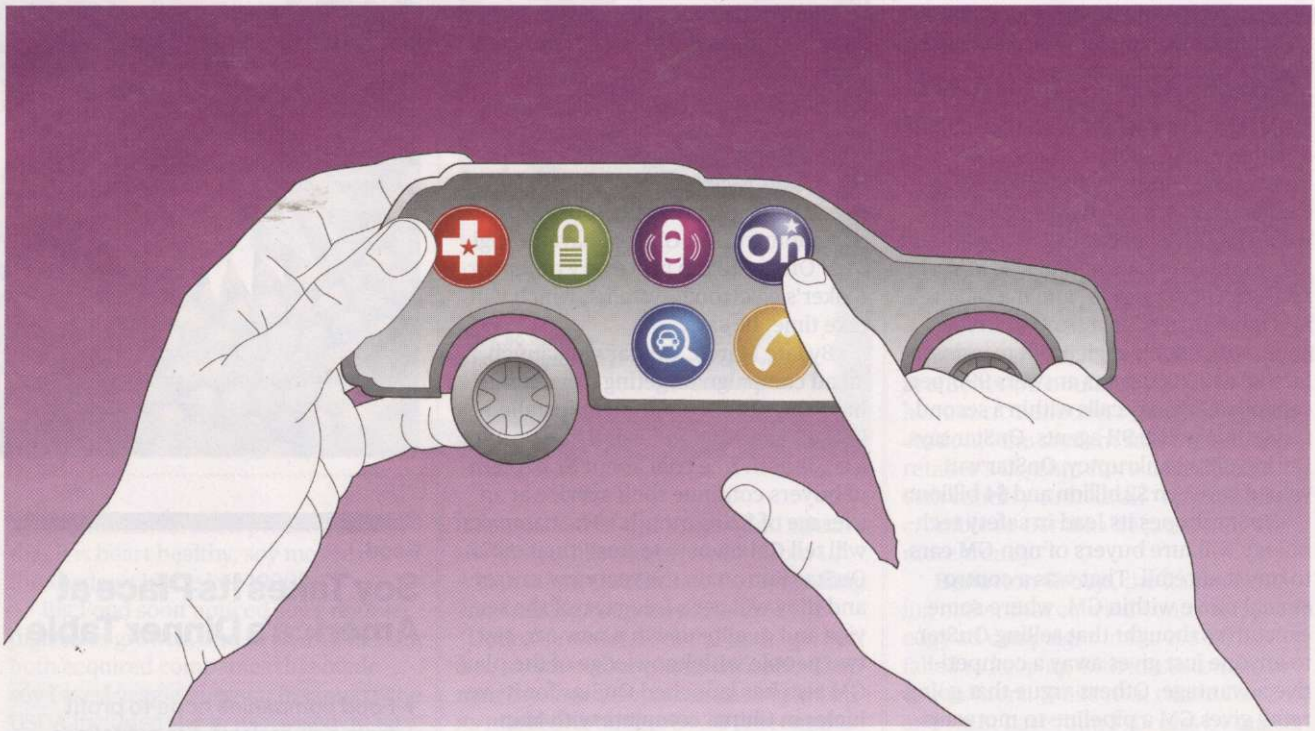
Companies&Industries



OnStar Wants to Turn Your Car into a Smartphone

▶ The GM unit prepares to offer its on-board communications service to rivals' customers

▶ "Our research says infotainment is one of the top five reasons to buy a car"

When **General Motors** launched its OnStar telecommunications business in 1996, management planned to put the safety, navigation, and communication service in all GM cars, enabling motorists to plan travel, make phone calls, or even track stocks from behind the wheel. GM figured subscription and fee revenue from electronic services could get so big that OnStar's profits might surpass those of its car business. That proved true: OnStar was modestly profitable while GM's car business lost $101 billion from 2005 until the company's 2009 bankruptcy.

Now, with former telecom executive Daniel F. Akerson in the chief executive officer's seat at GM, the automaker once again has big ambitions for OnStar. Akerson hopes to expand the communications service by both increasing the number of GM car owners who continue to subscribe after their six months of free service ends, and by selling the system to owners of rival auto brands. He named former **Revol Wireless** executive Linda Marshall in January to run the unit, which has set out to transform cars into 2-ton smartphones. GM will also rollout this year a separate in-car entertainment system called Chevrolet MyLink for its biggest brand. "What's happening is a crashing of technologies between consumer electronics and the automobile," says Micky Bly, GM's executive director of global electrical systems. "Our research says that infotainment is one of the top five reasons to buy a car."

This spring OnStar will begin selling its signature hardware, at a cost of $299 plus installation, through retailers such as **Best Buy** to get systems into cars sold by rivals. GM has even debated selling off part of OnStar to outside shareholders to create some distance from its corporate parent and make competitors comfortable with installing OnStar in their new cars.

GM may have waited too long to press its first-mover advantage, however. Although OnStar has earned a reputation for safety and security, thanks to features that alert police if a connected car is stolen or involved in a crash, newcomer **Ford** has jumped ahead of it in the hot market for in-car entertainment content. Ford's Sync system plays music on voice command and even reads tweets to drivers. Meanwhile, this summer **Hyundai Motor** will launch a competing system called Blue Link to go toe-to-toe with

OnStar for safety and security features. "It's almost like Rip Van Winkle," said Roger Lanctot, an analyst with technology consultant Strategy Analytics. "[GM] woke up and realized they could do other things. But it's kind of late."

For now, OnStar is the leader. It has 6 million users, more than 4 million of whom pay an average of $240 a year. Add in the mobile-phone minutes from **Verizon** that OnStar resells, and the GM unit logs more than $1 billion a year in revenue, with double-digit profit margins. Its staff of 2,200 agents answers 99.7 percent of emergency calls within a second, faster than police 911 agents, OnStar says. During GM's bankruptcy, OnStar was valued between $2 billion and $4 billion.

OnStar hopes its lead in safety technology will lure buyers of non-GM cars to buy it at retail. That was a controversial move within GM, where some executives thought that selling OnStar to anyone just gives away a competitive advantage. Others argue that going retail gives GM a pipeline to more customers who one day might buy GM cars. The mission, says GM Vice-Chairman Stephen J. Girsky, is to aggressively expand OnStar. "There's a huge opportunity there," he says.

Also, consumers who buy OnStar at a retailer don't get the full range of features that owners of GM cars enjoy. OnStar can alert GM's car buyers to most malfunctions in the vehicle and schedule repairs at a dealership. The system currently can't do that for cars made by other companies, nor will it be able to unlock their doors remotely or slow down those cars if they've been stolen. GM is working to add such features, says Nick Pudar, OnStar's vice-president of planning and business development. Yet GM will have to engineer OnStar to tap into every other carmaker's electronic systems, which will take time, he says.

By late March, OnStar will launch an ad campaign targeting drivers who have the system equipment installed in their car but don't subscribe. (After a six-month free trial about 57 percent of buyers continue their service at an average of $20 a month.) The campaign will tell GM owners to push their car's OnStar button on the rearview mirror and they will get a free year of the service and qualify to win a new car, say two people with knowledge of the plan. GM also has launched OnStar for its vehicles in China, complete with Mandarin-speaking agents. The subscriber base there hit 200,000 in February and is growing by 40,000 a month.

Egil Juliussen, an analyst with research firm iSuppli, forecasts that OnStar could sell 1 million units annually through retailers in a few years. But getting rival carmakers to offer the system is less certain. In the 2000s, GM had various deals with seven other automakers including **Acura, Audi, Lexus,** and **Volkswagen** to install OnStar in their cars. The arrangements fizzled when those companies, always uneasy about sharing customers with a rival, decided either to develop their own systems or go without. Michael Deitz, Hyundai North America's national manager for connected cars, says that using OnStar wasn't even considered before Hyundai decided to roll out its own Blue Link system. It offers many of the same safety and security features and even has a blue button on the rearview mirror like OnStar's. "It's about forming a more intimate relationship with our customers," Deitz says. "We like to have control over our technology. Having our information go outside the company is not the best solution." *—David Welch*

1,460

CALORIES

Caloric content of a large bag of buttered popcorn. Movie theater chains are fighting a pending federal regulation that would require posting such calorie counts at concession stands

DATA: CENTER FOR SCIENCE IN THE PUBLIC INTEREST

The bottom line *General Motors will soon sell its OnStar system through retailers. Marketing it to rival automakers will be a big challenge.*

Food

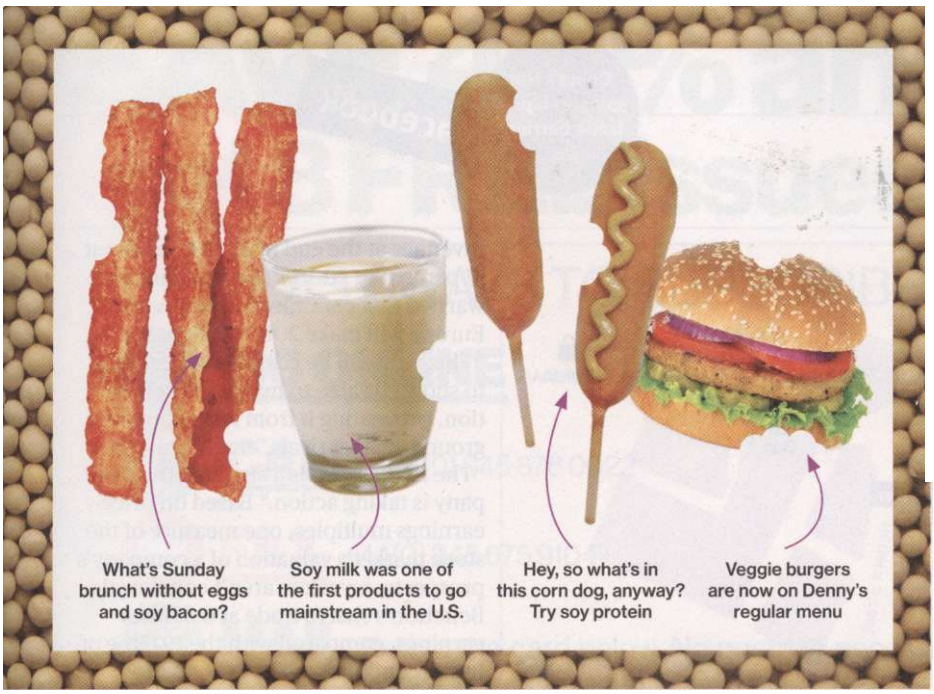
Soy Takes Its Place at America's Dinner Table

- **Food companies hope to profit from new federal diet guidelines**
- **"We hear consumers cite Oprah far more than the USDA"**

Can the feds get Americans to trade in a sizzling rib-eye for a soggy block of tofu? It's a question **Kraft Foods, Kellogg,** and **Hain Celestial Group** are keen to answer since the U.S. Agriculture Dept. in January began encouraging Americans to eat more soy.

In coming months, Americans will be inundated with commercials pushing everything from soy-infused chili to corn dogs, as food companies try to position the bean curd as a healthy protein alternative. The trick will be getting consumers past the "ick factor," says Tripp Hughes, who oversees soy products at **Organic Valley,** which makes organic soy milk and coffee creamers. Soy is an integral part of Asian diets, but it has never been widely accepted by Americans even though they routinely eat it-perhaps unwittingly-in processed foods that use soy oil such as sauces, salad dressing, baked goods, and snack foods.

Soy has come a long way since Hong Kong soymilk maker **Vitasoy** first brought its products to San Francisco's Chinatown in 1979. Back then it was gobbled up mostly by vegetarians and hippies. With the introduction of refrigerated soy milk in supermarkets, and a Food



& Drug Administration proclamation that it is heart healthy, soy moved out of the shadows in the late 1990s.

Big Food soon noticed soy's double-digit sales growth, and Kraft and Kellogg both acquired companies that made soy-based veggie burgers. In January the USDA included soy in its revised dietary guidelines, and the Soyfoods Association of North America is hoping its time has finally come. "We've been preparing for an opportunity to bring soy foods to the mainstream," says Executive Director Nancy Chapman.

The recession has not been kind to the other, other white meat. The $5.5 billion industry has been in a slump for the past two years, according to industry tracker Soyatech. Many soy products are organic, which means they often carry a hefty price tag, and the downturn took its toll on sales. Plus, soy foods have gotten some bad press because high consumption has been linked in some studies to hormonal cancers in women and even so-called man boobs. New, trendier products, such as coconut and rice milk, have been taking up precious shelf space once devoted to soy drinks. "The category is getting squeezed by a lot of new alternative beverages," says Hughes.

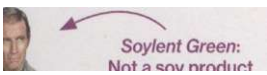
Many Americans ignore USDA guidelines. "We hear consumers cite Oprah far more than the USDA, so we don't expect a huge increase in soy consumption based on government advice," says Melissa Abbott of Hartman Group, which studies consumer behavior.

Even so, soy foodmakers view the USDA's nod as opportunity knocking, and they're answering with new products, marketing campaigns, and educational sites like Vitasoy USA's "Tofu U," which offers an idiot's guide to handling and cooking bean curd. (Sample tip: "Drain the water from the package. Feel free to water your plants with it!") Chapman says her association has beefed up its marketing budget by 20 percent this year, launched a **Twitter** account, and is working with retailers like **Kroger** and **Whole Foods Market** to pitch soy products. "We don't expect everyone to eat veggie burgers," she says. "We just want people to be aware of them."

Among the newer soy products being hyped are kid-friendly veggie corn dogs from Hain Celestial's Yves Veggie Cuisine and frozen dinners such as the new Three-Bean Chili from Kellogg's MorningStar Farms. Chapman is trying to get restaurant bars to replace peanut bowls with edamame, soybeans boiled in their pods and sprinkled with salt. Food scientists also are looking for ways to make soy products taste less like soy. Organic Valley adds a hint of vanilla even to its unsweetened soy milk.

Solae, a joint venture between chemical giant **DuPont** and agribusiness outfit **Bunge** that proselytizes for soy, has seen a 35 percent increase in new-product development so far this year, according to Michele Fite, Solae's global marketing vice-president. Solae is trying to persuade food companies to incorporate crunchy soy nuggets in energy and weight-loss bars. "Not everyone likes getting all their protein from eggs and bacon," Fite says. —*Matthew Boyle*

The bottom line *Food processors say soy products will experience their fastest growth for uses other than as meat and milk substitutes.*



March 14 — March 20, 2011
Bloomberg Businessweek

Apparel

Benetton: A Must-Have Becomes a Has-Been

▸ The once-hot Italian clothier has been surpassed by nimbler rivals

▸ "The risk is the brand could always feel somewhat passé"

Fifteen-year-old Stefany Carlet shopped at a Benetton boutique recently–for her aunt. "Benetton's for an older generation," the student said outside the retailer's flagship store near Milan's 14th century cathedral. "I prefer Abercrombie or Bershka because they are more trendy."

Benetton Group, the Italian clothing maker that courted controversy with edgy ad campaigns in the 1980s, has failed to keep up with its customers or competitors. While rival chains like Zara and H&M have found success by mastering fast fashion–churning out knockoffs of hot trends in as little as two weeks after they create buzz in runway shows–Benetton has stuck with creating its own designs and changes them only seasonally. That business model has led to a decade of stalled results. "Benetton has missed out on the mass fashion wave of the past 10 years and lost the opportunity to be a fashion chameleon," says Sanford C. Bernstein analyst Luca Solca. "The risk is the brand could always feel somewhat passé."

Benetton sales have risen less than 2 percent since 2000, to about €2.05 billion (about $2.8 billion), and analysts predict revenue will remain little changed this year. The company declined to comment for this story. Europe's biggest clothing retailers have left it in the dust. Sales at H&M operator **Hennes & Mauritz** of Sweden almost quadrupled in the past decade, to $15 billion, while analysts figure revenues at Spain's

China's Net censorship: A trade barrier? page 29 ▶

Oxford Circus
London's retailing center is crowded with fashion rivals

DATA: BLOOMBERG, GOOGLE

Inditex, owner of the Zara and Bershka chains, increased about sixfold, to about $17.5 billion. Sales at both are expected to increase at least 6 percent in 2011.

Investors have noted that disparity. Benetton's market capitalization has shriveled to about $1.2 billion after hitting $5.8 billion in 2000. During the same period, the market value of H&M and Inditex have both more than tripled.

The Italian company sells almost 80 percent of its products through franchisees and partners at wholesale prices, less than half the retail value. Analysts say that by not operating most of its own stores, Benetton hasn't been able to track demand and tweak merchandise assortments as well as rivals such as H&M and Inditex, which operate most of their retail locations. "Benetton was one step removed from its customers and late in realizing a falloff in customers that led to franchisees that started to leave in droves," Solca said.

The Benetton of the 1980s shook up the international clothing industry with advertising campaigns featuring killers on death row, a priest kissing a nun, and a white baby nursing at a black woman's breast. The resulting buzz helped fuel sales of the retailer's colorful clothing. By 1993 there were more than 7,000 Benetton shops worldwide and the company's success was the subject of a Harvard Business School case study. After the '90s, however, the brand faded and the founding Benetton family, which owns more than 70 percent of all shares, shifted investment toward its highway catering and sporting goods businesses.

Analysts say larger European mass fashion merchandisers are more vertically integrated than Benetton—tightly controlling everything from design to manufacturing to selling at retail—and have been quicker to shift production to lower-cost countries. "Benetton's high-cost business model fits poorly with the environment created by H&M and Inditex over the past few years," says AlphaValue analyst Véronique Cabioc'H. "The company still suffers terribly from competition."

Benetton shares have dropped 20 percent since the company appointed Franco Furno, former head of human resources at Benetton and at **Gucci Group**, and Biagio Chiarolanza, a 20-year in-house veteran who previously served as operations chief, co-chief executive officers in March 2010. That's the fourth top management change in 10 years. The company declined to make the executives available for comment.

Founded in 1965, Benetton gets about half its sales from Italy, where pessimism about the economic recovery has hurt consumer confidence. (Sales in the U.S. dropped to 4 percent of total revenues at the end of 2010 from about 12 percent in 2000.) The company has warned that conditions in southern Europe will make 2011 "challenging." "This year will be critical for Benetton to show it is able to manage cost inflation, preventing it from losing further ground against rivals," says Cabioc'H. "The market needs a sign that the company is taking action." Based on price-earnings multiples, one measure of the stock market's valuation of a company's prospects, investors aren't convinced. Benetton's shares trade at 6.5 times earnings, compared with the 19.6 p-e of Inditex and 18.3 multiple of H&M.

Benetton in 2010 completed a two-year reorganization plan that included renegotiating raw-material costs and resulted in savings of $122 million. It's also investing $60 million in a Serbian textile plant to reduce the time it takes to get products to market and to help cut production costs. Still, the company's costs as a percentage of sales were 54 percent at the end of 2009, compared with 43 percent at Inditex and about 39 percent at H&M. Benetton's profit margin is less than half theirs as well.

"Benetton will only be able to be flexible with costs, attentive to quality, and fast in terms of getting fashion and products to market if it is perfectly integrated," says Daniele Demartis, a fund manager at Rome-based Agora Investments. —*Armorel Kenna*

60 MILLION Chinese viewers for Australian Open finals match

The bottom line *Benetton sales have increased less than 2 percent since 2000. Quicker responses to consumer tastes could help it keep up with rivals.*

Sports Business

Women's Tennis Changes Its Game

▶ By allowing multiple sponsors, WTA aims to boost revenue

▶ "The wider branding opportunities probably outweigh the safer option"

There was no honeymoon for Stacey Allaster when she became chief executive officer of **WTA**, the women's pro tennis tour, in 2009. The recession had squeezed sports that depend heav-

OPPOSITE PAGE: TETSUYA YAMADA/BLOOMBERG

ily on corporate sponsors. The tennis circuit, then called the Sony Ericsson WTA Tour, hadn't signed a new sponsor in four years. Worse, its contract with **Sony Ericsson** was about to expire. "When I first started, a lot of people were saying 'Do you know what you are getting yourself into?'" recalls Allaster.

Less than two years later, Allaster has rebranded the tour, retained its biggest corporate supporter, and closed on a record $75 million in sponsorship deals. Allaster, once a junior tennis player in Canada, has signed three new corporate sponsors for the women's tour in the past year. The WTA says it's close to signing two more for its season-ending championships, to be held in Istanbul for the next three years. "It wasn't always that easy, but she's done well in using the best things that the tour has to offer," says four-time Grand Slam champion Kim Clijsters.

11.4 MILLION WTA fans on Facebook and China social media

The WTA was founded by 63 women, including Billie Jean King, in a London hotel in 1973. Today it hosts 52 events in 33 countries and features tennis stars like Serena Williams and Maria Sharapova. Each of the 10 top female tennis players now hails from a different nation.

Tennis is one of the fastest-growing sports in China, where the women's tour opened an office in 2008 and now holds two tournaments annually. The women's tour's current No. 2 player, Belgium's Clijsters, won the Australian Open in January by beating Li Na, the first player from China in a major final. That match was viewed by 60 million Chinese, making it the most watched tennis match in Chinese history, according to CSM Media Research. It will likely be that nation's most-watched sporting event of any kind this year, CSM predicts. The WTA has a four-year deal with state-owned broadcaster **China Central Television** to show women's tennis in 335 million households.

Besides working to boost the popularity of tennis in foreign markets, Allaster has tried to make matches more fan-friendly. She has introduced on-court coaching–allowing spectators to hear conversations between players and their mic'd advisers-and video instant replays to confirm officials' line calls at all tour matches. She also has increased the tour's presence on social networking websites such as **Facebook** and **Twitter.** The women's tour has more than twice as many Facebook fans as the men's ATP World Tour. The WTA and its players combined now have more than 11.4 million fans across Facebook and Chinese social media.

$75 MILLION Value of WTA sponsorships and deals signed in last two years

As part of its current two-year deal with Sony Ericsson, reached in March 2010, the tour dropped the mobile-phone maker's name and now calls itself the WTA. Sony Ericsson remains the lead global sponsor, retaining prime signage at all tour matches. The name change was crucial in attracting new sponsors, Allaster said. "We've got that brand back," she says. "It created ownership and clarity."

Nigel Currie, director of London-based sports marketing agency brandRapport, says women's tennis "has become so big and so global that the wider branding opportunities probably outweigh the safer option of just going with the one sponsor and restricting yourself accordingly."

Sony Ericsson says the tour's geographic spread and social networking presence-most of its top players send out daily Twitter updates to their fans-were reasons for its decision to remain a WTA sponsor. The company's six-year relationship with the tour has given it "a very recognizable brand name across the world," says Stephan Croix, head of global marketing partnerships.

WTA has since signed new agreements with Swedish cosmetics maker **Oriflame Cosmetics,** Chinese sports apparel maker **Peak,** and jetstar, the budget unit of Australia's **Qantas Airways.** The tour also renewed deals with London-based **Travelex** and Salt Lake City-based vitamin and health supplement maker **Usana Health Sciences.** "It's now the WTA, rather than the Sony Ericsson WTA Tour, which makes it marketable for us," says Michael Cervell, senior vice-president for global direct sales at Oriflame. "It's something positive for the other sponsors who want to join the tour."

—Danielle Rossingh

The bottom line *A rebranding push by WTA has positioned the women's pro tennis tour for more sponsorships and growth in tennis-crazed China.*

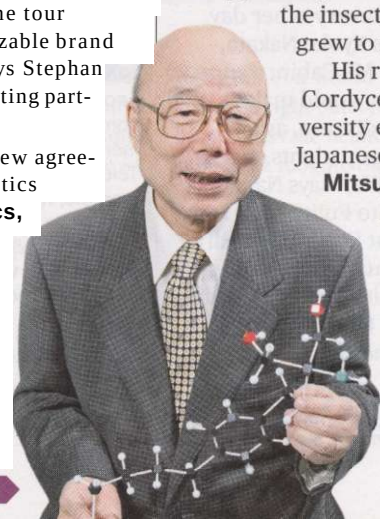
Pharmaceuticals

From Soup to Drugs: One Fungus's Journey

- Mitsubishi Tanabe's parasite-based MS pill could be a blockbuster
- "I knew nothing about the disease back then"

Tetsuro Fujita's eureka moment about a Himalayan fungus came in 1985. As the scientist was driving over a bridge between Japan's Shikoku and Honshu islands on his way to conduct research on traditional herbal remedies, Fujita was contemplating ways to keep patients' immune systems from rejecting transplanted organs. He was particularly intrigued by the example of a parasitic fungus used in a Chinese medicinal soup. Known in Asia as "winter insect, summer plant," the Cordyceps fungus invades an insect larva during winter, feeds on it for months, and then grows out of the host by summer. Fujita suddenly realized that the fungus must be suppressing the immune system of the insect larvae on which it grew to maturity.

His research on Cordyceps at Kyoto University eventually helped Japanese drugmaker **Mitsubishi Tanabe Pharma** produce Gilenya, a treatment for multiple sclerosis that **Novartis** licensed and began selling in the U.S. in October.



Fujita

UBS says annual sales of the medicine, the first pill to treat the autoimmune disease afflicting more than 2 million people worldwide, may exceed $5 billion annually by 2018. That would rank it among the 10 best-selling drugs worldwide, based on data from researcher IMS Health. Mitsubishi Tanabe will likely book royalties equivalent to 10 percent of sales, based on the median of estimates by four analysts surveyed by Bloomberg News.

"Little did I think that it would be a treatment for multiple sclerosis," says Fujita, 80. "I knew nothing about the disease back then." Multiple sclerosis causes the immune system to attack the myelin sheath, which protects nerve cells, leading to symptoms including numbness, difficulty in coordination, and memory loss. In its severest form, multiple sclerosis also can shorten life.

Gilenya, approved to treat the relapsing-remitting form of multiple sclerosis, the most common, competes with injected drugs including **Biogen Idec**'s Avonex and **Teva Pharmaceutical Industries'** Copaxone. The Novartis pill cut the number of relapses by more than half compared with Avonex, according to a study published last year in the *New England Journal of Medicine.*

European regulators are expected to make a decision on the drug by the end of April. Gilenya is also being reviewed by regulators in Japan. In the U.S. the drug is priced at $4,000 for a monthly prescription. A month's supply of prefilled Avonex syringes costs $2,414.99. Analysts expect Gilenya to be cheaper in Europe.

Current medicines require patients to inject themselves every other day or once a week, says Kyoko Nakata, chairman of Japan's MS Cabin, a support group. "Gilenya would make it easier to treat the disease, as it saves time and brings patients closer to having a normal life," says Nakata.

That's gratifying to Fujita, now a professor emeritus at Kyoto University. "Although it took a quarter of a century," he says, "I'm happy it's become a drug while I'm still alive."

—Kanoko Matsuyama

The bottom line *According to analysts' estimates, Mitsubishi Tanabe will likely book royalties equivalent to 10 percent of sales from its new pill to treat MS.*

Briefs

National Public Radio CEO departs after video sting

National Public Radio CEO Vivian Schiller resigned on Mar. 9 after a secretly recorded video surfaced showing another NPR executive, who had already tendered his resignation, referring to the Tea Party wing of the Republican party as racist and suggesting the network would be better off without federal funding. The comments, made to men posing as possible donors from a Muslim organization, follow Schiller's controversial dismissal of commentator Juan Williams in October for saying on Fox News that airline passengers in "Muslim garb" make him nervous. NPR Chairman Dave Edwards announced that Schiller's resignation was accepted with "genuine regret."

Schiller

by Ira Boudway

Ford
Top executives reap big rewards

$56.5 MILLION

Ford Motor awarded CEO Alan Mulally $56.5 million in stock for the automaker's turnaround. Executive Chairman Bill Ford received $42.4 million, also in shares. The company made the payments as part of a 2009 and 2010 incentive plan. During those years, Ford earned $9.28 billion after $30.1 billion in losses from 2006 through 2008. The two executives will also receive other compensation for 2010, including salary and benefits, which will be revealed in a proxy report in coming weeks.

Wal-Mart
The big-box retailer goes small

On Mar. 16, Wal-Mart will begin construction of its first Express store, a retail branch less than a tenth of the size of the companies average supercenter. The company plans to open as many as 40 of the scaled-down stores this year. The world's largest retailer is seeking new avenues of growth, as sales at its stores open for at least a year have fallen for seven straight quarters. The first Express stores will cost $1.2 million each to build and will feature a pharmacy, grocery section, 75 parking spaces, and three or four checkouts.

Deutsche Telekom, Sprint Nextel
Talking about T-Mobile

Deutsche Telekom has held talks to sell its T-Mobile USA unit to Sprint Nextel in exchange for a major stake in the combined entity, according to people with knowledge of the matter. The companies have not agreed on a price. A merger would allow Bonn-based Deutsche Telekom to keep a stake in one of its biggest markets, while making it easier to finance investments for a faster next-generation network. T-Mobile lost about 56,000 customers last year, while Sprint, AT&T, and Verizon Wireless all boosted their counts.

Warner Bros.
Friending Facebook for movie rentals

Warner Bros. is testing an online movie rental service offered through Facebook. The move is part of the studio's efforts to reach customers without going through Netflix, which offers a DVD subscription and unlimited streaming service starting at $7.99 a month. Under the program, Facebook users can click a "rent" icon and pay a $3 fee to watch *The Dark Night* within 48 hours. More titles will follow. The service allows users to post comments as they watch. Facebook will take a slice of the revenue.

On the Move

Lloyd's New CEO António Horta-Osório replaces consumer banking and insurance chiefs • Gome Electrical Chairman Chen Xiao resigns • Goldman Sachs Michael Carr and Dusty Philip named co-heads of M&A in the U.S.

FROM TOP: JONATHAN ALCORN/BLOOMBERG; DANIEL ACKER/BLOOMBERG; CHRIS RATCLIFFE/BLOOMBERG

Fonte: Bloomberg Businessweek, New York, p. 19-24, 14 a 20 March 2011.