a piece of the lucrative tech market by offering outsourcing, IT architecture and other business technology services. Though niche firms have their place in the technology industry, the biggest players have a leg up in winning clients who wish to deal with a firm that can seamlessly weave customized IT solutions and software into business strategy.

The combo candidate

While IT remains, in many ways, a job seeker's market—particularly for those with hard-to-find skills and experience—IT consulting firms are very choosy about picking hires with the right set of skills. Particularly desirable candidates are those with experience in web development, database management, wireless networking and applications engineering. Firms are also more concerned now about applicants' business savvy, as the line between IT services and business consulting is becoming increasingly blurred. Candidates with a deep understanding of business concepts as well as IT skills are the top picks for the most selective consulting firms.

A DAY IN THE LIFE: IT CONSULTANT

Kristine is a consultant at a major consulting firm with many IT consulting engagements. Her role is team lead of the design and developer for eight web-based training modules. She has five analysts on her team.

4:30 a.m.: It's Monday morning. Time to wake up. There's time for a shower this Monday morning—such luxury!

5:30 a.m.: I am in a cab on the way to the airport, making a mental list of anything that could have been forgotten. I ask the cabbie to tune the radio to NPR.

6:10 a.m.: At the airport I go up to the self check-in kiosk. I take the boarding pass and head down to the security line, laptop and small carry-on in hand.

6:25 a.m.: At security, I remove my laptop from my bag and place it on the tray. I move through security quickly. No alarms beep.

6:35 a.m.: After a quick stop at Starbucks, I arrive at the gate. I say hello to three other members of my project and check out the other passengers I see every week on this Monday morning flight. I board early along with the other premier fliers—one of the perks of being a frequent traveler.

7:00 a.m.: The flight departs on time. Yay! I relish my window seat close to the front of the airplane.

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8:00 a.m.: The beverage cart wakes me up. I ask for coffee and scan *The Wall Street Journal* as I drink.

9:30 a.m.: I arrive at my destination and share a ride with my fellow consultants to the project site.

10:30 a.m.: At the project site. As I crawl underneath my desk to hook my laptop to the client LAN connection, one of my team members informs me that he still hasn't received feedback from his client reviewer. That's not good news.

11:00 a.m.: After checking and responding to email, I call my team member's client reviewer. The reviewer agrees to send me the team member feedback on the training material by noon tomorrow.

11:15 a.m.: I remind the team of the 1 p.m. status meeting. I've got to start it on time—I have a meeting downtown at 3:15 p.m. I start to review the content outlines for the training modules.

12:00 p.m.: I scurry, along with two teammates, to get sandwiches at a nearby eatery. Mine is turkey and cheddar.

12:20 p.m.: Back at my desk, I get a call from the project manager, who is working at a client site in another state. He tells me that clients in the training department are nervous about their job security and asks that the entire team be sensitive to how the training changes may affect the training positions in the organization.

1:00 p.m.: The team holds a status meeting. I pass on the message from the project manager. Each member discusses what has been completed and what he or she expects to complete that week. Two other team members are having difficulty obtaining feedback from their client reviewers. We all brainstorm ideas on how to obtain the feedback.

2:00 p.m.: I finish up the meeting and get directions to my meeting downtown.

2:40 p.m.: Off to the 3:15 p.m. meeting.

3:15 p.m.: I meet the head of the training department to discuss the training courses. He calls in a close associate who has opinions on how the courses should be organized. The associate wants to add several more web-based training modules. I politely suggest that part of the additional subject matter could be covered in the modules that have been agreed to in the scope of the project. We all sketch out the course structure on a white board.

4:45 p.m.: Back at the project site. I check in with my team members via email.

5:45 p.m.: I complete a draft of the course flow in PowerPoint and send it to the client and my manager for review.

7:00 p.m.: I have reviewed 50 percent of the course outlines. It's time to head back to the hotel. I stop by a local diner for a quick dinner.

8:30 p.m.: Time for a workout in the hotel gym.

9:15 p.m.: I'm ready for bed. Clothes for the next day are hanging in the closet. The alarm clock is set to 6:30 a.m.

10:30 p.m.: I go to sleep.

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Telecommunications

INDUSTRY OVERVIEW

We're all connected

In simpler times, the word "telecommunications" might conjure an image of a telephone—and not much else. These days, however, the telephone is less the shining symbol of telecommunications and more an antiquated relic of the industry's primitive beginnings. Telecom today has gone high-tech and mobile, encompassing wireless communication, broadband internet access, and cable and digital TV, though it still provides landline phone service to those who have yet to convert to the 21st century. These varying forms of modern communication have bled into each other, as well—while your cell phone is busy downloading the latest Weird Al music video, you can call your best friend across the country, *sans* long-distance charges, over the internet. Because of this growing interrelation among telecommunication products, industry leaders like AT&T and Verizon are spreading their reach into internet and digital television to offer bundled "triple-play" phone, internet and TV subscription packages to customers.

In the United States, total telecom spending reached more than $925 billion in 2008, and it is expected to surpass the $1 trillion mark soon, according to Veronis Suhler Stevenson. In the international market, the TIA (Telecommunications Industry Association) predicts that telecom spending will reach $3.6 trillion by 2011. Much of this growth comes thanks to the ascendancy of the internet (and our junkie-like need for high-speed connections) and mobile communications. Telecom holds the trump card with its control of the fiber-optic network that brings broadband connection into millions of homes.

The bell tolls for AT&T

Established in 1877 as American Bell, AT&T enjoyed the largest share of the telecom industry pie for nearly a century, thanks to the government's belief that the utility constituted a "natural" monopoly. That monopoly crumbled in 1969, when the Federal Communications Commission (FCC) allowed other companies—such as MCI, which was quick to get in the game—to play in Ma Bell's sandbox. But monopolies don't disappear overnight: to encourage competition in the long-distance market, the Department of Justice (DOJ) followed up with an antitrust suit against AT&T in 1974, resulting in the company's division into a long-distance retailer and seven regional Bell operating companies (RBOCs, or "Baby Bells"), which would compete in the local call market as independent local exchange carriers (LECs). The final breakup of AT&T took place in 1984.

The industry thrived after the breakup, exploding into hundreds of smaller competitors, lowering the cost of long-distance calling dramatically. AT&T, which still held about 70 percent of the market in 1984, controlled only a third in 2005, but bounced back that year following its buyout by SBC (until then, one of the Baby Bells) to once again become the biggest kid on the playground. Still, it is three so-called "Tier 1" carriers—AT&T, Sprint Nextel and Global Crossing—that make up the bulk of the long-distance market.

Untangling the wires

As the long-distance market diversified, the local exchange market remained relatively homogenous. The Telecommunications Act of 1996 aimed to change that by deregulating entry into local markets and requiring that the Baby Bells, or the incumbent local exchange carriers (ILECs), retail their network elements to smaller competitors. The incumbents were required to unbundle their networks for reasonable prices, with the goal of decentralizing the system into a "network of networks." The act also temporarily blocked an RBOC from entering the long-distance market until it could prove sufficient competition in its local territory.

Another provision of the Telecom Act, which gave RBOCs the right to sell cable television services and phone equipment, proved to be a boon for the strongest RBOCs. Thanks to those services and the entry of the Baby Bells into long distance, the act actually had the opposite of its intended effect—a few RBOCs solidified their positions and dominated the market through mergers and acquisitions. Today, there are just three RBOCs—Verizon, AT&T and Qwest—that dominate both local phone service and the burgeoning DSL (digital subscriber line) markets. Until recently, there were five such companies, but the market contracted in 2005 when SBC took over AT&T (keeping the latter's name), and again in March 2006 when the new AT&T announced it would purchase BellSouth.

Not just at home

The deal-making wasn't limited to America's shores. Telecom became truly global in 1997, when 70 member countries of the World Trade Organization (WTO)—which together control 90 percent of worldwide telecom sales—agreed to open up their telecom markets to each other at the start of the following year. Nearly all telecom companies around the globe had privatized in anticipation of this expanded level of competition. The accord led to a rush of international deals, especially in the world's second-largest telecom market, Japan. In 1999, British Telecommunications and AT&T partnered to acquire a 30 percent stake in LD operator Japan Telecom, combining their Japanese ventures under JT. A few months later, Britain's Cable & Wireless bought Japan's No. 6 carrier, IDC; and in 1999, Global Crossing teamed up with Marubeni to build a brand-new network, called Global Access, to service Japan.

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Wall Street highs and lows

As mergers and acquisitions activity heated up, Wall Street took notice: according to *Forbes* magazine, investors poured $1.3 trillion into telecom companies in the five years following passage of the Telecom Act. But with this activity came increased scrutiny and risk. Ultimately, the industry was subject to the same meltdown that hit the rest of the tech sector beginning in late 2000. Again according to *Forbes,* the industry's market value plummeted by $1 trillion after the Dow took its dive. Mergers also fell by the wayside: in July 2000, a proposed merger between Sprint and WorldCom fell through when the Justice Department filed a lawsuit that would have blocked the deal.

Cooking the books

Compounding the gloom, a number of major telecoms had high-profile problems in their accounting departments. The biggest offender was WorldCom, which ran afoul of the Feds in 2002. WorldCom filed for the largest bankruptcy in U.S. history in July of that year, having racked up $41 billion in debt and an estimated $11 billion in fraudulent expenses—leading to a $100 billion loss to shareholders. Even as the company attempted a rebound, emerging from bankruptcy in April 2004 with a lighter debt load, a moderately healthy outlook and a less tarnished name (the company had reverted to the MCI brand), it had to contend with scores of class-action lawsuits. Former CEO Bernard J. Ebbers also faced a growing list of federal fraud and conspiracy charges. In March 2005, Ebbers was found guilty on all counts and sentenced to 25 years in prison. Accounting firm Citigroup, which had conspired with WorldCom, announced in May 2004 that it would pay $2.65 billion to investors for its role in the scandal. Two years later, the beleaguered company was virtually no more, having been gobbled up by Verizon in a deal worth $8.5 billion.

In addition to WorldCom, about a half-dozen other providers of telecom services began Chapter 11 bankruptcy proceedings in 2002, dumping customers and employees as they went. In 2003, Sprint reorganized into separate business and consumer units in an effort to save $1 billion. The company settled down in 2005, when it merged with Nextel to become the Sprint Nextel Corporation.

Horning in on each other

The competition that began when telecom firms entered the cable game following the Telecommunications Act has only gained momentum since then. In recent years, it's gotten downright ugly, with each industry reaching into the other's "goodie bag" of products. Because of the onward and upward march of technology, the wires and signals that bring you cable TV can just as easily bring you phone service, and vice versa. Throw internet access into the mix, and you've got a subscriber feeding frenzy, with phone and cable companies all vying to sell consumers the same services. Verizon and AT&T scored a victory in the fight in March 2007, when they won statewide video franchises in California. As of June 2008, all but 23 states (mostly western and southern states like Oregon, Arkansas, Colorado and Kentucky) have passed franchise laws letting phone companies into the TV game. Similar legislation is pending in several states. In the meantime, AT&T and Verizon continue to lobby the government for a nationwide franchise.

Neutral tones

The FCC is also stepping into the ring on the issue of "net neutrality," a term that describes the indiscriminate nature of the Web, where no sites are more readily accessible than others. The crux of the issue is whether or not broadband access providers (namely, telephone companies) can charge higher rates to certain internet content providers—creating a toll-lane on the information superhighway and potentially favoring certain sites over others. The issue is an important one, as demand for broadband has spurred the recovery of telecom companies that started in 2006. The FCC launched its first inquiry into the issue in May 2007, specifically looking to see if broadband companies were adhering to the "open internet" principles laid out by the federal organization in 2005.

Can you hear me now?

It is a truth universally acknowledged that every person in possession of relatively good fortune must have a cell phone, or at least want one. Backing this up is the $217 billion American wireless market (2008 estimate) growing by leaps and bounds and posting double-digit increases. The Insight Research Corporation projects 16 percent annual gains in wireless service revenue through 2013.

The wireless market outpaced long distance for the first time in 2003, according to TIA number crunchers (LD posted $78 billion in spending to wireless' $89 billion), the same year that the number of wireless users was estimated to be above one billion worldwide. By 2007, industry analysts reckoned that three of every four Americans had a wireless phone, and it is projected that by the end of 2009, 270 million Americans (about 87 percent of the population) will tote a cell phone.

The wireless boom heralds renewed business activity in telecom. Competition began to sizzle in late 2003, as the first phase of a federal law allowing "portability" (i.e., letting consumers retain their mobile phone numbers when switching carriers) took effect. One notable event, however, was Cingular's $41 billion purchase of rival AT&T Wireless, announced in February 2004, following a fierce bidding war with Vodafone. Just to show how complicated the industry's family ties are, Cingular was, at the time, owned by rival Baby Bells—though these huge conglomerates can't really be called "baby" anymore—AT&T and BellSouth (which themselves are in the process of becoming one, after AT&T bought BellSouth in 2006), while competitor Verizon Wireless is a joint venture between Verizon and Vodafone.

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Deals kept popping up, as Sprint merged with Nextel in August 2005, when the companies were, respectively, the No. 3 and No. 5 wireless carriers. Though the present company is one of the largest telecoms in the world, it's still No. 3 in the United States by number of subscribers, behind Verizon and Cingular.

Wireless—if not VoIP (see below)—is definitely the wave of the future: while landlines were once seen as a source of dependable revenue and a way to spread risk, wireless companies have been setting their landline units up on their own and seeing them on their way. Sprint spun off its landlines in May 2006 under the name Embarq, while Alltel, after beefing up its landlines by acquiring Valor Communications, divested the unit under the name Windstream in July 2006.

Off the hook and on the 'net

Cell phones aren't the only way consumers are making calls these days—Voice over Internet Protocol (VoIP), offered by companies like Vonage and Skype, allows users to turn their personal computers into telephones by sending voice data over a broadband connection in the same way other data is sent online. In fact, VoIP is all Skype is concerned with, and as such, it has become a global phenomenon. While not a revenue powerhouse, the company has amassed 405 million registered users, who represent 6 percent of the entire world's international calling minutes; and the necessary software to use Skype's products has been downloaded one billion times.

Growth in the VoIP market has been exponential, especially in Europe, where the 35 million subscribers as of the end of 2008 are expected to grow to 45 million in 2009. And after the number of internet phone subscribers in the United States jumped from mere 1.3 million to 4.5 million during 2005, generating $1 billion, the count for the top-four cable providers—Comcast, Time Warner, Cox and Vonage—stood at 12 million users at 2008's end (according to TeleGeography, an industry research group), not counting the millions of people who rely on Skype.

Bypassing questions of local and long-distance networks entirely, VoIP providers allow complete number portability—a subscriber in Iowa, for instance, could have a (212) Manhattan area code. (She would be all set if only the place in Chinatown with the good kung pao chicken would deliver that far.) The technology is also advantageous in terms of cost. Thanks to the FCC, VoIP is exempt from some of the taxes and regulations with which regular phone carriers are saddled. But, of course, the major telecom companies are busy on Capitol Hill, trying to level the playing field. In June 2005, the FCC ruled that VoIP companies had to contribute, just like any other phone company, to the Universal Service Fund, which is designed to keep costs down in rural and low-income areas. The contributions to this fund will presumably be passed on to consumers in the form of higher rates.

WORKING IN THE TELECOM INDUSTRY

A job market roller coaster

The numbers are intimidating: telecom seems to thrive on sudden booms and equally rapid readjustments. By some estimates, the industry slashed 300,000 jobs during the troubled period beginning in late 2000. Telecom firms have started to cut jobs again during the recent economic slump. In January 2008, struggling Sprint Nextel announced that the company would close 125 retail stores and cut 4,000 jobs, some 7 percent of its workforce. Companies also feel compelled to trim excess fat when they merge—the 2006 MCI-Verizon merger, for example, resulted in the elimination of some 7,000 positions. Even with increased demand for telecom services, the U.S. Department of Labor's Bureau of Labor Statistics (BLS) says that employment in the industry is expected to grow by just 5 percent over the period between 2006 and 2016, compared with an 11 percent increase for all industries put together.

But there's still plenty of work out there. According to the BLS, telecom accounted for nearly one million wage and salary jobs in 2006, the latest year for which statistics are available. Of these employees, nearly two-thirds worked in office and administrative support or sales, while most of the rest toiled in maintenance, installation and repair. In 2006, wireline telecommunications carriers accounted for 49 percent of all telecommunications positions. Another 21 percent of jobs were with wireless carriers, and 15 percent were with cable companies and other program distributors. The rest were primarily with satellite telecommunications businesses and equipment and service resellers. The BLS insists that having a diverse and flexible skill set (and keeping it up to date) is crucial in this rapidly changing industry.

Talk the talk

Not surprisingly, excellent communication skills are necessary throughout the telecommunications industry. Customer service agents have to field calls from agitated subscribers with grace and good humor. Technicians have face-to-face contact with customers when installing or fixing network equipment in the field. And then there are the sales reps that pass out smiles and handshakes with aplomb in pursuit of corporate accounts. Communication serves workers well within the office, too, say insiders, because front-line field and call-center workers often serve as an intermediary between subscribers and management.

While job outsourcing continues to be a factor—customer service positions can be handled as easily in New Delhi, India as in Dayton, Ohio—many telecom positions are here to stay. Because all the industry's networks are based on some sort of physical component, whether its cell phone towers or fiber-optic cables, telecom companies will always need a staff to expand, update and maintain those networks. Accordingly, technical positions abound for those toting undergraduate or advanced degrees in electrical engineering and related fields.

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Tough sell?

While call-center jobs are ubiquitous and open to those without college degrees (and can offer commission income on top of salary) insiders say there is no upward mobility for people entering the company from this route. Instead, those looking for a sales position in the telecom industry are encouraged to start with an internship after completing their degree. Once your foot is in the door, our sources stress, networking is crucial to rising through a company's ranks. In fact, networking is important throughout the telecom world, regardless of your position. As one consultant in the industry puts it, "networking has to be built into your system because that man in the blue suit at that official gathering could well be your next lead for a $1 million consulting engagement."

Work free

In addition to the obvious perks involved with working in the telecom industry (free cable TV, anyone? How about free Internet access and cell phone service while we're at it?), many workers report that flexible scheduling is a valued attribute of their jobs. Salespeople, marketers and managers alike are allowed to budget their time as they see fit. As long as they're doing their part to push the company forward, no one in management usually bats an eye at those extra-long lunches or midday golf sessions. Additionally, telecommuting has become more and more acceptable throughout the industry—perhaps because it's these companies' products that are facilitating web conferences and work-from-home options for the rest of the business world.

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The numbers are intimidating—the telecom industry seems to thrive on sudden booms and equally rapid readjustments. By some estimates, telecom slashed 300,000 jobs during the troubled period beginning in late 2000. Companies also feel compelled to trim excess fat when they merge—the 2006 MCI-Verizon merger, for example, resulted in the elimination of some 7,000 positions. Even with increased demand for telecom services, the U.S. Department of Labor's Bureau of Labor Statistics (BLS) said in 2006 that employment in the industry is expected to increase by only 5 percent through 2016.

But there is still plenty of work out there. According to the BLS, telecom accounted for almost one million jobs in 2006, the latest year for which statistics are available. Of these employees, three-fourths of them work in office and administrative support or sales, and installation, maintenance and repair account for nearly all of the rest. (This latter portion, however, is expected to decline, due to the increasing prevalence of wireless phones and a trend toward more durable equipment.) The BLS insists that keeping job skills up to date and having a diverse and flexible skill set are crucial in this rapidly changing industry.

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While rumors of outsourcing jobs rumble throughout the industry—especially with customer service positions that can be handled as easily in New Delhi, India, as in Dayton, Ohio—many telecom jobs are here to stay. Because every part of the industry involves on-the-ground networks, be they supported by cell phone towers or fiber-optic cables, telecom companies will always need the people to expand, update and maintain those networks. Accordingly, technical positions abound for those toting bachelor's or associate degrees in electrical engineering and related fields.

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In addition to the obvious perks involved with working in the telecom industry (free TV, anyone? How about free internet access and cell phone service, as well?), many workers report flexible scheduling as a cherished part of their jobs. Salesfolk, marketers and managers alike are allowed to budget their time as they see fit. As long as they're doing their part to push the company forward, no one bats an eye at those extra-long lunches or midday golf sessions. Additionally, telecommuting is becoming more and more acceptable throughout the industry—perhaps because it's these companies' products that are facilitating web conferences and work-from-home options for the rest of the business world.

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Transportation and Airlines

TRANSPORTATION INDUSTRY OVERVIEW

Planes, trains and automobiles

The vast transportation industry carries people and products (safely and on time, of course) to destinations around the globe. It's no small feat, which is why it takes hundreds of thousands of workers operating tens of thousands of vehicles—from the high-flying airplanes down to the lowly pushcart—to keep the goods moving. Because the economy is intimately connected to getting things from where they're made to where they're bought, the transportation sector—especially express services like UPS and FedEx Kinko's (now simply FedEx Office)—is considered a bellwether for the economy's health on both domestic and global levels. As such, it can be said that economy is thriving in the face of high-cost impediments—rising fuel prices have hampered the transportation industry since the dawn of the 21st century, prompting experimentation in alternative energy sources and higher-efficiency vehicles.

In general, the transportation industry can be broken into a handful of sectors: airlines, air cargo and express delivery carriers, trucks, railroads and buses. (Airlines are discussed in a separate chapter.)

Boy, you gotta carry that weight

Unlike its passenger-toting sister in the sky, the air cargo business remains relatively stable, with major carriers posting profits even during the bleakest years (2001 and 2002). Still, a few cargo carriers, including Arrow and Atlas, were forced into bankruptcy court alongside their passenger carrier counterparts. Today, UPS, FedEx and DHL dominate the express-delivery sector, and all three operate their own modes of transportation and lease space and services on other cargo haulers' vehicles.

Interestingly, the internet boom has had both a positive and negative effect on the industry. While the rise in email has curtailed the shipping of smaller documents, more and more internet shoppers, online retailers and small businesses are using express delivery companies for direct shipping services and supply chain management.

Many of the challenges the sector faces mirror those on the passenger side, including tighter security requirements, high fuel costs and the need to replace an aging fleet of planes. Others are specific to the air cargo industry—for instance, the Air Line Pilots Association (ALPA) worries that international shippers may begin routing cargo through Canada and Mexico in response to new security restrictions, which will reduce activity in the domestic market. Air cargo services also have to contend with other forms of transport, like ships and trucks. For these reasons, plus the worldwide financial downturn that became apparent in 2008, international air cargo fell 4 percent for that year, and was down a massive 22.6 percent for December 2008 versus December 2007. The IATA (International Air Transport Association, source of the above figures) noted in its annual summary that the monthly drop was "unprecedented and shocking. There is no clearer description of the slowdown in world trade—even in September 2001, when much of the global fleet was grounded, the decline was only 13.9 percent."

The world delivered (on time)

The package delivery market is a fiercely competitive one, where the industry leaders vie for massive corporate contracts, as well as for business from individual consumers. FedEx, for one, strengthened its market position by diversifying, namely through a $2.4 billion buyout of document services provider and copy shop chain Kinko's in January 2004. Today, there are now more than 1,900 FedEx Office locations worldwide. Dispatching approximately 85,000 ground vehicles and an air fleet of 675 planes, FedEx operates separate express, ground and freight units. UPS, on the other hand, has only 262 planes, but almost 100,000 ground vehicles. Even if UPS lags in the number of cargo planes, it's still the market leader in the United States, with revenue of $42.6 billion in 2008. FedEx is nipping at its heels, though, with revenue of $38 billion in 2008.

Globally, the German logistics and express delivery firm DHL, run by German postal entity Deutsche Post and operating in 220 countries, has the highest revenue, netting more than $61 billion for the first three quarters of 2008. Five years prior, the company made aggressive steps to solidify its position in the U.S. market—it acquired Airborne Inc. for $1.1 billion, which secured its No. 3 place domestically and further strengthened its dominance in the world market for express delivery services overall. However, DHL exited the United States in 2009 and cut 9,500 workers from its rolls in the process. Going forward, the company will provide service only for international postings. The move was due to escalating costs and, presumably, a lack of progress in expanding its sales here.

Since the domestic players are mostly set, companies have set their sights on developing markets overseas. FedEx Kinko's began offering next-day express delivery in China for the first time in May 2007. UPS has operated in the Far East for many years—it bought the Chinese firm Sinotrans Group for $100 million in December 2004—and furthered its growth in the region in April 2007, when it invested $20 million to build a new airplane hub in Shanghai.

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Greening "Brown"

Both UPS and FedEx have taken steps recently to "green" their ground service fleets, replacing diesel vehicles with more environmentally friendly options like compressed natural gas and electricity. UPS's "green fleet" (launched in 2000, and totaling more than 20,000 vehicles as of 2008) logged mile No. 100 million in February 2007; only two years later, that figure stands at 144 million. FedEx is also raising the green stakes by buying a percentage of the power for its retail locations from renewable sources and increasing the amount of recycled content in its packaging. While the companies get PR points for their efforts, what's really driving the green movement is, well, the other green—cash. Along with attracting environmentally sensitive consumers, hybrid electric vehicles use much less fuel than traditional cars, reducing fuel costs by as much as half.

Keep on truckin'

Express-delivery services also share ties and, in some cases, overlap with the trucking sector, which in 2007 alone handled over 11 billion tons—69 percent of the volume of freight in the United States. The sector is dominated by bulk truckers like Quality Distribution, JB Hunt and YRC Worldwide. (Formerly Yellow Roadway, YRC beefed up its business with the May 2005 purchase of supply-chain management firm USF for $1.5 billion.)

The trucking sector also overlaps with the railroad world, with giants like JB Hunt and Schneider International teaming up with old hands on the rails, such as Union Pacific, Norfolk Southern, CSX and Burlington Northern Santa Fe. With new technologies allowing real-time cargo tracking and time-specific delivery, this sector of the transportation industry is expected to become increasingly integrated.

Working on the railroad

Unlike its trucker brother, the railroad saw impressive increases in its traffic in 2006. That year, freight railroads in the United States shipped 1.77 trillion ton-miles (a measure of the volume and distance of the industry's freight output, a ton-mile is one ton shipped one mile), accounting for $54 billion in revenue. Almost 95 percent of that total was generated by only seven major railroad systems, although the entire industry counts over 550 different rail carriers.

In recent years, growth has been driven by the popularity of coal and ethanol, both energy sources on the rise that, coincidentally, can only be shipped cost-effectively on the rails.

Take the A-train

While the shipping portion of the rail sector has continued to chug along, the passenger-train sector has contracted dramatically in previous decades. In fact, the railroads have been in decline since the advent of the automobile and the Federal Aid Highway Act of 1956. In the 1960s, the once-mighty railroad was dealt a heavy blow when the U.S. Postal Service turned to trucks and airplanes for its first-class shipping needs. Following 1970s legislation, Amtrak took over the majority of U.S. passenger trains under its National Railroad Passenger Corporation umbrella. The operator still has trouble turning any sort of profit; after all, it cannot compete with the speed offered by airlines or low fares by bus companies. Therefore, with dwindling passenger rolls and increased operating costs, Amtrak has become increasingly subsidized—by 2007, the organization had taken in nearly $30 billion in government handouts, and has consistently operated at a loss of over $1 billion for years (the figure was $1.1 billion in 2007). Amtrak isn't the only railroad running at a loss: the Long Island Railroad (LIRR), the busiest commuter rail line in the U.S., was running with an operating deficit of almost $850 million through November 2008.

It should be noted that almost no form of public transport is self-supporting: all get regular infusions of capital from states and the federal government, either directly or, in the case of bus companies, in the form of highway maintenance. There is a great deal of carping in the government and the media about the money spent on Amtrak, but, according to the Federal Railroad Administration, in 2008 the government gave Amtrak slightly over $1.3 billion, while earmarking five to eight times that amount in subsidies for highway maintenance, airlines and airports.

Get on the bus

For long-haul passenger travel, about the only thing cheaper than riding a bus is sticking out your thumb and hoping for the best. Motorcoaches, as buses prefer to be called these days, transport more than 630 million passengers a year in the United States. Interestingly, more than half of those passengers are either young (college students) or old (senior citizens), according to the American Bus Association (ABA). The bus sector is unique in its composition; unlike the heavily subsidized rail and airline sectors, motorcoach companies are more likely to be self-sufficient. And, perhaps because of a multitude of economic pressures, more and more Americans are opting for coach travel—Reuters reported that the number of riders jumped more than 9.8 percent between December 2007 and December 2008, the biggest leap in 40 years.

There are more than 3,500 bus companies on the roads in the United States, many of which are small, entrepreneurial operators—75 percent operate fewer than 10 buses. Major players include Trailways and its rival and owner, Greyhound. Trailways has been around for nearly 70 years and operates a group of 65 affiliated companies; it was acquired by Greyhound in 1987. Founded in 1914 and acquired in 1999 by Laidlaw Inc, Greyhound was sold to FirstGroup plc in 2007. As insurance rates have increased tenfold in recent years, access to affordable coverage is a key challenge faced by the industry, even pricing some operators out of the market.

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Roll on, 18-wheeler

According to the American Trucking Association, some 1.3 million people worked as truck drivers in 2008. For years, the industry struggled with driver shortages and an annual turnover rate that approached 100 percent. (In one of the worst years, 2005, the turnover rate was calculated at 130 percent, amidst a national shortage of 20,000 drivers.) And during 2008, industry load capacity slid 7 percent as 3,600 trucking companies went belly up and shipping volumes shrunk. Those facts (and a newer trend of big-rig commanders who stay at one company rather than jumping around) led to an environment where the turnover rate is now 65 percent. The severe loss of jobs in manufacturing and construction has also created a glut of applicants. As a result, trucking companies don't have to spend as much on recruitment and are taking more time (and care) in vetting prospective hires.

Drivers' responsibilities vary depending on the length of their routes and the nature of the goods they carry. Some drivers specialize in shorter routes where they also act as salespeople and solicit business while they make their deliveries, while others specialize in driving long distances (average salary: $40,000 to $46,000 a year) and may be away from home for days or weeks at a time. Some trucking jobs require loading and unloading the truck, so drivers must be in good physical shape and able to lift heavy objects. In addition, truck drivers must have a clean driving record as well as good vision and hearing; people with certain medical conditions are prohibited from driving trucks across state lines. In order to drive trucks over a certain weight, operators must obtain a CDL license from their home state, and some states and employers require additional training, depending on what the truck is loaded with. The industry also supports technicians and mechanics who keep the big rigs in top condition.

Ride the iron horse

As of 2006 (the most current year with available statistics), the Bureau of Labor Statistics reported that rail transportation workers held about 110,000 jobs in the United States. Possible occupations in the sector include conductors and yardmasters, engineers, brake, signal and switch operators, and subway and streetcar operators. Engineer positions are almost always filled from within a railroad's ranks and require good vision, hearing and extensive training. Almost 80 percent of the employees in this industry are unionized. Although employment on the rails is expected to decline in the next 10 years—due to increased computerization of the industry—opportunities are expected to open up for young wannabe engineers, as many train yard veterans reach retirement age.

For the people, by the people

Public transportation—generally in the form of subway and light-rail trains, and local and intercity buses—employs an army of drivers and conductors, as well as the infrastructure of dispatchers, engineers and managers that keep the wheels moving smoothly. While employment in intercity trains is likely to decline, the BLS predicts demand for subway and bus operators to increase (by as much as 12 percent through 2016) as urban population becomes increasingly dense and demand for public transport grows. The growing "green" trend may also bolster the sector, as more people choose to take public transportation over their personal cars. Additionally, the importance of public transportation in shuttling people to and from work insulates the industry from layoffs during periods of recession.

AIRLINES INDUSTRY OVERVIEW

A volatile industry

The airline industry consists of companies that move people and cargo with planes. The International Air Transport Association (IATA) claims that "In the U.S., aviation supports 10.2 million jobs and $1.1 trillion in economic activity," through tourism, shipping and business travel. On a global scale, those numbers are even more gargantuan: aviation and air travel-related activities account for almost 32 million jobs, with an "economic impact" of nearly $3.6 trillion, or 7.5 percent of world GDP. Strictly limited to commercial aviation, industry revenue was around $536 billion for 2008

But despite its enormous contribution to world commerce, the industry has historically gone through dizzying booms and alarming busts as it reacts to regulatory changes and economic factors. Airlines had started to dig themselves out of the hole caused by the September 11 terrorist attacks in 2005, but by the latter half of 2008, carriers faced a buying public wary of excess spending and were slammed by rapidly rising fuel costs (which have since slunk back down somewhat). Furthermore, the IATA says the implementation of security measures has cost the industry $5.6 billion per year. Spats with labor unions, troubles with underfinanced pensions, high jet fuel prices and a string of bankruptcies, from which some carriers are still emerging, have caused further havoc. The July 2007 attack on Glasgow's airport—and for that matter, the one in November 2008 on several hotels in Mumbai, India)—is a reminder that the airline industry is still a target for terrorists. Nevertheless, *The Economist* thinks that once economic issues have been resolved (no easy task), the airlines will be in a position to expand.

Cleared for takeoff

The airline industry took to the skies following the Wright brothers' first successful flight in 1905. As with many new technologies, airplanes were first used extensively by the military—namely, during World War I for reconnaissance, bombing and aerial combat. Following the war, when the U.S. found itself with a surplus of military aircraft and pilots without much to do, the postal service opted, in 1918, to start a transcontinental air mail service, which

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ran from New York to San Francisco. To keep costs down, 12 spur routes were spun off to independent contractors. Thus the familiar scions of the friendly skies—American Airlines, United Airlines, TWA and Northwest—were born.

Passenger flights didn't become a reality until Ford introduced a 12-seat plane in 1925. The Ford Trimotor made carrying people potentially profitable. Pan American Airways, the first airline with international destinations, was founded in 1927. Remarkably, airlines remained generally profitable during the Great Depression. Under the New Deal, the government subsidized airlines to carry mail. In 1934, however, postal reforms reduced the amount of money airlines earned for carrying the mail. By 1938, over a million Americans were flying on airplanes. This industry's rapid growth prompted new government policies; and in 1938, Congress enacted the Civil Aeronautics Act. The airlines were happy that an independent agency was in charge of aviation policy, as before the 1938 Civil Aeronautics Act passed, numerous government agencies and departments pushed and pulled airlines in many directions.

World War II brought many advances to the civilian air transport sector: innovations initially intended for bombers made passenger planes larger, faster and able to carry heavier payloads and to fly at higher altitudes. The 1970s saw the introduction of supersonic air travel with the advent of the Concorde. However, the airliner stopped regular flights in October 2003 due to the Concorde's (only) crash in 2000 and economic pressure indirectly resulting from the September 11 attacks.

Big trouble for the Big Six

After 2001, Congress gave well over $20 billion to the airline industry in the form of reimbursements for losses incurred while planes were grounded following the attacks, monetary help for new passenger and plane security requirements, and pension funding relief. But many of the industry's major players were forced to shoulder massive debt loads to continue their operations; this was on top of debt they had been accumulating since even before the terrorist attacks. Of the "Big Six"—United, US Airways, American, Northwest, Continental and Delta—all but one, American, has been forced to file for Chapter 11. Smaller airlines, including Great Plains, Hawaiian, Midway, National, Sun Country and Vanguard, have also shown up in bankruptcy court.

Though passenger confidence continued to grow in the years following the terrorist attacks, the industry's red ink kept on flowing. The SARS scare in Asia, the Iraq war and a slowdown in the economy also hurt airlines. According to a June 2004 Senate report, the industry carried combined debts of more than $100 billion at that time. Accordingly, major carriers continued to lobby the feds for financial support in the form of subsidies and loans.

Looking up?

The industry has struggled with profitability due to a combination of factors. Air carriers have been hit hard by rising fuel costs, with jet fuel prices in 2007 averaging about $80 per barrel. The high cost of oil remains a huge challenge to the airline industry; in some cases, uncertainty has been mitigated by multiyear supply contracts that lock in the cost of jet fuel. That's beneficial to the airlines in times of rising prices, but not when prices are falling, so reliance on such contracts can be a bit of a gamble. The IATA calculated that the industry's fuel bill for 2008 topped out at around $174 billion (an increase of $63 billion from 2005, when fuel costs totaled $111 billion), and account for 32 percent of all expenses. Labor disputes and underfinanced pensions have also been expensive problems for carriers. And even JetBlue, which had strong profits for several years, suffered loses recently as it continues to grapple with rapid growth and rising expenses.

Until early 2008, the airline industry had started to show other signs of recovery. According to the IATA, a stronger world economy saw passenger traffic rise by close to 6 percent between 2006 and 2007, and air freight experienced a 4 percent gain. In order to accommodate this increased demand for air travel and to lower their fuel expenditures, airlines began snapping up new, more fuel-efficient planes. The sector's profitability improved, making 2007 the first year since 2000 that the air transport industry posted a net profit. Sadly, the economic slowdown promises to halt such encouraging gains: the IATA reported that passenger traffic in 2008 decreased 5.6 percent, while cargo dove 23.2 percent, and predicts that both will continue to fall (by 5.7 and 13 percent, respectively) in 2009.

A global network

Around the world, many airlines still are heavily subsidized—or owned outright—by their home nations. While this has been a successful setup for many, others haven't been so lucky. Swissair and Belgium's airline, Sabena, both crumbled when their respective governments couldn't keep up with demands for subsidies. (Swissair was resurrected in 2002 as Swiss, which was acquired by Lufthansa in 2005.) Subsidized international and U.S. carriers have formed global alliances to avoid some regulatory issues and maximize profits by sharing resources, including routes and marketing strategies. Well-known alliances include Oneworld (an alliance between American Airlines, British Airways and several other carriers) and SkyTeam (a partnership made up of Delta Air Lines, Air France, AeroMexico and others). But such partnerships aren't always successful. An alliance between Dutch carrier KLM and Alitalia fell apart, for instance, after the Italian airline had trouble securing funding from its government patrons; KLM went on to merge with Air France in 2004.

Partnerships aside, the airline industry remains remarkably competitive, and in today's tough climate, it's everyone for himself. Tight regulatory controls in the U.S. make it difficult for major domestic carriers to merge. For example, a plan to join United Airlines and US Airways was shot down due to antitrust regulations. The US Airways name showed up again in merger talks, linked to America West for $1.5 billion, and the two companies made it official in September 2005. Then, in November 2006, US Airways made an offer for Delta (which was rejected), and in November 2008, Delta and

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Northwest completed their merger after a lengthy approval process. Of course, a carrier is never assured that size management (either upwards or downwards) will result in (higher) profits. Four of the Big Six have gone into bankruptcy since 2001, and smaller budget airlines are also struggling with earnings. Furthermore, any approved merger is subject to pitfalls when it comes to integrating different systems, unions, employees and cultures.

Going regional

Regional airlines, which benefit from smaller, newer jets and lower operating costs than the domestic giants, have gained ground in recent years, becoming the fastest-growing segment of the airline market. Approximately 25 to 30 regional (or commuter) carriers operate in the industry today, according to the Bureau of Labor Statistics. Recent statistics from the Regional Airline Association reveal that one in five domestic airline passengers travel on a regional airline, and that planes serving regional markets make up one-third of the U.S. commercial airline fleet on the whole. The big carriers have taken notice, and many now have controlling interests in newer regional airlines—Delta controls Comair, for instance, while American has American Eagle.

The trend is reflected in Europe, too. Both globally and domestically, alliances with major carriers give the upstart regionals access to major airport hubs. In some cases, however, regional and low-budget airlines have skirted the hub question altogether by choosing to operate out of slightly out-of-the-way airports—examples include Southwest's use of Islip airport, in a suburb of New York, and JetBlue's adoption of Long Beach, near Los Angeles. And in other instances, regional airlines have decided to spread their wings and join the burgeoning low-cost boom. Some regional airlines now do longer haul flights. For example, Midwest Airlines (formerly Midwest Express) connects several cities in the Midwest to destinations in Boston, New York and San Francisco.

The budget boom

The growing American budget airline sector—consisting of top performers like Southwest Airlines and JetBlue, plus a growing number of upstarts—has gotten a good deal of attention lately. But budget flight isn't a new phenomenon in the industry—in fact, Southwest has been around since 1971. The difference is in the branding and public acceptance of these carriers, fueled in part by Southwest's customer-centric approach, and by customers' reduced service expectations post-September 11th. Expanded routes have helped, too. Where once low-budget carriers limited their flights to relatively short hauls in regional markets, today's top discount airlines regularly offer cross-country and even international flights.

The budget carrier phenomenon has rocked Europe, too, where about 60 low-cost carriers operated in 2006, compared to just four in 1999. European customers have warmed up to the budget boom, as well. British-based easyJet increased its passenger flow more than eightfold between 1999 and 2004, while low-cost carrier Ryanair, operating out of Ireland, ranked as one of the top performers in the industry worldwide. Some of the larger airlines have tried to take advantage of the low-cost boom, such as United's Ted and Delta's Song, but without much luck; Song was reabsorbed into Delta in 2006, three years after its first plane took off, and Ted, never a game-changer, officially expired in January 2009.

The boom in low-budget carriers isn't limited to North America and Europe. There are also low-fare carriers in Asia, where there are now about 45 discount airlines. Examples are Singapore-based Tiger Airways, Pakistani carrier Aero Asia and Jakarta-headquartered Adam Air. In June 2007, South Korea's largest airline, Korean Air Lines, announced plans to start a low-fare unit to compete with discount carriers in Asia. Some budget airlines also branched out into long-haul flights across the Atlantic and Pacific.

Cutting costs ...

Above all, cost-savings are crucial to the success of low-budget carriers. One way air carriers measure their fiscal health is through cost per available seat mile (or CASM), a complex formula involving airplane capacity, operating costs, route lengths and other factors. Whereas American Airlines spends about 11.4 cents for each seat on each mile flown, budget competitors like Southwest and JetBlue lighten their loads with CASMs of 9.1 cents and 8.4 cents, respectively. Those pennies add up over time, and so-called "legacy" carriers are under pressure to pinch them ever harder. But with more liberal work rules and a less-senior workforce overall, low-cost carriers beat their established rivals in terms of labor costs.

Other cost-cutting measures in the airline industry include streamlining fleets and retiring older planes, canceling unprofitable routes, greater efficiency in procurement processes involving suppliers, and slashing commissions once paid regularly to middlemen such as travel agencies. Airlines have saved money through online booking, and they encourage customers to book directly through airline websites by offering incentives such as online bonus miles. According to a 2006 *International Herald Tribune* article, online booking saves the airline industry $2 billion a year.

... and increasing income

Low-budget airlines have also realized that consumers prefer to pick and choose their perks. An in-flight cocktail on JetBlue will still set you back $5, but XM radio and DIRECTV are free. Charging for amenities that previously came gratis allows carriers to keep ticket prices low, yet still turn a profit. Many larger airlines now charge passengers for meals and snacks, too. Moreover, some airlines now charge people for extra legroom. On Northwest, a bigger exit-row seat costs an additional $15. United's flyers can sign up for an Economy Plus subscription (at several hundred dollars), entitling them to seats with five inches of extra legroom.

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In fact, the situation got slightly out of hand during the summer of 2008, as carriers, squeezed by skyrocketing fuel costs, found more ways to wring blood (money) from a stone (the shell-shocked passenger). Baggage fees opened the door, as first United and US Airways, and then the rest of the industry started charging for handling the second piece of luggage (and on American, even the first one incurred a $15 charge). Then JetBlue created a marketing fiasco as it set a $7 price for a special hypoallergenic pillow and blanket set. In some cases, even the complimentary soft drink is no longer safely free.

How low can you go?

Low-fare carriers such as Southwest and JetBlue were once the darlings of the airline industry; however, Southwest and JetBlue have had troubles of their own. When an ice storm hit JetBlue's hub at JFK airport in New York in February 2007, passengers were trapped on the tarmac for eight or more hours. It took JetBlue nearly a week to resume normal operations. JetBlue's founder and then-CEO David Neeleman apologized publicly for what happened and introduced a "passenger's bill of rights." In May 2007, Neeleman stepped down as the airline's CEO.

In June 2007, *The Wall Street Journal* reported on a growing profit squeeze at Southwest. The paper reported that, over the past four years, Southwest's unit costs—the expenses to fly each seat one mile—rose almost 20 percent due to increased labor costs and higher fuel prices. The airline's hedges to lock in low fuel prices have become less successful, and passengers have resisted increases in fares. Low-cost carriers also faced greater competition from other airlines that learned to copy some aspects of budget airlines' low-cost models.

The (dying) lap of luxury

During the high times (around 2005), new second-level airlines sprang up, attempting to attract the super-wealthy and business travelers. Upscale airlines MaxJet, SilverJet and Eos flew between New York and London; on Eos, launched in 2005, the airline's "guests" slept on 6'6" beds and dined on gourmet meals. L'Avion, a business-class airline that offered service between Paris and New York, boasted that passengers could enjoy comfy seats and French food. Florida-based company DayJet owned several small jets and ran an air taxi service for business travelers. By early 2009, however, none of these survived; the last to go, L'Avion, was merged into British Airways' subsidiary Open Skies.

Established airlines tried to cater to the luxury market as well (although due to tight credit markets and tighter consumer and corporate budgets these days, this practice has faded, replaced by plans of financial austerity). For example, Lufthansa expanded the airline's first-class lounge in the Munich airport by adding day beds, showers, a gourmet restaurant and a bigger bar. Lufthansa also spent millions to upgrade deluxe lounges in Paris, New York's JFK, Berlin and Düsseldorf. In addition, Singapore Airlines upgraded its business and first-class cabins. On certain flights, it rolled out 35-inch wide seats (that folded into beds) in first class, which it claimed were "the largest seats in the sky … exquisitely upholstered in fine-grained leather with mahogany wood trimming."

Investing in a dream(liner)

Major carriers hope to save money in the future by investing in new planes that offer a lower cost of ownership and operation. In late 2003, Boeing's board of directors gave the company the go-ahead to offer the 787 Dreamliner for sale. The following April, Japan's All Nippon was the first airline to order Boeing's new passenger jet, which promises fuel savings of up to 20 percent. By June 2007, the number of orders for the plane had soared past 580, making it the fastest-seller in aviation history.

Meanwhile, Airbus, the French firm and Boeing's rival for No. 1 aircraft maker in the world, unveiled its own brand-new upscale jumbo-jet, the A380, at the start of 2005 at a gala event during the Le Bourget air show in Toulouse, France. Designed to comfortably seat 555, the A380 rocked the airline industry and represented a joint effort with France, Britain, Germany and Spain, all of whom contributed to the 10-year, $13 billion program that designed the plane. The double-decker leviathan, the largest plane ever built, boasts a 262-foot wingspan and extra space companies can use to install bedrooms, gyms, bars and lounges. The conservation end, though, is where the A380 packs its biggest punch: its carbon fiber components and fuel-efficient technology are estimated to match or exceed Boeing's 20 percent fuel savings, and slash cost per passenger.

However, in October 2006, Airbus announced that new jet delivery would be delayed until the second half of 2007, with the industrial ramp-up finished in 2010. By June 2007, Airbus had five customers who had agreed to purchase 148 A380s, and the first planes were delivered to Singapore Airlines in October 2007.

Boeing's clients are still waiting after a series of delays (a strike, economy-related layoffs, design problems) pushed the official first delivery of the 787 Dreamliner to sometime after March 2010—provided there were no further problems waiting in the wings.

It's not easy being green

Global warming is always a hot topic, and airplanes are one of the biggest contributors to carbon emissions. Environmentalists have long blamed the airline industry for ignoring its complicity in all types of pollution. In 2006, Al Gore's documentary *An Inconvenient Truth* was a surprise hit, and led a number of businesses to go "carbon-neutral." Now, members of the airline and aviation industries are finally starting to address concerns about airplane emissions. In June 2007, the IATA asked the aerospace industry to build zero-emissions airplanes within the next 50 years. Later that month, Louis Gallois, the CEO of Airbus, called on aircraft makers to work together to invent more environmentally friendly technology.

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The industry is definitely on the long road toward that goal. In early 2008, a Virgin Atlantic 747—using corn-derived fuel that included a mixture of coconut oils—took a passenger-free transatlantic flight, becoming the first commercial airline to power an aircraft partly by biofuel. Virgin's founder Richard Branson has repeatedly stated his intent to reduce environmental impact, and has committed to improving the airline's fuel efficiency by 30 percent by 2020. Branson has pledged to invest all of future profits from the Virgin transport companies into biofuel R&D and projects intended to tackle climate change.

In another effort initiated across the pond, the European Commission proposed a $2.1 billion public-private plan, dubbed the Clean Sky program. The program, started in 2008, aims to help Europe's air transportation sector develop technologies to reduce aircraft-related pollution (even of the audible variety).

Labor pains

According to the Bureau of Labor Statistics (BLS), labor costs make up roughly 40 percent of many airlines' operating costs. Passenger safety regulations and a workforce made up of highly specialized and rarely cross-trained professionals—half of whom are unionized—make it tough for airlines to trim costs from their labor budgets. One way they've done this is by cutting staffs to the bare bones. Following September 11th, Continental Airlines and US Airways were the first to make dramatic cuts, laying off about 20 percent of their respective workforces and paring flight schedules. Most other carriers followed suit.

Labor pains aren't new, of course; the industry regularly hits a cost-cutting segment of the cycle. In the middle of the last decade, several employee groups agreed to salary and benefit cuts to help keep airlines from going bankrupt. For example, in June 2006, Delta's pilots union agreed to a 14 percent pay cut. Other employees at Delta also agreed to pay cuts, including CEO Gerald Grinstein, whose salary was chopped by 25 percent. In May 2007, Northwest Airlines exited bankruptcy protection following a 20-month reorganization. Although American Airlines posted an annual profit for the first time in six years, employees were angry during the airline's annual stockholder meeting in May 2007. They had agreed to salary cuts in recent years to keep the airline flying, and were unhappy because top executives got bonuses worth millions. Airlines also started outsourcing many jobs that used to be filled with living, breathing employees. In other cases, airlines also replaced people with machines—consider the self-service check-in kiosks that have sprung up at airports in recent years.

Overall, the number of employees was built back up starting in the middle of the decade, only to fall again in 2007 and 2008 as the global economic crisis forced carriers to cut back on routes. The Delta-Northwest merger was bound to create lots of redundancy, but airlines large and small were forced to "downsize" thousands of employees. During 2008 and early 2009, the total number of layoffs announced by just a few companies (American Airline's parent AMR, Air Canada, United and SAS) reached nearly 25,000.

Not just plane jobs

One manager for a major airline says, "This is not a place for the faint of heart. The airline industry is chaotic, and [it has been] particularly brutal for the traditional or legacy carriers since 2001." This source feels career development opportunities are extremely limited. The contact adds, "There is a glut of MBAs that have never moved up due to the incredibly heavy toll exacted by several world events (the dot-com bust, September 11th, SARS, the Iraq war). However, work hours are pretty light, and the travel benefits can be fantastic." An insider at American Airlines agrees that working for the airline industry is tough, explaining, "If making lots of money, getting big bonuses and securing promotion opportunities are important to you, AA may not be the best place to work. However, if you value work/life balance, enjoy solving challenging business problems and love flying first class to any destination across the globe, American really isn't that bad."

The airline industry hires a wide variety of employees ranging from pilots and flight attendants to ticket agents, sales people and managers. Although flight crews are the most visible in the industry, most airline employees don't fly the friendly skies. Rather, they work in airport terminals or in offices. Due to the fact the flights leave at all hours, many who work in the industry have schedules that are variable or irregular. Most jobs with the airline industry are in or near the cities that serve as major airlines hubs. For example, many of Northwest Airlines' jobs are in Minneapolis-St. Paul.

In the airline industry, most recieve standard benefits, such as health insurance and paid vacation—and many also have benefits like retirement plans and profit sharing. One perk that attracts many people to the industry is free or reduced-fare flights for airline employees and sometimes even their family members.

Many airline jobs are also unionized. Unions include the Air Line Pilots Association International (ALPA), the International Association of Machinists and Aerospace Workers (IAM), and the Association of Flight Attendants-CWA (AFA-CWA). The AFA, which represents 55,000 flight attendants at 20 airlines, claims it is the largest flight attendant union.

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Navigating airline interviews

Most employees at airlines, regardless of their position, say the interview process can be long and usually involves multiple interviews. A reservations agent for Continental says: "The hiring process was very long. It took about six months from resume submitted to being hired." The source says there were two rounds of interviews. One contact in HR, who works for American Airlines, notes, "The interview process can be lengthy, and meeting with a number of people [is] the norm." A mechanic with Continental reports that getting the job entailed three interviews. Flight attendants for various airlines say a group interview is part of the hiring process.

An airline ticket agent says interview questions included "Where do you see yourself 10 years from now?", "How do you deal with difficult people?", "Do you work better by yourself or in a group?", "Do you lose your temper easily?", and "How important it is to spend the holidays with your loved ones?" Another ticket agent says one question was, "Describe the most difficult problem you dealt with at a previous job and how you handled it." A manager says questions included, "What is your greatest accomplishment?" Some respondents say they also needed to pass a medical examination or psychological tests.

The future of airline careers

Industry employment is largely at the mercy of the economy, though the BLS expects jobs to increase somewhat independently due to a growing population and greater demand for air travel. The BLS predicts employment growth initially in low-cost and local carriers. After larger airlines recover from bankruptcy, the BLS says, larger airlines will start hiring again. However, the airline industry is often as turbulent as the skies it flies, and salaries and perks aren't what they used to be.

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Venture Capital

VENTURE CAPITAL TODAY

It's no secret that the U.S. economy goes through cycles, and is now in the midst of another "correction." Everything from housing prices to stock valuations tend to get overheated, or overly depressed, and that leads to a cyclical shift in sentiment. Wall Street tends to develop momentum that can last two to three years, and investors of all classes use these patterns to engage in the proverbial "buy low and sell high." The same goes for venture capitalists.

The venture capital industry, like other financial services sectors, has certainly taken a hit since the U.S. economy began to collapse at the end of 2007. Fewer entrepreneurs have come forward to create startups, and fund raising for those looking for capital has proven difficult. As evidence of the industry's troubles, investors Arthur Rock and Michael Moritz, two big players in the world of venture capital, saw their fortunes dwindle as they both dropped off the *Forbes'* annual billionaire list in 2009. And they're not the only ones—several venture capitalists who still made *Forbes'* latest list saw their overall fortunes plummet in size versus the previous year.

The good news

Despite the harsh fiscal conditions, there are areas within venture capital that are still flourishing. Companies based around social online gaming have continued to raise millions in funding (which may be an outgrowth of consumers, fearful of the economic turn, choosing to spend less of their hard-earned dollars out on the town). In addition, health care-related startups have taken very few hits lately, and have largely still been able to secure funding.

More good news is that venture capital (VC) firms expect to nurture startups for up to five years, and that makes them somewhat less worried about short-term economic turbulence. However, a downturn in the economy means venture capitalists change course. Their strategy drastically shifts into what kind of upstart companies are safe to invest into, and others to be avoided. The key to understanding this shift is by poring over the most recent batch of industry data, and experts say this is paramount for anybody looking to join venture capital's ranks.

In good times, VC firms will sink billions of dollars into any business proposal that could become the next Google or Facebook. They are willing to take a gamble and pump money into ideas that could lead to a splashy initial public offering, and cash in by converting their investments into major stock holdings. That doesn't end entirely when the economy begins to slip. Instead, venture capitalists tend to entrench—picking deals at a slower and more targeted pace. VC firms, like investment banks and big private equity shops, are designed to make money in the midst of all kinds of economic conditions. A pullback in the U.S. might mean a surge of new deals overseas, one sector's glut could mirror the rise of another. Looking to secure a job as a VC analyst? Want to scout out the next blockbuster deal? Then bone up on the most recent data out there.

Venture capitalists scaled back their deal-making activity in 2008, but that doesn't mean the entire industry is locked up. In the largest annual decrease in six years, VC firms sunk $28.3 billion in 3,808 deals in the 2008 fiscal year, according to the *MoneyTree Report*. The drop was another effect of the global credit crunch that has paralyzed global equity markets. The biggest downside for venture capital is that the economic environment has drastically curbed the appetite for IPOs and mergers and acquisitions—two of the biggest ways VC firms cash in on their investments.

That doesn't mean deals aren't being done. To the contrary, insiders say investment activity remains high and that the industry is still faring better then it did after the last economic slowdown in 2001. John Taylor, vice president of research for the National Venture Capital Association, said the industry remains interested in new projects "albeit with a sense of caution." *MoneyTree Report* notes that the clean energy sector saw steady growth—an over 50 percent increase for the year. In addition, VC firms invested more money in companies in the second stage of development—companies that are already up-and-running and competing in the marketplace—than they have since 2000.

THE FINANCIAL INDUSTRY AND VENTURE CAPITAL

The financial industry can be divided into two general segments: the buy-side and the sell-side. Venture capital firms are on the buy-side because they control a fund or pool of money to spend on buying an equity interest in, or assets of, operating companies. Investment banks, brokerages and commercial banks are on the sell-side because they offer such services as floating new companies on the stock exchange or issuing new debt.

For instance, when a large company wants to sell stock an investment bank's corporate finance department handles the legal, tax, advisory and accounting affairs of the transaction as well as the sale of those securities to institutional or individual investors. For providing these services, the investment bank receives a fee (between 2 percent and 10 percent of the money raised by selling stock). An investment banking firm's primary motivation is to sell such services, characterizing them as sell-siders. Meanwhile, major brokerages are paid a fee for the service of buying and selling stocks. Commercial banks get in on the action for managing deposit accounts, making and then managing loans, etc. Again, they sell these services, so they are sell-side firms.

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For the sake of this discussion, most buy-side venture capital firms have only one way to realize a return on their investment: selling their ownership stake to another private investor, a corporation (trade sale) or to the public markets for more money than they paid (often termed to be "in the money"). Private equity shops like Blackstone Group or Kohlberg, Kravis Roberts sink their money into later-stage companies with the hopes of cashing out in a public offering. Venture capital is about building young companies and finding an exit (liquidity event) on the back side for "x" times their original investment. Descriptions of each segment of the buy-side are included below. Keep in mind that these definitions are intended to be very general in nature and that many buy-side organizations cross organizational boundaries.

Friends and family

Sometimes referred to as "friends, family and fools," this is usually the first source of funding for startups at the idea stage of development. The amounts invested per individual are quite small, averaging $5,000 to $10,000. These people may not have an in-depth understanding of the business, product, technology or market, and are simply making an investment in someone they know. While this is probably the easiest money for an entrepreneur to find, it can also be bittersweet. If a startup fails, telling Aunt Edna that she's lost her nest egg could be the low point of one's career.

Angels

These are high-net-worth individuals who normally invest between $15,000 and $1 million in exchange for equity in a young company throughout the seed and early stage rounds, averaging $50,000 to $500,000. Angels prefer to invest within their immediate geographic area, and on average within one day of travel.

According to businessfinance.com, angels fund an estimated one-seventh of the 300,000 start-up/early growth firms in the U.S. They are often the first investor segment who have the opportunity to sit on the board of directors and contribute experience and contacts, guiding young companies through the difficult initial stages of growth. That said, most of the value added by angel investors occurs in the pre-institutional (or Series A) rounds of funding. As the professional investors come into play, venture capitalists take over board seats previously held by angels.

Angels can be doctors, lawyers, former investors, though increasingly they are former entrepreneurs who have had a lucrative exit in their chosen professional field. Microsoft co-founder and multi-billionaire Paul Allen has made headlines for his angel investing as well as his investments through his VC firm, Vulcan Ventures. Intel co-founder Andy Grove has made angel investments in numerous companies, including Oncology.com. Given the large number of new companies seeking funding as well as the rise in the number of wealthy individuals, in recent years the industry has seen the emergence of angel groups. These investor alliances create more structure for angel investors, and a more efficient conduit for moving startups along from seed funding to professional venture investors. Perhaps the best-known group of angels is Silicon Valley's "Band of Angels," a formal group of about 150 former and current high-tech entrepreneurs and executives who meet monthly to consider pleas from three startups for venture financing. This group has injected more than $100 million across some 150 startups.

Angels are often involved with hiring, strategy, the raising of additional capital, and fundamental operating decisions. These alliances also allow for better coordination of due diligence in "vetting" new deals. Angels are not without their own issues, however. Collectively, angel investors have been accused of being fair weather friends; one of the first sources of private equity to dry up when public markets fall or macroeconomic conditions deteriorate. With less money to invest across fewer deals than their VC brethren, many of these individuals have a lower tolerance for losses. This risk aversion is compounded by their generally lower position in the capital structure. While angel groups may be able to negotiate preferred stock instead of common, their equity rarely has the same level of preferences or security demanded by later stage investors. Though angels, of course, expect a significant return on their investment, they are also thrill-seekers of a sort—motivated by getting close to the excitement of a new venture.

High-net-worth private placements

Investment banks such as industry leader Goldman Sachs Group, Inc. that represent the sell-side of a deal may organize a group of very wealthy individuals, corporations, asset management firms, and/or pension funds to make a direct investment into a private company. These funds raise typically between $5 million and $50 million—sometimes in the billions for funds managed by some of Wall Street's biggest names. In essence, they enable a broad swath of institutional and wealthy private investors to put their money to work like major venture capital firms.

While these transactions may include a traditional venture fund as part of the round, in many cases they do not. As a whole, investment banks have historically been seen as having less perceived value in the early stages of the venture process. Since early-stage investing is not Wall Street's core competency, the downside is that the start-up company may not benefit from the expertise, operational savvy and rolodex of the venture capital firm. While there is a credible value proposition to using private placements and participation by investment banks in funding some types of deals, this is expensive money on several fronts.

Asset management firms and pension funds

These groups include a diverse collection of limited partnerships and corporations that manage between $5 million to $100+ billion. Most focus on diversified investment strategies, typically with public instruments including stocks, bonds, commodities, currencies, etc. They rarely invest in private companies, due to the large amount of time required to find and execute a private transaction, as well as the ongoing commitment of time to monitor such an investment. Instead of directly participating in individual startup fundings, many will allocate 5 percent to 7 percent of total funds to higher-

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risk alternative investments like VC partnerships, hedge funds, and distressed turnaround situations. The California Public Employees' Retirement System (CalPERS) is one of the largest players in this space. As of September 2007, their AIM (Alternative Investment Management) Program had total investment exposure of $42.6 billion. And, since its inception in 1990, the program has generated $12.5 billion in profit.

Private equity firms

Consider private equity firms to be the bigger, badder version of venture capital. They rarely involve themselves in upstart companies, but certainly have their eye on opportunity. Big PE firms like Blackstone and KKR have entire departments empowered to invest seed money into the next big Internet phenomenon. However, their main strategy is to buy vulnerable publicly traded companies that can hand them a huge profit. The strategy is to find an under-performing public company, take them private, and then reorganize them using loans. That's why it is called leveraged finance. And the big payoff for LBOs is when they make money bringing them public again. For instance, private-equity fund Cerberus Capital is now in the process of reorganizing Chrysler—an American icon it bought from German car titan Daimler AG (famous for its Mercedes brand). Once turned around, Chrysler will reap big financial rewards for Cerberus if the automaker goes public.

Hedge funds

These are entities that buy and sell public market instruments including stocks, bonds, commodities, currencies, etc. These firms take bets on market fluctuations to make money, and are often considered high risk/high return investors. The size of these funds ranges from a few million to several billion dollars. They care about making quick money.

Trading

Sell-side companies such as merchant banks, commercial banks and investment banks have trading departments that control and invest huge sums of money into public markets. These groups also take relatively risky bets on market fluctuations.

A DAY IN THE LIFE: VENTURE CAPITALIST

7:00 a.m.: Arrive at the office. Read *The Wall Street Journal*, paying careful attention to the "Marketplace" section covering your industry focus.

7:20 a.m.: Read trade press and notice four companies you haven't seen before. Check your firm's internal database to see if someone else on your team has contacted the companies. Search the Internet to find out more. Of the four companies you find, only one holds your interest. Send yourself an email as a reminder to call them during business hours.

7:45 a.m.: Clip out some interesting articles and put them in the inboxes of other associates or partners with a note explaining why you found the information interesting. The other members of your firm have more expertise in the areas covered by the articles. You stay and talk for a few minutes with each of the people in their offices, exchanging the latest word about the people and technology you follow.

8:00 a.m.: Respond to emails or voicemails from the day before. People you are communicating with are primarily entrepreneurs, other VCs and personal acquaintances.

9:00 a.m.: You attend a meeting with a group of entrepreneurs who want to make their pitch. You read the business plan for five minutes. One general partner (GP) sits in with you. The other GP, who planned to be there, cannot make it because he has a conference call with a portfolio company facing some challenges. The computer projecting the entrepreneur's presentation crashes, so you have to take their paper version of their presentation and work with your assistant to make four photocopies before the meeting can proceed.

During the 10-minute delay, the partner talks with the team informally, and learns more about the opportunity than he or she would in any one-hour presentation. You sit politely through the presentation, and identify the three critical issues facing the company. During the question and answer phase, you think of how to politely extract more information about those three issues, all the while evaluating whether you would want to work with this team or not.

In the end, you decide to make some calls to gather more information about the market, but you feel that there's a very low probability you would ever invest. You wish you could just kill the deal, but the management team is reasonable (though not great), the customer need they have identified may actually exist (you don't know firsthand, so you will need to call around), and you may learn something by taking it to the next step. Plus, in the back of your mind, you know the market for good deals is very competitive, and you don't want to reject a deal too quickly.

11:00 a.m.: Phone the people who called during your meeting. These people include entrepreneurs, analysts, other VCs and your lunch appointment. You find out from another VC that the company you almost invested in two months ago was just funded by a competing firm. You wonder if you made a mistake. You find out from an entrepreneur you were hoping to back that he wants his son to be a co-founder and owner of the firm. You abandon all hope. You learn from an analyst that AT&T has decided to stop its trial of a new technology because it doesn't work, which creates an opportunity for companies with an alternative solution. You happen to know about two small companies, one in Boston, one in Denver, that have alternative solutions. You make a note to yourself to call them back to get a status report.

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12:30 p.m.: Lunch with an executive recruiter. This person is very experienced in finding management talent in your area of expertise. You have kept in touch with her over the years, and try to see her every quarter to hear the latest buzz and to make sure she will be available when you need her services quickly. It's a fun lunch, freely mixing personal and professional information.

2:00 p.m.: Call new companies you have heard about over the last few days. Ideally, you could do this task a little bit every day, but you find you need to be in a friendly and upbeat mood to make these calls, so you batch them. Also, if you actually get in touch with the CEO, you may be on the phone for 90 minutes, so you need to have an open block of time. You leave the standard pitch about your firm on the voicemail of the CEOs of four other companies. You get through to one CEO, and although you can tell in the first five minutes that you won't be interested in investing, you talk for 30 minutes. You spend most of the 30 minutes probing about competitors who might be better than the company you're talking to and finding out more about his market space.

3:00 p.m.: You and a partner meet with a portfolio company on a conference call. The company is facing some challenges and you offer to screen executive recruiters to help find a new CFO for it. The GP offers to talk to two M&A firms to get a first opinion about what might be done to sell the company over the next six months. At the end of the call, the GP gives you three names and numbers of recruiters, which you add to your own two contacts.

3:30 p.m.: You call the recruiters, explaining the situation and asking about their recent experiences in similar searches. The critical element is whether the recruiters actually have time and interest in doing the search. You talk to two recruiters and leave voicemails for the other three.

4:30 p.m.: You make due diligence calls for a potential investment you have been following for two months. Last week you called the company's customers, and they seemed happy for the most part. Today, you are calling the personal references of the management team. The idea is to get as much negative information as possible. You need to discover any potential character or personality flaws any member of the team may have. VC firms are "due diligence machines," doing the hard work of making sure a company is what it says it is.

5:30 p.m.: You make calls to the West Coast. You also check your stocks and confirm dinner plans. You do some miscellaneous surfing on the Web to gather some articles about the technology areas you cover.

6:30 p.m.: You stand around the halls talking with other members of your firm, brainstorming and filling each other in about what's happening in your area.

7:00 p.m.: Dinner with two other young VCs downtown. You talk mostly about life, sports, travel and relationships, but also about the latest deals, cool business ideas and recent successes. You find out that a competing firm just made 30 times their money on a deal you never saw. You also find out that a company you turned down, which was invested in by someone else, is about to go bankrupt. A train missed; a bullet dodged.

VC UPPERS AND DOWNERS

Uppers

- There is a reason that very few people ever willingly leave their VC careers. Where else can you have so much fun investing other people's money (plus some of your own), while being "in the middle of it all?"
- You often get to be the one making decisions because you have money.
- Over the long term, financial security will cease to be an issue, because the job is well paying and you should eventually get "carry" or equity in the firm.
- You have access to the best minds—the people you work with are typically some of the smartest and most interesting. Successful venture capitalists have interests and hobbies as diverse as mountain climbing to playing jazz in nightclubs.
- Your job is to absorb and enjoy the positive creative energy of entrepreneurs and direct it toward successful execution.
- You could suddenly become rich if one of your companies does extremely well and you were able to co-invest or you have carry.
- You have access to the best information systems.

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Downers

Because so many think of the venture capital industry as "the hot job to have," people often forget to question whether it is the right job for them. Here is a list of some of the negatives we hear from those who have worked in the industry for a while.

- Unless you work with a hands-on, early-stage VC firm known for taking an active role in building successful companies, you don't have pride of ownership in anything. You're just an investor, not a builder.
- VC is a slow path to wealth compared with the immediate cash income you get in investment banking, hedge funds or even management consulting.
- It can be argued that venture capital is fundamentally a negative process. Because you reject 99 of every 100 plans, year after year, over time you focus on figuring out what is wrong with a company. You can then reject it and get on to the next deal. What is wrong with the management? The technology? The deal terms? The strategy? If you tend to have a contrarian disposition, after just a few years, that mentality may bleed into your life. What is wrong with my partners? What is wrong with my spouse? What is wrong with me? Oh, the angst! If this reaction hits too close to home, venture capital might not be for you. What fun is it to search through hundreds and thousands of business plans and ideas for that one rare gem, if you aren't an eternal optimist?
- Because you reject 99 of every 100 entrepreneurs, you can make some enemies, no matter how nice and helpful you try to be. No one likes rejection, and passionate entrepreneurs have long memories.

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About the Editor

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