

The background of the entire page is a close-up, low-angle shot of the Statue of Liberty. The statue's head and crown are on the right, and its right arm holding the torch is on the left. The background is a light blue sky filled with numerous dollar signs (\$) in red, white, and blue, scattered across the scene.

World Report

NEW YORK

THE BUCKS START HERE

How business fell back in
love with the Big Apple

Movers and shakers

Profiles of four who
did it their way

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Mayor Rudy Giuliani looks back on the achievements of his term of office



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24 FEBRUARY 2001

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INTRODUCTION

A bite of the

Big Apple

Unparalleled for shopping, culture and entertainment, New York is the financial centre of America's economy – the money-making capital of the world

Invariably identified with its two most famous landmarks, the Statue of Liberty and the Empire State Building – one representing freedom, the other capitalism – New York epitomises the best the United States has to offer.

The high-rise skyline is awesome, the Don't Walk signs grate on the British sense of politesse and the yellow cab drivers speak nothing resembling English. Immortalised in song by Frank Sinatra, the most exuberant metropolis in the US continues to exert its hold on the imagination of Britons and Americans alike. The affection in which the city is held by New Yorkers has been rekindled in recent years since it has undergone a renaissance under the dynamic, if sometimes controversial, leadership of its mayor, Rudy Giuliani.

More than anyone else, Mr Giuliani has redefined what New York means for the world, not merely for Americans. Crime has been reduced by nearly 50 per cent in the past seven years and the business environment has improved immeasurably. The results can be seen throughout all five boroughs, not just in the financial district of downtown Manhattan, although Bronx residents might say they haven't seen as many improvements as the Manhattanites.

Record numbers of tourists are taking a bite into the Big Apple and business travellers are arriving in droves. Even the air that New Yorkers breathe is cleaner than it has been for more than two decades. Data from the US Environmental Protection Agency reveals that the number of days during which air pollution



exceeded federal standards has dropped from an average 26.3 days a year in the early 1980s to just five days a year today – an 81 per cent reduction. *Fortune* magazine says New York is America's top city for business and, for all the attention that Silicon Valley's hi-tech whiz kids have received, San Jose comes in fifth on its list.

The biggest stock market is in New York, trading more than a quarter of the world's shares. There are also some 380 international banks, representing almost every nation there is, plus most of America's major accounting firms, the largest US-based consultancies, and the world's biggest advertising and marketing agencies.

New York is also the country's corporate headquarters, home to more leading US firms than any other city. Hi-tech firms have created new employment – new media-related jobs, for example, have tripled since 1995. With 12,000 industrial firms employing more than 250,000 workers, NYC has the largest concentration of manufacturing in the whole of the US.

As style-setters, New Yorkers put their more laid-back West Coast cousins in the shade. The fashion industry generates more than \$27 billion in revenue each year, and the catwalk

The city has undergone a renaissance under the dynamic if controversial leadership of Mayor Giuliani

shows gain as much attention on this side of the Atlantic as in the rest of America. In fact, the fashion industry is NYC's largest employer, with some 225,000 workers.

All of the nation's major television networks have their headquarters in New York, and employment in the film and TV production industry has increased at almost twice the rate of that in Los Angeles and the US as a whole. NYC is also the largest book publishing centre in the US.

A burgeoning biotechnology and new media industry has sprung up in what has been dubbed Silicon Alley. The number of new media businesses has increased by 75 per cent since 1997. More than 1,700 companies have either relocated to or expanded their operations in New York State. Of those, 82 per cent are based in Manhattan. The new media sector has raised around \$6 billion in venture capital and through initial public offerings over the last three years, according to the New York New Media Association. Executive director Alice O'Rourke says the transformation of the city has been a key factor in encouraging companies to open offices there.

The primary goal of the New York City Economic Development Corporation (EDC) has been to attract investment. The city's development arm, the EDC works closely with private business, public agencies and citizens' communities to encourage and facilitate business growth in all five boroughs through its economic incentive programmes.

Action taken by the Regional Economic Development Assistance Corporation, the Lower Manhattan Revitalisation Plan and New York City Capital Access have all contributed to this regeneration. The NYC Industrial Development Agency (IDA) has played a key role in improving some of the poorer districts of the city.

Through tax exemptions and other incentives, the IDA has managed to retain many of the old-established firms that were considering quitting the city, while encouraging others to start operations. More than 800 trade associations are located in New York, representing and promoting industry and commerce across the board. Every year sees more than 200 conventions and trade shows.

Mayor Giuliani's government has worked to attract new investment by reducing or eliminating more than 20 business taxes and there are numerous other incentives for investors. Measures include discounts on energy bills, low-cost loans,

continued on page 4




Photo: NYC & Company

New York is a robust city and analysts see no immediate threat from a downturn in the American economy



Streets ahead: Fifth Avenue is number one for shopping in New York

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funding for start-up firms in hi-tech industries and financial assistance for equipment purchases.

Mr Giuliani's proposals for his final year in office will leave his successor confronting a budget gap of \$2.4 billion in 2003 and another \$2.4 billion gap in 2004. His critics say that, with hard economic times looming, the city needs a more modest and targeted tax-cut plan which doesn't leave the next mayor with a large deficit.

Organisations like the Manhattan Chamber of Commerce (MCC) have played an active role in New York's investment drive. The Chamber has worked with the EDC to encourage new business growth in the city.

"The goal is to promote economic development, particularly in the small business community," says Nancy Ploeger, the Chamber's executive director. "No matter how much it may appear that large companies are taking over, it is still true that the economy is run by the small businesses. There is more employment and more job development in that sector."

The Chamber helps firms find new clients and business, and cuts their costs by organising discounts on supplies and services. The internet has given its work an international dimension and extended the reach of its network of contacts.

New York has no fewer than 57 chambers of commerce representing overseas trade, among them the British-American Chamber of Commerce (BACC), based

in Vanderbilt Avenue. It has 1,300 members, from the UK and the US.

BACC managing director Richard Fursland, who arrived in the city some 20 years ago, says: "Since New York and London will continue to be world leaders in terms of financial centres, communications and so on, the links will remain just as strong."

He points to a change in the way firms from both cities view themselves in the increasingly international world of business. Companies, whether American or British, now describe themselves as global entities, which just happen to have their headquarters in New York or London. "That is a big, very positive cultural shift, particularly for US companies," he says.

It is said that when America sneezes, the rest of the world catches a cold, but



Manhattan transfer: the concrete jungle is home to major

'It's going to be an aggressive year'

PROFILE: RUDY GIULIANI

□ Rudy Giuliani has loved being mayor of New York, describing the job as "one of the most rewarding, one of the most fulfilling in the world".

Born in Brooklyn 56 years ago, the grandson of Italian immigrants rose to fame as a fearless federal prosecutor, securing more than 4,000 convictions. Elected in 1993 as mayor, he was re-elected to a second seven-year term in 1997. His present, and final, term of office ends in December.

His reputation has been built on cutting crime levels, restoring the city's financial health, renewing its attractiveness to both business and tourists, and introducing a 'workfare' programme for former welfare recipients, which is the biggest in the country.

The mayor's policies, including the unquestionably effective 'zero-tolerance' initiative towards crime, have been focused by his determination to improve the quality of life for New Yorkers and his belief that "the most important civil right is the right to be safe".

During his seven tumultuous, not to say controversial, years in office, crime has dropped to record lows and the city's economy has boomed. Critics argue that Mr Giuliani has largely ignored issues such as race relations, education and affordable housing, but even his political opponents admit that whoever succeeds him will have to build on what he has achieved.

Mr Giuliani has been described as having a 'pit-bull personality'. The prophet of zero-tolerance has never suffered fools or critics gladly. Some thought they detected signs of a softer, more mellow image emerging last year, after he was forced to drop out of the Senate race with Hillary Clinton following his diagnosis with prostate cancer. He spoke freely of his illness and of the treatment he was receiving.

Last November, however, with his popularity higher than ever in the opinion polls, he reaffirmed his determination to crack down on anything and anyone who posed a threat to the New Yorkers' wellbeing.

"The core of the turnaround of New York City has to do with public safety and quality of life, and we have to keep reminding ourselves of that. This is a work in progress; it's not something you ever complete," he declared.



Mr Giuliani's success in taming New York has been taken as a model for emulation by civic leaders elsewhere. A recent visitor to Gracie Mansion, the mayor's official New York residence, was London Mayor Ken Livingstone.

Emerging from a 'prayer breakfast' with Mr Giuliani and assorted American clergy, the former Red Ken, whose own political background could hardly be more different from his

The prophet of 'zero-tolerance' has never suffered fools gladly

opposite number, described Mr Giuliani as "absolutely charming".

Last month it was announced that Mr Giuliani had signed a two-book deal worth at least \$3 million, a record amount for a public official. The first book, to be published next year, will be a memoir giving what are promised to be "full and frank details" of his personal life, including his diagnosis with prostate cancer and the public collapse of his marriage. The second book will be a management and leadership guide, based on his New York experience.

Ironically, the chosen publisher is Miramax Books, whose co-chairman Harvey Weinstein spent two years working vigorously to block Mr Giuliani's political ambitions.

Business appears to have overcome any former animosity, however, and following the announcement of the deal Weinstein paid the mayor a handsome tribute. "There has been no more towering figure in New York during the last decade than Rudy Giuliani," he said. "Diehard New Yorkers like me know that New York City is the capital of the world and he made life in the capital shine bright."

In his final state-of-the-city address in January, Mr Giuliani promised no let up in the remaining months of his tenure of office. "It's going to be a very aggressive year and a very active one," he said. "We're going to turn this city over better, not worse, than how we found it."

More lyrically, in the same address, he said it had been "like a gift to have another year as mayor". He added: "I feel like Giuseppe Verdi when he sat down to write *Falstaff* (his last opera): he put in thousands of themes, which he didn't get to develop in other operas."

Many of the proposals he has outlined extend beyond December 2001 when his period of office comes to an end. It is unclear whether they will be continued by his successor, who may well be a Democrat rather than a fellow Republican.

Americans have, of course, not heard the last of Rudy Giuliani. Tipped for further high office, it remains to be seen what the future holds for him, but he is already making plans and looking for "something interesting... something that is creative... something that is fun... something that is enlightening".



Photo: Gail Mooney/Corbis

New York is a robust city and analysts can see no immediate threat from a US economic downturn.

Marc Goloven, senior regional economist at the Chase Manhattan Bank, says: "The Big Apple economy has only been lightly touched by the national business slowdown currently under way." Stephen Kagann, chief economist at the office of the governor of New York, predicts: "New York will continue to outperform the rest of the country."

The Federal Reserve notes that hiring is still brisk at New York internet and Wall Street companies, despite the huge drop in the value of dotcoms and hi-tech start-ups. Anecdotal evidence suggests that labour shortages were becoming acute across a broad range of industries, the organisation adds. ■



Photo: NYC & Company

companies and the twin towers of the World Trade Center

More hotel rooms are needed to cope with the record number of visitors to the city, which is becoming popular for long weekend breaks

In the age of global travel and far-flung holiday destinations, it is becoming increasingly difficult for tourists to decide where to go. For city-lovers, there is probably no better time than now to savour the delights of New York.

The transformation of the metropolis brought about by Mayor Rudy Giuliani has been remarkable and record numbers of visitors are coming to New York. True, it is one of the world's most expensive cities, but the outlay on accommodation can be partly recouped by following a few simple guidelines.

For example, savings can be made by using the improved public transport system, principally the famous New York subway, instead of cabs. And you can eat well without relying on street stall food or having to spend a fortune.

Real bargains can be found in the shops, particularly for foreign visitors who can obtain a tax rebate. Shopping is one of the two top reasons for going to New York, according to all surveys conducted among tourists.

The other main attraction is theatre, which is perhaps the liveliest in America. Venues have opened off Broadway to accommodate the mushrooming number of new plays. You can often find last-minute tickets for shows at a discount.

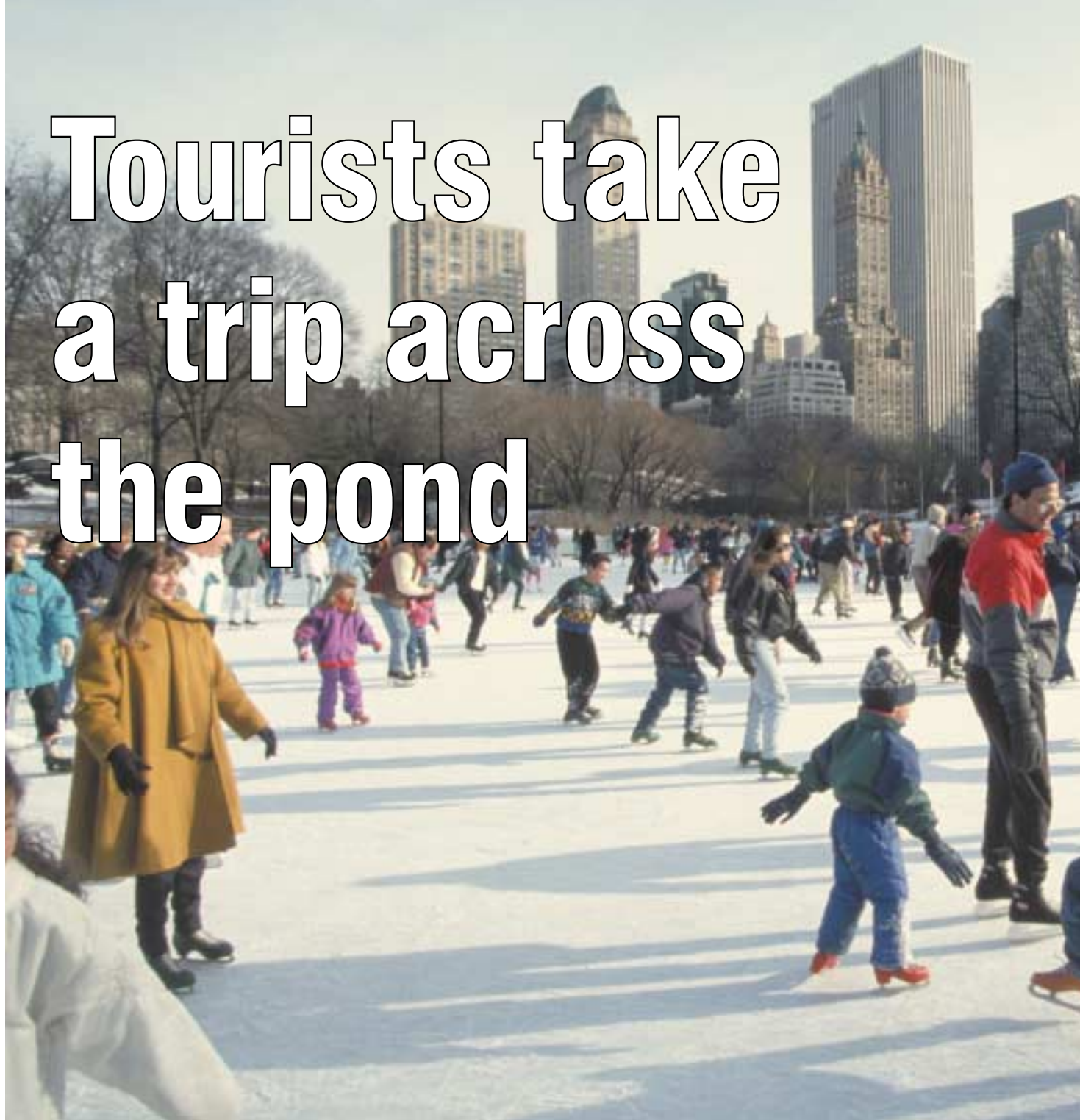
The New York Convention & Visitors Bureau (NYC & Co) forecasts 39.4 million people will visit this year, up on last year's record of around 38.4 million, and bringing \$17 billion in revenue to the city. The number of domestic travellers is expected to increase by three per cent to 32.2 million, while international visitor numbers are expected to rise by four per cent to 7.2 million.

Fears of a slowdown in the American economy do not worry NYC & Co president Cristyne Lategano-Nicholas. She says this may actually help the tourism industry, since a weaker dollar means a better exchange rate and lower prices for visitors from countries with strong currencies. This would encourage British travellers, while the number of tourists from South East Asia is forecast to rise as the tiger economies recover.

Ms Lategano-Nicholas points out that New York still requires greater hotel capacity, despite the addition of more than 2,000 new rooms last year.

"We absolutely do need more hotel rooms," she says. "We've been running an occupancy rate averaging 81 per cent year-round and we could run short of rooms during the peak periods."

New York is becoming increasingly popular with Britons who are staying for



Tourists take a trip across the pond

a long weekend break. The wide choice of airlines and range of fares, as well as package deals, make the city a relatively cheap holiday destination.

"The view of the UK market is that the US isn't all that far away," says Ms Lategano-Nicholas. "The airlines have really risen to the challenge. They provide so many cheap rates and so many different flights that it has made the long weekend break possible.

"We've noticed an increase in these 'fast breaks' – four-day trips instead of a



LATEGANO-NICHOLAS

'Airlines provide many cheap rates, making long breaks possible'

week-long visit. The barrier has been lifted in international travel and we look at a trip across the Atlantic as just across the pond. The UK travel market is going to grow and British travellers will become more of a presence here in New York."

Statistics reveal that a quarter of all holidaymakers from the UK stay in a private home for their visit, although some of them are on home-swaps. The average length of stay is five nights.

Ms Lategano-Nicholas says there has been a noticeable increase in the number of families taking a holiday in New York – up about 28 per cent over the past two years. "They've become ubiquitous. You notice families of four traipsing around Times Square with a baby-carriage and all their stuff," she says.

"The main reason why there has been an increase in family travel is because the city is safer. There is no way that a family would have come here 10 years ago."

It is astonishing how much you can cram into a four-day visit. 'Must-see' sights include Times Square and the entertainment district, the sophisticated stores on Fifth Avenue, the powerhouse advertising world of Madison Avenue, Wall Street and the financial district, Greenwich Village, SoHo, Central Park, the impressive Empire State Building, South Street Seaport, Staten Island and of course the Statue of Liberty.

New York has a rich literary and artistic history, and at the top of most people's list is the Museum of Modern Art. But there are also many other collections, ranging from the Museum of American Folk Art, where a \$21 million exhibition space opens in the spring, to the Skyscraper Museum, scheduled to open in the autumn. Housed in a 35-storey tower, which includes a new

Spot Woody Allen appearing at one of the city's many jazz venues

Ritz-Carlton Hotel, the museum will represent a permanent celebration of the city's architectural heritage.

Music-lovers of all tastes will find something for their ears, as offerings range from Harlem gospel choirs and classical concerts to clubs churning out

Hotels benefit from higher bookings

□ New York has long been one of the most exciting cities in the world to visit – its energy and the sheer scale of its buildings never fail to impress. The city's reputation as a place to enjoy is higher today than it has been for years.

Not so long ago, visitors would talk of bad experiences on the graffiti-strewn subway or their disappointment at the tawdry state of Times Square. The city was not perceived as a safe place to visit. Then along came Mayor Rudy Giuliani who decided it was time to smarten things up. Crime rates dropped dramatically, Times Square and the subway system were cleaned up, and the unemployment rate was greatly reduced.

This has been good for hoteliers, who have seen their profits soar to record levels. The occupancy rate for the first half of 2000 was 84.4 per cent, while the average daily room rate rocketed to \$224.83, making New York the most expensive place to stay in the US. Last year, an estimated 38.4 million people visited, up from 36.7 million visitors in 1999 (11 per cent up on 1998).

Over the past decade, visitor numbers to the city have steadily risen at an average rate of one million a year. The latest increase has catapulted New York ahead of Las Vegas to become the most popular destination in the US, after Orlando, Florida. Growth has been seen in almost every area of the sector: the city is not only receiving more overseas tourists, but also American out-of-towners and businessmen.

Not only are the high-profile chains doing well, but hotels located away from the city centre are also benefiting. Budget-conscious visitors are opting for similar quality accommodation on the New Jersey waterfront or in the districts of Queens and Brooklyn, rather than expensive mid-town choices.

More than 24 new hotels have opened in the past two years, including The Regent Wall Street in the heart of Manhattan's financial district, carved out of the landmark 155-year-old former Merchant

Exchange, and the stylish Hotel Giraffe with roof garden. Former offices, clubs and other buildings have been turned into hotels, and older premises modernised and enlarged. Plenty of cheaper hotels have sprung up to meet the needs of visitors, and many of the established hotels have undergone a makeover. Several thousand additional rooms have opened in the past few years and, today, New York has more than 66,000 guest rooms.

Accommodation has been provided in districts where previously there was none, bringing a new vibrancy to the city. Scheduled to open this year are the 196-room Greenwich Village Hotel in the meat-packing quarter, the Garden View Hotel overlooking the Botanic Gardens in Queens, and the five-star Ritz-Carlton Central Park South, within walking distance of Fifth Avenue.

It is easy to spend money in New York – a night in a top-range hotel could set you back more than the cost of a package holiday to the city. For example, the Presidential Suite in the Plaza on Fifth Avenue costs \$15,000 a night, but you will get five bedrooms! By choosing a smaller, lesser-known hotel, it is possible to cut your budget down to manageable proportions. Try

the Wolcott, a Beaux-Arts building with a gilded lobby, where rates begin at \$100 a night for a double room.

The Herald Square Hotel, originally the home of *Life* magazine, has rates starting at around \$115, while the Pickwick Arms Hotel – named the best hotel on the East Side – offers double rooms from \$135. Most people have heard of The Chelsea Inn, which is a favourite with young travellers. In winter, expect to pay around \$90 for a room in this recently-renovated old brownstone in downtown New York.

Jonathan Tisch, president of Loews Hotels, views the booming hotel scene with amazement. "Many pundits were writing New York off a couple of years ago. With this resurgence, you'll find that it is difficult to obtain office space and it's a challenge to find employees," he says.

"New York is at the forefront of understanding what new companies mean to its future. Job creation has been enormous and industries have shifted. Tourism-related businesses represent the second-largest service sector in the city after finance.

"By reducing crime, the mayor sent a clear signal that this city is as safe for its residents as it is for travellers. By bringing together all these elements, combined with a strong economy, New York is on a high. The vibrancy of the city is certainly a dramatic turnaround from 10 years ago. New York has, in my estimation, really cemented its position as the number one capital in the world," says Mr Tisch.

Barry Sternlicht talks with enthusiasm about the recovery of New York. He is chairman and ceo of Starwood Hotels and Resorts Worldwide, the world's largest hotel group with 733 hotels in 80 countries, including the St Regis, Sheraton and Westin chains.

Starwood Hotels is in head-to-head competition with other big chains such as Hilton and Marriott. Mr Sternlicht believes his chain has a broader appeal. "Our aesthetic is Ralph Lauren before he went into black, silver and white leather," he says. "Our hotels are a little more classic, but not boring. They are conservative, family-oriented and targeted at the less affluent and slightly older client."



TISCH

'New York is on a high and its vibrancy is a dramatic turnaround'



Warm welcome: The Waldorf Astoria on Park Avenue



Photo: Michael S. Yamashita/Corbis

the latest rap and grunge rock. You might even be lucky enough to spot Woody Allen making an appearance at one of the city's many jazz venues.

These days, it is fashionable to visit all of the five boroughs, not just Manhattan and Staten Island, especially now that they have been revitalised. Explore Little Italy in Brooklyn's Bensonhurst neighbourhood or the Little Odessa Russian enclave in the Brighton Beach area.

There is even a guided tour of Brooklyn's unique Chabad-Lubavitch Hassidic community in Crown Heights. The borough's famous Botanic Gardens attract many visitors, while others head for the Museum of Art or the children's museum built in the late 19th century.

The Bronx and Queens are also interesting places to visit and numerous guided tours are available. Both boroughs have an astonishingly busy schedule of cultural events.

Visitors from the UK are likely to feel quite at home in New York. Remember that it was the British who took control of the city from the Dutch in 1664 and named it New York after the Duke of York, who was later James II of England.

There is, first of all, a common language, although Ms Lategano-Nicholas points out that you'll find just about any language spoken in the city, as well as almost any cuisine. ■

Photo: Michael Georger/Impact Photos

On the right track

PROFILE: ROBERT KILEY

The American recruited to revive London's Tube has had an illustrious career improving New York City

Robert Kiley has long experience of bringing organisations back from the brink of disaster. He first came to fame as the man who rescued the New York subway from rack and ruin in the 1980s.

In the years since then, as president of the New York City Partnership and Chamber of Commerce, he promoted business-led efforts to tackle the economic and social problems which once threatened to undermine the city's position as one of the world's leading business centres. It was his track record in New York that prompted Ken Livingstone to recruit him as the man to sort out London Underground.

The NYC Partnership, which Mr Kiley left to take up his new post as London's transport commissioner, had big ambitions. Its objective was "to catalyse, support and supplement initiatives that will create an urban environment in which an educated and skilled workforce can live in affordable housing, located within reach of a fast, highly-efficient public transport system".

If that sounds like a tall order, it must have seemed impossible when the partnership was founded in 1979, with New York facing an uncertain future following one of the worst decades in its history.

Many of the old manufacturing sectors had moved out, and the combination of a declining tax base and ever-expanding welfare bill had brought the city close to bankruptcy in 1975. Emergency measures to tighten budget spending and borrowing stopped the rot, but left the problem of turning things around.

On the eve of the technology-based new economy, the city was still hanging over the abyss. "The situation had been stitched together," says Mr Kiley. "Humpty Dumpty was back on the wall, but with a lot of cracks still showing."

One of the most serious cracks was the subway system. Notoriously inefficient, graffiti-covered, dirty and crime-ridden, it appeared to symbolise the run-down condition of the public services and the social problems that were prompting investors to take their business elsewhere.

Prominent bankers and business leaders realised the full extent of the problem,



Just the ticket: London's new commissioner for transport arrives for work

and it was this that led to the foundation of the NYC Partnership. "They had the feeling that the business community should be more involved with helping the city to head off some of these social problems, so that it wasn't just the city authorities that ended up being saddled with them," says Mr Kiley.

The proposal that the private sector and larger civil community should band together to find solutions was a "novel idea at the time". He says it was in the business community's own interest to do something about the problems created by poor education, unemployment and immigration.

Mr Kiley came on the scene when he was appointed head of the Metropolitan Transportation Authority in 1983. In the following years he put his stamp on the subway, restoring it to order and safety with a mixture of heavy spending funded by bond issues and vigorous policing. His approach to subway crime was used as the precedent for the 'zero-tolerance' policy adopted by Mayor Rudy Giuliani.

During his years at the Partnership, Mr Kiley and his colleagues focused on a host of problems. Not least of these was the New York education system, which was failing to meet the needs of the new economy.

"By the time we got to the 1990s there was an awareness that technology

It was novel for the private sector and civil community to band together

was the future of the New York City economy, but the education system had lagged behind," says Mr Kiley.

The Partnership brought in a greater degree of transparency and accountability, and introduced a privately-funded policy of rewards and sanctions at schools. He



Smooth running: the New York subway

says the process is by no means complete and there is "still much to be done".

In addition, the Partnership is involved in housing projects. It builds and restores homes through a subsidiary corporation, the New York City Housing Partnership. More recently it has become involved in renovating rented accommodation in cooperation with local firms under the Neighborhood Entrepreneurs programme.

"Close to a billion dollars of revenue a year is generated from home-building and renovation, and for many years it has been the single most-important catalytic factor in these districts," says Mr Kiley. "We've been active in about 55 neighbourhoods in New York City and this has made a substantial impact."

The policy of forging closer links between the public and private sectors has also been applied to the problem of unemployment. A scheme called Nexus aims to get people off welfare and back to work. "You do your best to get these people back into the workforce rather than to assume the appropriate step is to pay them a cheque to help them in the short term," says Mr Kiley. "The short term turned out to be the long term for too many people."

Nexus was made possible by a grant from the US Department of Labor, and the authorities in New York gave the project access to neighbourhood employment programmes. The Partnership offers training to help people look for a job, and seeks to educate employers as well. "We work with the companies because they had stereotypes about people on welfare, which turned out to be wrong."

Mr Kiley cautions that it is too early to say if the scheme is successful. He hopes, however, that Nexus may provide a model for private-public cooperation in similar programmes across the country.

He sees a number of similarities between London and New York. Both cities are truly international capital markets, where technology has a major role. Their populations are roughly the same size at about 7.5 million within the city boundaries, and 21-22 million if the surrounding conurbation is included.

Mr Kiley is too diplomatic to point out one big difference between the two: they both used to have dismal underground transport systems – now only one does. ■



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Plans to move the New York Stock Exchange to bigger premises will improve capacity, allowing greater volumes of dealing



Photo: NYC & Company

The world's biggest stock market is running out of space. After 98 years on Broad Street, Manhattan, the first step has been taken to develop a new \$780 million home for the New York Stock Exchange (NYSE).

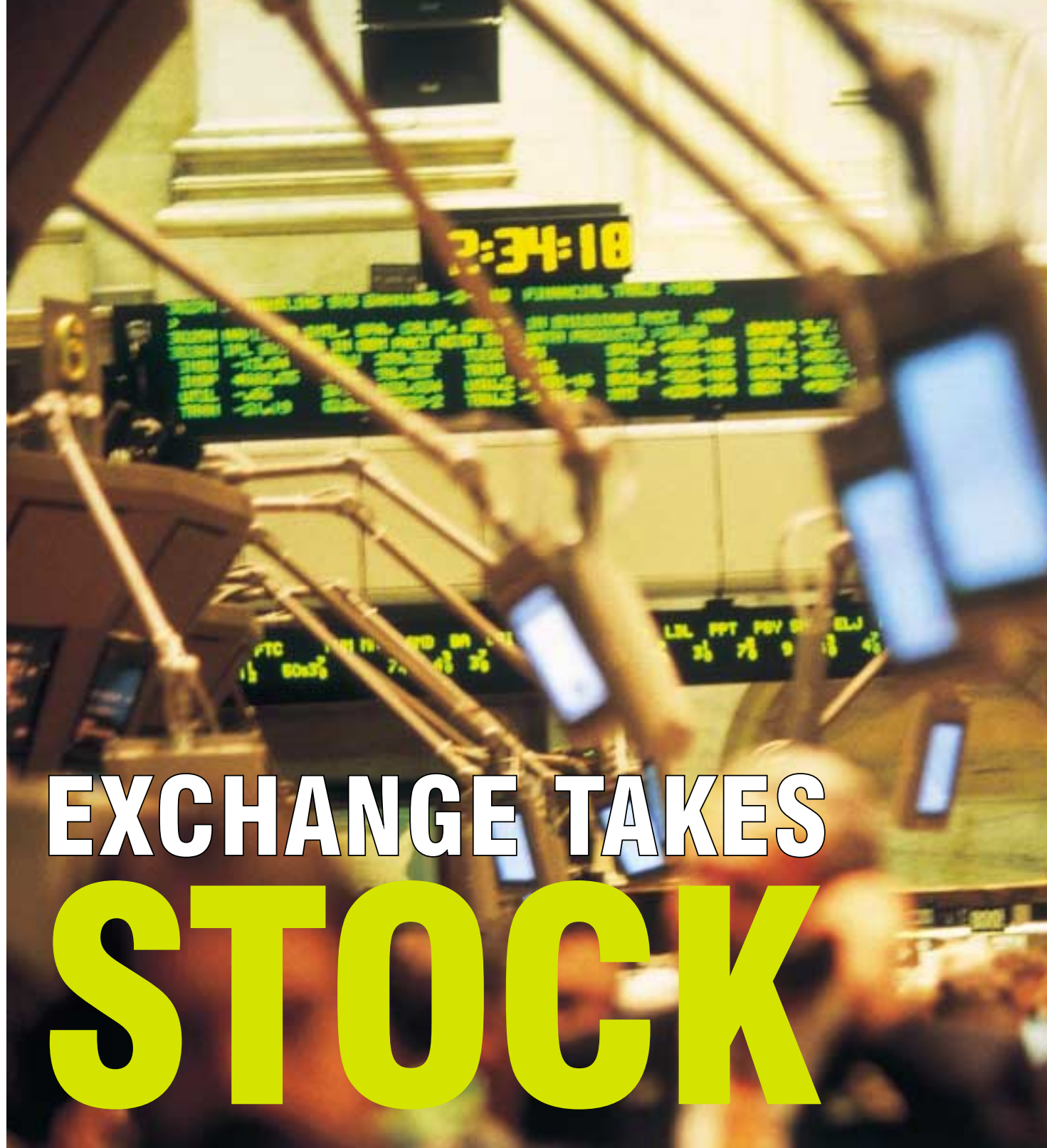
A letter of intent has been signed between the NYSE and the City of New York to build new premises, above which would rise a 50-storey office tower. The exchange, which needs more floor space to handle the increasing volume of trading and listings, had considered moving downtown or across the Hudson River to New Jersey.

The site for the new exchange, at Broad Street and Wall Street, has yet to be acquired. New York City and New York State officials have been eager to move forward with the development to ensure the NYSE stays close to its historic roots. The authorities are expected to spend a combined \$900 million on the project.

At about the time of the letter of intent being signed, the NYSE launched a media campaign to woo retail investors and promote its image. The campaign, the costliest in the exchange's history, is designed to take the focus off the competing Nasdaq and electronic exchanges.

The NYSE is determined to counter the idea that it is 'dowdy', whereas the Nasdaq is 'cool'. In the past few months the exchange has been installing a new trading aid, which will give investors a sophisticated computer-generated 3D view of the trading floor. With the click of a mouse, users can home in on trading posts for listed stocks. Volume, price and a comparison of how a particular stock is performing against its competitors are instantly available.

While Nasdaq stocks have tumbled by 50 per cent in value from a peak last March, the broader NYSE index is down only three per cent from its zenith last September. On the Big Board, as it is known, 2,900 stocks trade a billion shares a day, up 540 per cent from a decade ago. The NYSE's market value is \$12 trillion, more than double that of the estimated 4,900 firms listed on Nasdaq.



EXCHANGE TAKES STOCK

The cost of trading on the hi-tech listing for institutional investors is higher than on the NYSE, according to a US consulting firm. The Plexus Group analysed data for the second quarter of last year and found Nasdaq's trading costs were about 69 per cent higher. The Plexus report came hard on the heels of another study by the Securities and Exchange Commission (SEC), which showed the NYSE's trading costs to be more favourable.

Nasdaq, which unlike the NYSE is a decentralised screen-based market, may be paying the price of its earlier success in listing high-growth, but risky, young companies. One of the highest-profile defections from Nasdaq to the NYSE recently was that of E*Trade, an online broker and services company.

Outgoing SEC chairman Arthur Levitt says new regulations will make the markets fairer for all investors. These include tougher policies on auditor independence and a controversial rule on disclosure, making vital corporation

information more readily available to individual investors.

One of the most zealous chairmen in the SEC's history, Mr Levitt has been a strong advocate of protection for the burgeoning number of small companies,



UGEUX

'A third of the total NYSE market cap is international'

many of whom were encouraged to invest by the promise of the internet as an invaluable resource.

Since its foundation by 24 brokers who met under a tree on what is now Wall Street in 1792, the NYSE has expanded to deal in shares from all over the world. The exchange's first home was a rented room on Wall Street, and it was not until 1865 that more permanent premises

were occupied. The current landmark building, designed in a classical revivalist style, opened in 1903, and the 11 figures on the pediment represent American industry and commerce. The NYSE was first registered as a national securities exchange with the SEC in 1934.

In many ways, the NYSE records the economic wellbeing of the nation and, in general, growth has been remorselessly upward. It was only as recently as October 27, 1997 that the Dow Jones Industrial Average index dropped by the largest-ever number of points (554), when trading was halted early. The following day witnessed the first-ever billion-share trade and the Dow Jones index soared by 337.17 points, its biggest single-day gain.

Georges Ugeux, NYSE group executive vice-president, international and research, believes the exchange is a truly global market. "The total market cap of the NYSE is \$18 trillion, but no-one seems to realise that a third of this total is

Traditional trading makes a comeback

□ 'Money makes the world go round' is an old adage that continues to prevail in the American business psyche – even if the economic miracle enjoyed by the US economy in the 1990s is over.

JP Morgan Chase and Co, the largest lender in the private-equity arena, was last month reported by *The Wall Street Journal* as planning a record-breaking \$13 billion private-equity fund, of which \$5 billion would be contributed by outside investors.

The New York-based bank, one of the biggest in the US, was formed in December by the \$35 billion merger of two of Wall Street's oldest companies, JP Morgan and Chase Manhattan Corp.

Senior economists at the new bank believe that while the US is embarked on an extended period of economic uncertainty, parallels with Japan's 'lost decade' do not apply. They see the downturn as a "long landing" cushioned by firmly-based business expansion over the past decade.

Robert Dow, managing partner of Lord, Abnett & Co, says fund managers must now be prepared for "multiple possibilities" of growth potential. "In the last few years, investors poured their money into large growth, technology-oriented companies. Since March 2000, investors seem to have cooled on those investments, and 'old economy' companies and fixed-income investments are becoming interesting."

One of the world's top mutual fund managers, New Jersey-based Lord, Abnett & Co has seen significant growth in recent years. Small and mid-cap mutual funds were big winners among all US-diversified equity stock last year, and Lord, Abnett's small-cap value fund was one of the leaders, with a 33.5 per cent return. The company's mid-cap value fund was up 53.5 per cent.

Last year, Lord, Abnett & Co opened a London office to handle its growing number of European clients. Partner Daniel Carper says: "The UK was our choice to establish roots on the other side of the Atlantic because we share a common language, and it has a great business environment."

Patricof & Co, a venture capital fund founded by Alan Patricof in 1969, has had a hand in the start-up of such companies as Apple Computers over the years. Through its Apax Partners network of affiliates, the business makes investments around the world.

Alan Patricof, the 66-year-old chairman, says: "This whole industry has had a rude awakening. You had all these people who left their jobs

or left school to start internet companies and thought they were entrepreneurs. But, once you have started a business, what do you do afterwards? Where is the money going to come from to keep it



Dow

'Old economy firms are becoming more interesting'



LABRANCHE

'The specialist market is in the final phase of consolidation'

going? They are all sitting there with real problems."

Meanwhile, the recent success of LaBranche & Co, one of the oldest and largest specialist firms on the NYSE, points to the continued comeback of traditional Wall Street trading managers, so long under

siege from the upstart electronic communications networks, or ECNs.

ECNs account for about 30 per cent of all Nasdaq trades and were once regarded as the future of stock trading. But enthusiasm for the screen-based networks has waned as they have had difficulty breaking into the NYSE's market.

LaBranche, whose stable of high quality stocks are confined solely to NYSE listings, posted fourth-quarter profits, including recent acquisitions, of \$22.3 million, up from \$15.6 million a year earlier. Revenues jumped from \$55.9 million to \$97.3 million over the same period. LaBranche traded more than 13 billion shares worth \$471 billion in the fourth quarter.

The company, with a 28 per cent specialist market share, acts for 386 stocks, augmented to 520 since the recent acquisition of rival Robb Peck McCooney.

"LaBranche and the specialist business is in the final phase of consolidation in our industry. It is important that we remain the leader in that trend," says chief executive Michael LaBranche.

international. We have a \$6.2 trillion market cap of non-US firms.

"The market cap of our European companies is \$3.9 trillion, which is bigger than even the biggest exchange in Europe – London. Taken individually, we are bigger than the European players. Taken collectively, they have a market capital of \$8 trillion."

The NYSE trades around 100 million shares a day in non-US firms alone, a key figure that reveals the staggering global growth of the exchange business.

Mr Ugeux believes the globalisation of trade and technology will define world economics over the next decade. "We are the last market in the world that can afford what it takes to make sure every type of customer participates in the same single auction," he adds.

To ensure the NYSE retains its lead among the world's markets, Mr Ugeux says it will expand capacity to handle 10 billion share dealings a year: "We are ready for a real upsurge in trading." ■

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INTERNATIONAL
&
FLAVORS FRAGRANCES

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TOMORROW'S CURES

Where space is the final frontier

Manhattan boasts some of the most valuable real estate in the world – and companies are jostling for prime positions

Property experts in the US believe that even if the economy is in a downturn the real estate business will remain stable – particularly in traditionally high-demand markets such as New York.

The market has been moving into decline for much of the past year but has done so from a high peak in the late 1990s. Some pundits predict that real estate will benefit from the recent reverses suffered by the dotcoms. They reason that investors have to find a new home for their money and that property is a safe bet.

The market for commercial properties may have peaked nationally, but a recent report by PricewaterhouseCoopers says that New York's real estate market has never been stronger. The city boasts some of the most sought-after property in the world. A quarterly survey of commercial real estate markets by international credit analyst Moody's ranks New York the strongest, followed by Los Angeles, Boston and San Francisco.

In the densely populated office conglomeration that is Manhattan, where site scarcity limits development, some districts have seen a phenomenal turnaround. Within the limited space available there are commercial giants, such as The Chase Manhattan Bank, Goldman Sachs and Merrill Lynch, wrestling for every square foot available. "There isn't any place like this where we have these monster tenants," says Peter Ricker, president of DE Beitler LLC. "People want to be here, and it is a good place to be."

Newly-trendy neighbourhoods such as the Flatiron District, named after a landmark office building, are seeing almost unprecedented demand. Just as London's Docklands, one of the biggest capital city redevelopment sites in Europe, is revitalising acres of brownfield sites, so old sites in New York are being brought back into mainstream use.

Huge premiums are being paid for commercial and residential buildings in the city. The next few months are expected to see funds flowing into both classes of property, even if interest rates remain

untouched and the economy continues to show signs of slowing down.

Bruce Mosler is the president of US operations at Cushman & Wakefield, reputedly the largest fully-integrated real estate services company. He believes the current level of the rental market in New York is "very sustainable" for the next 10 years, and says the reasons lie in the events of the last half-decade.

In contrast with the building booms of the late 1980s and early 1990s, speculative building in Manhattan has been out of favour for the last five years. Investors think the risks attached to building a large apartment block and then hoping for tenants to turn up are too great. Instead, they begin construction only after a project has secure leasing agreements with tenants for most, if not all, of the property.



MOSLER

'The current level of the rental market in New York is very sustainable'



KUHN

'The young techno graduate still wants to live in Manhattan'



SIEGEL

'The Tokyo operation opens the door to one of the largest markets'

This cautious approach has reduced the overall volume of vacant property on the market and pushed up prices, argues Mr Mosler. Rents in prime mid-town Manhattan jumped by as much as a third compared with five years ago, and almost doubled in other areas of the city.



Photo: Newmark & Co.

Principals of Newmark, owners of 51 per cent of the Flatiron Building, recently signed a blockbuster lease with Estee Lauder for the ground floor rental space

He believes rents are set to go up again over the next two or three years "because there are no primary alternatives for these tenants". Finding a one-bedroom flat for \$2,500 a month is like seeking the Holy Grail. Becoming a little more ambitious about your lifestyle, you will find that five-figure sums can quickly start pouring out of your bank account. But there is always someone willing to pay.

"The young techno-graduate is still not coming to New York to live in Brooklyn – he wants to live in Manhattan," points out James Kuhn, president of Newmark & Company Real Estate.

Meeting the rising demand for homes in Manhattan has involved developing old buildings for new purposes, with ageing warehouses and lofts in between Eighth Avenue and the Hudson River being turned into apartments.

But, Mr Kuhn warns that the volume of old industrial property available for conversion is not enough to cope with demand. "There isn't an over-abundance of land sites and thus rents continue to



escalate," he says. In the meantime, real estate brokers say that while the cost of an apartment in the less glitzy, outlying districts of the city have stabilised, rents have not yet started to fall.

While Mr Kuhn thinks that doubts about the US economy, a downturn in the technology and telecommunications sectors, and higher oil prices, among other factors, may have some impact on New York rents, he remains generally upbeat. "We see no real estate problems on the horizon," he says.

The chairman of Insignia/ESG Inc, Stephen Siegel, a big name in commercial real estate, agrees: "It is still a landlords' market. There's going to be less equilibrium in the foreseeable future and rents will continue to rise substantially."

Commenting on development of the market close to New York, Mr Siegel says: "I think Jersey City will continue to expand. Five million square feet will open up for new tenants and we'll have to see if the trains and roads can handle it. People are beginning to look very

'The guy with the gold makes the rules'

PROFILE: SAM LEFRAK

□ Every great city has its great characters and New York produces more than most. In the financial metropolis of America, Sam LeFrak lives up to his golden rule.

"The golden rule is: the guy with the gold makes the rules," says the doughty 83-year-old chairman of one of New York's largest real estate developers.

His most visible achievement is Newport City, still under construction across the Hudson River in Jersey City, New Jersey, facing the skyscrapers of Manhattan. But his influence reaches far beyond his building sites.

For his cultural and philanthropical as well as his economic contribution to New York, Mr LeFrak has been honoured by many institutions and governments around the world.

He has had the opportunity to bend the ear of presidents, mix with the movers and shakers on both sides of the Atlantic, and amass an impressive and valuable art collection. He could have retired comfortably years ago, but he is a workaholic whose family motto is Work Conquers All. "That's the code – that's what our family is," he says.

The family includes his wife Ethel, with whom he celebrates their diamond wedding in May, son and company president Richard, and grandsons Harrison and James, both managing directors.

It was Mr LeFrak's father, Harry, who started the family firm, which became The LeFrak Organization, in 1905. He built tenements for the thousands of immigrants who were flooding into the city in the early 20th century.

The young Sam began learning the family business at his father's side at the tender age of eight. After World War II the business took off, Sam took over the helm, and the company began building mass low-cost housing.

In the 1950s, he built more than 2,000 flats on untouched coastal land in Brooklyn. A decade later, he began work on LeFrak City: a 5,000 apartment development on 40 acres of Queens.

Other big schemes include 2,200 apartments in Battery Park, and a variety of commercial and retail properties throughout the city. The LeFrak Organization is one of New York's largest private landlords, with around 61,000 apartments in NYC and New Jersey, and a further 30,000 under management. Its subsidiaries are involved in entertainment and oil and gas exploration.



Mr LeFrak's son, Richard, became increasingly involved in the business in the 1980s as the company began its most ambitious project – the 4,000-acre Newport City scheme, which has some 10,000 apartments, 36-storey tower blocks, plus retail and commercial premises. Development has continued ever since.

Newport is a planned community, with homes, retail, office, leisure and entertainment facilities. Since construction began on the \$10 billion project in 1986, over 11 million sq ft of property has been built.

The latest tower block, comprising 409 apartments, opened last year. Four completed office blocks will soon be joined by two more, totalling more than 1.2 million sq ft.

Newport River School is the first on the Jersey City waterfront, while the Newport Café offers diners panoramic views of New York Harbour and Manhattan. Last year, a 189-room hotel was opened. When complete, the Newport community will provide housing for around 30,000 residents who will be able to enjoy a six-mile esplanade on the Hudson River.

On first sight, Mr LeFrak saw the Newport site as a "God-given" vision to put into practice on a grand scale both his business acumen – a freehold site with river frontage in one of the greatest cities in the world was not to be overlooked – and the family tradition of providing good housing at an affordable price or rent for people on low incomes.

"These buildings shine as they reflect the sun rising in the east. And the people living there can see the facade of Manhattan. The river is much cleaner too. We have helped to clean it up and there is now sailing and kayaking, and we also have a pier for fishing, a marina and restaurants.

"There is great joy in being able to fulfil something like this. When I first saw this land it was desolate and had deteriorated. It was just a mess. Here was a site on the harbour of New York City, on the west bank of the Hudson, facing that marvellous skyline – the sun rising in the east reflecting on the buildings, the sun setting and that whole silhouette washing against them. And I said to myself: how could they let this land lie idle?"



The LeFrak Organization has been developing communities like Newport since 1905



Photo: Cushman & Wakefield

Flagship store: Cushman & Wakefield advised Hennes & Mauritz on its recent move to Fifth Avenue in Manhattan

seriously at Long Island again, despite the transportation issues."

The New York-based group has pursued a policy of active expansion in recent years, moving out of its US base and into Europe, where it has become a prominent player in the London property market. "We need to become a force in the other major European cities, as well as the first tier cities in the US. Our primary office will be in Paris, and we are in Frankfurt and Rome. We'll soon be in all the major countries in Asia," says Mr Siegel.

He has a sign on his desk that reads: "You cannot shrink to greatness." Insignia/ESG's latest overseas foray has been to open an office in Tokyo.

"Tokyo is a milestone for us as it opens the door to one of the largest real estate markets in the world, and extends our capacity to serve international clients." ■

Ad agencies campaign for supremacy on world stage

□ Some of the biggest advertising and marketing companies in the world are based in New York, their power and influence filtering through to the homes of millions of people worldwide in eye-catching campaigns.

Some of Britain's largest media firms are subsidiaries of these huge enterprises, which are essentially holding companies. But competition among these giants is escalating, as the products of manufacturers and service providers become increasingly global. An advertising contract with a major international brand name can be worth billions of dollars.

To maintain their clout in such a combative marketplace, the big groups are reinforcing their strength by simply creating bigger and tougher units. The biggest of these giants are WPP Group and Omnicom Group.

John Wren, president of advertising, marketing and public relations group Omnicom, says: "Within Omnicom there are about 28 major groups and we have competing companies within each sector. In the general advertising area we have two media companies,



WREN

'We give companies autonomy in how they interact with clients'

.....
 three worldwide advertising brands and four independent national advertising agencies here in the US. They compete not only with others in the sector, but with each other too.

"That's why we've been able to grow our businesses faster than the rest of the marketplace. If one of our firms loses a client it will often be to a sister company in the group, so there will be no impact on Omnicom."

Omnicom, whose clients include Pepsi, Anheuser-Busch, Gillette and Campbell Soup, earned revenues of more than \$5 billion in 1999. Last year, the group won more international new business than any other holding company. The winning of a \$1 billion Chrysler Group advertising contract by subsidiary BBDO Worldwide has put Omnicom ahead of its rivals.

Omnicom, which includes DDB Worldwide and media specialist OMD Worldwide, has also picked up accounts with Nissan and Energizer, the battery company.

"Clients don't hire Omnicom to fulfil their marketing goals, they hire our individual companies," says Mr Wren. "We give our companies a lot of autonomy in how they interact

with their clients, and how they make decisions and do business on a regular, day-to-day basis. No single subsidiary contributes so much revenue or profit that it influences what the whole group does."

Just over a third of Omnicom's business is in Europe. "It is an area that has grown very fast for us," says Mr Wren. "The euro is a reality now and, as it becomes more accepted over the next five to 10 years, it will provide a platform for easier growth.

"No-one who has been in the business for a long time expected it to work overnight or automatically, but it has made doing deals easier in a lot of ways. That will improve in time and our European growth will be on a par with our business in the US.

"We are already one of the leading operators in each European country. We have yet to see the real benefit of the change in tax policy – beginning with Germany. This will encourage business investment and growth."

The drop in value, and interest, in Nasdaq-listed firms, has sent a ripple of uncertainty through the advertising world, compounded by gloomy predictions about the economy. But the big holding companies are virtually impregnable.

WPP Group plans to launch a global agency by consolidating smaller in-house businesses. A new agency to handle smaller firms' brands, will be formed out of Ogilvy & Mather's agency, Cole & Weber; Batey Advertising in Singapore; and Conquest, one of WPP's smaller agencies. It joins WPP's three other ad-agency networks: Young & Rubicam (Y&R), Ogilvy & Mather, and J Walter Thompson.

Jaguar has just appointed Y&R in London and New York to handle the global launch of its X-Type model. The estimated media spend in the UK alone is around £4 million.

New York-based Interpublic Group, rated the world's No.3 advertising group behind WPP and Omnicom, pulled off a major coup towards the end of last year when it was hired by Coca-Cola, the world's biggest beverage company, to help develop, refine and focus the "brand essence" of its flagship soft drink.

"It's a big win for the agency as Coke's global media budget is more than \$1 billion, plus another \$1 billion from its bottling partners," commented one analyst.

Interpublic, whose accounts include Microsoft, General Motors and Unilever. Interpublic, acquired independent ad agency Deutsch for between \$200-250 million last November.

Two years after deregulation, New York's power market is opening to competition and attracting new players

Hot summers and icy winters have sharpened up the urgency with which New York's electricity companies are dealing with the growing demand for power, but a sharp rise in the price of natural gas has increased pressure on suppliers and consumers alike.

The market is in the process of moving to full competition, following formal deregulation in 1999. Former state-owned monopolies have been broken up while the generation and distribution functions of power companies have been separated into single operating units.

It is still too early to say whether deregulation is actually working, particularly in New York where the transition to a free energy market has yet to be completed. "Unfortunately, we're not in a competitive marketplace as yet. We are still in transition," says Eugene McGrath, chairman of Consolidated Edison Company of New York, a large utilities firm in the northeast of the US.

The prospect of an open market has far-reaching implications for the Power Authority of the State of New York, a public power company set up by Franklin Delano Roosevelt in 1931, when he was state governor. The authority sells electricity under contract to government agencies and other big users such as the New York subway system.

Mr McGrath questions the approach taken by the authorities towards reforming the power market, not least the model used as a basis for setting electricity prices. He argues that there should be different models for different circumstances.

For example, there could be one price structure for times when there is plenty of spare generating capacity, and therefore scope for outright competition, and another one for when there is not. New



MCGRATH

'We don't have to put in new facilities – they're already there'

York State regulatory officials suggest that a formal ceiling could be set for electricity prices in a bid to stabilise the market. But the power companies warn that such a cap, or any other type of quick fix, could discourage potential investors in new power plants.

That New York needs more electricity is not in doubt. The power shortages during last year's hot summer underlined the gravity of the situation. New Yorkers, for whom air-conditioning is as important as central heating, have also been jolted by the blackouts and electricity price hikes suffered by Californians this winter.



Lighting the city that

New York City faces a critical deficiency of 2,000-3,000MW over the next five years, according to a report from the New York Building Congress. Consolidated Edison, which helped to write the report, forecasts that there will be enough energy to keep the lights on for its three million customers this summer if the weather is normal. But above-normal temperatures or a breakdown could cause problems.

"We think we need about 3,000MW of new capacity in the city over the next five years," says Mr McGrath. He also points to a qualitative change in the nature of energy markets in NYC. This, he says, stems directly from the rapid growth of hi-tech industries and their wide-ranging impact on working practices.

The widespread use of computers, particularly in service industries such as



CATELL

'The northeast of the US is an area with a large potential for growth'

banking, is consuming large amounts of electricity, not merely during the working day, but also throughout the night. In the 24-hour city, there are millions of people, at work or at home, adding to the high consumption of energy. Before the advent of hi-tech, office workers used to turn off the lights and copiers before going home. Electricity demand used to peak in the late afternoon and power load declined at night. But this is no longer the case and there is now a significant power demand in the small hours.

"The new economy – with its computers, investment banks, and this world market



ng up never sleeps

Photo: NYC & Company

power capacity and are seen as a stop-gap measure to tide the city over until larger power stations come onstream during the next two to three years.

The 10 power stations will cost around \$450 million, plus another \$55 million for equipment to control pollution emissions in environmentally-conscious New York. It is hoped that these plants will enable the city to avoid power cuts this summer and help to keep electricity prices at lower levels during peaks in demand.

New Yorkers have just had a harsh lesson in what can happen to prices when demand exceeds supply. Arctic weather conditions blew into the city earlier this winter, sending the cost of gas through the roof. At one stage, the price for wholesale natural gas hit an unprecedented \$10 per-one-million British thermal units (Btus), five times the level seen a year ago.

This price surge increased gas bills and left some consumers stranded as suppliers discovered that they simply did not have enough cash to buy sufficient gas to meet demand. Some gas companies had to pull the plug on residential consumers while others told their big industrial clients to switch to other fuels such as oil.

Several small suppliers saw their businesses near collapse. While gas prices have since declined, they are still very high in historical terms, and few in the industry are forecasting a quick return to the days of cheap gas. But, executives in the New York natural gas sector, such as Robert Catell, chairman of KeySpan

Energy Corporation, can see plenty of scope for expanding the business in future.

Founded in 1895 as the Brooklyn Union gas distribution company, KeySpan delivers gas to 2.5 million customers in several boroughs of NYC and Long Island. It has also expanded into New England after taking over several gas companies in Massachusetts and New Hampshire.

KeySpan sees itself as the fifth-largest gas distribution company in the US, and it is also active in the electricity sector.

Officials suggested capping prices to stabilise the market

With a combined generation capacity of 6,200MW at its power stations in New York and Long Island, the firm distributes electricity to more than one million customers under a contract with the Long Island Power Authority.

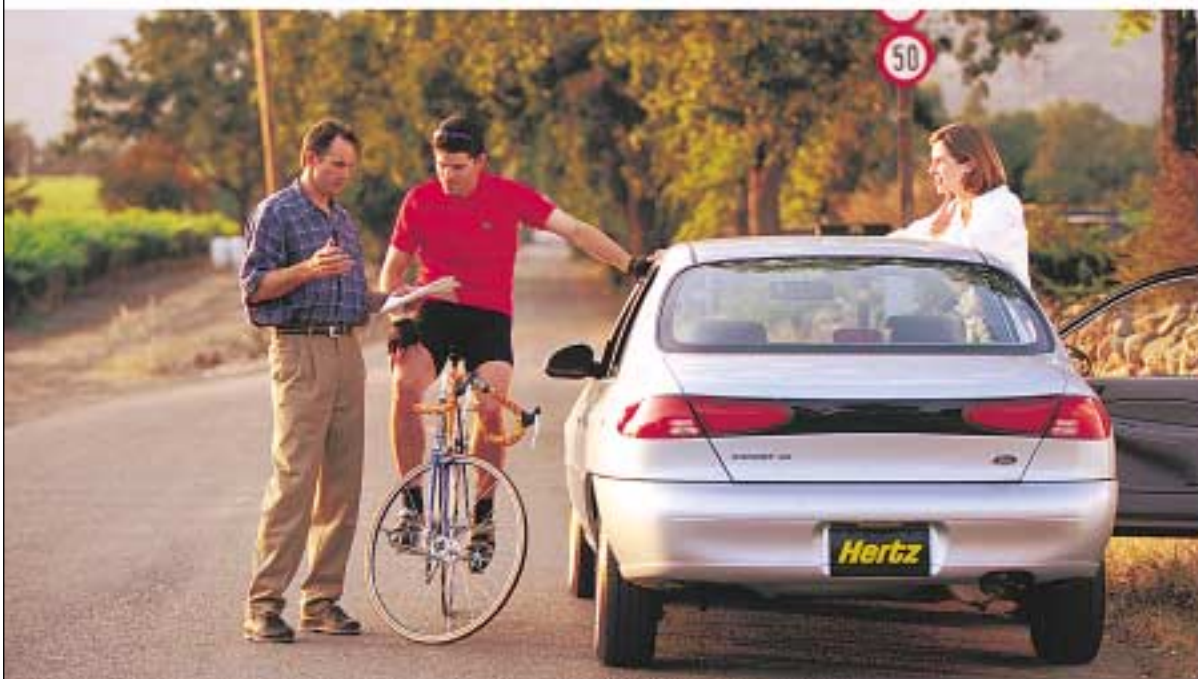
The company is seeking new business. "For a long time, our focus has been on northeast US," says Mr Catell. "We believe this is an area with a big potential for future growth and a large population base. It is fairly affluent and continues to have a high dependence on oil, much of which is imported."

He sees plenty of scope for raising sales in NYC and many potential clients in New England who are without natural gas. ■

that never closes – has given us load at night. This is very efficient for us because we don't have to put in new facilities – they are already in place – and that has helped us," says Mr McGrath.

In January, the environmental authorities approved plans for the construction of 10 small power stations at six sites in the Bronx, Queens and Brooklyn. The new stations will add 440MW to New York's

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Modernising the city's networks

A vast transport system, the largest in the US, keeps New York's commuters and visitors on the move, making it possible for the city to function as a world centre of finance, commerce, culture and entertainment.

The rail lines and buses, trains and subways run by the Metropolitan Transportation Authority (MTA) carry 2.1 billion people a year, representing about one in four users of mass transport in the entire nation.

The MTA network, which also includes bridges and tunnels, serves a population of more than 13 million in a 5,000-square-mile area fanning out from New York City, through Long Island, southeastern New York State and Connecticut. It is funded by the federal state, local government and the issuance of debt. Since 1982, the MTA has been carrying out the country's largest public works rebuilding project and has several billion-dollar projects in the pipeline.

Meanwhile, the Port Authority of New York and New Jersey, which controls ports, airports and the PATH commuter rail system, has embarked on a \$14 billion, 10-year development scheme. The largest part is a \$9 billion, five-year plan to upgrade transport facilities and cut congestion. Half of the money is scheduled for massive improvements at New York's two main airports, JFK and La Guardia, with further spending to go on neighbouring Newark and Teterboro.

Bridges, tunnels and the PATH system, which transports commuters in and out of Manhattan, are also in line for a makeover, while more than \$3.7 billion has been allocated to port commerce and marine development. This will include deepening shipping channels to allow large, modern vessels to access harbours.

Both the MTA and the Port Authority have suffered recent setbacks. Voters rejected a \$3.8 billion transportation bond last November, about half of which would have been used to help the state agency finance projects. Last month, the Port Authority was forced to reduce proposals to increase tolls on its bridges and tunnels, and raise fares on the commuter line. This will take \$66 million off the extra \$240 million that the authority had hoped to collect to offset

deficits. But, executive director Robert Boyle says the improvements will still go ahead without too much delay.

Plagued by setbacks, JFK and La Guardia airports have been heavily criticised by New York City Mayor Rudy Giuliani. Last month, the Mayor, who has been fighting a long-running battle with the Port Authority for control of the airports, described them as being among the worst in the US. Referring to passenger surveys showing low levels of satisfaction, he said: "We are leading the country for crime reduction, but we are bottom of the pack with regard to airports."

The Mayor is reported to be involved in negotiations to get the British Airport Authority to run the airports once the Port Authority's lease runs out in 2015.

Several billion-dollar projects are in the pipeline to update facilities to keep the city's 13 million people on the move

The *Wall Street Journal* has also named JFK airport among the nation's worst, pointing out that today, five years into a 15-year, \$10 billion renovation project, it is one of the world's largest construction sites. The development will provide new replacements for the nine terminals, which Port Authority director of aviation William DeCota says were built "in a different age of aviation".

American Airlines, the bigger of the two services flying out of New York, plans to consolidate its position by building its own \$1.4 billion terminal at JFK. "It will not open for four years, but it shows that we are not going to be second in New York," says Tom Gleason, regional vice-president of passenger sales. "New York is a very critical market for us, domestically and internationally."

American Airlines is a member of the One World Alliance, which connects it with some of the world's greatest airlines. "It provides us with a tremendous number of opportunities with high-profile companies such as British Airways," says Mr Gleason. "Over the last five years, this has been a very positive thing for us while we developed the alliance because we are always looking for similar companies with the same philosophy."

The airline has expanded its route network and flight frequency in line with increasing demand, particularly for the business traveller class. Latin America has grown substantially as a market, as have London and Paris. "It seems as if everything we add to London is successful. It just doesn't seem like supply ever reaches demand," continues Mr Gleason. "The biggest market we are looking at over the next 12 to 18 months would probably be New York-Tokyo."

Congestion, mainly at La Guardia and JFK, and the prognosis on the American economy are the two big issues for the short term, says Mr Gleason. The use of smaller planes, including the 34-seater jets on the La Guardia-Cleveland route, has played a significant part in matching demand cost-effectively. "You can make money because the smaller aircraft are more fuel-efficient and fewer people are needed to work the service, so we have aircraft that truly meet the market."

Car rental giant Hertz opened its first outlet at an airport in 1932. Today, four-fifths of the firm's car rental business originates at airports and, with a fleet of more than half-a-million vehicles and 6,500 outlets spread across 140 countries, it prides itself as being the biggest company of its kind in the world. "We are the only truly global car-rental company," says Hertz president and chief executive officer Craig Koch. "We own and operate in every major centre of car rental around the world."

The company's revenue divides almost equally between the business market and leisure travellers. In both cases,

continues on page 20



GLEASON

'The biggest potential market for next year is New York-Tokyo'



KOCH

'Constantly knowing what the customer really wants'



'We only win when everybody wins'

PROFILE: GORDON BETHUNE

□ Gordon Bethune, who turned Continental Airlines into one of the most surprising success stories of the 1990s, believes you get the best out of people by making them realise they're all in the same boat.

An airline pilot himself, and formerly an aircraft mechanic, Continental's chairman has a well-earned reputation for his no-nonsense approach to problems. But that doesn't mean he's a fan of aggressive, macho-style management. On the contrary, he prefers to have everyone on board, and that does much to explain his success since he arrived at the airline in 1994.

"We've got investors, customers and employees all in the same canoe. We only win when everybody wins, and nobody wins when anyone loses. That is the difference between losing money and being the best airline in the world," he says.

Time was when Continental was a byword in the business for big losses and bad labour relations. Today, the airline wins one performance prize after another. The latest plaudit came when *Fortune* magazine listed it among the 20 best employers in the US.

Commenting on the listing, Mr Bethune says: "It is a huge change for a company that had the most acrimonious labour relations of any airline in the middle of the 1980s."

While his company's staff and their bosses may still have their differences, the days when a group of Continental pilots were convicted in 1986 for making bombs, which they planned to use against their employers, are long gone.

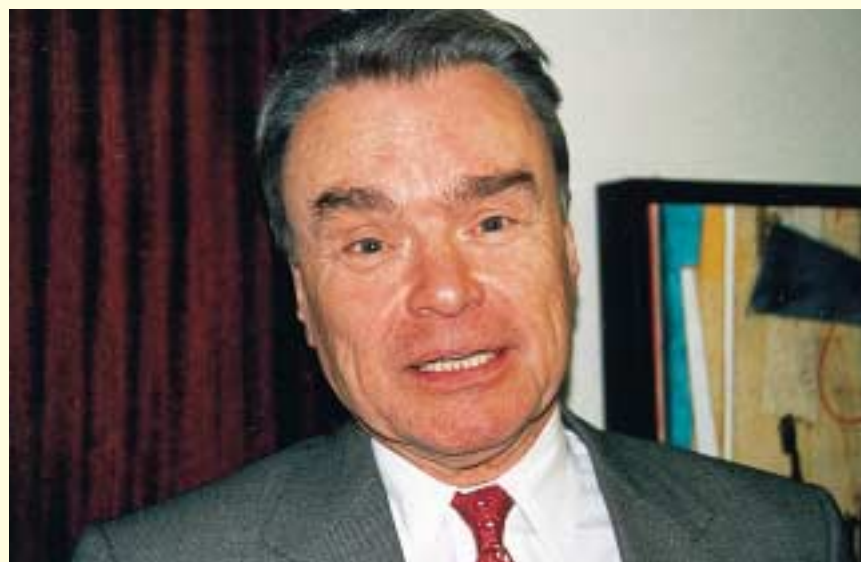
"That is how far we've come," he says. "If we could bring ourselves away from that, anyone with a problem can do the same. Don't say we can't fix this airline – if you've got a problem, you've got to know something about how to fix it, where to start." This is where the staff are the key issue. "You've got to find people to help you, so I found 50,000 men and women who wanted to do that."

Mr Bethune's approach to kick-starting a whole new era at Continental was a system of regular, monthly, bonus incentives and praise where it was due. During the last six years, the company has handed over a total of \$465 million, or 15 per cent of its pre-tax income, in profit-sharing payments to staff.

"We are successful because we share the rewards. Good management is about how you treat people, how you appreciate them and how you measure success. You tell them how much you appreciate what they're doing and then they will want to do it. What does it cost you to tell someone, 'Hey, I think what you're doing is great?'"

His attitude appears to have been reciprocated – grateful Continental staff clubbed together to buy their boss a 1996 Harley Low Rider motorbike.

Continental has steadily turned in a profit since its 10-year run of losses ended abruptly



in 1995, a year after Mr Bethune took over the airline. Passengers will be pleased to hear that he doesn't believe the secret of success lies in playing the numbers game by filling every seat. "It isn't about getting more butts on the airplane – it's about being reliable and dependable," he says.

Unlike its main rival, American Airlines, Continental operates out of Newark airport in neighbouring New Jersey State. The decision to fly from

Newark appears to be working to his advantage. Mr Bethune says Newark is more convenient for passengers.

It is a comparable distance from central Manhattan. In both cases, travelling to the city takes about 45 minutes, and Mr Bethune says customs and other airport procedures take less time at Newark. He adds that flying aircraft out of Gatwick and landing them at Newark can take an hour off the journey time from London to New York.

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Photo: Continental Airlines



continues from page 18

success has been achieved by “constantly knowing what customers really want – not what we think they want, but what they really want”, says Mr Koch.

Running an international operation requires a fine balance between offering comparable standards of service anywhere in the world and adapting to the local conditions of individual markets.

“From a sales and marketing standpoint, the way you deal with customers differs substantially from country to country, while the actual physical process of providing a car is essentially the same,” explains Mr Koch.

“We overlay the commonalities around the world on to the local cultural requirements, whether the customer is a leisure or business renter, and we are extremely sensitive to local cultures.”

The Ford motor corporation owns 81.5 per cent of Hertz – the auto giant’s largest single customer in the US – which accounts for just over 60 per cent of its fleet. A similar pattern is seen in the UK, with Ford cars, including Jaguars, providing half of Hertz’s fleet, but this varies in other countries. In France, for example, Ford cars account for only five to 10 per cent of the total fleet.

Sitting in his office at Park Ridge in New Jersey State, across the River Hudson from New York City, Mr Koch looks to the future with confidence and anticipates

Other markets like China beckon, but this will take time to develop

further expansion. While Hertz’s market valuation on the stock exchange stands at around \$3.6 billion, he argues that this does not reflect the company’s relative strength: “We are undervalued, like so many other old economy companies.”

The reality, he points out, is closer to a \$5 billion-a-year business, and his intention is to boost this figure to something like \$8-10 billion over the next five years. Expansion will come partly from moving into new kinds of business and partly from building on existing achievements.

Hertz already has a lucrative business in renting and leasing heavy equipment for industry and construction, along with a separate offshoot that manages insurance claims and a fledgling telecommunications subsidiary firm. But the core business is, and will remain, renting out cars, although the company is expanding its service away from airports, opening more than 600 new outlets across the US and 300 in Europe.

Beyond that, other big markets beckon, most notably that of China, although Mr Koch says this business will take time to develop – even for the car rental company which a recent survey in London established as one of the 50 best-known brand names in the world. ■

Facelift revitalises the beauty industry



Photo: Avon

Companies are refining their sales techniques and updating brand images to attract new customers at home and abroad

Cosmetics companies based in New York are calling for a corporate makeover. The beauty sector is having to adapt its brands more regularly than ever, to ensure it keeps up with customers’ demands.

Sales methods are changing. Firms can no longer rely simply on colours or fragrances to sell their range. Today’s customers seem to be attracted by the promise of scientific benefits, a belief that is being exploited by the current crop of adverts for beauty products. In addition, specific groups such as young women and overseas markets have to be targeted individually as their requirements vary.

Avon Products is the world’s leading direct-seller of beauty and related products, with \$5.29 billion in annual sales and operations in 137 countries. But the company continues to evolve to meet the demands of an ever-widening customer base. Two-thirds of its revenue comes from outside the US, so it is putting a lot of effort into targeting specific markets.

“There are preferences in Europe and the US for creams, whereas customers in Asia tend to prefer lotions, due to weather conditions and skin type,” explains Avon president Andrea Jung.

The company is also exploring new avenues to begin the move away from its traditional door-to-door, ‘Avon Lady’ image. Although 98 per cent of revenues still come from its three million sales representatives, the organisation hopes to attract more customers by selling

products in department stores for the first time in its 115-year history.

The company also plans to launch a website and run promotional television campaigns. “The internet will revolutionise direct selling as we know it, and recruit new Avon Ladies who are younger and tech-savvy,” says Ms Jung.

By diversifying its sales techniques, the firm hopes to reach other types of



JUNG

‘The internet will revolutionise direct selling as we know it’



GOLDSTEIN

‘You have to adapt for the local flavour – think global but act local’

customer. Avon will also be expanding its range into new areas. “Jewellery and health are the natural paths to take,” says Ms Jung. “The definition of beauty is changing around the world. It is not just about looking good – it’s about feeling healthy and not being stressed.”

International Flavors and Fragrances (IFF) is introducing measures to improve

its marketing methods radically. The firm creates scents for prestigious names, such as Estee Lauder, Arden and L’Oreal, and flavours for clients like Unilever, Procter & Gamble and Colgate. In the late 1990s, profits dipped and the company was hit by the economic crisis in Russia and Asia.

Richard Goldstein, who was appointed chairman of IFF last year, is working to turn the business around. As sales outside the US account for nearly 70 per cent of revenues from operations in 34 countries, the aim is to develop new specialised products for the overseas market.

“You have to adapt the flavour for the local population,” says Mr Goldstein. “You really have to think global and act local. We have opportunities in North America and Europe, and I expect good returns out of Latin America and Asia.”

Other measures include the closure of IFF’s New Jersey plant, the purchase of Laboratory Monique Remy in France, and the recent acquisition of rival fragrance and flavour-maker Bush Boake Allen in a \$970 million deal. This approach appears to be paying off, as sales hit \$1.44 billion in 1999, and analysts are predicting strong sales for IFF’s products in future.

“We’re reinventing ourselves and we have decided to reorganise the business. The word for us now is customer service,” says Mr Goldstein.

Like its rivals, Revlon is adapting its practices to meet changing consumer demands. Although a household name and dynamic leader in the beauty industry, with popular brands such as ColorStay lipstick, the company recently saw its profits drop.

Revlon announced net losses of \$164.7 million in the third quarter of 1999, but showed signs of recovery last year. The net loss for the same quarter of 2000 fell to \$23 million, more than half going towards vital restructuring costs.

“Our financial results demonstrate important progress in our efforts to control our costs and increase efficiencies throughout the organisation,” says Revlon president Jeffrey Nugent.

The cosmetics company has shut down three manufacturing operations, introduced innovative trade terms with US partners, and has plans to sell off some of its product lines, while introducing new ones.

A television campaign, based on a new product line called Skinlights, represents Revlon’s bid to develop a more modern image. Other projects include a new website, which will function as a ‘trend laboratory’ and showcase the company’s new products. ■

Making the transatlantic crossing

Last year's acquisition of AT&T Communications will boost Viatel's position as a leading operator outside the US

New York-based telecoms services provider Viatel has been busy streamlining operations, boosting its European brand and shifting its focus away from consumers to high-growth business markets.

The operator scooped the World Communications Award last November for its 'No Borders, No Barriers, No Limits' TV campaign, beating British Telecom's 'Surf the Cellnet'. Viatel-branded London taxis followed, carrying the slogan 'data, voice, internet and bandwidth'.

The company's acquisition of AT&T Communications UK last year will play a significant role in service provision. "The UK is our largest European market and 12-15 per cent of our turnover comes out of it. We hope it will continue to be the catalyst for growth for us in Europe," says Viatel chairman Michael Mahoney.

The shift away from consumers to high-growth business markets will, however, result in job losses of up to 30 per cent of Viatel's workforce. The telecoms company, which has more than 4,000 corporate clients in the UK, including 500 large blue-chip firms, is expected to announce how many British jobs will be lost by the end of March.

Mr Mahoney explains: "By streamlining its operations and concentrating on the pan-European communications needs of major corporations and carriers, Viatel will strengthen its financial profile and improve its earnings. This will allow us to continue developing a sustainable business and maximise value for shareholders."

He doesn't relish the idea of seeing jobs disappear, but he is confident that Europe will continue to be a growth area. Over the past year, Viatel's core business, offering managed bandwidth for voice and data to corporate clients, rose 129 per cent.

Revenues in the third quarter of 2000 rose by 151 per cent to \$200.5 million, against \$80 million for the same period in 1999. But Viatel also posted third-quarter losses of \$145.4 million. The firm, which employs 2,200 people, has debts of about \$1.3 billion and, although its network is virtually complete, further big capital spending programmes are possible.



MAHONEY

'Time to address the networking explosion just begun in Europe'

Yellow Submarine is the company's new transatlantic, fibre-optic network, stretching for 3,700 miles. The first of its kind, the system has more capacity than any other transoceanic cable ever built – 320 gigabits initially, with the potential to reach at least 1.28 terabits.

The line is part of Viatel's continuously upgradeable broadband network, linking more than 200 major cities in Western Europe and North America. Metropolitan networks are being built in London, Paris, Berlin, Amsterdam, Frankfurt, Dusseldorf and New York.

Of the Yellow Submarine project, Mr Mahoney says: "In just over two years, we have brought one of the most extensive,

Yellow Submarine links more than 200 major cities

technologically advanced, multi-gigabit networks in Europe from concept to reality. We are better positioned than any European telecoms company to meet the needs of major corporations. It is time to leverage this next-generation platform to address the networking explosion, which has only just begun in Europe."

He points out that it is vital to keep up with the changing needs of customers. "Viatel must move aggressively to realign its unmatched network and bandwidth assets. We see growth being sparked by the advanced services – the non voice-centric services – specifically in Europe.

"We have captured reasonable market share and we can increase it. The limit is how quickly European firms embrace the technology," he says. ■

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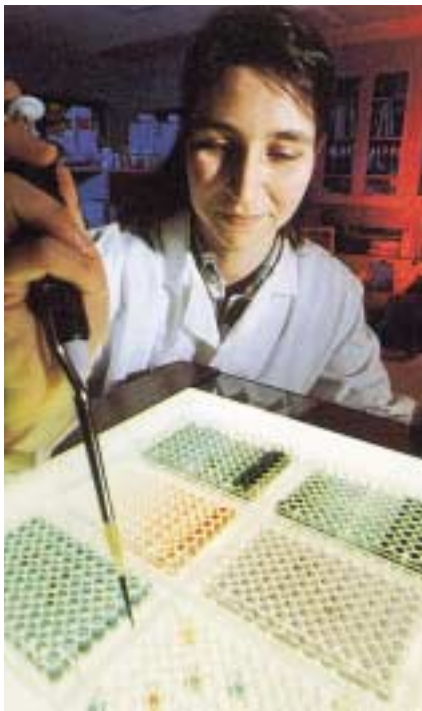


Photo: Pfizer

Cancer research: multi-cell testing in the labs

Regarded as the world's biggest producer of pharmaceuticals, Pfizer Inc is fully committed to running its global empire out of New York. At a time when other drug companies are opting to go elsewhere, Pfizer is staying put in the Big Apple, where the firm was founded in 1849.

"It is hard to imagine us being distant from the city, out in the woods alone," says executive vice-president Luke Clemente. "That is not part of our company culture."

The company owns a manufacturing plant in the Williamsburg district of Brooklyn, where chemist Charles Pfizer first set up business making citric acid a century and a half ago.

The plant, which has received heavy investment, churns out two billion pills a year, and Mr Clemente believes the money has been well spent. "The operation is of as high a quality as anywhere in the world, and there is an emotional commitment to it as well."

In June 2000, Pfizer consolidated its leading position in the world market by completing a merger with Warner-Lambert, another US pharmaceutical group. The deal brought together the two fastest-growing drugs companies in the country, and this growth is forecast to accelerate.

With a market capitalisation of around \$300 billion and annual revenues forecast at about \$30 billion for this year, Pfizer reckons it currently ranks among the world's five-largest corporations.

The company decided to concentrate on pharmaceuticals and sell off its other types of business, even those that were highly profitable. Divestment of these assets produced big earnings, which were ploughed back into the costly business of developing new drugs.

A budget of about \$5 billion has been allocated for research purposes this year, an increase of \$500 million on the total for last year. Recent years have seen Pfizer repeatedly boost research spending, at an annual rate as high as 15 per cent, and

Drugs giant stays true to its roots

A native to New York since 1849, Pfizer is one of the fastest-growing pharmaceutical firms. Employing 65,000 staff around the world, it forecasts profit growth of 25 per cent for this year



Photo: Pfizer

42nd Street HQ: the company's success is down to its ongoing commitment to research

there are currently 180 research projects in discovery and development. The firm's worldwide payroll of 65,000 employees includes 12,000 scientists, producing a continuous stream of effective new drugs.



CLEMENTE

'We are risk-takers and that's the nature of the company management'

While Pfizer's Viagra pill quickly became a household name when it hit the market, it was only one of several blockbuster drugs that have helped to take the firm to the top.

The company's other main products include: antidepressant Zoloft; Norvasc, which is used to treat hypertension and heart conditions such as angina; and Trovan, which is a versatile antibiotic able to combat 14 different types of infection. The recent Warner-Lambert merger gave Pfizer total control over Lipitor, a new cholesterol treatment.

A flock of other drugs should soon be appearing at your local chemist. Pfizer is expected to seek approval from the US Food and Drugs Administration this year for products that include a new form of insulin, which would be inhaled rather than injected. Still in the late stages of development are drugs to treat clogged arteries, AIDS, epilepsy and osteoarthritis.

Cancer research is a field that Pfizer entered relatively recently, but it has four drug prospects in late-stage development and another 12 at the exploratory stage. If all goes well, smokers will also be offered a new compound that cuts the nicotine craving by persuading receptors in the brain that they are getting a fix.

The search for yet more products is never-ending. More than 20 different compounds are set to reach the final

12,000 scientists produce a stream of new products

stages of development over the next two years, and the firm will start researching 37 possible treatments later this year.

But the quest for new drugs requires money. In the wake of the merger with Warner-Lambert, Pfizer forecasts profit growth of 25 per cent. Mr Clemente makes no bones about the need for pharmaceutical producers to make substantial profits, not only to satisfy shareholders, but also to finance future research.

He explains: "If we cut back on our sales and profits, we'll have less money to invest in research and we'll probably find fewer cures." On average, he adds, Pfizer spends about as much on research as it makes in profits.

Asked about the outlook for the next 10 years, Mr Clemente says: "There's no assurance that spending all the money and getting the best minds will continue to produce a sufficient number of successful drugs. We are risk-takers by nature, and that's really the nature of the management of this company," he says.

Pfizer seems at home in New York, which is reflected by its commitment to the community. The Pfizer Foundation, a philanthropic organisation, has been set up to increase public understanding of healthcare and related issues. ■

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