



## Business

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## Counterfeit handsets proliferate in China : Talk is cheap

Chinese firms are making and exporting ever more suspect phones

CHINESE consumers appear fixated with Apple's iconic iPhone. It draws throngs of eager buyers in Shanghai's Xujiahui computer market. Similarly, at the Canton Trade Fair in October, vendors hawking familiar-looking silver and black slabs were convulsed in crowds, in sharp contrast to the deserted booths of rival brands, where lonely salesmen slurped disconsolately at noodles. So how can it be that China Unicom has seen dismal initial sales under its exclusive arrangement to sell the iPhone in China?

The explanation lies in China's huge "grey" market for handsets, which includes some genuine phones imported without the manufacturer's blessing but is mainly comprised of knock-offs. The iPhones at Xujiahui fall into the former category; those at the trade fair into the latter. Illicit phones comprise a staggering 40% of Chinese firms' production, and 13% of the world's, according to iSuppli, a research firm. It reckons China will produce 145m of them this year, up by almost half since 2008. This has hit sales of legal phones. ...

## **The psychology of warranties: Protection racket**

If extended guarantees are overpriced, why are they so popular?

CUSTOMERS tend to agonise over the relative merits of different models of electronic goods such as digital cameras or plasma televisions. But when they get to the till, many spend freely on something they barely think about at all: an extended warranty, which is often more profitable to the retailer than the device it covers.

Shoppers typically pay 10-50% of the cost of a product to insure it beyond the term covered by the manufacturer's guarantee. The terms of these deals vary (and there is often a great deal of fine print), but they usually promise to repair or replace a faulty device for between one and four years. Yet products rarely break within the period covered, and repairs tend to cost no more than the warranty itself. That makes warranties amazingly profitable: they generate over \$16 billion annually for American retailers, according to Warranty Week, a trade journal. ...

## A spat among professional networks: Class war

Does local beat global in the professional-networking business?

IN THE three-way fight between the biggest online professional networks—America’s LinkedIn, France’s Viadeo and Germany’s Xing—this week the French contender scored a victory. Last year LinkedIn had struck a deal with Apec, France’s best-known professional-recruitment service, to offer search functions to its huge customer base of over 30,000 companies and 500,000 executives. But on November 17th Apec made a new deal with Viadeo, having noted that although LinkedIn could reach executives at France’s biggest international companies, it failed to connect enough people in the country’s thousands of smaller firms.

In professional networking, argues Dan Serfaty, Viadeo’s founder, having local depth is better than signing up a narrow slice of the highest-powered people around the world. A typical LinkedIn member would be an investment banker at Societe Generale, a French bank, he says, “too proud to invite his friends to join or to pay for it?”. In contrast, Mr Serfaty claims, Viadeo signs up branch managers for Societe Generale, who use the site often and are happy to spend €5 (\$7.50) a month on a subscription. Local entrepreneurs and provincial civil servants may be less impressive as members than Bill Gates, Microsoft’s co-founder, Mr Serfaty continues, but they are more engaged. (Mr Gates has been on LinkedIn since last year, and so far has made only five connections to other members.) At Xing, too, a hyper-local network which went public in 2006, the typical member is not a senior executive but a middle manager, says Stefan Gross-Selbeck, its boss. ...

## **LNG expands in Australia: Explosive growth**

Australia is becoming one of the world's biggest exporters of gas

WALLAROOS, bandicoots and other marsupials on Barrow Island off the north-west coast of Australia will watch curiously over coming months as workers start building a huge plant to liquefy natural gas there. The project, called Gorgon after the group of gasfields lying under the seabed nearby, had been on the drawing board for 30 years before a surge in demand for gas from booming Asian countries finally got things moving. Jon Chadwick, an executive vice-president at Royal Dutch Shell, which is involved in Gorgon and several other liquefied natural gas (LNG) schemes nearby, predicts that by 2020 Australia could become the world's second-biggest exporter of LNG (it is now fifth), surpassed only by Qatar.

Australia has long been considered a "lucky country" thanks to its wealth of natural resources. Prodigious exports of iron ore, coal and other commodities have helped it survive the global downturn without a recession. Ken Henry, Australia's most senior financial bureaucrat, talks of "a period of unprecedented prosperity" ahead. If so, gas will be one of its main drivers, dwarfing even earlier resource booms in its scale. ...

## **Corporate crime is on the rise: The rot spreads**

A survey reveals that desperate times have led to illegal measures

THE recession has taken its toll on morals as well as profits. PricewaterhouseCoopers (PwC), a consulting and accounting firm, has conducted a biennial survey of economic crime for the past ten years. The most recent, published on November 19th, is not only the most thorough, based on over 3,000 responses from firms in 54 countries. In many ways it is also the most worrying.

A third of those responding reported that they had suffered at least one economic crime in the past year. The incidence was particularly high in developing countries, notably Russia; in financial services and communications; in big companies and in state-owned enterprises. ...

## Schumpeter: Remembering Drucker

Four years after his death, Peter Drucker remains the king of the management gurus

IN THE normal run of things the management world is divided into dozens of mutually suspicious tribes—“theoreticians versus practitioners, publicity-hogging gurus versus retiring academics, supporters of “œscientific” management versus advocates of the “œhumanistic” sort. But this month has seen unusual comity: the leaders of all the management tribes came together to celebrate the centenary of the birth of Peter Drucker, a man who is often described as “œthe father of modern management” and “œthe world’s greatest management thinker”.

The celebrations took place all around the world, most notably in Vienna, where Drucker was born, in southern California, where he spent his golden years, and in China, where he is exercising growing influence. The speakers were not limited to luminaries of management: they also included Rick Warren, the spiritual guru of the moment in America, Frances Hesselbein, a former head of the American Girl Scouts, and David Gergen, an adviser to both Republican and Democratic presidents.

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## **Award: Gulliver**

Gulliver, our blog on business travel, won the award for innovation at this year's Business Travel Journalism Awards.

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## **The global crackdown on corporate bribery: Ungreasing the wheels**

Governments around the world are making life difficult for corrupt firms

IF EVER a clash was inevitable between one country's commercial law and another's business culture, it would be between America's Foreign Corrupt Practices Act (FCPA), which seeks to punish firms that bribe government officials, and China, where many businesses are owned by the government and bribery is endemic. A recent spate of prosecutions under the act of firms operating in China and other notoriously crooked places has stoked fear in the heart of many executives. Nor is the crackdown limited to America. On November 18th the British government became the latest to promise tough new anti-corruption legislation, during the annual Queen's Speech to Parliament.

In 2005 DPC Tianjin, the Chinese subsidiary of a Californian company that makes medical equipment, admitted paying bribes to doctors and laboratory personnel. American prosecutors said this fell under the scope of the FCPA because health care in China is government-run. Yet the Chinese government is involved in much of business life. Last year, for example, Lucent paid a multimillion-dollar fine for "training" trips it had arranged for executives from state-owned telecommunications firms that involved visits to Las Vegas and Orlando, rather than factories. ...

## **EDF: Nuclear contamination**

The giant French utility's ambition to lead a global revival in nuclear energy is running into difficulties as a controversial new boss takes over

NEXT week Henri Proglio will become the boss of EDF Group, the state-controlled French firm which is the world's biggest listed utility and operator of nuclear reactors. With its proud corporate culture, its devotion to long-term planning and its powerful unions (the Confederation Generale du Travail jointly runs the firm, in effect), EDF is sometimes described as a miniature version of France itself. Last year it began a vigorous campaign to build nuclear plants around the world. But to the dismay of advocates of a nuclear renaissance, the cost and complexity of embarking on several big projects at once is weighing on the firm, despite its size and government backing.

EDF has long exported its nuclear-energy expertise, but earned only advisory fees for its efforts. It helped build China's nuclear fleet, for example, for a few million euros. Now, as growth at home slows, it wants to make bigger profits by building and operating nuclear plants of its own abroad. After all, it is one of very few utilities that can afford to build several reactors by itself, without sharing the risk with partners or governments. And in an industry which atrophied after accidents at Three Mile Island in America and Chernobyl in what is now Ukraine, it has relatively extensive recent experience of building and operating modern nuclear plants. ...

## State-owned enterprises: Stakes and mistakes

India's government is privatising companies for the wrong reasons

WHICH flavour of condom do you prefer? Strawberry, chocolate or banana, perhaps? Prostitutes in India opted for paan, or betel nut wrapped in a leaf, which many Indians chew as a digestive. Their answer persuaded HLL Lifecare, a company based in the state of Kerala, to market a paan-flavoured condom. The sheath takes its place alongside the company's other offerings, including a textured condom and one that glows in the dark.

HLL Lifecare, which until this year was called Hindustan Latex, is one of 246 enterprises owned by India's central government. Spanning everything from nuclear energy to artificial limbs, these companies employed almost 1.6m people in 2008 and accounted for 8.3% of the country's GDP. On November 5th the government expressed a new willingness to reduce its stake in these enterprises. It wants the profitable ones to offer at least 10% of their shares to the public. ...

## The fallout from GM keeping Opel : The German charm offensive

GM's decision to keep Opel has left Germany fuming

AFTER General Motors' dramatic U-turn on November 3rd over the sale of its European subsidiary, Opel/Vauxhall, its chief executive, Fritz Henderson, came to Germany this week to begin repairing relations with Angela Merkel's government and with the country's angry unions. Both have little option other than to come to terms with GM's decision not to sell a majority stake in the unit to Magna International, an Austrian-Canadian car parts maker, and Russia's Sberbank. But they are still furious with the Americans. Jurgen Ruttgers, the prime minister of North-Rhine Westphalia, caught the popular mood by describing GM's change of heart as "the ugly face of turbo-capitalism."

The German government's frustration is understandable, but it has only itself to blame. With an election looming, it far too blatantly suggested that the €4.5 billion (\$6.8 billion) worth of restructuring loans it was willing to make available was exclusively for Magna/Sberbank because it alone was promising not to close factories in Germany. That meant some 10,000 redundancies would fall disproportionately heavily elsewhere in Europe. When other governments complained about such an obvious breach of competition rules, the European Commission stepped in. The Germans were forced to write to GM on October 17th assuring it that the aid was available to any investor with a viable plan for restoring Opel to health. ...

## Media: Bulking up

Comcast moves closer to creating a content-and-distribution behemoth

IT SEEMED for a while as though the media business had dispensed with swagger. As the markets push their companies around, moguls such as Rupert Murdoch of News Corporation have taken to complaining about the power of Google. A new book, "The Curse of the Mogul", tries to bury such figures once and for all. But executives at Comcast, a big American cable operator, seem not to have read it. Reports this week suggested that the company was close to a deal to acquire a majority stake in NBC Universal, a television and film outfit. The combination would rival Disney as the world's biggest media firm.

Ownership of NBC Universal is split between GE (which holds 80%) and Vivendi, a French conglomerate. Comcast would commit cash and merge its modest collection of cable channels, which include E! and the Golf Channel, with NBC Universal's much more impressive roster. It would end up with 51% of the resulting entity. GE would end up with 49% and would probably exit gradually over the next few years. The deal depends in part on Vivendi agreeing to sell its stake. ...

## Japan as number one: Land of the setting sun

Japan's economy was on course to surpass America's. What happened?

IT LEFT American executives quaking in their loafers and cheered a generation of Japanese salarymen. "The extent of Japanese superiority over the United States in industrial competitiveness is underpublicised," trumpeted Ezra Vogel of Harvard University 30 years ago in "Japan as Number One" (see article), which became one of the most-discussed business books of its time.

The world's second-largest economy had surpassed America in gross national product per person according to some measures, and looked on course to overtake it. "Vogel's book helps explain why Japan is the most dynamic of all modern industrial nations," gushed Foreign Affairs. America was mired in stagflation, with an unemployment rate nearing double digits. Japan seemed to be the better bet. ...

## Oracle and Sun Microsystems: Merger interruptus

Regulators may block a big technology tie-up, but their case is not convincing

FOR a brief period many hoped that trustbusters in Europe and America would start playing in tune. During the eight years of the Bush administration, the European Commission's competition police took a notably more activist approach than their American counterparts. With a new man in the White House, regulators in Washington let it be known that they intended to act with greater vigilance.

This apparent meeting of minds has not lasted long. On November 9th it emerged that regulators in Brussels object to the proposed \$7.4 billion purchase of Sun Microsystems, a troubled maker of computer hardware, by Oracle, a software giant. That puts them at odds with America's Department of Justice, which gave its approval to the tie-up in August. Observers now fear the outbreak of a transatlantic row over antitrust similar to the one that broke out in 2001, when Europe blocked a union between two conglomerates, General Electric (GE) and Honeywell. ...

## **Schumpeter: The cult of the faceless boss**

Too many chief executives are instantly forgettable. It's the flamboyant, visionary bosses who change the world

THE European Union is not the only institution that prefers faceless technocrats to people with star power. The corporate world is increasingly rejecting imperial chief executives in favour of anonymous managers – bland and boring men and women who can hardly get themselves noticed at cocktail parties, let alone stop the traffic in Moscow and Beijing.

Some of the world's most powerful bosses are striking mainly for their blandness: Sam Palmisano at IBM, Tony Hayward at BP, Terry Leahy at Tesco, Vittorio Colao at Vodafone. These men are at the head of a vast army of even more forgettable bosses. Watch the parade of chief executives who appear on CNBC every day, or drop in to a high-powered conference, and you begin to wonder whether cloning is more advanced than scientists are letting on. ...

## Music piracy: Singing a different tune

The battle against online music piracy is turning. A return to growth will take a good deal longer

“ROCK and roll is dead,” sang Lenny Kravitz. It is certainly poorly. Music was the first media business to be seriously affected by piracy and has suffered most severely. Yet the prognosis is improving. While it is by no means over, the struggle against music piracy is going better than at any point since the appearance of Napster, a file-sharing service, ten years ago.

It has been a brutal decade. In many countries music sales to consumers have fallen by more than a third. Even Apple’s popular digital iTunes store is little more than a niche service: fully 95% of downloads are illegal, according to the International Federation of the Phonographic Industry (IFPI), a trade group. Established bands have been able to raise ticket prices in response. But by reducing the money available to sign and tout new artists, file-sharing has made it harder for bands to become established. Paul McGuinness, who manages the band U2, says the whole “starmaking apparatus” is damaged. ...

## Face value: Salesman of the irrational

Jean-Claude Biver, the saviour of several Swiss watchmakers, has a knack for selling luxury

ONCE a year, at his farm overlooking Lake Geneva, Jean-Claude Biver makes cheese. He uses milk collected only during the brief few weeks when the Alpine meadows on which his cows graze are in flower. The milk is heated over an open fire made with hand-cut wood, the cost of which alone exceeds the price most cheese would fetch. He leaves it to age all summer. This painstaking process yields five tonnes a year, but he cannot bear to sell a gram of it.

If Mr Biver changed his mind, he could probably name his price. His cheese can send the authors of Michelin guidebooks into rapture; Switzerland's best chefs regularly call him begging for some. But he parcels it out only to family and friends, and to restaurants that he particularly likes. And he always refuses payment for the stuff. "If I don't sell it," explains Mr Biver, "then I will decide who gets it and who doesn't. I will be the master of my cheese until the last piece. ..."

## **Video games move online: A giant sucking sound**

The internet swallows another media business, but spits out some hope

IN THE eyes of media executives, the internet is a malevolent vacuum-cleaner, sucking in one business after another. Music, software and videos are all increasingly obtained online—often free of charge. Now it is the turn of video games. A combination of new technology and compelling economics means that many, if not most, of them will be played online soon.

Online gaming is not new. Since the early days of the internet, netizens have indulged in “massively multiplayer role-playing online games”, a genre that, now complete with fancy graphics, is still very popular, particularly in Asia. Some console games can be played online. “Episodic” gaming, in which new add-ons for console games can be downloaded for a fee, is gaining ground. And there are many “casual” online games, often web-based versions of board and card games. Yet in 2009, all these online offerings are expected to account for just \$9.4 billion of the \$55 billion market for video games, according to PricewaterhouseCoopers, a consultancy. ...

## **Berkshire Hathaway buys BNSF: Express from Omaha**

America's most famous investor buys a railway company

WARREN BUFFETT describes his latest deal as "an all-in wager on the economic future of the United States". On November 3rd his investment firm, Berkshire Hathaway, agreed to buy the 78% it did not already own of Burlington Northern Santa Fe, America's second-biggest railway operator, in a deal valued at \$44 billion. Saluting the flag has become an integral part of Mr Buffett's carefully cultivated folksy image, but the deal also looks like a bet on many less stirring ideas, including ever-higher imports from China, heavier traffic through the Panama Canal, higher oil prices and the preservation of coal's big role in power generation in America.

The purchase is Mr Buffett's biggest yet, but the size is no surprise. Back in 2002 he said, "We are looking for big deals! We have got an elephant gun and it's loaded." Berkshire Hathaway is paying around 30% more for Burlington Northern's shares than their price on the day before the deal was announced, and barely 10% less than their all-time high. Unlike with Mr Buffett's \$5 billion investment in Goldman Sachs in the depths of the crisis last September (now worth over \$7 billion), he could have bagged this elephant for a lot less money: in March, Burlington Northern shares hit a low of \$51, compared with the \$100 Berkshire is paying for them now. ...



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