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DATTMATION - November, 1994

DATA MATION

THE POWER of PARALLELISM

...Raising You To New Heights



Parallel solutions give competitive advantage to all industries:

THE POWER of PARALLELISM

...Raising You To New Heights

How much computer processing power does your organization need? How much did your organization need a few years ago, and how much will it need tomorrow? What if computing power was unlimited? What new services could you offer? What new questions could you answer that today you don't even bother to ask?

If you're like most organizations, your users can absorb every cycle you provide and still call for more. New styles of computing—LAN-based, client/server systems—are driving the demand for online, mobile, interactive computing. Users with increasingly sophisticated applications and tools are accessing host resources and databases in

more and different ways than ever before. To lead in their industries, companies need to collect, organize, and analyze more information faster. In efforts to shorten cycle times; provide new, efficient, effective customer service; improve quality and efficiency; or empower teams of workers, organizations must process vast amounts



Airlines reservations, yield management, scheduling Banking inte-

of information. They are developing more and bigger databases, processing additional transactions, and running a growing and changing variety of applications, queries, and reports.

Where is the power to do this going to come from? How are you going to meet the demands for more information and faster response while ensuring the reliability of the system and the integrity of the information? How are you going to manage, administer, and support these new systems, applications, data, and users? And, most important, how are you going to do it while controlling costs? In today's competitive environment, no one can just throw money at the problem.

Organizations have hit a technological and cost wall with traditional mainframes. Their lack of flexibility caused by architectural limitations hinders responsiveness to meeting new needs of the next generation of applications and users. Their high cost has driven customers to look to alternative machines based on technology evolving from workstation and desktop systems. But many of these so-called alternative mainframes still share similar architectural constraints caused by the sharing of critical systems resources.

A solution lies in parallel processing. Parallel processing delivers high-performance and virtually unlimited scalability. And, using commodity components and

**TANDEM
MEANS
PARALLEL**

Tandem Computers Incorporated is a leading supplier of parallel systems and software, enabling retailers, telecommunication providers, banks and manufacturers around the world to run their businesses effectively and compete in new markets. These organizations use Tandem to provide interactive customer services, to benefit from information access and decision support and to carry out electronic commerce with their partners. Tandem is ranked 217th in the FORTUNE 500 listings.

Tandem's Himalaya range of parallel servers, from entry-level to massively scalable, is based on the industry's leading parallel, commercial architecture, benefiting from 20 years of experience in parallel hardware and software design.

TANDEM
TANDEM MEANS BUSINESS

supporting open standards, parallel systems deliver performance at a very competitive price. In the following pages, we will examine the power, cost-effectiveness, and challenges of parallel computing.

What Is Parallel Computing?

For business computing professionals, parallel computing or parallel processing (sometimes called massively parallel processing or MPP) conjures up images of complex, esoteric, expensive, proprietary computer systems that reside in government, scientific, and university research computing centers. The truth today is far different.

Parallel processing simply describes a computing architecture in which many processing elements operate

Illustration: Peter Hoey



simultaneously to carry out a specific function. The processors interconnect to access large amounts of data and, at the same time, process tasks at speeds far

exceeding those of conventional computers.

For example, when an application requires high throughput, it can be run on several processors simultaneously as if the application was running on multiple computers. Or, a single, complex task can be divided into smaller units of work and spread among multiple processors to speed processing, such as a massive database search that might otherwise take a single processor hours to perform.

The scientific and research communities turned to parallel systems early because the problems they try to solve involve large sets of complex mathematical calculations. By comparison, parallel processing systems for commercial processing must be designed for online and interactive use rather than computation: intensive work. When designed correctly, parallel technology allows systems that support online transaction processing, decision support, and message-handling applications.

Virtually Unlimited Processing Power

The benefit of the new generation of parallel systems is virtually unlimited amounts of processing power available at a reasonable cost. This means that organizations can do things they previously considered impractical, if not impossible. For example, organizations can:

- Ask questions that were previously too processing-intensive to answer, as in micro-marketing and data mining, where users finely segment and analyze massive databases.
- Handle more customers, users, transactions, queries, and events than ever before, with online transaction processing, decision support, or message-handling applications.
- Support the high performance demanded of client/server applications and growing numbers of portable devices.

Partners in Parallelism

Through more than 250 Alliance Partnerships, Tandem offers over 650 parallel software solutions, including those from the following selected software vendors:

3M-Health Information Systems	ICM Electronic Banking Services, Inc.	Smith, Dennis and Gaylord, Inc.
Applied Communications, Inc.	Idelji Corporation	System Integrators, Inc.
Admiral plc	IBD Software Service GmbH	Software Integrators, Ltd.
AD Technologies, Inc.	Immedia Informatic, Inc.	The Software Partnership, Ltd.
Andersen Consulting	Information Builders, Inc.	Software Professionals Incorporated
Automated Monitoring and Control International, Inc.	Information Sciences, Pte Ltd	The Sornbers Group, Inc.
Banctec	Insession Inc.	Sterling Software
BCS Information Systems Pte. Ltd	Insider Technologies, Ltd.	SunGuard Financial Systems, Inc.
BMI	Integrated Research Pty. Ltd.	TDMS
Boundary Creek Software	Internet Systems Corporation	Texas Instruments
CableData	IPS Informations-und Proze-systeme GmbH	Third Wave Systems Ltd
CAIL	ISM Information Systems Management Corporation	Total Consulting Group Inc.
CARL Systems	ISR Integrated Software Resources Inc.	TXN
CiCa Business Systems Ltd.	ITI, Incorporated	UDAX
Computer Associates	Knowledge Data Systems, Inc.	Vicorp
CornestoneSoftware, Inc.	Kirchman Corporation	Volt Delta Resources, Inc.
Computer Security Products	Leardata Info-Services Inc.	Wm-data Nordic AB
DACOS Software GmbH	LOGFI	XYPRO Technology Corporation
Data Design Systems	Logica	
DataImage, Inc.	Master Software Inc.	
Data Sciences	McComm International B.V.	
Data Service	Menlo Business Systems, Inc.	
Datatraffic B.V.	Muscato Corporation	
Dun and Bradstreet	Network Concepts, Incorporated	
Deluxe Data Systems	ORACLE Corporation	
DND, Incorporated	Overlord, Incorporated	
Dr. Rosbach GmbH	PHAMIS, Incorporated	
Early, Cloud and Company	PHITECH, Inc.	
EDS SCICON Ltd.	Potomac	
ESQ	Scheduling	
E.T.I.	Prism Solutions, Inc.	
FDC Technologies	Quality Systems Associates, Inc.	
Financial Systems Technology Pty. Ltd.	Rockwell International, Inc.	
Fourth Dimension Software	Securities Industry Software	
Geminus Software GmbH	SCC, Inc.	
GIM	SEMA Group S.A.E.	
GCS Ltd.	Sierra Software, Inc.	
Information Builders, Incorporated		



medical and patient information Information services direct

- Support growth through virtually unlimited scalability, from entry-level systems to systems far exceeding the capacity of the largest mainframe—linear scalability where processing power increases in direct proportion to the number of processors.

- Enjoy competitive price/performance unmatched by any high-performance, high-availability system, as measured by key benchmarks such as transactions per second or cost of ownership.

- Experience complete flexibility to support any combination of high throughput and high-performance applications.

The Wave Of The Future

Commercial parallel computing is not a fad but the wave of the future. A leading research firm, citing the growing need for higher speed OLTP engines, more complex querying capabilities, and a need for a single source of data (non-duplicative), recently declared that the platform of choice will be found in the parallel market, which can supply the high speeds, large data storage, and a cost-effective model.

Looking ahead, the research firm predicted that parallel systems will emerge as the dominant commercial processing architecture. Organizations that remain bound to outdated information processing architectures, the researchers warned, will find themselves at a competitive disadvantage, unable to support critical business processes in the upcoming era of intense competition and dynamic business models.

Recent market research supports these conclusions. The META group cites 30 percent annual growth for commercial parallel systems; they say "Over the next five years, you'll see a robust commercial market for parallel processing. It will include data mining, trend analysis, video services, and pinpoint marketing for direct mail."

Driving the growth of commercial par-

allel computing will be the demands of massive databases and database-intensive applications. These applications include database mining, which support micromar-

Parallel System/Vendor Evaluation Checklist

- 1) Does the vendor have a high performance computing vision and comprehensive long-term and short-term parallel processing strategy?
- 2) Does the parallel systems vendor have the ability, experience, resources, and expertise to implement its strategy?
- 3) Does the vendor have a successful track record in commercial parallel systems and a satisfied, installed customer base?
- 4) Does the parallel system provide easily implemented, predictable, linear scaling to meet rapidly changing business needs (or will you have to spend weeks tuning to get the benefit of additional hardware)?
- 5) Does the system provide high performance for update as well as read application functions (or does performance drop significantly when update requirements are added)?
- 6) Does the system allow continued access to connected devices when a processor fails, and can you repair modules without taking the system offline or reloading the entire system?
- 7) Does the system protect the integrity of the data at multiple levels: processor, bus, software?
- 8) Does the system allow you to reorganize data without shutting down?
- 9) Does the system support open, industry standards and APIs and a wide choice of leading third-party tools and applications?
- 10) Does the system support the full range of business-critical applications; decision support, online transaction processing, mixed database applications, and messaging?

Shared-Resource Approach



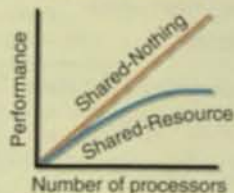
A relatively small number of processors access common memory and/or common data storage. Problems of cache coherency and distributed lock management may impact performance as additional processors are added.

Shared-Nothing Approach



Processors have direct access to their own resources, and communicate through high performance interconnects to distribute information throughout the system. This eliminates cache coherency problems. Further, with the correct software approach, messages are reduced to a minimum, containing only the data that is requested by an application.

Linear Scaling



The relative performance of the two approaches illustrates the differences. With a correctly designed *shared-nothing* architecture (such as Tandem's) performance increases in direct proportion to the number of processors; whereas *shared-resource* approaches return less and less performance as common resources become bottlenecks to growth.

keting and micro market segmentation, data warehousing, and trend analysis, as well as high volume online transaction processing and high volume message handling.

Commercial Parallel Processing Challenges

To bring parallel processing to the point where it can support commercial computing, leading vendors must overcome a number of challenges. Unlike the scientific market, the commercial market requires high reliability as well as openness, scalability, and manageability.

- **Reliability.** System failure, which affects customers, productivity, and revenue, is unacceptable in business-critical commercial computing environments. While multiple components in parallel systems increase the chance of system failure or data corruption, advanced parallel architectures must ensure system availability and data integrity through a variety of hardware and software techniques.

- **Scalability.** Commercial users must be able to expand the system to handle increased volume, decrease response time, or deliver new applications by simply plugging in more components. However, to ensure true linear scalability of the hardware, parallel systems must also deliver software scalability that minimizes overhead and eliminates bottlenecks.

- **Openness.** Parallel systems must support industry standards, commonly used APIs, and popular, widely used tools. Through such openness, parallel systems can offer the ease of application development, portability, interoperability, and manageability required for today's commercial, heterogeneous networks.

- **Manageability.** Parallel systems must provide the capability to replace and repair failed modules without bringing down the system, reorganize and re-index databases (or add indices) with minimum downtime, perform online backup, monitor and detect problems before they escalate into critical failures, support a variety of performance and tuning tools, and provide a single-system view to the end user.

Two Approaches to Parallel Processing

How well a parallel system addresses the challenges outlined above is determined by its hardware and software architecture, which leads to wide variations among systems. More than any other form of processing, parallel computing requires close cooperation between hardware (the processor, memory access, and bus bandwidth), software (including the operating system, middleware for database access, networking, and transaction services), and application management and development tools.

Parallel architectures follow one of two basic approaches: they share resources at some level or they share nothing. However, only *shared-nothing* systems tap the full power inherent in parallel processing.

No matter which approach is taken, successful parallel processing for commercial computing requires a parallel implementation at all levels of the system, hardware and software. For large, highly scalable commercial applications, a *shared-nothing* architecture combined

Retail micro-marketing, sales analysis, home shopping, point-

with a new level of message passing offers the greatest potential.

Tandem—Leadership In Parallelism

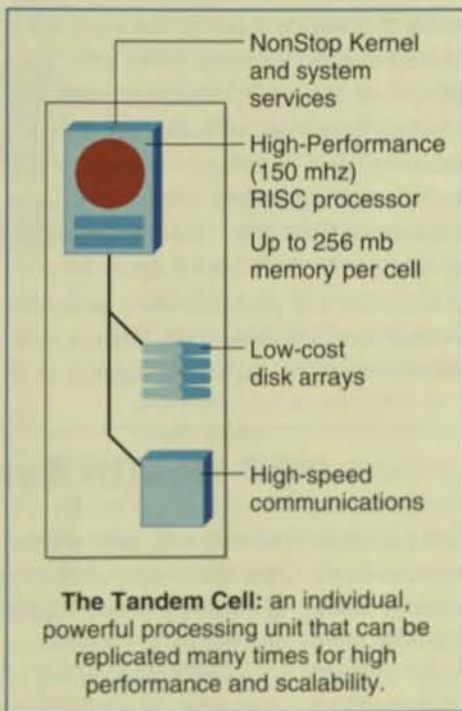
Tandem has developed and refined its shared-nothing, NonStop parallel architecture specifically for commercial processing over the past 20 years. Over that period, Tandem solved the software challenges behind high-performance commercial parallel processing that other vendors are only beginning to tackle. Tandem's commercial parallel processing hardware and software architecture has been installed in thousands of businesses since the mid-1970s.

Its shared-nothing, NonStop architecture addresses both parallel hardware and software issues, thus delivering true linear scalability, reliability, and high-performance. Tandem's open systems strategy means that users can integrate parallel computing into their heterogeneous systems environment through the use of industry-accepted standards and application program interfaces (APIs).

While conventional computer systems vendors struggle to adapt their architectures to parallel computing, Tandem designed its architecture from the ground up for commercial parallel computing. With parallel software as well as parallel hardware, Tandem is able to deliver the full power and benefits of parallel computing while avoiding problems such as cache coherency, distributed lock management, and message overhead that limit the scalability and performance of systems.

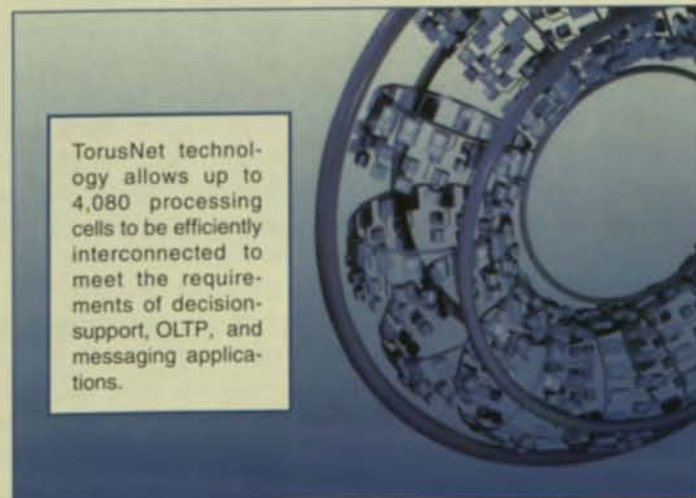
Tandem's Parallel Architecture

The hardware architecture is based on individual processing cells. Each cell consists of a high-performance RISC processor,



a large cache and memory, and storage and communications devices directly connected to the processor by multiple high-performance channels.

Tandem ties two 4080 processing cells into a parallel system using Tandem's TorusNet architecture. TorusNet connects groups of processing cells in a ring and con-



nects the rings together so that each cell is interconnected to every other cell. Each processor, however, runs independently, sharing neither input/output channels nor memory, thus ensuring maximum performance and eliminating bottlenecks. Using high-speed fiber optics, TorusNet establishes extremely short path lengths between processors and provides more processor connections. This allows the Tandem architecture to address higher throughputs in all

application types, especially in the area of massive decision support.

To tap the power of its parallel hardware architecture, Tandem provides a series of software services that parallelize the processing of applications while making the multiprocessor system appear to the end user, application programmer, and system manager as a single system.

At the heart of Tandem's software architecture is the NonStop Kernel operating sys-

PCS Health Systems

Where do you find the processing power to handle 100 million complex medical claim transactions a year coming from more than 100,000 U.S. healthcare providers? Plus handle prescription drug benefit claims by 3.1 million federal government employees, dependents, and retirees. And continue to provide prescription drug payment processing information for 52,000 pharmacies across the U.S., which generate 200 million transactions a year?

This is the challenge facing PCS Health Systems Inc., Scottsdale, AZ. The company pioneered online transaction processing in the pharmaceutical field with the introduction of its RECAP electronic network in 1987. RECAP links point-of-sale terminals in 52,000 pharmacies (90 percent of all U.S. retail pharmacies) to the PCS data center. The pharmacist simply swipes the customer's plastic PCS card through the point-of-sale device to receive fast verification of drug plan eligibility, screen patient records for allergies and drug com-

patibilities, and receive other important information. In addition, the system provides pharmacy management services.

In addition to RECAP, PCS will now take on processing for the National Electronic Information Corp. (NEIC), a consortium of leading health insurance providers. The goal of the NEIC system is to reduce the cost of processing medical insurance claims by \$1 per claim, about a 25 percent reduction. "We will play the role of the message switch, passing information from the provider's office to the insurance carrier," says Robert C. Johnson, PCS' chairman and CEO. As the switch, PCS will transmit a full range of claims, billing information, benefit determinations, requests for referrals to specialists, and treatment authorizations. By 1996, NEIC anticipates handling 100 million transactions annually.

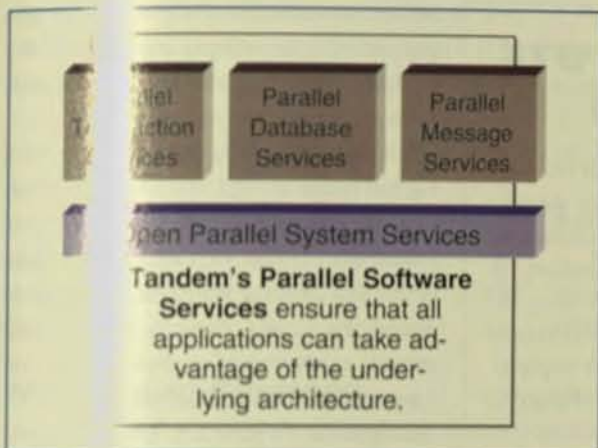
To ensure that it has the processing power to handle these kinds of workloads, meet requirements for fast response, provide high availability, and protect the integrity of

the data, PCS turned to Tandem's parallel systems. In a variety of performance tests, PCS found Tandem's parallel systems exceeded its most rigorous performance requirements. "The system has grown to accommodate more than three times our original expectations while providing us with a response time of almost half the initial requirement," reports Robert Ashworth, PCS Executive Vice President and Chief Information Officer.

Because of the scalability of Tandem systems, PCS has no trouble meeting the increased processing commitments entailed in the NEIC and federal drug benefit programs. It uses 23 Tandem parallel processors for communications and database operations, employing a NonStop SQL/MP database that is now greater than 100 GB.

Online processing of healthcare services promises to be a win for everyone concerned: the medical service providers, the patients, and the medical plan payers.

Telecommunications mobile computing, broadband and distributed



Tandem's approach to databases leverages the power of its parallel architecture by distributing the database functions among multiple processors while providing users with a unified or single-system view of the database and its data, regardless of which processor the user is physically connected to. It also provides linear scalability and can be managed as a single entity.

tem residing in every processor, an approach that minimizes interprocessor messaging. The NonStop Kernel offers a range of XPG4-compliant system services and creates a single-system image that allows system resources to be located anywhere. At the same time, the NonStop Kernel shields programmers and system managers from needing to know the location of resources, which simplifies system management and application development.

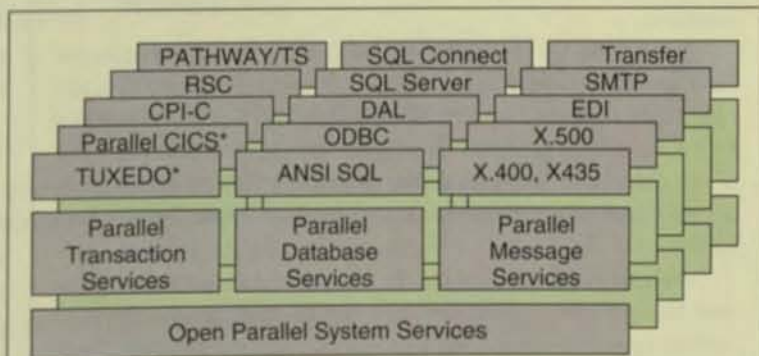
The Tandem architecture delivers on the promise of commercial parallel processing as underlying hardware and software architecture is supported by key layers of middleware software that provide services to database, transaction, and messaging applications. These services are available through a series of open interface personalities for each service type.

Database Services

Parallel databases deliver better performance than traditional databases by dividing database tasks among systems resources and executing those tasks simultaneously. Tandem's parallel architecture effectively supports both decision support and online transaction-oriented database applications.

Tandem's NonStop SQL/MP provides a highly-efficient cost-based analyzer that determines the very best way to use system-wide resources to execute queries in an optimized fashion. It decides when to use Tandem's unique features such as parallel hash joins, suitable for large tables, or more conventional sorting techniques for smaller data sets.

Database partitioning forms the basis for high-performance. Irrespective of how many partitions are allocated, NonStop SQL/MP retains a single image of the



*Available 2nd half 1994

Tandem's Open Parallel Service Environment

Tandem's implementation of open industry standards has enabled the generation of massively parallel applications from many popular tools, including: TI/IEF, DYNASTY, Intersolv APS, MicroFocus COBOL workbench.

services, billing and customer support, direct marketing, entertainment on

PTT Telecom Teams With GTE Software and Tandem

When Dutch telephone customers, like customers all over the world, get their telephone bills, they want to know detailed information about calls, not just how much they owe. That calls for itemized billing, a data- and processing-intensive operation. To respond to customer demands for itemized billing, PTT Telecom, the Dutch telephone company, needed to upgrade its systems so it could reliably and efficiently process the massive volume of data required. The company receives more than 400 calls a second and requires around-the-clock system availability. System scalability allows it to increase processing capacity as its needs increase.

In Tandem's NonStop parallel processing systems, PTT Telecom found an integrated hardware/software solution to its processing needs. The Tandem system provides both high reliability and around-the-clock availability and delivers the processing power to handle the massive volume of data required by itemized processing. And, as PTT Telecom's needs grow, additional processors can be easily added to the Tandem system.

For the billing application itself, PTT Telecom worked with GTE Data Services/Commercial Services to customize GTE's Universal Measured Service (UMS) software. The UMS software uses two main functions to itemize bills. The first function uses 48 Tandem processors to collect and extract call detail records from four different switch types in the public networks by polling via an FTAM/X.25 protocol. This function also checks, standardizes, and filters the data for itemizing.

The data then is sent to the second function which computes the tariff for each record detail. Unbilled calls are stored for 60 days and billed calls are stored for 120 days. This second function is handled by 16 Tandem processors and support 500 GB of disk storage. The system uses OSI/FTAM to interface to an invoicing system that prints approximately 40 million invoices each year for over seven million customers.

Without parallel processing, PTT Telecom couldn't handle itemized billing for the volume of calls it handles, which can exceed 30 million calls daily. The system processes incoming batches of call detail records at a rate of over 500 per second. Tandem's modularity allows the company to expand its number of processors and disk storage as needed, experiencing linear increases in performance. Modular parallel processing gives PTT Telecom a significant competitive advantage by allowing it to provide additional services to customers without disrupting daily processing.

entire database. NonStop SQL/MP also supports table reorganization and merging, splitting, and moving of partitions on line.

Tandem's NonStop SQL/MP supports the full range of SQL queries across multiple tables distributed over multiple processors through the Data Access Manager, a disk process, which handles all operations (scans, updates, deletes, views), concurrency control, transaction support, cache management, and audit management for each disk. It also supports dynamic creation of alternate keys to speed up queries and dynamic database tuning to eliminate query hot spots.

Tandem's database services provide the capability to carry out both a mix of database queries and heavy complex OLTP operations. A complex query that may take some time to complete will not stop a shorter query executing simultaneously. Enabled by such features as parallel alternate key updates, queries may still be executed at high speed and transaction processing applications can maintain short end-user response times. On other systems, the updating of alternate key tables typically slows transaction throughput to unacceptable levels.

Transaction Services

Tandem supports high-volume, online transaction processing through the use of a parallel transaction monitor, which balances processor loads dynamically to reflect changing throughput and response-time needs and ensures integrity, security, and consistency between processing elements involved in a transaction.

To ensure the integrity of the database when multiple processors are involved in a transaction, all processors must complete their work in a synchronized manner. This synchronization is provided by

demand Transportation global freight management, reservations...

the distributed two-phase commit function, which rolls back any transaction for which it does not receive confirmation from each processor. Tandem's transaction monitor provides the two-phase commit capability automatically, relieving the programmer of having to write the function.

Transaction applications are easily written in high level languages supporting such common transaction processing standards as TUXEDO and CICS.

Messaging Services

The need for flexible, reliable messaging infrastructures is surging as global communications grow in popularity, as mobile communications devices become more prevalent, and as companies adopt electronic commerce standards for trading with their partners. Parallel computing is particularly well suited for these messaging applications, ranging from corporate e-mail to X.400 services to EDI. The Tandem parallel architecture provides fault tolerance and scalability for messaging.

Tandem's messaging architecture is designed to support the following open messaging personalities: X.400, X.500, X.435, MAPI/VIM, and CMC. Tandem's messaging services support message handling store-and-forward applications and switching applications.

Benefits of Tandem's Architecture

Tandem's combination of parallel hardware with open, parallel software services allows it to provide the following benefits:

Scalability and Performance

- The same application can run on any size system, two to more than 4000 processors, without modification.
- As processors are added, performance and throughput scale linearly.
- Dynamic load balancing ensures optimal use of parallel processing cells.

- Transaction and decision support applications can be supported on a single system, and even simultaneously on one database.

- Single system image offers simple manageability.

Low Cost

- High-performance workstation technology such as RISC processors ensures maximum performance for lowest cost.

- No price premium when compared with other server platforms.

- The highest levels of reliability reduce total cost of ownership by virtually eliminating the cost of failure.

Open Standards

- Open services and interfaces allow the use of standard tools and languages.

- Open systems applications automatically inherit the benefits of parallelism.

- Interoperability is ensured by open client/server, networking, and mainframe standards.

- Standard interfaces allow you to utilize your existing skills for programming and systems management.

Reliability

- Data integrity and availability are ensured, no matter how many processing components are linked together in a single system.

- Online reconfiguration for systems and databases provides continuous availability.

- Parallel software provides resilience to software as well as hardware failure.

Conclusion

While other vendors are only just discovering parallel computing for the commercial environment, Tandem has been delivering reliable, high-performance, commercial parallel systems for twenty years. Today, Tandem delivers proven industry-leading performance, virtually unlimited scalability, reliability, and openness without a price premium.

The newest generation of Tandem systems, designed for decision support, online transaction processing, and messaging applications, raise the bar in terms of price/performance, ease of management, and ease of programming.

Tandem systems support the world's largest transaction environments, from major stock exchanges to 24-hour service cen-

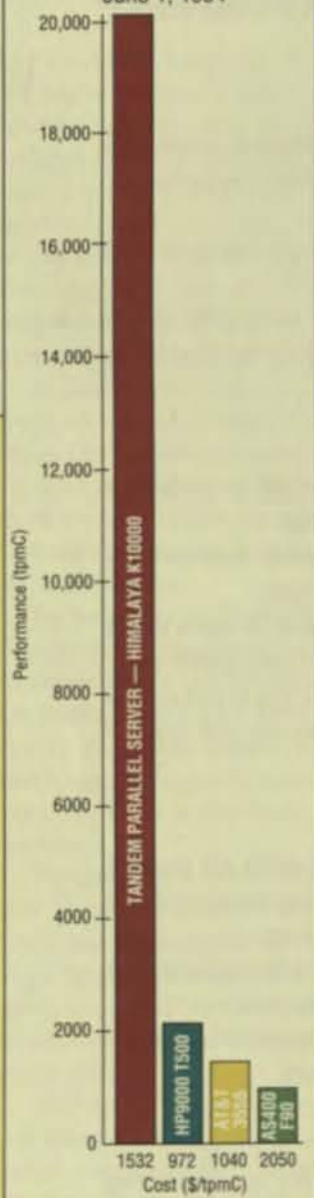
ters. Organizations are using Tandem systems to run complex queries against massive databases. And, Tandem systems are effectively applying the power of parallelism to the messaging applications used in electronic commerce to ensure continual throughput, responsiveness, and absolute levels of reliability.

With Tandem's parallel systems, organizations can be assured that they will find the performance, features, and capabilities they need today in a proven system that can scale to whatever size they need tomorrow. For the first time, organizations will have access to virtually unlimited computing power to meet their processing needs today and for the future.

**For more information, call
1-800-959-2492.**

"Tandem Blows Everyone Away"

*Datamation,
June 1, 1994*



Official TPC-C results — August 26, 1994.

To everyone who's excited about parallel processing these days...welcome to an information technology that Tandem has been developing for 20 years.

We're excited, too. Because 1994 benchmarks — the largest industry-standard benchmarks in history — prove indisputably that Tandem makes the most powerful, cost-effective parallel software and servers on earth.

In an independently audited TPC-C benchmark, a Tandem Himalaya K10000 open server achieved 20,918 transactions per minute (tpmC) at a price performance of \$1,532/tpmC. As you can see from the chart, that's more than *ten times greater* than the best number of any other vendor.

Thus, in the interest of friendly competition and greater service to all customers, Tandem issues the following challenge: "If before July, 1995, any vendor using any SQL relational database on any hardware platform can demonstrate higher than 20,918 tpmC at a better price/performance than that shown by Tandem's Himalaya K10000 parallel server TPC-C benchmarks, Tandem will donate \$20,918 to the charity of that vendor's choice."

Many industry analysts think our record will go unbeaten for a long time — but not, we hope, unchallenged. Any takers? Ladies and gentlemen, start your servers.

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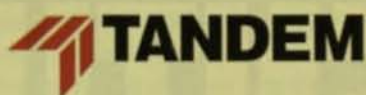
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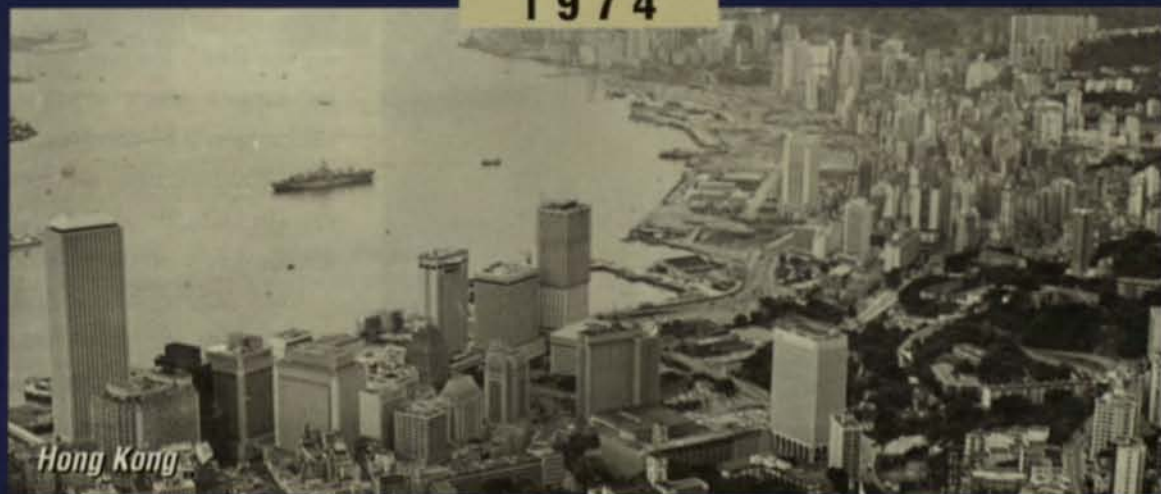
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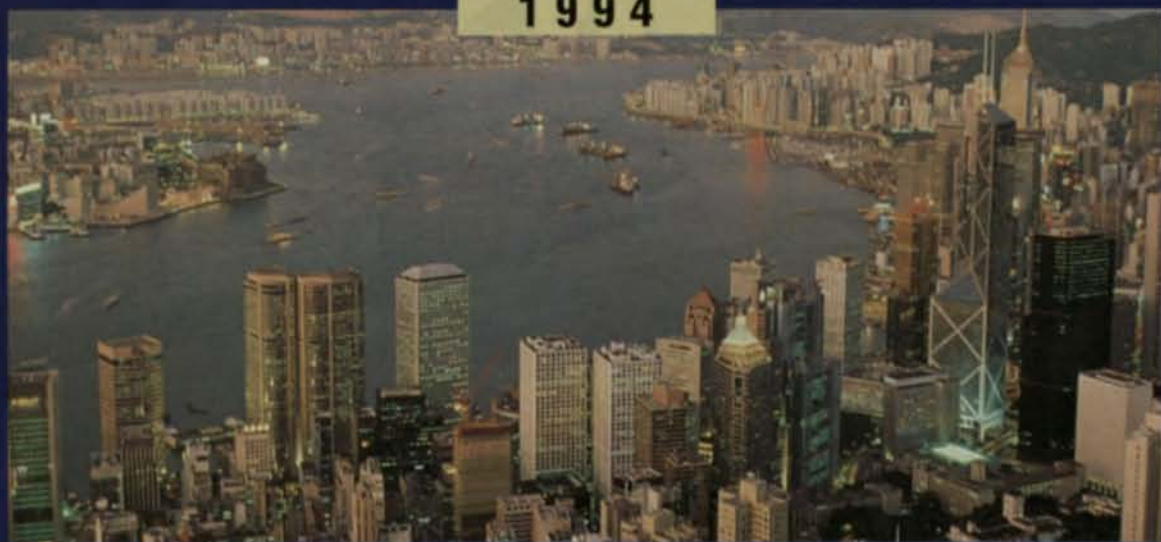
20 Years of Asian Growth

Hard-Earned Prosperity — And How to Keep It Going

1974



1994



THE NEXT CENTURY

BELONGS TO YOU


■ In the last two decades, Asian business people like you have created a remarkable era of economic growth.

Remarkable, but not surprising: your hard work, resourcefulness, and willingness to take risks are unsurpassed. And yet, as you grew, you continued to invest in and plan for even more growth. The future was always before you. Thus, not far into the new century, the Asian economy will be the largest on earth.


We at Tandem, along with our subsidiaries UB Networks and Atalla, are proud to have been part of that growth for more than twenty years. Today, Tandem solutions serve more than 10% of the Pacific Rim's leading banks, 11 of its largest stock and securities exchanges, and most of the major telecommunication service providers. (In fact, the world's 50 largest telecoms rely on our solutions.)

One-quarter of our 250 worldwide software partnerships are located in Asia, and this year alone, we opened eight offices there. Moreover, we moved our Asia Pacific headquarters to Singapore to serve you better.

Like you, we have invested in and planned for an even brighter future. Thus, our solutions provide the reliability you require today for mission-critical applications, and the scalability you'll need for future growth. We hope to be part of your future, as well.

 **UB Networks**

 **ATALLA**
A Tandem Company

 **TANDEM**

Building Reliable Information Infrastructures

For 20 years, Asia-Pacific has captured the imagination of the entire world with its astounding economic growth. But the past two decades are really just a prelude to what the region is destined to accomplish in the coming century, as cutting edge information and telecommunications infrastructures are put into place, and as entire generations of technology are leap-frogged in the race to fuel continued growth.

Tandem Computers Incorporated and its subsidiaries, UB Networks and Atalla, are proud to be partners in Asia-Pacific's continuing economic expansion — through their high performance, high reliability systems and solutions, and through a growing network of local and regional joint ventures and partnerships.



11 of Asia-Pacific's busiest stock exchanges rely on Tandem for reliable, up-to-the-minute information.

solutions. And nowhere is there an information systems vendor more uniquely suited to make a long-term difference in Asia-Pacific — through open, cost-effective, breakthrough applications — than Tandem and its subsidiaries, UB Networks and Atalla.

The reasons are simple: Tandem delivers the iron-clad reliability, record-setting performance, security and virtually unlimited expandability that Asia-Pacific needs.

The World Turns... Towards Asia-Pacific

Today, Asia-Pacific boasts the world's most vigorous economies, and most energetic enterprises. For the explosive growth to continue, a quantum leap in technology is necessary.

Flexible, reliable information infrastructures are an urgent priority throughout the region. But will they be able to process thousands of simultaneous stock trades, banking transactions and billing events, as they happen — 24 hours a day, 365 days a year, without fail? Will they accommodate all the region's differing networking requirements? Will they grow without disruption or costly modification as economies and subscriber bases continue to expand at their seemingly exponential pace?

And will they be powerful enough to enable applications that haven't even been thought of yet?

... And Asia-Pacific Turns To Tandem

Absolute reliability and linear scalability are attributes that most information systems vendors can only dream of delivering. Yet they are precisely the foundation for Tandem's Asia-Pacific success.

In a convergence of technology and regional needs, Asia-Pacific's most dynamic companies — including over 100 of its most important banks, its busiest stock exchanges, and almost all of its major telecommunications companies — have made the quantum leap, and have come to depend on highly reliable, secure, growth-enabling solutions

from Tandem and its subsidiaries. From electronic commerce and SmartPhones in Singapore, to ATM/POS networks in China, to shopper loyalty programs in Australia — Asia-Pacific has become the leading market for the information industry's best and most innovative solu-

tions.

The following pages illustrate how Tandem's technology, its strategic partnerships and investments, and its comprehensive solutions for such core markets as banking, securities, telecommunications and retailing are making a difference to Asia-Pacific commerce — helping customers realize the new efficiencies and create the new revenue-producing applications that will propel the region into the coming century.



James G. Treybig
Tandem President & CEO

In 1974, Tandem pioneered the concept of commercial parallel processing, and ushered in a real-time online transaction processing revolution. Today, at the end of our twentieth year, Tandem is a US\$2.1 billion global company, with net income of US\$170 million.

Approximately 18% of our fiscal 1994 revenue came from Asia-Pacific — our fastest growing and most strategically important business sector.

Tandem and its subsidiaries are making a difference in Asia-Pacific because the region's information systems needs are an exact match for Tandem's fundamental strengths — high performance; high reliability; low cost, open systems; and easy expandability in the face of rapid growth.

To bring these strengths to bear, we have invested heavily in the region's varied markets — including moving our Tandem Asia-Pacific division headquarters to Singapore, opening eight new offices in the last 24 months, and initiating significant joint ventures in Singapore and Shanghai for solutions development. And we've developed major strategic partnerships, with such key organizations as China Great Wall Industry Corporation, that will yield exciting dividends for Tandem and for the region as a whole.

Tandem is making long-term investments in Asia-Pacific, not just for our own future growth, but for the region's as well. Today, Asia-Pacific is a major market for leading edge solutions. Tomorrow it will be a major exporter of them. And Tandem is committed to help make that difference.

James G. Treybig
President & CEO

Tandem Computers Incorporated

Growing With Asia-Pacific

Just as Asia-Pacific is the world's fastest growing economic region, it's also Tandem's most important strategic growth region for the coming century.

From a start in Japan in 1979, Tandem's Asia-Pacific presence has grown to 700 employees in two divisions: Tandem Japan Ltd. and Tandem Asia/Pacific, headquartered in Tokyo and Singapore respectively. In the last two years, branch offices have opened in Bangkok, Beijing, Bombay, Guangzhou, Kuala Lumpur, Seoul, Shanghai and Taipei, joining existing offices in Hong Kong, Nagoya, Osaka, Melbourne, Sydney, Perth, Adelaide, Brisbane, Auckland and Wellington.

The Power of Parallelism

Commercial parallelism, first introduced by Tandem in 1974, is today regarded as one of the computer industry's hottest, leading edge technologies — delivering high performance, reliability and virtually unlimited scalability at a very reasonable cost. In Asia-Pacific this means that a company can implement a powerful parallel system at a competitive price, design an application on it, and then cost-effectively grow the system to handle the massive increases in customers, users and transactions that typify the region's fast growing economies.

Tandem's approach to parallelism is designed from the ground up to support this high growth model, without compromising performance.

What Is Parallelism?

In Tandem's parallel processing environment, hardware and software work together to split transactions among multiple, linked processors for faster execution and fault tolerance. No processor is ever idle, and should any processor fail, others within the system automatically



Tandem's solutions for reliable commercial computing are based on a range of open hardware, software and networking products.

pick up the load. Thus, all transactions are completed and no information is lost. Combined with various software techniques, this ensures absolute, around-the-clock reliability under demanding conditions — protecting companies from loss of money, dissatisfied customers and missed opportunities.

For optimal performance under peak volumes, work is automatically redistributed throughout the system to preserve split-second response times.

Example: Through Tandem's parallelism, the Stock Exchange of Hong Kong was able to go from a manual system in 1986, to a state-of-the-art, automated system that in the first year alone easily handled an

increase in volume of more than 100 percent, while maintaining average response times of less than one second in trading operations.

When Growth Can't Stop

But that's just part of the story. Tandem NonStop® parallel systems are also eminently expandable as companies add new services and new customers.

Processors, disks, networking equipment and other devices can be added online, without shutting down the system, and without requiring changes in software or expensive hardware upgrades.

Example: The Tandem system that runs the Taiwan Stock Exchange has expanded seamlessly from two to over 90 processors in just ten years to handle an incredible explosion in the number of trades. The Malaysian Stock Exchange in Kuala Lumpur has accommodated a similar growth curve, again simply by adding processors to its network of Tandem computers.

Linear Scalability — Getting All The Power You've Paid For

The ability to expand or scale linearly results from Tandem's unique, low-overhead "shared nothing" architecture. Freed from contending for shared resources, each added processor performs to full capacity, and provides a full processor's worth of power. This accounts both for Tandem's record-setting performance, and also its excellent price/performance as a system expands.

In addition, this capacity for expansion is virtually unlimited. A Tandem NonStop parallel system can scale to more than 4,000 processors, located in the same server, or distributed across an enterprise-wide, or regional, or even global network.

Example: In July 1994, after the most extensive benchmark in the history of the computer industry, a Tandem NonStop Himalaya K10000 server with 112 processors clocked 20,918 transactions per minute, with price/performance of US\$1,532 per transaction — a performance nearly ten times better than the previous industry record. *Datamation*, a leading U.S. computer publication wrote of the results: "Tandem blows everyone away."

The price/performance of the Tandem server beat other large scale systems from every major vendor, proving that Tandem's hallmark reliability and scalability are available *without* a price premium.

Open Choices

Tandem is also a strong proponent of open systems, with their freedom of choice in implementing the best, most cost-effective technologies. And while open systems and high reliability have not traditionally gone hand in hand, Tandem is committed to bringing the two together. Tandem's NonStop parallel servers support all leading interoperability, portability and manageability standards, and provide customers with the freedom to choose a reliable open solution.

Value-Added UNIX

Tandem also adds value to UNIX-based solutions through its Integrity family of SVR4-based servers. The Integrity® NR series is a highly scalable line of symmetric multiprocessing systems, while the Integrity FT line leverages Tandem's expertise in fault tolerance to provide the world's most highly available UNIX solutions.

Example: As UNIX continues gaining in popularity in Asia-Pacific, leading Integrity customers include Singapore Telecom, which bases its new mission-critical electronic messaging system on Integrity FT servers (see sidebar, *Partners In Electronic Commerce*); Korea's giant Kepco electrical power company; and Munwha, a television company in Korea with 25 fault-tolerant UNIX sites running its satellite communications.

TANDEM MEANS OPEN

COMBINE A UNIX PERSONALITY WITH PARALLEL PROCESSING AND CONTINUOUS AVAILABILITY,
AND YOU'VE GOT AN OPEN SERVER THAT'S RIGHT FOR ANY SOLUTION ENVIRONMENT.

■ Tandem? Open? Yes, indeed. Whatever the implementation you need—POSIX, DCE, TUXEDO, even CICS—Tandem's Himalaya Range delivers a transparent open-systems interface. And supports the information framework or application you choose.

Yes, *you choose*. Our open servers deliver the flexibility and choice you

need. Because truly open systems are something that users like you define, not some one-size-fits-all solution that never quite fits your needs.

What's more, Tandem's Himalaya Range combines its seamless UNIX personality with continuous availability and commercially proven parallel processing.

Thus you can expect—and get—broad

access to information; improved productivity; a larger applications pool; and the ability to better manage, port



and interoperate with legacy systems. So your investment in hardware, software and training will be safe.

Your safety is critically important to us. That's why Tandem has also developed a parallel processing architecture which ensures that your systems will operate continuously through hardware, software and network failures. In fact, the 20 years we've invested in application

availability and parallel processing bring you the most reliable servers in the world.

And now, with a 400% improvement in our price-performance, we're also making some of the most affordable servers in the world.

 **TANDEM**

TANDEM MEANS BUSINESS

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TANDEM HONG KONG (852) 802 0288, TANDEM SINGAPORE (65) 390 0199, TANDEM BEIJING (86-1) 849 2282, TANDEM AUSTRALIA 1.800.801057.

New Revenue-Generating Applications

The net result is that Tandem's NonStop and Integrity computing platforms represent a low cost pool of phenomenal processing power, enabling a new generation of revenue-producing online processing, decision support and messaging applications now taking root across the whole of Asia-Pacific — including SmartPhones, interactive TV, kiosks and home shopping, ATM/retail debit card programs, shopper loyalty and micro-marketing programs, integrated mobile communications and electronic trading.

Example: Leveraging Tandem's expertise in such round-the-clock banking applications as ATMs, Singapore's OCBC Bank Group has launched a SmartPhone service for telephone banking (see sidebar, *SmartPhones at Singapore's OCBC Bank*). The resulting new transaction volumes will be processed by Tandem's highly scalable servers.

Example: In Hong Kong, Star Paging relies on Tandem for its enhanced paging services. By providing up-to-the-minute stock quotes and money rates over its wireless paging system, Star Paging is able to generate profitable transactions and differentiate itself from its competitors.

New Efficiencies

Streamlining operations, providing better service, rightsizing computer operations — these are all concerns in countries that computerized early on, such as Japan and Australia. As organizations in these and other countries move from large mainframes to more efficient, more cost-effective architectures, including client/server, they are finding that Tandem provides ideal solutions for bridging the gap between PC LANs and legacy systems.

Example: In Japan, leading telecommunications provider NTT already has over 57 million subscribers. Their goal is to facilitate more flexible operations, and to provide more economical services. NTT uses both Tandem's high availability Himalaya servers and fault-tolerant Integrity UNIX servers for core applications in its intelligent network. The Tandem systems use advanced, open client/server technology to provide real-time monitoring and management of the network services that continue to fuel NTT's growth and profitability.

Partnering With Asia-Pacific

Much of Tandem's success in Asia-Pacific results from strong local partnerships, joint ventures and strategic investments in the region's future. Tandem is aggressively investing in Asia-Pacific — not just because Asia-Pacific is a leading information systems market, but because, by the end of the decade, it will also be a *leading exporter* of innovative solutions.

Tandem's unique model is to partner with local companies and educational institutes in order to transfer knowledge and skills, so that growth takes place naturally and on its own local roots.

Joint Venture — TwinSoft Asia

To this end, Tandem and Singapore Computer Systems Ltd. established TwinSoft Asia in 1992, a joint venture to supply applications solutions and integration services to customers in Singapore and Hong Kong.

Leading customers already include the Stock Exchange of Hong Kong, Caltex Oil (Hong Kong) Ltd., Mobil Oil, and Singapore Telecom.

Example: The Caltex project involves developing a retail gasoline credit card service, while integrating products from Tandem, ACI and Gilbarco. Caltex will market new value-added services through the card, including repair services and notification of vehicle registration, and

UB Networks — Future-Proofing The Network

UB Networks, a wholly-owned subsidiary of Tandem since 1988, is a global leader in scalable, open networking solutions. The company boasts a long list of innovations, from the first Ethernet LAN product in 1993, to the creation of the intelligent hub market, to the industry's first client/server network management system.

In Asia-Pacific, networking requirements and information infrastructures are more varied than any place in the world, and they are evolving more rapidly. UB Networks works with customers to leverage existing networking investments, while providing a cost-effective migration path to next-generation networking solutions through its advanced Access/One™ technology.

Meeting Asia-Pacific's Varied Networking Needs

In areas of low speed lines, this might mean using data compression and error correction "to run the network to the last bit." In more developed areas, it might mean allowing customers to seamlessly and cost-effectively integrate advanced ATM technology into their networks. In either case, UB Networks provides infrastructures that won't require costly "fork-lift" upgrades in order to implement emerging bandwidth-intensive applications, such as client/server and multimedia.

Example: New Zealand's MidCentral Health Ltd., a 750-bed hospital with three smaller satellite hospitals and several clinics, implemented a multi-site network capable of supporting multiple protocols and using hubs and routers from UB for both local and remote communications. A fiber optic backbone connects the sites. MidCentral is now in a position to implement advanced applications, including imaging and full-motion video, for helping to diagnosis patients remotely. MidCentral is also ready for ATM, as the technology matures. The UB infrastructure can support these emerging applications and architectures because the ability to expand bandwidth is already designed in.

Positioning Customers For The Coming Century

While UB Networks does business independently in Asia-Pacific, through its offices in Australia, Hong Kong, India and Singapore (and soon in Korea), the company also works in concert with Tandem. Together they deliver customer solutions throughout Asia-Pacific that blend both computing and networking elements.

A recent example is provided by Tandem and UB's joint automation project at the Bombay Stock Exchange, where UB will provide all the exchange's highly reliable delivery systems to banks and brokers throughout India.

Another recent example of the two companies' synergy is the Tandem/UB "Trusted Network" solution for improving network availability in distributed computing environments.

At the end of the day, UB Networks provides complete, integrated network solutions to meet the varied and rapidly evolving needs of its Asia-Pacific customers — protecting and enhancing today's technology investments, while positioning customers to take advantage of tomorrow's advances.

GLOBAL BUSINESSES RELY ON OPEN NETWORKS BUILT FOR BUSINESS.



OPEN GLOBAL NETWORKS DESIGNED, INSTALLED AND SERVICED BY UB NETWORKS.

You need an open enterprise network capable of providing instant access to information. Anytime, anywhere. Such networks are extremely complex to design, install, and manage. Particularly when staff and budgets are limited.

Over the last 15 years we've installed tens of thousands of network nodes for many of the world's most successful companies. We can do the same for you.

Our products protect your investment, so you can implement new technologies on a pay-as-you-grow basis. All our solutions are backed by experienced, global service and support and provide open information solutions that deliver the competitive advantage you're seeking.

Call your UB Networks sales office or reseller for our free guide, "How To Solve Network Complexity." We'll help your enterprise become a world power.

ACCESS/ANYWHERE™ from UB Networks

Access/Workgroups™ Stackable hubs and management tools for Ethernet and Token Ring workgroups with Access/Stax™ and Access/TRax™.

Access/One™ Full-featured manageable connectivity options for the entire enterprise using Token Ring, FDDI, ATM and Ethernet with VNA™ supporting virtual networks.

Access/Management™ The NetAssistant™ for Windows, NetDirector™ for UNIX™ and OS/2™ products offer the network management features you need, priced for networks of any size.

Access/ATM™ GeoSwitch 155™ and the other Access/ATM products distribute high-bandwidth capabilities throughout your network when and where you need them—ATM/Anywhere™ for high-performance workgroup connections or LAN-to-WAN connectivity at the right price.

Access/Service™ Expert service, integration, consulting, and training, available worldwide. And we can support your network wherever and whenever you need us.

For more information, or to locate the UB Networks office nearest you, call

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UB Networks

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Our Experience Makes It Simple.

ATALLA MEANS SECURITY

▪ Bankers worldwide protect their customer's PIN numbers and financial transactions with Atalla security systems. Just ask. . .

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Hong Kong Bank (Hong Kong)
Shanghai Bank (Hong Kong)
Citizen's National Bank (Korea)
Bank Credit Card Co. (Korea)
Deutsche Bank (Germany)
Bank of America (USA)
Bank of Montreal (Canada)
ANZ Bank (Australia)
ETSL (New Zealand)
MegaLink (Philippines)
BancNet (Philippines)

 **ATALLA**
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Atalla — End-To-End Security In Asia-Pacific, and Around the World

As Asia-Pacific's financial infrastructures link to networks around the world, security is becoming an issue of paramount importance. Due to increasing globalization, Asia-Pacific's POS and ATM transactions can no longer afford to flow through



Bank customers select their own personal identification numbers (PINs) using Atalla's convenient Card Activation and PIN Selection system.

networks "in the clear." Customer PINs need to be protected, and transactions need to be secured end-to-end. To connect to leading international financial networks, this kind of security is not just essential, it's mandatory.

Tandem's wholly-owned Atalla subsidiary pioneered hardware-based security for banking and retail businesses. One half of the world's ATM networks rely on Atalla security. Major Asia-Pacific

customers include Citizens National Bank and Credit Card Company in Korea, and Japan's giant JCB (Japan Credit Bureau).

In the Philippines, two of the largest ATM networks, MegaLINK and BancNet account for approximately 90% of the nation's ATM traffic. These networks use Atalla modules exclusively, to encrypt, decrypt, authenticate and verify ATM messages.

Secure Enrollment

Atalla's goal is to provide an integrated security management system for the life of a credit or debit card. Thus, Atalla's end-to-end security solutions include secure enrollment systems that allow bank customers to confidentially choose their own credit and debit card PINs in a bank's branch office, or even from home. These systems have been shown to save banks from US\$.50 to US\$1 on each card they issue, while the ability for customers to select their own PINs leads to increased card activity.

From Point-of-Entry To The Host

Atalla also provides secure, customer-activated point-of-entry devices, or transaction terminals, for retail and branch office use, along with "plug-and-play" security processors and modules at the host level for PIN processing, encryption, key management and message authentication.

The result is end-to-end transactional security across the network — from the point-of-entry, to the host, and beyond to today's global financial networks.

they will also automatically gather valuable data on sales volumes per outlet and regional average prices.

Joint Venture — Shanghai Tandem Software System Ltd.

Partnerships have been particularly important to Tandem's growing success in the People's Republic of China. In 1993, the highly respected East China Institute of Computing Technology teamed with Tandem to establish a joint venture software porting center in Shanghai. Known as Shanghai Tandem Software System Ltd., the center employs 125 people and delivers Tandem application solutions to organizations within China and around the globe.

When The People's Bank of China and Shanghai Credit Card Network Ltd. recently launched a major ATM and POS Network Integration System, they selected Shanghai Tandem Software as the software developer.

China Golden Card Project

While essentially a cash-based society, China is moving quickly to establish advanced ATM and POS capabilities. Central to the effort is the massive Golden Card project for payment applications, one of four high profile "Golden Projects" aimed at driving large-scale modernization in China.

Tandem is presently working with China Electronics Corporation (CEC), part of the Ministry of Electronics and the largest electronics enterprise in China. CEC has been approved as the systems integrator and designer for a number of Golden Card pilots. Together, Tandem and CEC will attempt to secure additional Golden Card opportunities, and pursue other Golden Projects as well.

So far, three Golden Card projects have been awarded — Hainan Island, Shanghai and Guangdong — and Tandem has won all three. In these sites, Tandem servers act as the central switch to link ATMs and POS terminals to major Chinese banks.

In the very near future, Tandem will install a Switching Network System in Guangdong Province, linking every ATM machine within Guangdong, as well as POS terminals in restaurants and stores throughout the province, with the switching center.

China Great Wall Computer Technology Ltd. New Company Dedicated To Tandem Solutions

In August 1994, Tandem signed an agreement with one of the largest and most prestigious organizations in China, China Great Wall Industry Corporation, a 300,000 employee spin-off of the Ministry of Aerospace. As China's premier aerospace enterprise, China Great Wall is involved in projects ranging from communications networks to designing satellites.

The agreement marks Tandem's entry into China's high technology fields, following on the company's rapid expansion into China's banking, financial and telecommunications industries.

The immediate was the establishment of China Great Wall Computer Technology Ltd. — a new organization dedicated to promoting and selling Tandem solutions throughout China. Tandem will initially provide sales and technical training.

Meeting Key Market Needs

In Asia-Pacific, as around the world, Tandem concentrates its efforts on high growth markets, including banking, securities, telecommunications and retailing, along with other strategic, infrastructure-intensive industries. Working with leading software providers from the region and from around the globe, many of which are Tandem Alliance Partners, the company has built a comprehensive suite of solutions that leverage its high reliability, high performance platforms.

Banking On Tandem

Banking is both a mainstay of Tandem's success around the world, and its success in Asia-Pacific. 65% of the world's largest ATM networks and approximately 70% of its EFT/POS systems are Tandem-based, with Atalla supplying the security in the majority of the cases. In Japan alone, Tandem systems are used by such leading banks as Sanwa, Sumitomo Trust, IBI, Bank of Tokyo, and Daiwa Bank.

As China automates its banking systems, Tandem is already playing a leading role, providing systems to the Industrial and Commercial Bank of China for funds transfer, the Pudong Development Bank and the Guangdong ATM Network.

Tandem's 24-hour-a-day, 365-day-a-year availability and linear scalability allow banks to confidently introduce new products and services that bring them closer to their customers, such as Singapore's OCBC Bank Group's new SmartPhone service (see sidebar, *SmartPhones at Singapore's OCBC Bank*).



A long-term Tandem customer, OCBC runs almost its entire retail and wholesale banking platform on Tandem.

SmartPhones at Singapore's OCBC Bank

In October 1994, Singapore's OCBC Bank Group launched an innovative electronic banking service, called "Easi-Tellafone," based on Tandem SmartPhone technology. The Tandem SmartPhone is a full-featured telephone, but with a large, easy-to-read touch screen that can display text and graphics.

Value-Added Banking Services

Bank customers can use SmartPhones to carry out all transactions available at traditional ATMs, except cash withdrawal. The unique touch screen lets users conveniently and graphically conduct their banking business without waiting for the voice-only prompts typical of other phone banking systems, resulting in speedier transactions.

Tandem Alliance Partner, ACI, provided the applications software and Tandem NonStop servers will handle the resulting transaction volumes.

A long-term Tandem customer, OCBC runs almost its entire retail and wholesale banking platform on Tandem. Known for its innovative business practices, OCBC is the first bank outside of Japan in Asia to adopt Tandem's new state-of-the-art SmartPhone technology for value-added banking services.

Complete Financial Solutions

Partnerships with leading banking/financial solutions providers, including Applied Communications Inc. (ACI), Deluxe Data Systems, EDS, Kirchman, Internet and Software Partnership have further leveraged Tandem's presence in the Asia-Pacific banking world, as have local partners such as Sahaviriya in Thailand.

Securities Markets — Investments In Growth

From Seoul to Taipei to Hong Kong to Kuala Lumpur to Wellington — the region's busiest stock exchanges have joined the vast majority of exchanges around the world in relying on Tandem's fast, reliable, scalable solutions for instantaneous access to trading information and around-the-clock systems availability.

Recently, Tandem automated one of China's first stock exchanges, in Shenzhen. And the Bombay Stock Exchange, the largest in Southeast Asia, has embarked on a program with Tandem, UB Networks and Computer Maintenance Corporation (CMC) to replace its manual systems with a state-of-the-art infrastructure capable of handling trading volumes expected to grow to over 500,000 daily trades.

Telecommunications — When The Future's On The Line

Asia-Pacific is getting wired — or, for that matter, is going wireless — faster than any corner of the globe ever has. With vast territories and growing populations to connect, the region's governments have made the establishment of efficient telecommunications a top priority.

Deregulation and privatization trends in some countries are opening new markets, and creating new competitive pressures.

Across the region, Tandem is helping telecoms implement new technologies, add new subscribers, differentiate themselves with value-added services that leverage existing network resources, and more profitably handle their growing businesses.

Full Range of Telecommunications Solutions

Tandem provides a full range of service solutions, ranging from customer contact solutions, such as billing inquiries, service order entry, fault reporting and directory inquiries, to intelligent network solutions like Virtual Private Networks, toll-free services and authorization services for calling cards. Value-added or enhanced services include electronic mail, voice mail and interactive voice response.

Finally, Tandem offers numerous applications in the area of operations support, including traffic data collection, network management, plus call detail and transaction recording.

Retailing — An Online Revolution In The Making

Throughout Asia-Pacific, you can hear the rumblings of an automated online payment revolution, made possible by more powerful, less expensive computing resources. In the bid for a competitive edge, stores are beginning to warehouse valuable sales data derived from POS transactions, and are starting to put it to use.

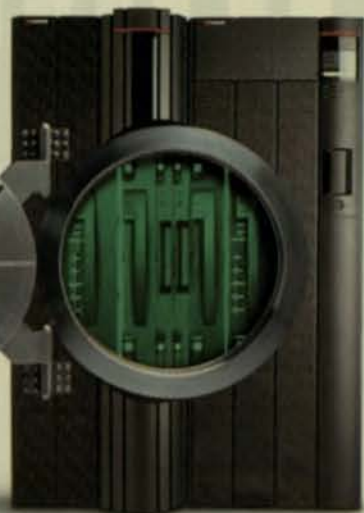
Applications include sales tracking systems that help chains customize stock on a store-by-store basis, and micro- or pinpoint-marketing programs based on knowledge of individual customer buying patterns.

Building Shopper Loyalty

Frequent shopper programs, which reward customer loyalty, repre-

TANDEM MEANS BANKING

Can one computing platform do all that? Apparently 500 of the world's leading banks think so, because they rely on Tandem computers. In brief, our computers offer extraordinary reliability (and flexibility) because of a technology we've been developing for 20 years: parallel



■ Banking hours in today's Electronic Age are 24 hours a day, 7 days a week, 365 days a year... with no holidays or downtime allowed.

financial management. Thus helping deliver a wide range of cost-effective products and services to your customers.

The right systems will also be open

processing. Our computers are so reliable that—despite hardware, software and network failures—you can keep using them under regular working conditions 24 hours a day, 7 days a week, 365 days a year. In other words, normal banking hours.


If you'd like to know more about

**ASSET QUALITY. REGULATORY COMPLIANCE. CUSTOMER SERVICE. NEW PRODUCTS AND SERVICES.
COST REDUCTION. WELCOME TO BANKING IN THE RELENTLESSLY COMPETITIVE 1990s.**

But information systems can be a formidable ally against time and the bottom line if you choose wisely and well. The right systems can reduce the cost of processing customer transactions, and give you the information you need to make critical decisions about credit and

enough to let you downsize and re-engineer the considerable investment you already have in legacy applications, reduce costs, and help you anticipate your customers' needs—and thus earn their loyalty and business for years to come.

Tandem computers and receive our ongoing series of white papers on banking applications, please call Tandem today.

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TANDEM MEANS SECURITIES

Although electronic exchanges have replaced floor trading in some locales, traditions die hard. So here, for the purists among us, is a sampler of traders' signals.



Four Offered.



Put Option.



Working.



Filled.

IN A WORLD OF 24-HOUR TRADING, TANDEM'S SERVERS ARE AN EXCELLENT INVESTMENT.

■ "He who knows first, wins," is the law of a global market that trades continuously. It's also an excellent reason to run your critical applications on Tandem's Himalaya Range of parallel servers. Our servers use the power of parallel


processing to speed along your trading and information. By distributing transactions or queries across multiple processors, the Himalaya Range will minimize bottlenecks and expedite time-critical applications like trading, market dissemination, clearing and settlement.

But speed is only part of the story. The UNIX personality of our servers also gives you flexibility: improved access to more information sources, shorter development times and easy integration of legacy applications. Our servers' 20,000-to-1 scalability allows you practically unlimited room to expand, without applications or system software changes.

And, we hasten to add, Tandem's parallel processing also means continuous availability and unsurpassed reliability.

Perhaps that's why more than 160 securities firms and exchanges around the world are already using Tandem servers to give them the information... when they need it.

And we'd be pleased to give you the information you need to be a winner in securities, too. Just call Tandem today.

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TANDEM MEANS ELECTRONIC COMMERCE

■ The constant exchange of critical information between your company, your company exchanges that information—so you can reduce the time it

NOW, THERE'S ONE SURE WAY THROUGH THE MESSAGING MAZE.

your customers, and your suppliers has never been more essential or more complex. Or more difficult to achieve, given the realities of downsizing.

With that in mind, Tandem offers continuously available NonStop Messaging solutions that can simplify how

takes to develop new products and the costs required to get them to market.

And unlike proprietary offerings, our open, standards-based EDI and X.400 solutions will exchange messages seamlessly with your employees and business partners now and in the future.

It's working today for world leaders in healthcare, banking, telco and other value-added service providers. For companies like EDS, Motorola's EMBARC™ and Harbinger—and it can work for yours.



Our scalable solutions also offer a seamless migration to the electronic commerce of the future, as your

company expands. Whatever the future brings. So grow as big as you like—we'll be right there with you.

 **TANDEM**

TANDEM MEANS BUSINESS

TANDEM NORTH AMERICA 1-800-959-2492 EXT. 903, TANDEM EUROPE (44-81) 848 5849, TANDEM JAPAN (81-3) 5463 6600, TANDEM HONG KONG (852) 802 0288, TANDEM SINGAPORE (65) 390 0199, TANDEM BEIJING (86-1) 849 2282, TANDEM AUSTRALIA 1.800.801057.

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sent an extremely promising application arena enabled by powerful, online retail systems.

Example: In Australia, Loyalty Pacific Pty Ltd, recently launched one of the region's most significant customer loyalty programs, called Fly Buy's. A plastic card-based program, Fly Buy's allows consumers to build points towards airline tickets by shopping at major retailers and

Tandem Telecommunications Customers

Tandem does business with most of Asia-Pacific's telephone companies and telecommunications providers, including:

Japan: NTT, KDD, Telecom Japan, ITJ, DDI

Korea: KT, DACOM

Hong Kong: AT&T

Taiwan: DGT

Singapore: Singapore Telephone

Malaysia: Telecom Malaysia

Philippines: PLDT, Globe Telecom

China: All Provincial PTTs through relationships with Sprint and Motorola

Australia: Telecom Australia, OPTUS

Singapore Telecom and Tandem — Partners In Electronic Commerce

The brave new world of electronic commerce — where computerized spreadsheets, graphic files, technical specifications, even structured business documents, can flow seamlessly and securely between organizations — is fast becoming a reality in Singapore and throughout Asia/Pacific. Singapore Telecom, one of Asia's most forward-looking enterprises, has just launched an exciting new Enterprises Messaging Services program that allows business subscribers to easily exchange such information between totally different computer environments.

Powered By Integrity

The processing power for the program will be provided by Tandem's UNIX-based Integrity FT platform, running software developed by Twinsoft Asia, Tandem's software joint venture with Singapore Computer Systems Ltd., as well as Messenger 400, telex, fax interfaces, EDI and electronic mail gateways. The new system will handle protocol conversion between dissimilar computer environments and provide intelligent routing over a high speed, secure X.400 network, locally as well as internationally to 35 countries.

24 Hour Availability

Tandem's Integrity FT system provides the comprehensive fault-tolerance necessary for mission-critical services that must be accessible and trouble-free around-the-clock to accommodate global enterprises. The Integrity system ensures enhanced information protection through such features as data replication and comparison, write-protection logic, parity checking, disk mirroring and integrated power-failure recovery.

using a National Australia Bank card. More than 10 million transactions are expected to be generated each day by the end of the program's second year. Tandem's high performance NonStop SQL database software, running on a highly scalable NonStop system, will provide a processing backbone that will expand with the program.

Value-Added Retailing

Lately there has been an emergence of interactive customer interfaces and devices that create transactions, and which promise to add a new dimension to retailing operations. Asia-Pacific has not been shy in embracing these new technologies as competitive tools.

Example: Busy Japanese shoppers can enter Selyu Family Mart convenience stores 24 hours a day and quickly select tickets for concerts, sporting events or air travel using Tandem SmartPhones located in the stores. The application, which avoids costly host programming through the use of a pre-programmed memory card in the phone, was developed by Tandem Japan.



Thanks to Tandem's SmartPhone technology, 24 hour-a-day ticketing for concerts, sporting events and air travel is available in Selyu Family Mart convenience stores.

Into The Next Century

Today, technologies are converging at an accelerated pace to create new applications, new solutions, new opportunities.

Already "Around The Corner"

Beyond the banking, finance, telecommunications and retail markets, Tandem sees Asia/Pacific markets embracing leading edge solutions for electronic benefits transfer, public safety, customs clearing, immigration control and fraud management. Some of these are "just around the corner," while others are being implemented by Tandem customers today.

Example: In Australia, an organization called AUSTRAC (Australian Transaction Reporting and Analysis Centre) operating under the auspices of the Commonwealth Attorney General, uses Tandem servers and NonStop SQL database software to track virtually all cash movements of \$10,000 or more into, out of, and within Australia — with an eye to spotting possible fraud, money laundering or other illegal activities.

Second 20 Years Of Growth And Beyond

Tandem's technology advantages, its local and regional partnerships, and the region's need for reliable, expandable information infrastructures have all combined to make Asia/Pacific Tandem's strategic growth area for the coming century.

As Tandem continues to grow, a lion's share of that growth will be fueled by what Tandem brings to the markets of Asia/Pacific. And by what the company, its joint ventures and partnerships export in terms of skills and technology.

Tandem is investing its own future in Asia/Pacific, just as its Asia/Pacific customers are entrusting theirs to Tandem.

TANDEM MEANS TELECOM

WE PROVIDE SOLUTIONS FOR THE WORLD'S 32 LARGEST TELECOM COMPANIES...
AND SCORES MORE WHO'D LIKE TO JOIN THEM. ARE YOU AMONG THEM?

■ Let's speak plainly. Each day, the biggest players in telecommunications entrust their most business-



critical needs to Tandem. And we repay their trust with the most reliable telecom solutions in the world.

Thus we've helped com-

panies like AT&T, Sprint, GTE, Motorola, BT and NTT get to the top—with innovative solutions for mobility management, voice recognition, videotext, fraud detection, billing and customer care. Even solutions for interactive multimedia. Solutions that can help you deploy new products and services... and get them to market fast.

Today, every major telecom service provider in the world relies on us for open, cost-effective solutions for network operations, business systems, intelligent networks and value-added services. And soon—at Tandem solution centers worldwide—we'll help those same companies develop new ways to communicate.

Why not join us? Whether you're a global giant extending your reach or a start-up with worlds to conquer, Tandem telecom solutions can help you do it.

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MARKETS
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BUSINESS

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TALKING BUSINESS

"This is a major milestone for the industry."

HUGH L. MCCOLL, JR.,
chief exec of NationsBank, on merger with Barnett Banks

Money DIGEST



Today's stock market story — Page 4C

Consumers went on spending spree in July

Consumer spending shot up 0.8 percent in July, the biggest jump in six months as Americans returned to the shopping mall after a spring lull. But personal income didn't keep up — growing only 0.1 percent, the smallest gain since October. That could mean the July spending pace won't be sustained. Consumer spending represents two-thirds of the nation's economic activity. [B710]

Home sales rise for 3rd month

New home sales rose 0.9 percent in July, the third straight monthly advance. The gains were concentrated in the West; sales fell in the other three regions. The Commerce Department said sales of single-family homes totaled 817,000, at a seasonally adjusted annual rate, up from a revised 810,000 in June. Analysts had expected little change. For the first seven months of the year, sales are 7.4 percent above those of the same period a year ago. [B711]

Coffee prices perk up

Coffee prices closed at their highest levels in nearly three months Friday as traders fretted about possible crop damage from the global weather pattern called El Niño. Coffee for December delivery rose 4.65 cents to close at \$1.80 a pound, its highest closing price since June 9. El Niño could affect coffee production in Indonesia, Chile and Peru. [B712]

Friendly Ice Cream sets IPO

Friendly Ice Cream Corp., a leading maker of premium ice cream products in the Northeast, plans to go public with a stock offering valued at more than \$100 million. Friendly, which owns 700 restaurants, filed with the Securities and Exchange Commission Friday to offer up to five million common shares at between \$19 and \$21 each.

Tandem buffs up Compaq

Stock swap: Each firm's share price has soared since deal was announced, with the buyout completed at more than \$4 billion.

BY JANET RAE-DUPREE
Mercury News Staff Writer

Compaq Computer Corp.'s stock swap purchase of Tandem Computers Inc. mushroomed in value by \$1 billion — to more than \$4 billion — by the time Tandem shareholders put the final seal of approval on it Friday.

Jubilant Tandem and Compaq officials said after the deal's conclusion that the two companies — which announced their intention to merge just two months ago — already have begun operating as one.

"(The merger) went at record pace, but that was our expectation," said Earl Mason, Compaq's chief financial officer.

"They have very modest expectations," joked Tandem Chief Executive Roel Pieper,

who will continue to head up what is now Compaq's Silicon Valley subsidiary.

Compaq, based in Houston, is betting that Cupertino-based Tandem will help it move into the corporate markets crucial to making Compaq one of the world's biggest computer makers.

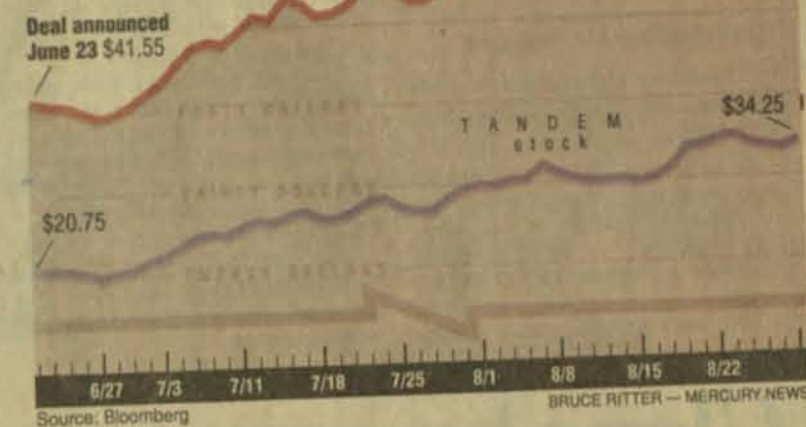
Tandem — founded in 1974 to market fail-safe computers that virtually never crash — has a support network of salespeople among its 8,000 employees and a strong reputation in big business. Compaq, with 18,000 employees, has a vast distribution network and the world's most popular line of personal computers.

Nearly three-quarters of all Tandem's voting

See TANDEM, Page 2C

A bigger deal

Compaq Computer Corp.'s stock swap purchase of Tandem Computers Inc. went from \$3 billion at the time of the announcement to \$4 billion when it closed.



Angst in Asia



Apple turns the screws on clone buyers

Upgrades to the OS 8 will cost more than for Mac purchasers

Are clone makers getting a raw deal or is Apple making a shrewd move? And who's looking out for Mac

BY TOM QUINLAN
Mercury News Staff Writer

Consumers have become the latest pawns in the battle of wills between Apple Computer Inc. and the manufacturers of Macintosh clones.

Apple has barred clone purchasers from a program that offers recent Mac buyers the latest operating system upgrade for just \$9.95. Instead, clone buyers must now buy Mac OS 8 through computer

2C

Purchase of Tandem adds bulk to Compaq

■ **TANDEM**
from Page 1C

shares were cast in favor of the merger, which required approval by only 50 percent.

Compaq's shares have risen in value by more than 53 percent since the deal was announced — closing at \$65.50 Friday. Tandem shares more than doubled, from \$15 before the merger was revealed to \$34.25 by the time the market closed Friday.

Clear before the merger

"If you're a shareholder in either company, you're very happy today," Mason said.

It was clear before the merger that Compaq was hoping to move into Tandem's market at the same time Tandem was trying to figure out how to break into Compaq's world.

"We were going to make substan-

tial investments to get there, but with my friend Roel we're here almost overnight," Mason said.

Both he and Pieper said any changes to come will be subtle and aimed at presenting a uniform product package for customers. No layoffs are anticipated at either company; in fact, both continue to hire new employees at a rapid clip.

Pieper said his research has convinced him that Compaq will leave unchanged the culture developed over the last two decades at Tandem, considered to be an icon of Silicon Valley corporate style.

"Both organizations will undoubtedly influence each other, but from what I've seen of Compaq around the world each place has its own culture and feel about it," Pieper said. "Compaq Japan is different from Compaq Texas. Compaq as a whole understands that you have to meld very different languages and cultures and people together to make a whole company."

"Major change is not what we're looking for," Pieper said. "Both companies have to continue doing their business. We both have good momentum. . . . This is about additional growth and continued momentum."

Savings discovery

Already, Tandem has discovered that Compaq's huge volume purchases of supplies can help Tandem save 30 percent to 40 percent on the cost of building its hardware products.

Officials believe that the two sales forces will be completely merged and presenting a single, coherent product package within a few months.

"The customers will see one company, with a broader product portfolio," Pieper said. "They'll see one server and one support network . . . at the lowest cost and the lowest risk."

Clone buyers squeezed

■ **CLONES**
from Page 1C

puter maker's conviction that clone sales are costing it money.

Though Apple released Mac OS 8 in mid-July, it has so far refused to let clone makers use the new OS. Apple also recently notified clone manufacturers that it will block their plans to use cheaper, industry standard components in their computer systems.

But this is the first action Apple has taken that so directly impacts the buyers of clones, rather than the manufacturers.

Disappointment

"We're obviously very disappointed in Apple's actions," said Phil Pompa, vice president of marketing for Fremont-based Umax Computer Corp. "particularly as this directly impacts our common customers. Obviously we've fielded a lot of calls since this notice went up."

Power Computing of Austin — the largest U.S. cloner — declined to comment.

But while most observers expected Apple to end up looking bad, exactly who put customers in the middle of the family squabble is in dispute.

Some officials at the clone compa-

nies said they weren't notified of Apple's new upgrade pricing plan until earlier this week. But Apple spokesman Russell Brady said his company "believes we acted quite reasonably in this case. We told our licensees that this would happen in early August."

The question of when the clone makers were told is important, because Apple's decision is retroactive to Aug. 1, according to an Internet page the company posted Wednesday. Only those who bought a qualified clone system between June 22 and Aug. 1 — and who ordered the software from Apple before Aug. 1 — will be eligible for the \$9.95 Mac OS Up-To-Date program.

If Apple's decision had become public in early August, anyone who bought a clone later in the month would have known the cheap upgrades were no longer available. As it is, those who bought clones in August expecting a \$9.95 upgrade are now discovering they have to pay another \$60.

Brady said Apple chose to change the rules on the Up-To-Date program because of its licensing spat with the clones. "We thought it was reasonable to include the clone systems in the Up-To-Date upgrade program when we expected to come to a quick agreement on the new licensing deals," he said. "Obviously

that's not going to happen now."

Analysts disagreed on the wisdom of Apple's move.

"This certainly looks like a program that's ill-conceived," commented Rob Enderle, a senior industry analyst for The Giga Group, a market research firm in San Jose. "The people who will be most upset are Mac users, who are still buying Macintosh computers, just not from Apple."

The move could backfire if clone users feel betrayed by Apple, he added. "I don't think you can go out and shoot 10 percent or 20 percent of your fanatically loyal users and expect the rest of them to stay loyal."

Some show sympathy

Other analysts had sympathy for Apple's position.

"Apple is trying to make it clear to its licensees that if the clone program is going to go forward, it has to be a win/win solution for both parties," said Tim Bajarin, president of the market research firm Creative Strategies Inc. in Santa Clara. "There's no question that the past business model was a losing proposition."

However, Bajarin added, "Their current situation, which alienates customers is also a losing proposition."



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TANDEM HISTORICAL INFORMATION
— SAN JOSÉ MERCURY NEWS - 8/30/97 —
(TANDEM/COMPAG MERGER)

Business Week

14115

BP's new boss prods a faltering giant

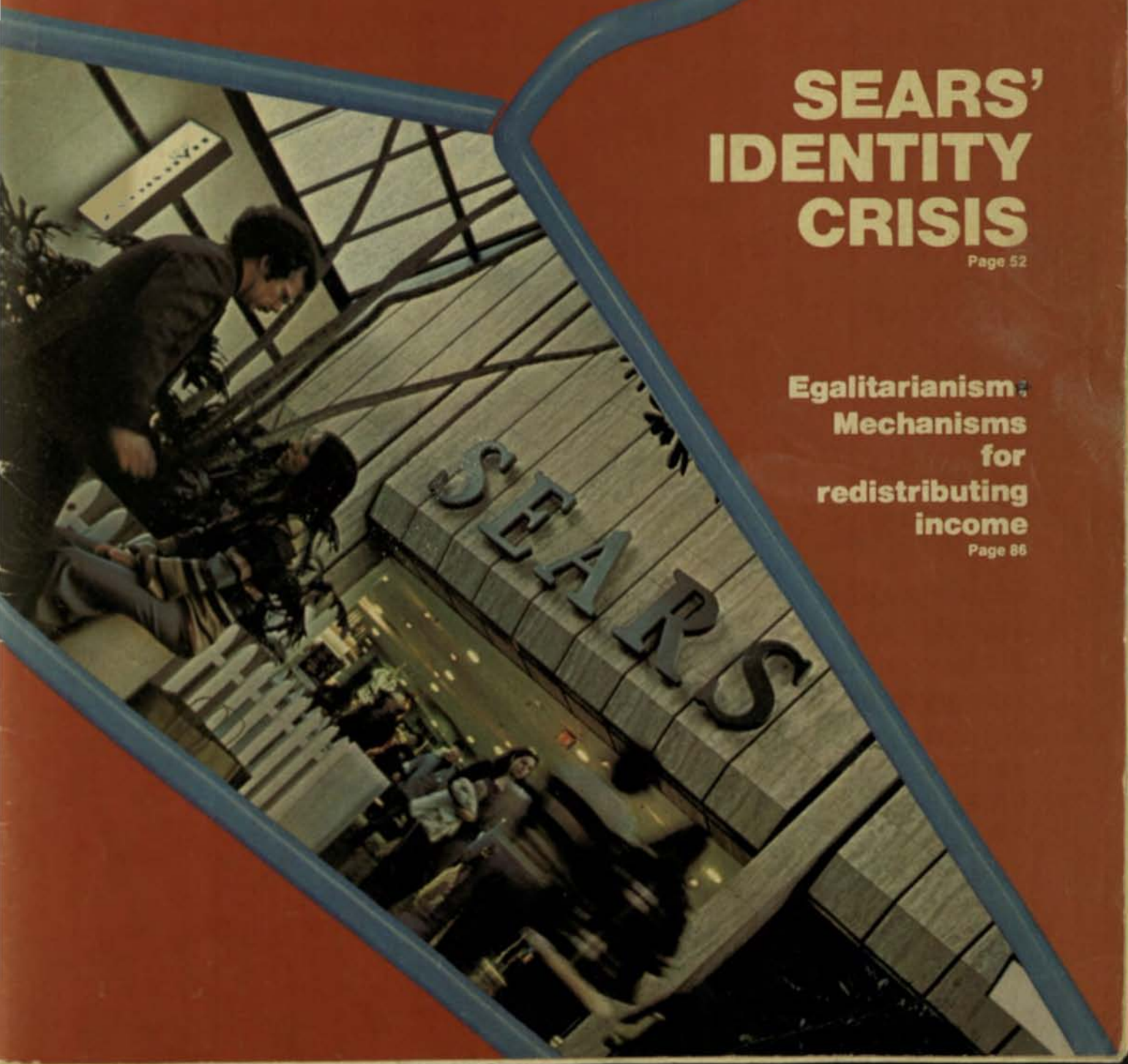
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SEARS' IDENTITY CRISIS

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Egalitarianism: Mechanisms for redistributing income

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Coming on quietly, our just-introduced JD762 Scraper features isolation-mounted components and other engineering refinements to reduce noise for both the operator and bystander. Even so, this 175-net-hp machine with John Deere turbocharged engine still has the highest horsepower-to-weight ratio in its class. Two-axle design permits full turns between curbs of new 30-foot residential streets, one site where you can expect to see this advanced 11-cubic-yard machine working. An infinitely variable hydrostatic drive powers the elevator chain to self-load the JD762 with material from loose beach sand to clay or generating-station coal. Your inquiries about our products and our company are welcome. John Deere, Moline, Illinois 61265.

JOHN DEERE on the move



December 8, 1975

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Sears' identity crisis

The nation's No. 1 retailer—hit by slower sales, profits, and marketing momentum—must figure out what it wants to be to its customers. The giant chain may be losing its appeal to the low incomers who have traditionally shopped at Sears

Cover: A Sears store in Paramus, N. J. Airbrush rendering by James Humphrey. Photograph by Steve Anderson



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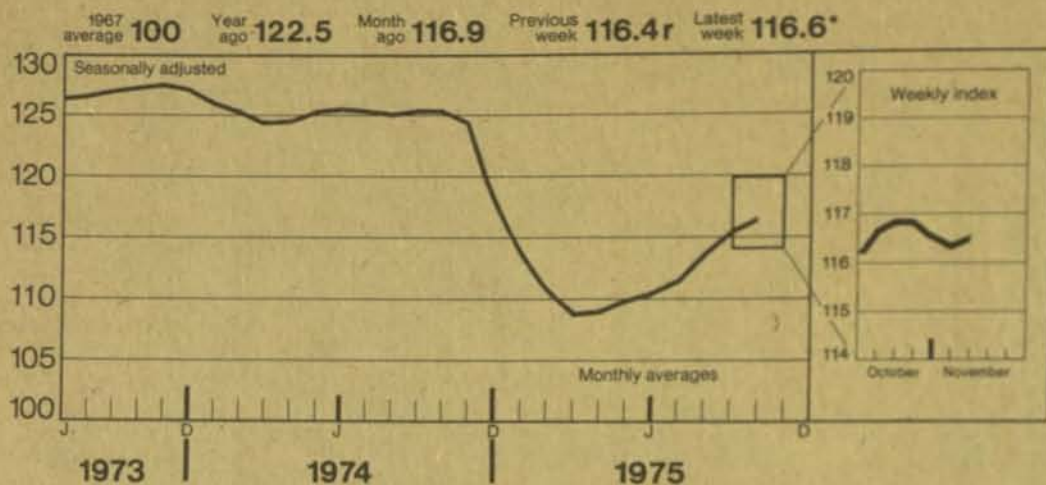
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Too much union power

Business Week index

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The index inched up for the week ended Nov. 15, following two weeks of declines. After seasonal adjustment, auto output increased sharply as two assembly lines that closed for inventory adjustment in the previous week reopened because of improved car sales. Bituminous coal production and crude-oil refinery runs advanced significantly. Minor gains occurred in steel, trucks, paperboard, and electric power. Intercity truck tonnage declined for the third consecutive week. Small losses were posted in paper, lumber, and rail freight.

Figures of the week

	Latest week	Previous week	Month ago	Year ago	1967 average	
Production						
Raw steel/Amer. Iron & Steel Inst., thous. of net tons	Nov. 22	2,088	2,067#	2,040	2,642	2,440
Automobiles/Ward's Automotive Reports	Nov. 22	173,761	172,110r#	164,405	139,486	142,438
Trucks/Ward's Automotive Reports	Nov. 22	51,965	55,576r#	52,945	58,024	30,490
Electric power/Edison Elec. Inst., millions of kilowatt-hours	Nov. 22	36,231	35,903#	34,502	35,040	23,169
Crude oil, refinery runs/Amer. Pet. Inst., daily av., thous. of bbl.	Nov. 22	NA	12,693#	12,246	12,317	9,815
Bituminous coal/Bureau of Mines, thous. of net tons	Nov. 15	13,580#	13,775r	13,350	7,270	10,627
Paperboard/Amer. Paper Inst., thous. of tons	Nov. 22	NA	560.3#	553.2	532.2	438.8
Paper/Amer. Paper Inst., thous. of tons	Nov. 15	504.0#	507.0r	488.0	513.0	402.8
Lumber/WWPA ¹ , SFPA ² , 225 mills, millions of feet	Nov. 15	200.1#	204.6	211.5	175.6	186.4
Trade						
Rail freight traffic/Assn. of Amer. RRs, billions of ton-miles	Nov. 15	15.6#	15.9	15.8	15.8	13.8
Intercity truck tonnage/Amer. Truck Assn. Inc., unadj., index	Nov. 15	119#	123	122	138	100
Retail sales/Census Bur., unadj., in millions	Nov. 15	\$11,793	\$11,709	\$11,384	\$10,587	\$6,035
Department store sales/Census Bur., unadj., in millions	Nov. 15	\$1,389	\$1,296	\$1,151	\$1,234	\$527
Prices						
Industrial raw materials, 13 spot commodities/BLS, Tues. index	Nov. 18	179.1	180.2	180.9	194.4	100
Foodstuffs, 9 spot commodities/BLS, Tues. index	Nov. 18	205.9	212.7	231.8	277.9	100
Finished steel composite/Iron Age, lb.	Nov. 24	13.693c	13.693c	13.693c	12.433c	6.464c
Copper/electrolytic, del., Metals Week, lb.	Nov. 22	63.8c	63.8c	63.8c	76.6c	38.6c
Aluminum, primary ingot/major U. S. producer, Metals Week, lb.	Nov. 22	41.0c	41.0c	41.0c	39.0c	25.0c
Wheat/No. 2 hard, Kansas City, Grain Market Review, bu.	Nov. 22	\$3.80	\$3.95	\$4.29	\$4.74	\$1.68
Cotton/strict low middling 1-1/16 in., USDA, lb.	Nov. 25	52.37c	51.08c	49.20c	38.65c	25.20c
Gold/Wed. final setting, London open mkt., troy oz.	Nov. 25	\$141.400§	\$141.750	\$142.750	\$186.000	\$35.000
Finance						
Prime commercial paper rate/dealer, 91-119 days, Fed. Res.	Nov. 19	5.75%	5.81%	6.23%	8.88%	NA
AA corporate bond yield/S&P	Nov. 25	8.83%	8.80%	8.86%	9.00%	5.66%
Euro-dollar rate/3-month, Fed. Res.	Nov. 19	6.76%	6.64%	6.71%	10.00%	5.38%
Money supply (M ₁)/Fed. Res., seas. adj., in billions	Nov. 12	\$298.0	\$296.1r	\$294.7	\$283.6	\$181.7
Commercial, industr., and ag. loans [†] /Fed. Res., in millions	Nov. 12	\$122,359	\$122,216r	\$122,816	\$132,540	\$64,471
Free reserves/Fed. Res., in millions	Nov. 19	\$120	-\$1r	-\$141	-\$1,277	\$195

Monthly figures

	Latest month	Month ago	Year ago	1967 average	
Orders for durable goods: mfg/Comm. Dept., seas. adj., in billions	October	\$42.8	\$42.2r	\$44.4	\$25.8
Consumer price index/BLS	October	164.6	163.6	153.0	100
Domestic air cargo/express and frt., A. T. A., millions of ton-miles	October	315.8	292.3	319.0	††
Help-wanted advertising/Conference Board, seas. adj., index	October	83	83r	99	100

Used in computing Business Week Index (chart); other components [not listed] are machinery, defense & space equipment.

* Preliminary, week ended Nov. 15, 1975

¹ Western Wood Products Association

² Reporting member banks

³ Southern Forest Products Association

[†] Revised

[‡] Tues. final setting

^{††} Not available; series revised

NA Not available

New vinyl chloride control process developed by B.F. Goodrich.

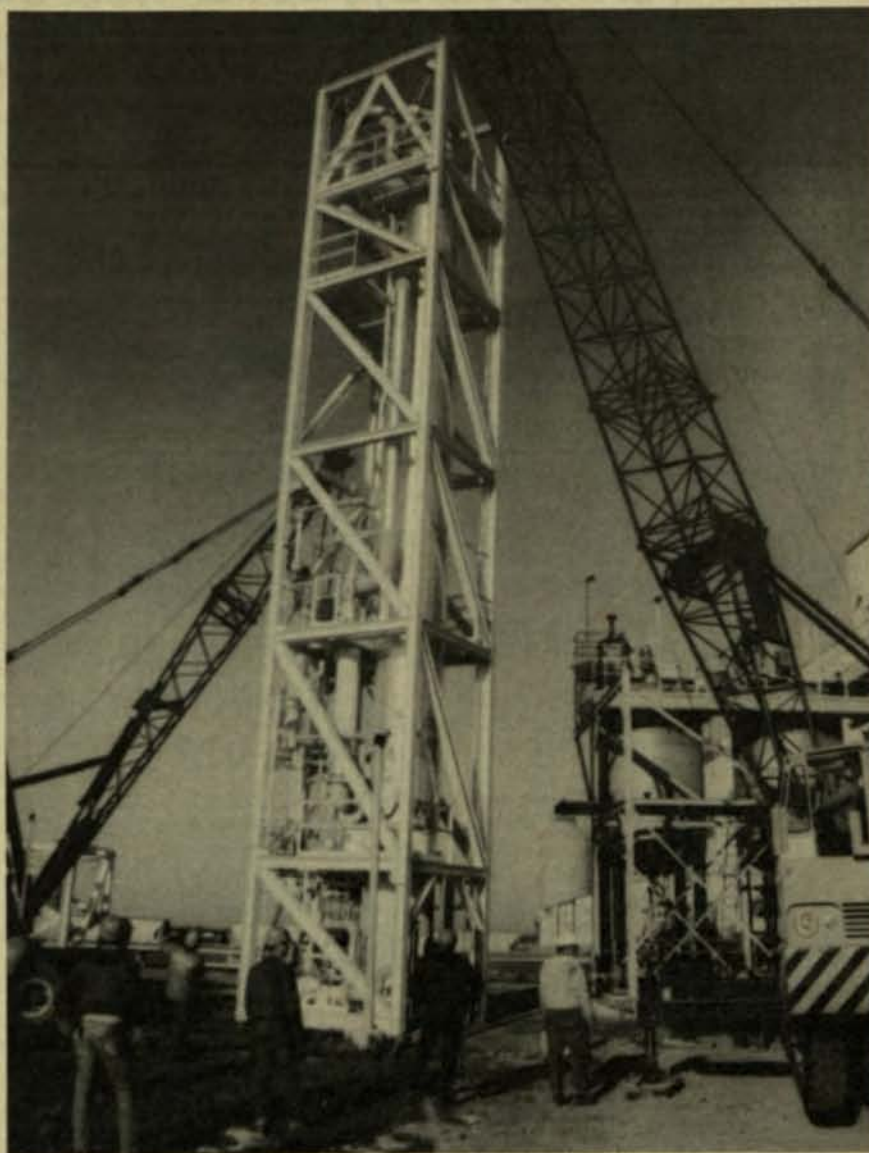
A new, continuous stripping process developed by B.F. Goodrich Chemical Company is achieving new efficiencies in removal of vinyl chloride monomer (VCM) from general purpose vinyl (PVC) resins.

Plastics processors and fabricators who use these low-residual VCM resins will not have to establish regulated areas under the federal Occupational Safety and Health Administration standard covering worker exposure to VCM, according to our estimates.

Emissions of VCM from PVC plants are expected to be reduced to levels discussed by the Environmental Protection Agency.

This new Goodrich process can make a significant contribution to the continued strength of our industry. It is being made available to other PVC manufacturers under license, and several agreements have already been signed.

Continuous stripping is fast and efficient. It provides a low "residence time" and heat history for the resin. Newly polymerized resin in slurry is fed to the top of the stripping column while steam is fed to the bottom. The rising steam collects VCM for reprocessing. Stripped slurry is removed at the column base.



The columns, now being installed at all Goodrich Chemical PVC plants, will be simple to operate, will increase raw material efficiency and can process resins with a wide range of molecular weights and porosity.

We are proud to announce this breakthrough. It's just one of the many steps we are taking to control VCM — like improved confinement

and recovery techniques, automated reactor cleaning and others yet to be announced.

This whole series of engineering improvements is being undertaken in order to assure a continuing supply of vinyl material — a vital, versatile, high-performance product for consumers and industry. The B.F. Goodrich Company, Akron, Ohio 44318.

B.F. Goodrich

The B.F. Goodrich Company

centrating on a program designed to capture fiftyish women with inherited wealth, divorcees with money to manage, and thirtyish women earning \$20,000 or more.

The approach is akin to designing an animal trap to catch bears, beavers, and rats. All they have in common is four legs. The three "female" markets the eager brokerage houses are seeking have, I believe, about as much in common.

As a woman qualifying for attention under category three, I can only groan at the thought of a seminar room filled with ladies from categories two and one. I suspect they would feel the same about me.

Cynthia Shuman

Manager
Corporate Personnel
R&G Sloane Mfg. Co.
Woodland Hills, Calif.

Ferris & Co. pioneered the concept of using women as stockbrokers more than 20 years ago. Our first woman stockbroker was Julia Walsh who started in our business in 1955, followed by Gail Winslow in 1956. Ms. Walsh, now vice-chairman of the board of Ferris, was the first woman from the securities industry to serve on the board of a major stock exchange, the American.

Although we feel that the financial education of women is important, we do not feel that women should be segregated from men as investors or as brokers. Our women stockbrokers have both male and female clients and have found that if one gives clients good advice, the sex of the adviser is immaterial.

George M. Ferris Jr.

President
Ferris & Co.
Washington

Check your Xerox bill

"Xerox touches off a price war" (Competition, Nov. 3) states that "Xerox recently decided to trim prices." Before everyone looks to see if their bill went down, it may be appropriate to compare the before and after. For instance, a monthly commercial copier customer using Xerox Models 660-I, 3100, 3100 LDC, or 4000 and making the required minimum level of copies, would find the bill unchanged.

Noting the variety and complexities of Xerox Corp. pricing, I can understand how, on certain models and specific circumstances, the customer could see a cost reduction. However, on these basic Xerox models, I fail to see either the financial exposure to Xerox or the advantage to its smaller customers.

William Mills

Coral Gables, Fla.



F-18 (top) and F-16: Too late for a fly-off?

'Fly before buy'

There have been bribes in dealing with foreign governments, and now there are hunting trips for top Pentagon officials (Washington outlook, Nov. 3). Is this any way to sell fighter planes to the Navy?

The Air Force was required to have a fly-off between two competing aircraft before the General Dynamics F-16 was selected over the Northrop F-17. The Navy should be required to have a similar fly-off between a Navy version of the F-16 and the F-18. How else are the taxpayers of this country going to be sure that they are getting the better plane for their hard-earned money?

"Fly before buy" is an idea whose time has come. There should be no doubt that the new fighter was selected on the basis of honest flight-test evaluation rather than mere hunting-lodge rhetoric.

Herbert E. Anderson

Huntington, N. Y.

B for barbarous

Many of us have suspected that B-school really stands for "barbarous school." Now I am convinced by "Machiavellian tactics for B-school students" (Management, Oct. 13).

I suggest that Cornell, in its innovative wisdom, also should institute seminars on Attila, the Borgias, Marquis de Sade, and Jack the Ripper. B-school grads then will be perfectly equipped to recognize and meet the challenges of those macabre motives guiding the behavior of co-workers, employees, bosses, and consumers.

L. Robert Ables

Beeville, Tex.

Instead of recognizing the schools that are now introducing courses on ethics in business, you have chosen to report on the introduction of courses in "extra-legitimate and Machiavellian options for organizational behavior."

American management philosophy has always been immersed in pragmatism at the expense of ethical and metaphysical considerations. It is time that a management philosophy be developed that will integrate pragmatism with social responsibility.

C. G. Alexandrides

Georgia State University
Atlanta

The theme that runs through many business failures is that the outgoing president of a failing company has far more talent for "getting to be president" than he has talent for "being" president.

George T. Reis

Atlanta

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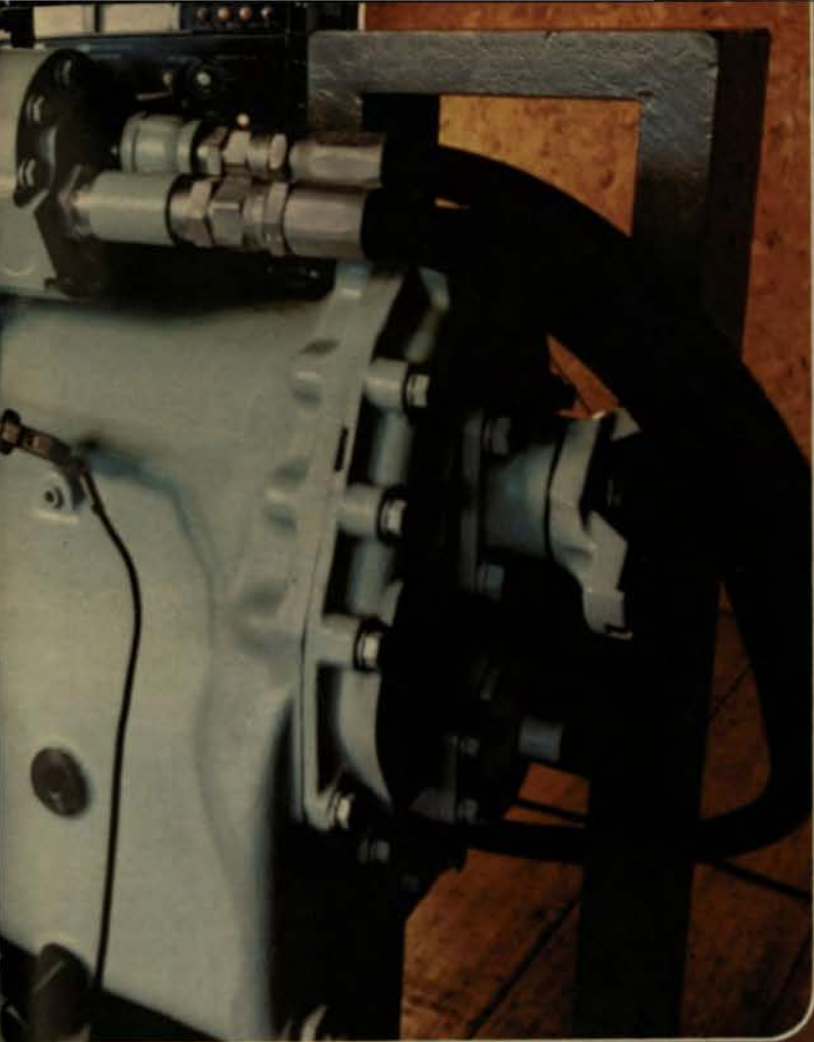


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**Is there a fraud
in America's future?**

For 40 years, money paid into Social Security has been one of the best investments any American could make. A worker retiring this year could not have paid more than \$13,736 (including his employers' contributions) into the system during his entire career. For that, he will receive at least \$316 a month in retirement benefits, or an annual rate of return of about 7% on his tax dollars.

But something has gone horribly wrong with the Old Age & Survivors Insurance program, the keystone of Social Security. Under the 1972 amendments to the Social Security Act, not only benefits but also taxes will automatically increase every time there is an appreciable increase in inflation or wages. As a result, the Social Security Administration's own conservative projections indicate that a 22-year-old who counts on making middle-income wages and working until he is 65 can expect that he and his employer will pay several hundred thousand dollars in Social Security taxes. In return, the worker is promised benefits that are far less than a market rate of return on his tax dollars.

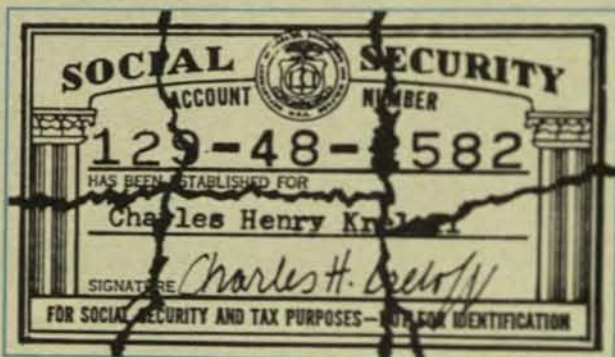
Of course, Social Security is not an investment. It is a transfer. But the magnitude and the implications of these figures make Warren Shore's book, *Social Security* (subtitled "The Fraud in Your Future"), worth reviewing. Shore's descriptions of the inconsistencies of the Social Security regulations—from their totally inequitable treatment of married women who work to the regressive income taxes levied on a beneficiary's wages and the fact that there are 500 conditions under which a person may not collect the benefits he or his family thought he had paid for—are troubling. But his rhetoric is irritatingly patronizing.

What transcends Shore's prose and the weakness of his presentation is the importance of his message: The role of Social Security has changed from a low-cost supplement to retired people's private savings and pensions to a high-cost system expected to provide, by itself, benefits capable of supporting an individual in his or her own home.

Shore's book underscores the immediate need for a thorough and dispassionate review of that change and a reassessment of the benefit levels and tax burdens that society's workers can be fairly asked to carry.

Even a casual look at the numbers that Shore provides indicates that the system is already under increasing strain. The Social Security "trust fund" equaled 17 years of current benefits in 1947. By yearend it will cover less than eight months of the current payout. Maximum taxes will continue to rise.

Shore alleges that it is only the string of lies and half-truths used by defenders of the present system that keeps most Americans believing in the government's promises. And it is when Shore is on the attack against those "lies" that he is at his angry best.



Is there trouble ahead for the Social Security system?

Shore challenges the deceptive language used in its pamphlets by the SSA. He tells us that the "trust fund" has disappeared, Social Security payments are compulsory taxes—not "contributions"—and the system is not "insurance," nor are today's benefits "guaranteed."

Unfortunately, the credibility of the entire book is undermined by the lack of citations and the games that Shore

Social Security

by Warren Shore
Macmillan • 238 pages • \$7.95

plays with his own examples and numbers. Shore properly criticizes an analysis in a Research Institute of America report that overstates the value of potential Social Security benefits protecting a family of four. But he improperly attributes the analysis to the SSA. Later, after calculating the present value of future Social Security benefits by assuming a 5% interest rate, Shore invests the nest egg at 7.5% and, presto, discovers that the investor is better off than the Social Security beneficiary. Sloppy editing is a problem. On page 26, Shore refers to a 1956 Supreme Court decision and then, two pages later, obliquely refers to a decision reached "thirty" years ago. And between pages 60 and 61, the total taxes paid by a worker inexplicably

rise from \$6,000 to \$12,000.

Ironically, Shore is unable to face up to the inevitable conclusion of his own book: There is no painless way to restore the Social Security system to its former health. The once-great American system has become a huge Ponzi scheme that depends on the power of the tax collector to extract ever-increasing taxes from today's already overtaxed workers. The harsh reality is that when the Social Security Administration adds up the present value of all future taxes it expects to collect from current workers, and subtracts the present value of the benefits it has promised, it discovers that it is \$3 trillion in the hole. There are only two ways that this deficit can be made up, and neither course is palatable: Either benefits have to be reduced or taxes on workers have to be further increased.

In reality, however, there is no choice. Even if the young workers are willing to pay increased taxes to sustain the promised benefit levels, when they retire the situation will be even worse than it is today.

If the ratio of retired people to contributing workers remained stable, it is conceivable that the system's \$3 trillion deficit would never have to be paid—it could be passed on from generation to generation. But shortly after the year 2000, the baby boom of the 1950s will become a turn-of-the-century retirement glut. The huge tax increase that would be required to keep the Social Security promise—even if the system were allowed to draw on the progressive income tax base of the general revenue fund—could easily cause a taxpayers' revolt. If that were to happen, the scheme would collapse.

The only rational course of action is to slowly effect a slight reduction in the real level of current benefits and then limit any future increases in benefits to increases in the Consumer Price Index, instead of tying them to increases in both the CPI and wages as under today's formula. That course is anathema to an age still drunk with the riches and promises of the 1960s. It sounds like a heartless disavowal of social conscience.

But the longer action is delayed, the greater the deficit, the higher the taxes paid by today's worker, and the lower his savings and his ability to take care of himself upon retirement. Such a course will inevitably doom both workers and retirees to poverty and ignite an indecent, acrimonious political battle pitting generation against generation.

—Charles W. Kadlec

Contributing editor Charles W. Kadlec is one of today's young workers, concerned about the welfare of the next generation of retired workers.

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Diary continued

nomics department of RCA Corp. publishes a useful monthly compilation of leading forecasts, and its November report shows that 13 of the 15 have lowered their 1976 inflation prediction in the past month while only two raised them. The mean inflation forecast for 1976 is now 5.8%, down 3/10 of a percentage point from October.

But judging by the past, upward revisions may now be in store. For at least a decade, the forecasts of economists for the inflation rate have been far too low.

NOVEMBER 21

Henry Kaufman, partner and economist at Salomon Bros., cannot be accused of being a congenital optimist, since he has often been correctly bearish when a majority of his fellow forecasters have been foolishly bullish. But precisely because he expects a weaker recovery than that expected by the consensus, he is considerably more optimistic than his colleagues on the outlook for prices and interest rates. In a speech today to the New York State Bankers Assn., Kaufman raised the possibility that "the end of a three-decade-old bear market in bonds and a consequent reversal of the long-term trend toward higher interest rates may be growing out of countervailing forces now being created."

As Kaufman sees it, the countervailing forces are the increased pressure on government "to improve efficiency and to be more realistic in setting targets" and the "discipline imposed on the economy by past inflation, which has immobilized many corporations, institutions, and governments." The era of "excessive financial leveraging" is over, says Kaufman. "The financial practices of recent years, along with other financial shocks still to come, will keep business practices on a prudent path." So he expects that the coming decade will bring lower inflation and falling interest rates.

Kaufman's analysis is cogent. But some members of his audience recalled that Kaufman's mentor and predecessor at Salomon Bros., Sidney Homer, made a similar prediction of a decade of falling interest rates back in 1963. In *A History of Interest Rates*, Homer argued that a secular top had been reached. In 1963 the yield on Moody's Aaa-rated corporate bonds averaged 4.26%; so far this year it has averaged above 8%.

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Business outlook

William B. Franklin, Chief Outlook Editor / December 8, 1975

The data are jumpy, but the uptrend is steady

The underlying trend of business is steadily upward, though many of the economic statistics are bouncing around from month to month.

A revision of the third-quarter figures for the gross national product indicates that the quarter did even better than preliminary estimates showed.

Real output (GNP adjusted for price changes) rose at the smashing annual rate of 13.2%—up from the initial estimate of 11.2% and the best quarterly advance in a quarter century.

A sharp deceleration in the extraordinarily rapid rate of inventory accumulation was responsible for three fifths of the advance in GNP. (The way the national accounts are calculated, a decrease in the rate of inventory liquidation is counted as a plus for the economy, since more sales are made out of current output instead of stocks manufactured in earlier periods.)

After allowing for inventory change, real final demand rose at a modest 5% annual rate in the third quarter—not much more than the long-term trend of about 4%.

Looking for a new thrust

This is not the kind of growth that will make much of a dent in the unemployment rate or encourage a stepup in business investment.

The much-reduced rate of inventory liquidation kicked off the economic upsurge during the summer. But what will provide the thrust from here on?

It is unlikely that the recovery can get its second wind unless consumers come on strong this winter.

At first glance, they appear to be marking time, not carrying through with the hefty gains registered during the late spring and early summer.

With the passage of the tax cuts and rebates last May, retail sales took a big jump. In the first four months of this year, monthly retail sales averaged \$46.4 billion. By July they had increased a sizable \$3.3 billion.

But they have not shown much improvement since then. This is widely taken to mean that the consumer may be turning more cautious (page 22).

More likely, though, consumer spending is doing better than these numbers suggest.

The tax cuts kicked off an abnormal surge in spending. But now spending has returned to a more normal relationship to income.

And since incomes are rising rapidly, sales may be expected to move up nicely in coming months unless consumers suddenly turn super-cautious.

In recent weeks retail sales have been running 12% ahead of last year.

The Fed spurs to a record money growth

The monetary authorities appear to be doing their bit to provide the funds needed to foster a satisfactory rate of growth.

For a while it seemed that the Fed was reining in too tightly; there was almost no increase in the money supply from June to October.

Then money growth zoomed in early November, jumping an unprecedented \$5.5 billion in two weeks. This brought the money supply right into the 5% to 7½% zone that Fed Chairman Arthur F. Burns was aiming for last spring (though still below the higher target set in August).

Business outlook

continued

The growth in the monetary base (bank reserves and currency) since last June has been at a rate of more than 7%—an increase that would seem to be sufficient to bring an expansion in credit.

Hardgoods orders resume their climb

New orders for manufacturers' hardgoods resumed their upward climb in October, following a one-month interruption in September.

The Commerce Dept. estimates that durables orders rose \$552 million in the month, to \$42.8 billion, seasonally adjusted.

Gains in shipments are continuing to outpace new bookings, so order backlogs are still declining.

Unfilled orders were down to \$115.1 billion at the beginning of November—a decline of \$25 billion since last fall's peak.

One of the weak sectors in industry has been capital goods, but the first glimmerings of improvement are beginning to appear.

Nonelectrical machinery orders rose in October, and machine tool orders registered their best rate of the year.

Machine tool orders have been rising irregularly since early this year—but they have a long way to go. Order backlogs have melted to \$1.4 billion, for a \$1 billion decline since January.

Unfilled orders for machine tools represent less than seven months' production at current shipment rates. Backlogs will probably continue to decline through the winter.

By spring, even with an upturn in capital spending, backlogs will be mighty thin.

Food prices are still the main inflation bug

Inflation is subsiding—but only slowly. In October the Bureau of Labor Statistics' consumer price index rose 0.6%, following increases of 0.5% and 0.2% in the previous two months.

The recent rise was paced by food prices, which already appear to be running out of steam. There has been a slowing upward trend in prices all year, which was also interrupted by a food price flareup in early summer.

Last January items in the consumer price index were 11.7% higher than a year earlier. By October prices were only 7.6% ahead of last October.

While food has been the main force keeping the rate of inflation from moderating more quickly, there are several other trouble spots.

Over the past half year, prices have risen in the double-digit range for medical care, public transportation, used cars, and fuel.

Still, the price rises in most commodities other than food have been abating, rising at an annual rate of 5.8% in the past half year.

Apparel prices are less than 2% higher than a year ago. In the past half year, consumer hardgoods prices rose at a rate of 5.6%—only half as fast as in the previous six months.

There has also been some improvement in the services sector, where prices have been rising rapidly. Excluding medical care, services rose at a rate of 7% in the past six months—down from 8% a half year earlier.

There is a reasonable prospect that consumer prices will subside further in the next several months.

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November, 1975.

Business outlook

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RETAILING

A more confident countdown

This Christmas has to be better than last year, but fingers are crossed

Stung by the sales rebuff of last Christmas, the nation's retailers are anxiously embarking on a series of tactical maneuvers to convince the recalcitrant consumer that Christmas is indeed a time for buying. Although they are more optimistic this year, merchants are leaving little to chance and are stressing catalogue sales and increased television advertising, as well as in-store promotions. Well aware that middle-priced merchandise faded last year, the focus now is on better-quality, higher-priced goods. "Either low-end garbage or top-quality items are going to sell," says one New York merchant. Buoying retailers' hopes are strong sales in furs, television sets, digital watches, and fad items such as the mood stone ring.

And although the sales picture has improved, it is still an erratic pattern. October retail sales rose 1% to \$50 billion over September, when sales slipped 0.9%. But chain store sales, which climbed 8.7% in September, slowed to a 7% gain in October—about even with inflation.

"We have our fingers crossed along with everyone else," says Jane Roggers, sales promotion vice-president of John Shillito Co. in Cincinnati. "But we just are not sure of keeping pace with inflation." Felix Lilienthal, president of Lilienthal & Co., a buying service for 110 department stores, says, "Stores that bought sufficiently should make 10% or better gains." But he adds: "Too many stores have played it close to the vest and are scrambling for goods now. But they won't get them on time, if at all, and they are going to lose sales." Also causing glumness is the warm weather cloaking the Northeast. "Unless there is a real cold snap fast, we're going to see a lot of promotions and markdown taking that could spell danger to spring buying plans," worries one New York retailing executive. "Coat sales, which were 5% to 15% ahead for the last two months, are now behind plan, and the weather is affecting traffic throughout the store." Still,

he thinks that "if the weather cooperates, sales could be up 15% over last year."

S. S. Kresge Co., which does one-third of its volume in the fourth quarter, is expecting 25% sales gains compared with last year's 13%. Inventory levels are up 15% over last year, and more low-priced goods are being emphasized. "It's not that this year is so good," says Robert E. Brewer, vice-president and treasurer. "It's that last year was so bad. The economic indicators are pointing in all directions."

Looking up. But most retailers agree that their own indicators are pointing to a more successful holiday season. "Throughout the store, better-quality merchandise has been selling on a consistent basis," says Murray Freidman, general merchandise manager at Neiman-Marcus Co. "That's a real bell-ringer for us." Foley's, in Houston, finds optimism in renewed credit sales. "People are charging more and not paying their accounts off as fast," notes Lee Dubow, vice-president for sales promotion. "That's always a good indicator of public confidence."

At Carson Pirie Scott & Co. inventory stocks are 8% higher than last year, and John E. Cotter, executive vice-president of the Chicago Stores Div., is predicting a 10% holiday sales gain. "Finally, there seems to be more flamboyancy. Customers are buying very high-priced items like microwave ovens, furs, and luggage."

James B. Slayden, president of J. W. Robinson's, a 14-store chain in Southern California, is betting that Christmas sales will beat 1973—a record year. "We have had the new Sony vid-

Merchants spend more for catalogues and TV to lure the customers

screen 3 ft. by 5 ft. color TV at \$2,500 for four weeks, and we've sold 22 units," notes Slayden. "At that price, that's good." Fur sales are "exceptionally strong," he adds.

"Business is great," exults Ernest Graf, president of Ben Kahn Fur, which expects to increase its sales volume 40% over last year's \$3 million. But he cautions: "A lot of that gain is in

In-store promotions increase traffic: Higbee's in Cleveland joined with Ocean Spray to lure customers to displays featuring cranberry-trimmed trees, cakes, and drinks.



ices and not in units. Who would have thought anyone would pay \$2,500 for a raccoon coat that used to be \$1,000? But it's one of our biggest sellers."

The winners. Selling briskly across the country are sportswear, accessories, some entertainment items, small appliances, citizen band radios, and LED digital watches. Some of the hottest items are more eclectic: The Salton nut butter maker at \$29.95 lets you choose crunchy or creamy; the mood ring, ranging in price from \$2 to \$10; a chemical paper under the name that changes color with the wearer's body temperature; and the \$4 "jet rock" comes complete with its own carrying case and booklet telling how to teach it such tricks as rolling over. Bloomingdale Bros. has been selling 10 a day and can barely keep the shelves in stock.

Merchants are also running more in-store promotions than previously to generate traffic. Higbee Co. in Cleveland, along with Ocean Spray Cranberries Inc., is hoping to lure customers with displays featuring cranberry-gimmied trees, cakes, and drinks—with the help of Tanqueray gin. B. Altman Co., in New York, will have designer-gimmied trees, choirs, and banners, and store executives will be on hand to meet customers.

Learning from books. Like other major retailers this year, Altman's is placing increased emphasis on its catalogue option, despite substantially higher costs. Producing a catalogue today costs from 75¢ to \$1 per four-color book. Altman's edition, which went out two weeks earlier this year, had 15% more items, higher-priced merchandise, and

a circulation of 1.5 million through charge customers and inserts in local newspapers. Abraham & Straus, which circulated 2.1 million books, is willing to shoulder the increased costs because "we believe they stay around the house longer than newspaper ads and have a longer shelf life," says William Tobey, senior vice-president. "And we look for a return of \$10 for every dollar spent."

Shillito's, which spent \$125,000 for two catalogues—a men's wear book and a home accessories edition—with a circulation of 655,000, expects a return of four to six times the cost of the books. And for the first time this year Robinson's sent out an early deluxe version to a select group of 100,000 customers, in addition to sending its regular catalogue to 400,000 charge customers.

"Catalogues can be a boon," says one Washington (D.C.) merchant. "Costs are high, but vendor cooperative money helps. They allow you to get the merchandising message across in a more complete, glossier way than newspapers. If done properly, it can be like adding another store." Catalogues can also be used to test other regions for expansion. Bloomingdale's is circulating 2.5 million of its 100-page books "to charge customers, to Washington, D.C., where we are opening two new stores, and to Chicago, to test the response," says Cathy Spellman, vice-president for communications.

On the tube. Retailers are also experimenting more and more with television as an advertising medium. Merchants spent \$69 million on TV ads in 1972 and will spend \$150 million this year, estimates the Television Bureau of Advertising Inc. On Thanksgiving Day, Saks Fifth Avenue for the first time began a series of 70 spots running 30 seconds each on three local TV stations.

A sales executive at a local New York station estimates that retailers are spending \$2,000 to produce each spot and are buying 30-second spots anchored around late evening news shows for \$3,500. "Television has become much more attractive because newspaper rates have increased, and the growth of suburban branches has meant too much fracturing of the advertising dollar," he says.

Shillito's, which spent approximately \$80,000 on Christmas TV ads last year, increased its TV use 25% this fall, while Foley's is planning a "television blitz of over 100 different spots this Christmas," says Dubow. "It's about double anything we've ever done before."

Retailers are hoping that their increased efforts will blot out last season's dismal showing. Jack W. Kuhn, president of Kuhn's Big K Stores Corp., based in Nashville, feels, "There was a time early in the year to be conservative, and now is the time to be bullish—and we are." ■

Several brewers proudly list the "natural" ingredients of their products on the label.

REGULATORS

Protests foam up over labeling rules

Despite protests from makers of wine, beer, and distilled spirits, who claim that it will add more than \$100 million to their production costs, the Food & Drug Administration ruled that by January, 1977, all alcoholic beverages must list their ingredients on their labels. The ruling runs counter to a decision just two weeks ago by the Treasury Dept.'s Bureau of Alcohol, Tobacco & Firearms—which held five days of hearings and then said such labeling would provide little consumer benefit and add unnecessarily to the products' purchase price. The BATF, which for 40 years has regulated the liquor industry under an agreement with FDA, now has reluctantly deferred to its sister agency.

The industry is less complacent. "It's not just a question of printing new labels," notes a disgruntled executive of Brown-Forman Distillers Corp. "We have to print them every so often anyway. But, like many other companies, we import a variety of wines and other products, and each maker will have to list ingredients only for the U.S."

FDA's view. Sam D. Fine, associate commissioner for compliance with FDA



regulations, contends that industry talk of problems with foreign suppliers "is a smoke screen." He also rebuts industry arguments that the distillation and fermenting processes change one ingredient into another, so that it is difficult to pinpoint precise product contents. "We're going to ask listings of what the products contain at the start—grapes, for example," says Fine. "If chemicals go in, well, they should be listed, too."

Sam Chilcote Jr., executive vice-president for the Distilled Spirits Council of the U.S., is incensed. He notes that since repeal of Prohibition, a representative of the BATF has been in each distillery to monitor ingredients, labeling, production techniques, and—importantly—payment of taxes. The BATF hearings, conducted for a House Government Operations consumer subcommittee, ended with a ruling favoring the industry, he says, and the FDA move is "sort of double jeopardy."

The BATF consideration of ingredient labeling arose out of a complaint from a Naderite—Michael F. Jacobson, director of the Center for Science in the Public Interest—that chemical additions to alcoholic beverages could produce allergic reactions in some consumers. As many as 50 beer drinkers around the world died, he claimed, from addition of cobalt sulfate to create a thick head of foam. (Capitalizing on consumer fears, several brewers now list their "natural" ingredients on their beer labels.) Another charge was that some 400 product recalls by the industry in the last several years were not made public.

"The preponderance of recalls," argues Chilcote, "were because of filling errors, breakage, and the like—not ingredient problems. And only a fraction of 1% of the bottles involved in the recalls ever reached the public."

Laws and costs. The FDA has jurisdiction over beer, wine, and liquor under the Food, Drug & Cosmetic Act. A previous law, the Federal Alcohol Administration Act, had given the BATF regulatory control of the liquor industry—which the FDA had allowed to remain in effect undisturbed until now.

Fine disputes the industry's contention that FDA will spend heavily on staff to ensure compliance with its ruling. The agency will call on the BATF inspectors already on the job, he says. As to claims that the ruling will cost the liquor industry \$20 million and the wine industry \$100 million, Fine leans more to Jacobson's thesis that the ultimate consumer cost will be 1¢ added to the price of a bottle of wine or six-pack of beer. "It comes down to the fact that alcoholic beverages are classified as food," he says, "and under the law, we have no alternative but to order ingredient labeling on them." ■

BANKING

Fretting over foreign banking

All of a sudden, Congress is beginning to build the record of evidence that it will use to change the rules governing international banking. This week, on behalf of one Capitol Hill panel, the Federal Reserve is querying top U.S. banks on their loan loss experience overseas, while next week another Congressional committee holds hearings out of which it expects to draft a definitive bill during the holidays. The lawmakers who want to chop away at the many freedoms international bankers enjoy will probably have their way in several key areas.

The basic problems are, first, how to deal with the almost unregulated Euro-dollar market and the banking risks there, and second, how to bridge the gap between the anything-goes bank regulatory philosophy abroad and Congress' desire to get a better grip generally on safety and soundness in U.S. banks at a time when the internationalization of banking is going ahead at a tremendous clip.

With the fast pace of foreign banking, Congress wants a firmer grip on U. S. banks

Answers will not come easily. If foreign bank activities in the U.S. are hobbled too much, there could be retaliation. And if Congress shuts U.S. banks too far out of the dizzy gyrations overseas, the banks will not be able to compete against even higher-flying competitors, such as the giant Japanese institutions, which are free to leverage more than are American institutions.

On the other hand, to do nothing while banks are leaping the oceans both ways is to invite more trouble later on. There are problems enough already: questions about the size and freedom from control of the foreign banking presence in the U.S. (which doubled in the past two years), and shocks when the overseas financial subsidiaries of U.S. banks suddenly turn sour, which was the fate this week of Marine Midland Banks (page 25).

Hearings. So the Senate Banking Committee will hold hearings in January on foreign banks in the U.S. and American institutions overseas. Before that, by yearend, the multinational corporations subcommittee of the Senate Foreign Relations Committee expects answers from the Fed on how badly American banks were burned on loans to countries like Italy and Zaire.

But pacing all other Capitol Hill action is the House Banking Committee,

which next week is calling in international bankers to testify for the omnibus bill it expects to write as a result of its "Financial Institutions and the Nation's Economy" (FINE) study. It is getting the most attention from bankers because the FINE study comes down harder on them than any other proposals around.

Industry executives are fuming, though not for the record. A senior executive with one of the top three New York institutions says of the FINE proposals: "It's a crude attempt in an area where kid gloves are needed." Says an Italian banker: "I hope Amer-



Rees thinks legislation can move quickly and that the foreign part could come first.

can bankers will fight for themselves and also help us keep this committee from going too far."

Until the FINE study's so-called "discussion principles" appeared on the scene this month, it seemed probable that Congress, if it did anything, would follow the views of the Fed, which have been mild regarding the Europeans. The Fed last year negotiated with foreign authorities to bring state-regulated foreign banks in the U.S. under some federal regulation. But at the insistence of the foreigners, it allowed them to keep all of their existing operations even though that included some activities barred to U.S. banks, such as interstate banking and the underwriting of securities. As for U.S. bank activities overseas, while the Fed has been troubled by them and studying them for a number of years, it has not suggested any statutory remedy.

The FINE study jumps in where the Fed hesitates, and it has tipped the balance. So far as foreign banks go, it would rub salt in bankers' wounds by not only denying all operations forbidden to U.S. banks but also forcing them to incorporate in this country if they want to take deposits from Americans. And if they elected to keep their American operations in a branch or agency that was tied to the parent, they would still be subject to Fed reserve requirements for better monetary policy control.

Cartelization. As for U.S. banks abroad, the committee's blueprint includes pressure to jack up bank capital to reflect foreign loan risks and plans to have bank regulators turn down on antitrust grounds joint ventures U.S. banks want to enter with foreign banks. A staff study now in preparation outlines the many combinations of relationships the world's banking leaders are developing, including swapping of stock as well as joint ventures. Says a committee aide: "In these larger combinations, what you have is cartelization of banking, with overlapping operations in the U.S."

Where once bankers hoped Congress might do nothing at all, it now seems probable that action is coming, and it will be tougher than expected. Representative Thomas M. Rees (D-Calif.), who pioneered legislation in the international area, thinks a bill can come fast in 1976. "The choice is the Fed bill or ours. And I think the foreign part could precede the rest of FINE." ■

The long-term pinch at Marine Midland

The dramatic announcement last week that giant Marine Midland Banks Inc. would chop its dividend and fall into the red in the fourth quarter this year was not dramatic at all to banking observers. It was merely the logical next step along the path the Buffalo bank holding company—the seventh largest banking company in the country, with more than \$11 billion in assets—has been following for some time.

Ostensibly, the red ink in this year's last quarter—it will be in the black for the year, the company insists—is due to a purge of bad loans from its portfolio, especially from a London merchant bank subsidiary. The company plans to set aside \$40 million from its earnings to add to loan loss reserves in case of future problems. Simultaneously, it will charge the reserve \$25 million for bad loans it is writing off.



Duffy: "We don't see ourselves as trying to be the banker for many larger companies."

To industry analysts, however, the fourth-quarter loss can be traced directly to the company's consistently lagging earnings. Although the loan portfolios of many banks have sizable trouble spots in them, especially real-estate loans, most other banks have earnings sufficiently strong to absorb the losses and still leave a residual profit. At Marine Midland, however, earnings have been so thin that there was no cushion to absorb bad loans once the economy turned down and borrowers began having difficulty repaying.

Snail's pace. Harry V. Keefe Jr., president of the bank stock firm, Keefe, Bruyette & Woods, points out that over the 10 years from 1965 to 1974, earnings at the Marine Midland holding company grew at a 2.8% compound annual rate, a snail's pace compared with 12.2% for Citicorp, 9.9% for Manufacturers Hanover Trust, or 7.7% for Chase Manhattan Corp.

Coupled with Marine Midland's substandard earnings is its relatively weak capitalization. Keefe notes that the New York subsidiary bank had \$4.16 of equity and reserves for every \$100 of risk assets, mainly loans. The average for the nation's 18 largest banks was \$5.66. Marine Midland brought up the rear.

To chip away at its relative capital weakness, Marine Midland also cut its dividend to 20¢ per common share, down from 45¢. The reduced dividend brings its dividend payout rate into line with its competition and will permit it to add \$1 million in profits per month to internally generated capital.

The Marine Midland announcements produced surprisingly little reaction. Arthur B. Ziegler, a Marine Midland executive vice-president, says the announcement "was a nonevent on the retail side." As for large business deposits, Ziegler insists the bank took in more money from sales of certificates of deposit than it paid out to retire maturing CDs immediately following the announcement. Largely because of its

strong, statewide branch network, however, Marine Midland is less dependent on purchased money than many of its competitors.

Cool relations. Marine Midland, the first multibank holding company in New York State, began in 1929 with 17 banks and has acquired 65 since then. It covers the state now with almost 300 offices, more than any of its competitors. Nevertheless, it never has been able to break into the big time with the large, national accounts that it handles through its New York subsidiary. Con-

When the economy soured, there was no earnings cushion to absorb bad loans

sequently, much of the lucrative peripheral business that comes from a full relationship with a client—foreign exchange trading, for example—has rarely gone to Marine Midland. Moreover, in the company's past lie cool relations between the New York and Buffalo headquarters.

The announcement by Marine Midland comes at a time when it is making final preparations for a change in banking regulations next Jan. 1 that will permit all New York banks to branch statewide. In fact, the same day of the announcement last week, the Federal Reserve Board also announced approval for Marine Midland to merge its 10 separate banks into one organization next January.

Simultaneously, the bank is setting its sights more and more on medium-sized borrowers rather than large corporations. One year ago Chairman Edward W. Duffy told analysts: "Quite frankly, we don't see ourselves as trying to be the banker for many of the larger companies. Instead, we see our future as doing a better job with those companies where we can be the lead bank, managing the credit and deserving collateral business. It's the business we know best, and our largest loan losses sometimes have occurred when we strayed from it." ■

Belated rules for the IRA boom

One of the most highly touted features of federal pension reform is a provision for individuals who formerly lacked pension coverage. Under the new rules, which went into effect this year, such workers can take a tax deduction for 15% of their earnings up to a maximum of \$1,500 and put the money into an individual retirement account (IRA)—de-

paring insurance plan payoffs with those offered by savings accounts in banks and S&Ls and by federal retirement bonds.

■ The IRS has been laggard in developing adequate disclosure regulations regarding IRA plans.

What irks many critics is that IRA promotional literature from insurance

companies often neglects to spell out their hefty service fees and commission charges. Moreover, they say, the literature too often stresses a high rate of return on investment while soft-pedaling the fact that that rate applies only after charges are deducted and may be changed if the investment climate shifts. A recent Library of Congress survey in the Washington (D. C.) area, for example, indicates that life insurance companies typically charge an annuity purchaser either a level fee of some 8% to 9% of all premium payments or a front-end load fee of 30% to 40% of the first year's payment followed by 6% to 9% of subsequent payments.

Most savings banks and S&Ls, on the other hand, currently make no charge for setting up an IRA account, though many anticipate imposing a nominal fee of \$10 or so in the future. Thus payments to savings institutions

draw interest from the day they are made. Moreover, customers in some areas can currently obtain a guaranteed return as high as 7½% for six years if they purchase long-term certificates of deposit. By contrast, although many insurance companies are projecting long-term returns of 7% to 8%, plus dividends in some cases, only 3% to 3½% is usually guaranteed.

Are the insurance company annuities a good buy compared to savings deposits and CDs? Joe Mintz, a Dallas insurance agent and well-known consumer-oriented industry maverick, is dubious. "In good conscience, I would find it hard to recommend any of these plans to my customers," he says. But Christopher W. Wain, a Prudential Insurance Co. vice-president who also testified at the hearings, defends the industry's products. "We provide flexibility and insurance benefits not offered by other media. We give detailed advice and servicing to custom-

ers based on their individual needs. And although insurance policy values are lower to begin with, you have to remember that we emphasize long-term commitments, and it isn't inconceivable that a shift in economic conditions down the road will favor the relative returns offered by our policies."

Push for disclosure. In rebuttal, Mintz points out that the first years of enrollment are critical to many IRA purchasers, since Americans' job mobility makes it likely that many may soon be working for companies with attractive pension plans. "If a man decides to put his insurance annuity on ice after only a few years and join his company plan, he will find the value of the IRA can be a lot less than he put in," he says.

What the subcommittee is pushing for is early and clear disclosure by in-

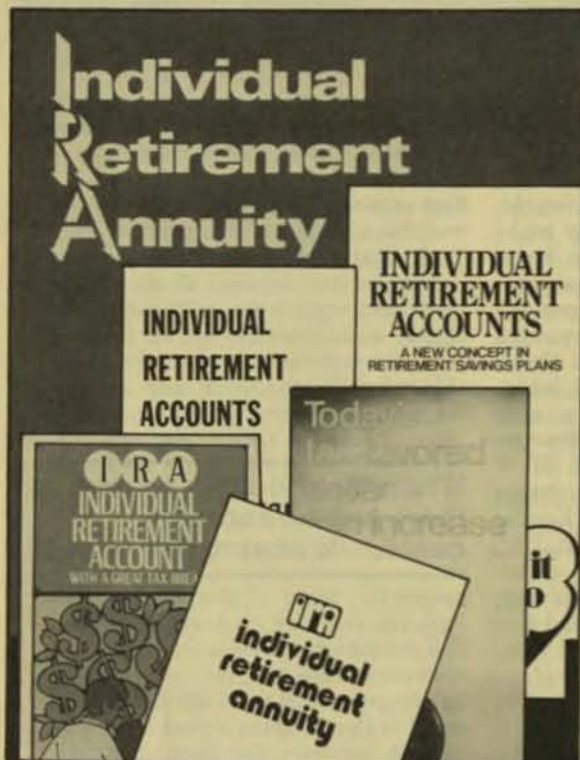
The IRS has been laggard in developing adequate disclosure regulations

insurance companies and others of the initial costs, values, risks, and rates of return on IRA plans to prospective customers. Staffers point out that the IRS did not even issue preliminary disclosure regulations until the subcommittee scheduled its hearings in November—a full 10 months after IRAs hit the market. Given the lack of IRS guidance, C. David Gustafson, an actuary with J. Ross Hanson Inc., observes that "not only insurance companies, but mutual funds, banks, and S&Ls have been distributing misleading or inadequate promotional literature."

The government bond that no one knows

For months now banks, insurance companies, mutual funds, and the like have been working to attract the hard-earned dollars of persons qualified to set up individual retirement accounts. But one potential investment medium for IRA funds has received scant publicity: special retirement bonds issued by the federal government.

Created under the aegis of the Pension Reform Act of 1974, individual retirement bonds are currently available in denominations of \$50, \$100, and \$500 from all Federal Reserve Banks and branches or the Treasury Dept. They pay interest of 6% compounded semiannually and are redeemable at 59½ or upon retirement or disability (earlier redemption involves penalties). Although the 6% interest is below the current 7½% rate obtainable on certificates of deposit at many banks and S&Ls, it is guaranteed until retirement—which could be as long as 30 years for young workers. "For absolute safety and guaranteed long-term yield,



Critics want the disclosure rules to extend to IRA ads.

ferring taxes until the funds are paid out in retirement.

Not surprisingly, the IRA concept has set off a scramble among banks, insurance companies, savings and loan associations, mutual funds, and others hungry for the IRA dollar. Now, with IRA sales picking up as the tax year draws to a close, Congress is beginning to wonder whether the public is being misled by some of the sales tactics employed by marketers of IRA plans.

At hearings of the House Ways & Means oversight subcommittee last week, both the insurance industry and the Internal Revenue Service were on the griddle as witnesses and subcommittee members charged that:

■ Insurance companies have often failed to give adequate information about the true costs and values of their IRA plans to potential customers. Such omissions, says Representative Jake Pickle (D-Tex.), who chaired the hearings, "prevent consumers from com-

Why more Fords are stolen

Basically, the new IRS temporary disclosure rules insist that purchasers be given details about prospective interest rates and cash values of IRA contracts at the end of each of the first five contract years, as well as upon retirement. Such information must be provided either a week before the IRA goes into effect or on the day of sale if the purchaser has a week to pull out.

The fine print. None of this satisfies the subcommittee or industry critics very much. For one thing, they want some mechanism for consumers who signed IRA contracts earlier this year without the protection of disclosure rules to cancel without penalty if they desire. For another, they want disclosure of interest rates on premiums after commissions and fees are deducted, and they want plan participants to receive periodic notification of such fees.

Perhaps most important, the subcommittee wants disclosure rules to apply to promotional material. "The way it stands now," says Pickle, "the consumer gets the facts in fine print after he's already been sold on the product by puff advertising." Although IRS spokesmen claim that such advertising is in the province of the Federal Trade Commission, subcommittee staffers note that the IRS already works with the FTC in policing advertising by income tax preparers.

Pickle also thinks the government should publicize its individual retirement bonds for IRA participants (box). "Experts tell us they're the best thing going," he says, "but the government has hardly sold a shirttail full."

they're hard to beat," admits one investment man.

So far this year only some \$3 million worth of federal retirement bonds have been sold. And while observers blame this on the Treasury's disinclination to publicize the bonds, they do point to one disadvantage that might discourage investors unless the law is changed. Unlike Series E savings bonds, whose current 6% rates are automatically adjusted upward for the balance of their terms if the government issues new savings bonds at higher rates, individual retirement bonds have permanently fixed interest rates. (Savings bonds currently carry five-year maturities with automatic 10-year extensions, but the Treasury's practice has been to extend all outstanding bonds since the 1940s.) Thus similar federal bonds issued under the Keogh Act of 1962, which helped the self-employed to set up pension plans, also carry 6% interest rates today. But because some of the \$100 million worth of such bonds outstanding were issued back in the low interest-rate, mid-1960s era, they still pay a very modest 3.75%.

The uniform crime report released by the Federal Bureau of Investigation last week reinforced a rumor that had been floating around Detroit for more than a year: Ford Motor Co.'s cars of recent vintage are easier to steal. In a survey conducted in September and October, 1974, the FBI found that 36% of the stolen 1969 to 1974 model cars were Ford products, while the company's share of sales during that five-year period was only about 24%.

Ford's problem is with its locks. Its troubles began when the federal government required steering column locks, beginning with the 1970 model year. Says James R. Doto, head of ve-

stolen more frequently. But Ford is painfully aware of the problem and will probably correct it before we get our numbers together."

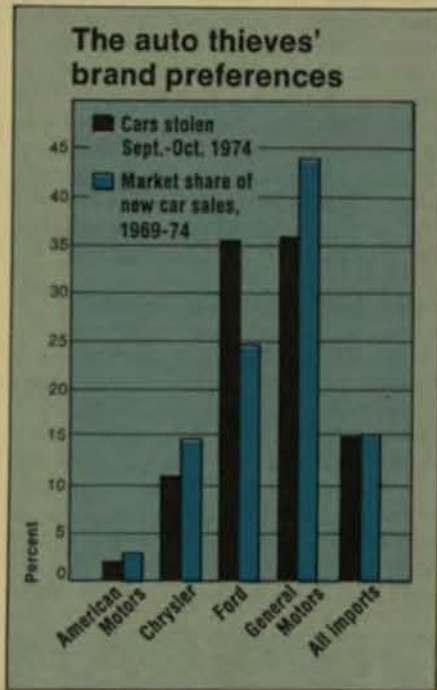
Ford, in fact, has moved quickly. The company says it first discovered the problem in the summer of 1974, as a result of information from police departments. An internal company memorandum on the problem, written last December, concluded: "Although it is difficult to precisely determine why Ford cars experience a greater theft rate . . . the primary reason is that they are easier to steal." But a company spokesman adds another possible reason: Some Ford cars may be more desirable. "The Mark IV is an extremely popular car among the criminal element," he says. "We joke about the number of bodies found in the trunks of Mark IVs."

The memorandum anticipated that the FBI report would be unfavorable and recommended "correcting a competitive deficiency and providing a constructive response to the FBI study" by redesigning Ford ignition locks "on an expedited basis." According to a Ford spokesman, the company retooled its steering column and lock at a cost of more than \$1 million. Owners of late-model Fords, however, may find that little solace. "There's no way we can retrofit these locks," the spokesman says.

Critical police. While most law enforcement officials praise Ford for moving rapidly to improve the design of its ignition lock, they also say that the company was not aware of the problem soon enough. "Determined auto thieves always find a new twist to get around locks," says the head of the auto theft section of one large city police department. "The only way the manufacturers can learn of this is to stay in close touch with the law enforcement groups. Ford was asleep at the switch."

None of the other auto companies is rejoicing over its comparatively good showing, however. Says one auto security engineer: "We look good because Ford looks bad. If someone found a technique to compromise our lock, the tables would be turned. It can happen to anyone, any time."

And although Ford looks relatively worse, auto theft is still a vexing problem for all the auto makers. Even with the addition of steering column locks in 1969, thefts have increased 11%, to 973,800 vehicles last year. Says Doto, "We can't stop the pro short of having a security system that's worth more than the car."



Data: Federal Bureau of Investigation, BW

hicle security for General Motors Corp.: "Thieves found some easy ways to defeat Ford's steering column locks. It didn't take kids long to find out. There's a heavy joyriding factor with Ford cars."

The problem worsened as the information spread that Ford cars were easy prey. The 1972 to 1975 models, for example, accounted for 40% of the stolen vehicles in the FBI survey, and an epidemic raged in Michigan late in 1974, when 71% of the late-model cars stolen there were Fords.

Ford responds. The results of the survey have attracted the attention of insurance companies. Says an executive of one major auto insurer: "We've been studying the possibility of seeking higher rates for Fords because they are

A ConRail threat to commuter service

The problem of paying for commuter railroad service has tormented railroads and state and local officials in the New York and Philadelphia metropolitan areas, who have had to dig deeper and deeper into public funds to subsidize service and buy new equipment. Now the problem threatens service for some 180,000 commuters when the Consolidated Railroad Corp. (ConRail) takes over freight operations on Feb. 27 from seven bankrupt private lines in the East and Midwest.

State and local officials in New Jersey and Pennsylvania are trying to ar-

Lewis: ConRail must not have losses from commuter and passenger services

range interim contracts for the commuter service with the U. S. Railway Assn. (USRA), which designed ConRail to salvage rail operations in the area. ConRail will not continue commuter operations where local subsidies fail to meet what the USRA figures to be the full cost of providing the service.

And the USRA feels that the full cost is not being met, particularly on the Penn Central and Reading routes to Philadelphia and the Penn Central and Central RR of New Jersey routes from New Jersey into New York. Service to Boston, Chicago, Cleveland, and Washington could also be affected by the financing imbroglio. Penn Central service to the north and east of New York

City on former lines of the New York Central and New Haven is under long-term contracts that ConRail will continue.

Arthur Lewis, chairman of the USRA, is adamant on the cost issue. "There are few things more crucial to ConRail's success than being spared the losses from passenger and commuter services," he says. He estimates that such losses would amount to \$50.9 million next year and cumulatively would hit \$739 million by 1985. According to the USRA, the New Jersey and Pennsylvania regions, which already provide \$82 million to subsidize commuter operations, would have to boost their contributions to \$122 million if the service is to continue.

The states disagree. Says New Jersey's Commissioner of Transportation, Alan Sagner: "USRA hired no consultants to conduct exhaustive studies of passenger operations. They simply took railroad data without independent study. The figures evaporate under close examination." Peter Stangl, New Jersey's Assistant Commissioner for Public Transportation, adds: "USRA has done little to assure that the requirement of efficient commuter rail service be met and has not bothered to analyze the environmental and community benefit and cost ramifications of its policy."

Calculating costs. The source of the disagreement is the method of calculating the subsidy level for an operation. USRA feels ConRail should be compensated for commuter service under a different definition of certain costs than is now used. State and local officials are backing proposals now before Congress that would compel ConRail to accept a cost formula determined by the Interstate Commerce Commission or by the ICC's Rail Service Planning Office.



A commuter train at Levittown, Pa.: How much should ConRail be compensated?

To avoid the enormous mess that cessation of service would cause, an amendment was added this week to legislation aimed at straightening out the details of ConRail's takeover. The amendment, sponsored by Senator Harrison Williams (D-N. J.), provides a two-year emergency fund of up to \$100 million to subsidize commuter operations affected by the rail revenue effort. It would also ban commuter service cutbacks for six months after ConRail starts operations.

RESOURCES

Oil importers await a superport signal

Next Wednesday a truck will pull a container outside Coast Guard headquarters in Washington carrying several hundred pounds of documents supporting a proposal to build a superport off the U.S. coastline. The bid will come from LOOP Inc., a New Orleans-based combine of six oil companies: Ashland, Marathon, Murphy, Shell, Texaco, and Union. Another proposal will come later in the month from Seadock Inc., a Houston company sponsored by eight oil companies and one chemical company (table). A third application could be filed by a group called Ameriport early next year.

If all goes well, both LOOP and Seadock could start construction work as early as spring, 1977, and have deep-water facilities available to receive foreign crude oil before 1980. "At the moment, all systems are go," says Charles E. Cowger, vice-president of Murphy Oil.

LOOP's plan is to build its superport in the Gulf of Mexico 20 mi. south of New Orleans in three stages and at a total cost of \$995 million. The port will be able to handle 3.4 million bbl. of crude per day and pump it onshore—either for storage in a salt dome near Galliano, La., or to the St. James terminal of a big pipeline (called Capline) for distribution to the north.

Seadock wants permission to build a facility 25 mi. off the Texas coast to handle 4.5 million bbl. of imported crude a day. "If everything goes according to schedule," says Seadock President Joe E. Mims, "we will receive our first tanker in September, 1979."

Second thoughts. Despite the optimistic tone of the superport builders, 11 other companies have dropped out of the LOOP group, including Gulf, Chevron, Tenneco, and Sohio. A prime reason is that in the five years since companies began talking of superports, their cost

Three offshore oil ports: Who will build them

AMERIPORT	LOOP	SEADOCK
International Tank Terminals	Ashland	Cities Service
Southern Pacific Pipeline	Marathon	Conoco
State of Alabama	Murphy	Crown Central
State of Mississippi	Shell	Dow
	Texaco	Exxon
	Union	Gulf
		Mobil
		Phillips
		Shell

has more than doubled. Adding to the risks are second thoughts about the economics of the very large crude carriers (VLCCs) that would need the ports and whether crude imports will continue to rise indefinitely. "In view of the risks," says Aaron Rabinkoff, Amoco's manager of transportation coordination, "the savings do not look as great to us as they did back in 1972." Amoco has dropped out of both projects.

Exxon left LOOP in October. The reasons were escalating costs, legislative delays, and less favorable economics as a result of the withdrawal of other sponsors. Geography also was a factor. Exxon has a large refinery in Baton Rouge that would have been served by LOOP, but it has no present plans to expand it. Exxon is adding heavily to capacity at Baytown, Tex., which could be served by Seadock, and so it chose to remain a Seadock sponsor.

Dow Chemical is also a Seadock participant, largely because it is building a crude oil processing plant at Freeport, Tex., where facilities include energy-intensive chlorine, caustic soda, and magnesium recovery plants. These now burn natural gas. With supplies waning, the Seadock offshore port looks attractive, particularly since Dow can now dock only 35,000-ton tankers with substitute fuel oil at Freeport.

Shell, the only company that is still part of both LOOP and Seadock, has major refineries that can be served by both. It is convinced there are savings in offshore superports. "We still believe there will be an incentive for carrying crude in VLCCs on long hauls," says Ronald J. Dudley, a Shell staff transportation specialist. "And we think that differential will justify the investment in deepwater ports."

Commitment. But even Shell is concerned about the heavy cash drain that six or seven years of construction will mean, and about the dwindling membership of LOOP to carry the load. The dropouts, the company is aware, may continue. The heaviest financial commitment will be required after the Coast Guard grants approval. "That's the time when everybody will have to

bite the bullet," says Dudley. William Read, LOOP's president, can only agree: "It seems like every time Congress passes an act it cuts down on the amount of money oil companies have to spend on projects like these." Now, he notes, there is also the matter of need. Plans had called for shipping 4.5 million bbl. of oil per day through LOOP. "But that," he says, "was before the conservation effort."

One major oil company executive adds: "There are still enough big companies to see LOOP and Seadock through—but barely enough now." His guess is that the Coast Guard will grant permits for both projects. "Then the head knocking will really start. For any company still in the game, the ticket cost could be as much as \$200 million." ■

How Indian summer hurt fuel oil sales

With sales sagging as much as 50% and storage tanks overflowing, the nation's heating oil distributors have been praying for an end to the balmy weather that put a crimp in their normally strong late fall marketing season. "Our capacity for inventory is full, and our customers' fuel tanks are full," moans Layton Wilson, partner-owner of Wilson of Wallingford, a Pennsylvania distributor. "We can't pump it into their basements."

The weather finally turned cold last

Most suppliers will not cut prices to empty their overflowing tanks

weekend. But because of the unseasonably warm temperatures and reduced industrial use of fuel oil resulting from the recession, demand for middle distillates this fall has been off more than 13% to 2.8 million bbl. per day from a year ago. It is down 24% for residual products, also used for heating. Meanwhile, stocks are substantially higher: Residuals are up 5%, to 79 million bbl.

October increase. But unlike the soft gasoline market, where retail prices have fallen as much as 5¢ a gal. since last spring, most heating oil marketers have stubbornly resisted any move to cut list prices. In fact, most major refiners raised the price of heating oil by 1¢ to 2¢ per gal. in October, hoping to

take advantage of the usually heavy late fall demand.

For the most part, suppliers claim that they have held the line on prices because they were confident the surplus situation could not last. "The weather caused a temporary oversupply," explains a spokesman for Cities Service Oil Co. in Tulsa. "But we have no plans for a price adjustment to create additional product movement, nor do we plan to trim refinery runs." Says Herbert Ingersoll, president of Webaco Oil Co. in Rochester, N.Y.: "You can't make price adjustments for abnormalities in part of the season."

A suburban Boston fuel distributor, however, admits to another reason why list prices have not fallen in line with reduced demand. "We'll never see the profit we've lost on this fall's warm weather," he says. But worse for fuel distributors would be to see a long-term loss in profit margins, which are already down from last year. Says Wilber A. Carpenter, general manager of Cuyahoga Landmark Inc., a Cleveland-based fuel oil distributor: "Based on 40.6¢ a gal. [the average price of fuel oil charged to customers over the past six months] we're taking a good deal less margin than a year ago, about 12% less because there is more competition now, and a year or a year-and-a-half ago we had shortages."

Exception. Murphy Oil Corp., based in El Dorado, Ark., is one distributor that has cut prices. It reduced its refinery price for No. 2 heating oil by 6¢ per gal. to about 27¢ per gal. But Robert J. Sweeney, president of the company, claims the reduction was not a reflection of market conditions, but rather a move required by Federal Energy Administration price regulations. "It killed us to do it because we think we could have sold all we refined at the higher price," he says.

But most big suppliers, including Exxon, Sohio, Amerada Hess, Sun, Phillips, and Mobil, all of which raised distillate prices in October, are holding firm. "We might be swimming in oil at the moment, but our wholesalers haven't cut their prices," says one St. Louis area dealer. "As a result, neither can we."

Some dealers, such as Cuyahoga's Carpenter, admit there is a good deal of quiet discounting going on. "I don't anticipate lower prices in the long run," says Carpenter. "But they may drop for a few weeks until the cold weather is really here."

That would be perhaps the cruelest cut of all because without a prolonged cold wave, refiners and marketers would be forced to swallow lower prices just when they are being hit with a 10% jump in crude oil costs imposed by the Organization of Petroleum Exporting Countries. ■



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The two-way banking street (cont.)

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completed fully and on-schedule. Our customer was afraid the poor showing the year before might prompt the British company to change their mind about the sale. He called us. We called our London office and had one of our senior officers pay a personal visit to the British company that same day. The sale went through smoothly.

Another of our customers in the agri-industry wanted to build a new \$27 million plant and was considering a 20-year long-term debt placement. Our leasing people felt a plant-leasing setup might work better. They received the customer's cost and cash flow projections, did an analysis, and in less than two weeks came back with a new proposal. That proposal saved our customer over \$14.6 million in gross financing costs over the projected 20 year period, with a present value savings of over \$6 million.

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No relief for the fastener makers

In a far-reaching decision that may discourage many industries from seeking protection from imports, the International Trade Commission this week rejected the fastener industry's petition for relief under the escape clause of the Trade Act of 1974. It was the first petition involving manufactured industrial goods to be filed under this provision of the legislation. The ITC decision to reject it should help support Administration claims that, despite changes in the Trade Act that make it easier for domestic industries to get relief from imports, it does not intend to yield easily to protectionist pressures by U. S. companies.

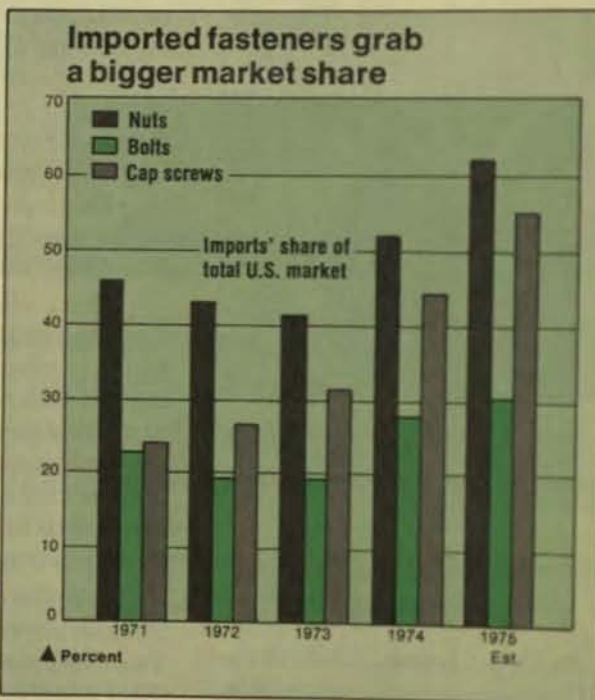
The six-man commission, after long deliberation marked by sharp disagreement, decided that small screws are not coming into the U. S. in such increased quantities as to injure domestic producers seriously. Three commissioners—Chairman Will E. Leonard Jr., George M. Moore, and Italo H. Abbondi—found that producers of bolts, nuts, and large screws also were not eligible for relief through increased duties, quotas, or adjustment assistance. Vice-Chairman Daniel Minchew and Commissioner Catherine Bedell voted to grant relief to makers of bolts, nuts, and large screws. Commissioner Joseph O. Parker abstained.

Japanese threat. The industry had sought relief from increasing Japanese competition that it says will shut down at least two-thirds of U. S. manufacturing capacity for standard bolts and cap screws by 1980 and may wipe out standard nut production in the U. S. by the end of 1976.

The U. S. makers say the Japanese take unfair advantage of their dual role in the U. S. market as suppliers of both fasteners and the steel from which they are made. Of all U. S. fasteners, 30% are made of foreign steel, and 75% of that comes from Japan. The U. S. manufacturers argue that Japanese steel producers sell to Japanese fastener manufacturers at a lower price. And to beat increasing labor costs in their own country and to take advantage of preferential treatment

that will be given to imports from developing countries in the U. S. starting on Jan. 1, the Japanese also have invested in fastener plants in nearby Taiwan and South Korea.

Moreover, U. S. manufacturers argue that the Japanese government subsidizes Japanese manufacturers and their exports. "The Japanese have at times held their prices below our cost of raw materials," charges John J. Lohrman, president of Russell, Burdall & Ward Inc., a major maker of standard fasteners. "We're not com-



peting with the Japanese fastener industry. We're competing with the Japanese government."

The fastener makers had asked that imports be rolled back to 1972 levels for five years, import duties be increased 50% ad valorem, and long-term marketing agreements be reached at next year's General Agreement on Tariffs & Trade (GATT) negotiations.

The commission's adverse decision will affect more than 300 companies, according to the Industrial Fasteners Institute. Some of these companies will continue to fight for protection, but many others now may decide to cede part of their business to foreign competition and concentrate their efforts elsewhere.

Auto market. Standard fasteners account for 50% of total industry shipments by weight and 28% of the industry's \$2.6 billion 1974 sales. The balance

of production is in specialty fasteners, which, because of the close customer contact and product development they require, have felt less pressure from imports.

The industry says that Japanese competition has already driven some companies, including Republic Steel and National Machine Products Co., out of the once lucrative standard fastener market. "We'll give the standard fastener market to the Japanese, there's no question about that," says Barry L. MacLean, president of MacLean-Fogg Lock Nut Co.

"The biggest fear we have is that the manufacturers of standards will turn their expertise toward the special market," says Lambert M. Kaspers, chairman of Towne Robinson Fastener Co., which makes specialty fasteners for the auto industry. And the special fasteners market, which looks to autos for 25% of its sales, has barely felt the upswing in the economy.

Towne Robinson's parent company, Key International Inc., has taken a route that others may follow. Last January it bought a half interest in a Japanese screw manufacturing plant in South Korea. "We have no great desire to manage a plant in Korea," says Kaspers, who is current chairman of the IFI. "But that is the only way for American capital to compete in some lines."

AEROSPACE

The B-1 gets caught in a budget squeeze

The fate of \$160.8 million in disputed defense funds could determine the future of the B-1 bomber and whether its builder, Rockwell International Corp., can continue as a major defense contractor. The money may be cut from the defense budget as Congress moves into the last stages of that task. The amount is only a fraction of the total B-1 appropriation requested by the Air Force. But Rockwell claims that its loss would delay the B-1 program by at least a year, balloon its cost by nearly \$1 billion, and force the company to cut its 7,900-member B-1 division workforce in Los Angeles and nearby Palmdale by nearly one-third.

"This cut," says a Rockwell spokesman, "would force us to lay off about 2,500 employees immediately. By delaying production, it would impose an increase of real costs of about \$200 million and of inflationary costs of about \$700 million." Moreover, he says, the cut would cause Rockwell to defer by \$1

Crane's Deming pumps at work for LTV Aerospace Corporation.

When it comes to beating pollution, Crane keeps it moving.

When LTV Aerospace set out to add a new \$2.5 million pollution abatement system to augment its existing facility in Dallas, Texas, it faced some formidable problems.

Producing aircraft at this 314-acre manufacturing complex also produces a multitude of industrial wastes: oils, paint particles and thinners, photo chemicals, water-soluble dyes, salts and chromic, hydrochloric and sulphuric acids, to name a few. To collect these wastes, transfer them from one treatment stage to the next, meter fluids and feed chemicals into the various treatment stages required 85 pumps.

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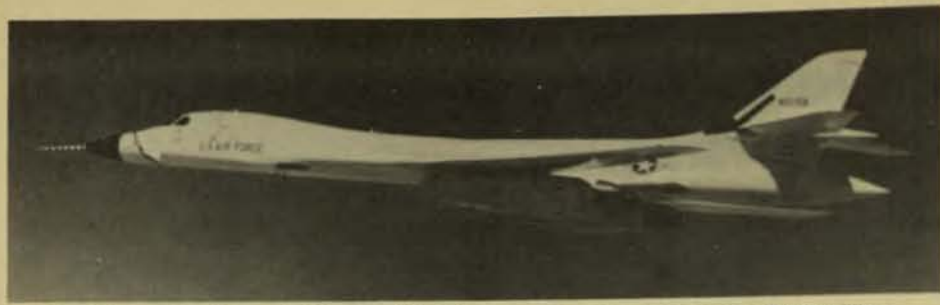
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The future of the B-1, and of Rockwell in defense work, could hang on just \$160 million.

least a year the 6,000 to 8,000 new jobs that it had anticipated in the event of B-1 production.

The economic impact of the cut would not be confined to Rockwell. The company estimates that the other prime contractors on the B-1—General Electric Co. for the engines and Boeing Co. and Airborne Instruments Laboratory of Long Island for the avionics—also would have to lay off a combined 1,600 employees right away.

Possible delays. The \$160.8 million at issue represents all the money that the Air Force had requested to permit Rockwell to move from B-1 development to production in the current fiscal year, which ends on Sept. 30, 1976, under the budget law passed last year. Without this money, \$87 million of which is specifically earmarked for the start of production, Rockwell would be unable to place long-lead orders for tooling, aluminum forgings, and materials such as steel and titanium, already in short supply.

The Air Force will not decide until late next year whether to approve, and ask Congress to approve, B-1 production. But it had counted on Rockwell's being ready to start rolling out the bombers immediately following a production decision. If Congress cuts the \$160.8 million, Rockwell would not be ready for at least a year following a decision to go ahead with production.

This pivotal funding is part of \$887 million that the House of Representatives had appropriated for the B-1 program. The Senate deleted the funding last week in chopping the total B-1 appropriation to \$726.2 million. A conference committee will confront the issue in the first week of December as it resolves differences in the over-all House and Senate bills. Restoring the Senate cut of the B-1 funding through compromises with other defense funding items may be doubly difficult in view of the larger over-all total of the Senate's defense appropriations bill, compared to that of the House.

The cost of the B-1 program, anticipating 244 bombers, now stands at an estimated \$21.5 billion. The immediate addition of \$900 million might result, according to one Pentagon source, in "much more political leverage to kill the program altogether." ■

ENTERTAINMENT

It's upset time in the rating game

A third of the way through the 1975-76 prime time television season, the three commercial networks are neck and neck and neck in an unprecedented ratings race—and are spending millions to break the deadlock. CBS-TV, the seasonal victor for each of the last 19 years and the odds-on favorite to repeat before the new programs premiered, is locked in a struggle with ABC-TV for second place—and in such danger of slipping into third that CBS Inc. Chairman William Paley personally flew to Hollywood to look at replacements for canceled series. NBC-TV, boosted into first place by a rainout that landed its World Series games in prime time in two successive weeks, is

One rating point may be worth \$9 million in ad revenues over the season

determinedly shuffling its shows to stay out in front. And ABC is plotting countermeasures.

All three networks are doing more than ordering up replacements for such failures as *Beacon Hill*, CBS's much publicized but little watched soap opera, NBC's *Medical Story* and *Doctors Hospital*, and ABC's *Barbary Coast* and Howard Cosell's variety show. They are rushing in expensive specials and big-budget movies—*Dr. Zhivago*, Ann-Margret, Disney films, *That's Entertainment*, Jackie Gleason—to pull audiences while the untested new series are made ready for the air. The networks will not discuss the sums lost in scrapping a dozen series where each episode can cost \$150,000 per half-hour, or the extra unbudgeted amounts needed to buy substitutes. But the current wheel-spinning will add greatly to the record \$700 million they had planned to spend for the 1975-76 season.

Prestige factor. The reason for the effort is twofold. Being No. 1 in the full-sea-

son ratings means both money and prestige. "It's not coincidental," says NBC's Stu Gray, vice-president for research, "that CBS has led in ratings and advertising dollars regularly." Since TV advertisers pay about \$5 for each 1,000 homes that a commercial reaches, a direct correlation can be made between success and revenue. One formula holds that a single rating point per night can be worth \$63,000 to each network, so the difference between the current 18.2 average rating of both CBS and ABC and NBC's 18.8 might be worth \$50,000 nightly—or \$9 million in ad revenues over the 26-week season.

"But the prestige factor is terribly important," says Jack Otter, who formerly headed the sales department at NBC-TV and recently moved to the advertising agency side of the business. "The financial community looks to the No. 1 network, and everybody knows that you don't get to be No. 1 based on failure. When you call on a prospective client, part of the sales pitch is that 'of course, you want to be with the leader.' It just makes things that much easier."

At Batten, Barton, Durstine & Osborn Inc., Bob MacDonald, vice-president and media director, thinks the closeness of this season's race has made things better for the advertiser. When one network is far in front, he notes, advertisers tend to compete for time on its shows and prices go up. "Now the competitive situation is such that there are good buys everywhere," he says.

The CBS slide. The closeness of the ratings race surprised Madison Avenue, which heard ABC talk of "three-network parity" for the last few years and then fall far behind last season. Now its audiences almost equal those of CBS and NBC. Another surprise was the slide of CBS, which had the greatest number of returning hit programs at the start of the season—favorites such as *M.A.S.H.*, *Maude*, and *Kojak*—which were figured to repeat as big audience attractions.

Reasoning, perhaps, that viewers are saturated with too many crime programs, the networks are scheduling situation comedies and variety shows as replacements. Such programs, it should be noted, are quick to produce on videotape and also lend themselves to the appearance of big-name guest stars who can lure viewers. The question is whether the changes that go into effect at all three networks in the next few weeks will change the ratings trend established thus far. Madison Avenue, prone to go with the track record, thinks CBS will eventually move out ahead. At that network, an executive was asked if Chairman Paley "calls every half-hour to check on the ratings?" The quick response: "I wish he'd only call every half-hour." ■

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In business this week

FINANCE

Rohr's write-off

Problems with its Washington (D. C.) subway contract will force Rohr Industries Inc. to write off some \$23 million for the quarter ended Oct. 31, pulling net worth be-



Garry: New CEO at Rohr.

low loan requirements. The write-off also speeds a management change: President Frederick W. Garry gets the chief executive title from Chairman (and top stockholder) Burt F. Raynes, who hired Garry last year. In an unusual move, a Rohr statement contradicted recent projections by Raynes of a turnaround in fiscal 1976. The year will see "no improvement" over fiscal 1975's \$7.6 million loss, it said. Apparently because of this shift, the company says the Securities & Exchange Commission has asked to review current financial data. Despite its problems, Rohr is "not in that bad shape," claims a lending banker, and should pull out of its slump eventually, he says.

Chilling antifreeze

Word of Dow Chemical Co.'s planned increase on Jan. 1 in the price of antifreeze drew a request from the Council on Wage & Price Stability for cost data. COWPS Director Michael H. Moskow says that the 60¢ increase in Dow's wholesale price, a 19.2% boost, may reflect expectations of cost increases in 1976. "We believe this kind of anticipatory pricing is undesirable in the current eco-

nomie climate," Moskow says. Dow's boost is less than the 21% increase by Union Carbide Corp. on Nov. 1, but COWPS had threatened a study of costs and pricing if other manufacturers follow Union Carbide's lead.

Postal economies

Despite a hefty rate increase effective on Dec. 28, the U. S. Postal Service looked for new operating economies to close the gap between revenues and costs. One proposal: cut out Saturday deliveries and suspend some other services, including special delivery. Personnel costs, the largest single expense, may be kept in line by halting overtime work, slapping a freeze on new hirings, and forcing new assignments on reluctant employees. Federal statutes forbid layoffs.

COMPANIES

Passing the test

The first of 26 high-speed electric locomotives built by General Electric Co. for Amtrak are finally in service in the Northeast Corridor. Acceptance had been held up by a Federal Railroad Administration recommendation that the locomotives be limited to 80 mph (BW-Nov. 17). New tests satisfied the FRA that they could be operated at the 85-mph speeds needed to maintain Washington-New York schedules. GE Vice-President Carl J. Schlemmer said tests last week had been conducted at up to 95 mph. "We are confident," he added, "that forthcoming tests at higher speeds will show that this locomotive will operate successfully under present track conditions."

Mazda's 'Mizer'

Mazda's new piston-engine economy car, the "Mizer," to be launched early in 1976 as a hedge against weak sales of rotary-engine Mazdas (BW-Nov. 3), won a 42-mpg highway rating from the Environmental Protection Agency—the highest of any 1976 car so far. However, in-

formed sources say the EPA soon will announce a 43-mpg rating for the tiny Honda.

Bidding in Algeria

Bechtel Corp. and Procon Inc. of the U. S. are bidding to replace Chemical Construction Co. at the Algerian site of a \$327 million gas liquefaction plant. Chemico was kicked off the job (BW-Dec. 1) when it fell seven months behind schedule. Trade sources say Bechtel is favored to win the new contract.

Chemical prices rise

Makers of two key plastic monomers announced big price hikes, effective on Jan. 1, because of a rise in the cost of their principal raw materials (ethylene and benzene) and a sudden revival in plastics markets. Monsanto Co. will charge 21¢ a lb. for styrene at its Texas City (Tex.) plant, a 10.5% boost. PPG Industries will charge 12.6¢ a lb. for vinyl chloride monomer, a 14.5% boost. Also due for sharp increases on Jan. 1 are a variety of chlorinated solvents, including perchloroethylene and trichloromethane (chloroform).

Controlling pesticides

Agricultural interests lost their battle to gain more influence over the Environmental Protection Agency's pesticides control program. The House and Senate approved a two-year extension of the Insecticide, Fungicide & Rodenticide Act after the House agreed in conference to weaken provisions designed to give the Agriculture Dept. greater say over EPA enforcement actions.

Rail power struggle

Chicago's fledgling Regional Transportation Authority took another jolt when the Chicago & North Western Transportation Co. suspended negotiations over reimbursement for losses on commuter service. The Burlington Northern had already broken off talks. The two lines object to the RTA's

insistence on being able to fire executives concerned with commuter operations and on having authority over freight train scheduling and all railroad property within a quarter-mile of main-line tracks. CANW President Larry S. Provo says negotiations with the agency have been "zero," but an RTA official says: "Things are not as bad as Provo would have you believe." He indicates that agreement will be reached soon with the two other Chicago roads, the Milwaukee and the Rock Island.

PEOPLE

A Fed vacancy

President Ford has another high position to fill. Jeffrey M. Bucher resigned as a governor of the Federal Reserve Board, effective on Jan. 1, after serving only three years of his 14-year term. Bucher, 42, was in charge of consumer affairs for the Fed, and he managed the controversial Regulation B that set equal opportunity standards for credit availability. According to a Fed spokesman, Bucher was "anxious to get back to law practice in California."

National's strike

National Airlines' flight attendants voted to reject a proposed settlement of their three-month-old strike against the nation's 11th largest air carrier. The airline dropped plans to resume operations on Nov. 24 and said that it was continuing legal action. However, under the Railway Labor Act there is no way for a court to order employees back to work if they are striking legally, and all emergency procedures under the act have been exhausted. Operations are not expected to resume, at the earliest, before National's annual meeting Dec. 2 in Miami. The Federal Mediation & Conciliation Service called leaders of the striking group and its parent Air Line Pilots Assn. to Washington to try to get talks moving again.

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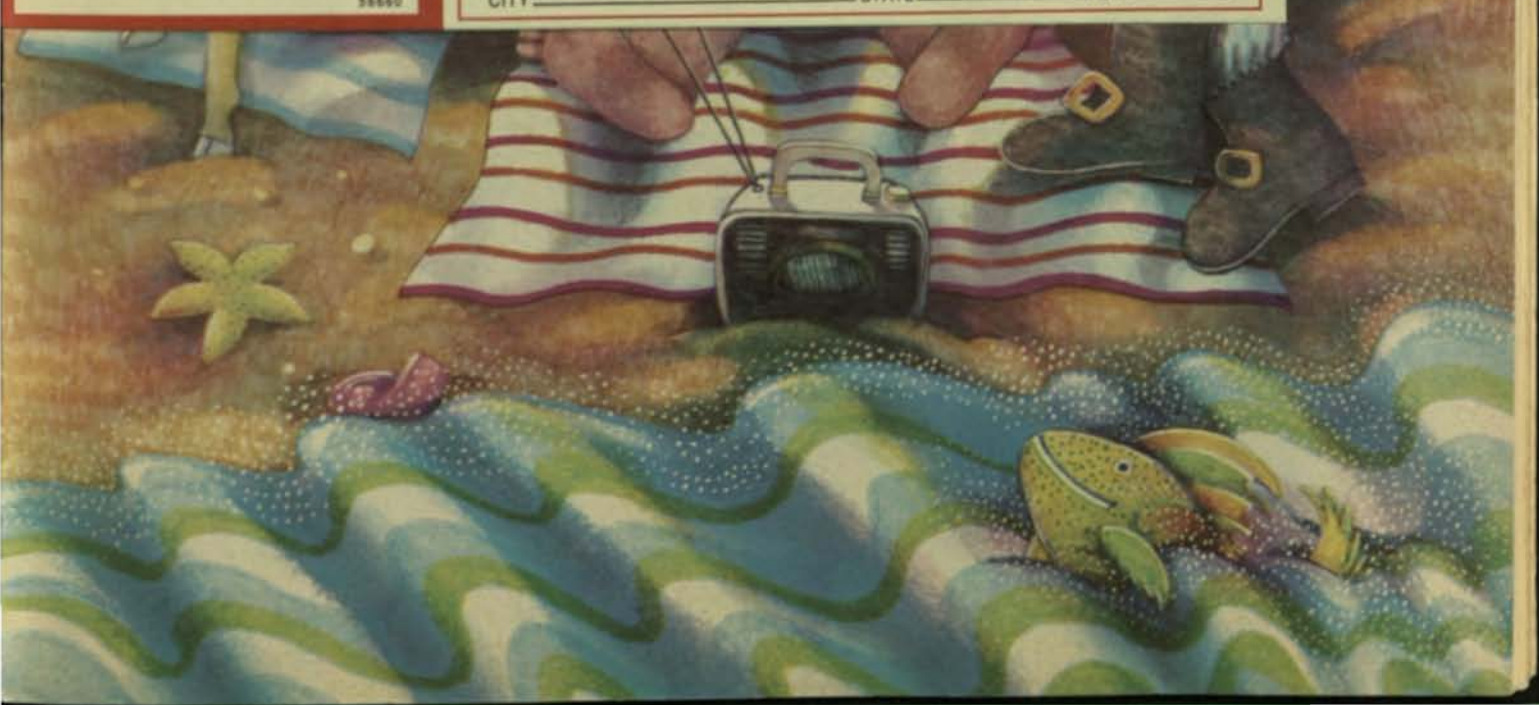
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In business this week

FINANCE

Rohr's write-off

Problems with its Washington (D. C.) subway contract will force Rohr Industries Inc. to write off some \$99 million for the year ending Oct. 31, pulling



Garry: New CEO

low loan requirements. The write-off also will affect management chairman Frederick W. Garry, chief executive officer and Chairman (and majority shareholder) Burt F. Garry. Garry hired Garry last year as an unusual move, management contracts. Projections by management show a turnaround in 1976. The year will show "improvement" over 1975, with a profit of \$7.6 million. Apparently because of the shift, the company's Securities & Exchange Commission has asked for

current financial data. Despite its problems, Rohr is "not in that bad shape," claims a lending banker, and should pull out of its slump eventually, he says.

Chilling antifreeze

Word of Dow Chemical Co.'s planned increase on Jan. 1 in the price of antifreeze drew a request from the Council on Wage & Price Stability for cost data. COWPS Director Michael H. Moskow says that the 60¢ increase in Dow's wholesale price, a 19.2% boost, may reflect expectations of cost increases in 1976. "We believe this kind of anticipatory pricing is undesirable in the current eco-

nomic climate," Moskow says. Dow's boost is less than the 21% increase by Union Carbide Corp. on Nov. 1, but COWPS had threatened a

formed sources say the EPA soon will announce a 43-mpg rating for the tiny Honda.

Bidding in Algeria

... ..

insistence on being able to fire executives concerned with commuter operations and on having authority over freight train scheduling and all railroad property within a

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President Carl J. Schlemmer said tests last week had been conducted at up to 95 mph. "We are confident," he added, "that forthcoming tests at higher speeds will show that this locomotive will operate successfully under present track conditions."

Mazda's 'Mizer'

Mazda's new piston-engine economy car, the "Mizer," to be launched early in 1976 as a hedge against weak sales of rotary-engine Mazdas (BW-Nov. 3), won a 42-mpg highway rating from the Environmental Protection Agency—the highest of any 1976 car so far. However, in-

The House and Senate approved a two-year extension of the Insecticide, Fungicide & Rodenticide Act after the House agreed in conference to weaken provisions designed to give the Agriculture Dept. greater say over EPA enforcement actions.

Rail power struggle

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largest air carrier. The airline dropped plans to resume operations on Nov. 24 and said that it was continuing legal action. However, under the Railway Labor Act there is no way for a court to order employees back to work if they are striking legally, and all emergency procedures under the act have been exhausted. Operations are not expected to resume, at the earliest, before National's annual meeting Dec. 2 in Miami. The Federal Mediation & Conciliation Service called leaders of the striking group and its parent Air Line Pilots Assn. to Washington to try to get talks moving again.

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International business

EUROPE Signs of life for key economies

France and Germany, Western Europe's two key economies, are finally on their way to recovery. The way back is painfully slow and likely to remain that way until spring, but for sign watchers such as John Fay, the chief economist at the Organization for Economic Cooperation & Development (OECD), the recovery "is becoming clearer every day."

Unlike previous upturns, when exports led the way, the recoveries are based on the domestic pump-priming measures that French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt instituted earlier this year. Exports, however, remain sluggish because of the world recession.

But if exports are little comfort, domestic demand gives plenty of reason for optimism. Consumer demand in both countries is picking up and pulling industrial production with it. French consumption of manufactured goods rose more than 6% in September and October, and the November figures are expected to confirm the trend. French industrial production stopped its downward plunge in September and showed modest growth in October.

German consumers are also beginning to loosen their pursestrings. Homebuilders are loaded with orders. Retail chains report a spurt in demand for consumer durables. And the auto industry will come close to equaling its record sales year of 1973. Consumer demand is rubbing off on producers. Steelmakers, for example, report a gentle tug in demand for flat-rolled products as the auto industry works off its inventory.

Surprisingly, it is the French economy that is recovering more rapidly. Bonn moved to stimulate well before Paris did, but the cautious German consumers hoarded most of their increased income from tax cuts in savings accounts. By contrast, the French aged and families with three children or more spent the \$1.2 billion they got last September as a special supplement to normal welfare allowances. A French government source suggests that the improving business and social climate made the French stimulative program more effective than the corresponding German measures, which came while unemployment was soaring and the recession was still deepening.



Giscard and Schmidt: They primed their domestic pumps and stimulated consumer buying.

Government, financial, and business reaction to the first signs of recovery are mixed—and predictable. Government officials and politicians are enthusiastic. And Otmar Emminger, vice-chairman of the German central bank, expects Germany's real growth to climb by 3.5% to 5% next year, a big swing from this year's 4% decline. The French government expects a 3.5% rise in real growth.

Pessimists. But there are plenty of pessimists. Last week, the OECD, which is reluctant to contradict the pronouncements of member governments, noted that it thought estimates of next year's

Consumer demand rises in France and Germany and aids industrial production

growth were overly rosy. But the Paris-based body is not alone. Franz-Josef Trouvain, chief economist of the Deutsche Bank, sees no boom in German exports, investment, or consumer spending. "The preconditions for a boom are not there," he says.

The key missing link is undoubtedly exports. Thousands of German companies, for example, depend upon overseas sales for 50% and more of their business. The combination of Deutschmark revaluations and world recession is severely reducing the profitability of such important German exports as steel, chemicals, autos, and machine tools. Export volume, though down substantially from 1974, is likely to assure current-account surpluses of \$4 billion this year and in 1976. But the lack of profitability means that the al-

ready highly leveraged German companies are unlikely to go on a capital spending binge.

Conversely, Germany's stronger mark and incipient domestic recovery are pulling in imports. That is good news to the French who depend upon the German market to take 20% of their exports. True to the trend of recent years, France is running a trade deficit with Germany as strong French sales of autos and white goods lag behind German sales of capital goods to France. The trade imbalance is inopportune, and French foreign trade officials fear that increased export sales to other promising markets, notably the oil-producing countries, may fail to materialize. Indeed, some private economists forecast a \$2.5 billion trade deficit for France next year.

Slow but sure. Bonn and Paris are hoping that their domestic recoveries, and those of the U.S. and Japan, can be sustained long enough to trigger worldwide growth that will expand international trade. There are few encouraging signs in the rest of Europe. Italian economists do not expect any upturn before next spring. And Britain is even further from recovery.

If exports do not pick up in the coming months, Schmidt and Giscard could face social discontent caused by continued unemployment, which tops 1 million in both countries. The outlook, though, is for little improvement before spring. "Hiring has not resumed on an industry-wide scale," says a French government economist.

Although the slowness of the economic recovery is painful, few econo-

World roundup

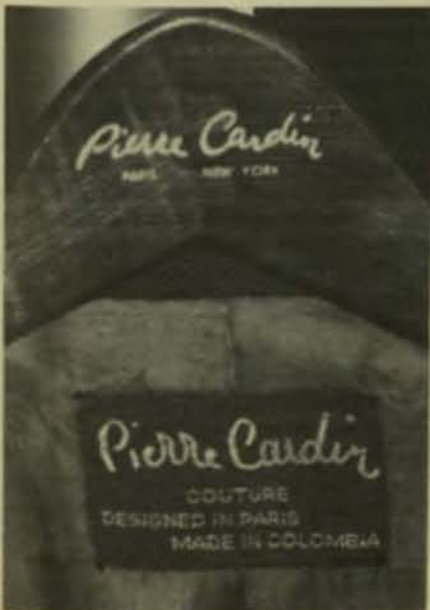
mists would have it any other way. The OECD's Fay, for example, looks on the bright side and applauds the European governments' reluctance to prime the pump further. He worries that greater stimulus would create excessive demand and put the continent back on an inflationary treadmill. ■

COLOMBIA U. S. apparel makers beat a quick retreat

Some of the foreign apparel makers who rushed to Colombia four or five years ago to take advantage of cheap labor, a well-established textile industry, and proximity to the big U. S. market are now racing for the exits. Their complaints range from erratic deliveries and problems with unions to withdrawal of investment incentives and new U. S. import quotas.

The biggest defector probably is Pierre Cardin's U. S. licensee, Intercontinental Apparel Inc., which is winding up a contract to make men's clothing with Everfit, a large Colombian manufacturer in Medellín. Although Everfit has one of the world's largest vertically integrated clothing plants—it even owns a sheep ranch—it has not been a satisfactory supplier.

"One of their problems was constant delivery delays," says Allan Ellinger, an Intercontinental executive vice-president, "and they hurt us a lot." Ev-



Delivery delays and inflation are forcing a Pierre Cardin licensee to leave Colombia.

Switzerland: The Swiss government is giving up its bid to join the European Community currency "snake." Swiss bankers and industrialists oppose entry at present because they believe that the Swiss franc is overvalued against the currencies of Switzerland's major trading partners, West Germany, France, and the Netherlands. The virtual fixing of the Swiss franc at such a high parity could eventually have hurt Swiss exports. In addition, the French have blocked Swiss entry because they feared that the continuing strength of the Swiss franc would pull up all snake currencies, including the French franc, making them less competitive against the U. S. dollar. At French insistence, the Swiss have taken measures to control the capital inflows that kept their currency strong, but France demanded further steps, including a relaxation of the bank secrecy laws.

Algeria: The Algerians this week continued to express their displeasure at a \$1 billion annual trade deficit with France—a deficit that the Algerians attribute to deliberate French policy—by choosing the German color-TV system PAL over France's SECAM. The award cuts the French out of the Algerian market for color-TV equipment. Algerian ire at Paris also figured in the decision by Sonatrach, the Algerian state oil agency, not to sell 2 million tons of crude oil next year to ELF, a French state oil company. ELF was the first discoverer of Algeria's oil and gas, but its cause was not helped by the fact that its President Pierre Guillaumat was one of France's Defense Ministers during the war with Algeria. "He has never accepted the fact that Algeria is independent and that the oil belongs to Algeria," says one Algerian official. After the cutback in oil sales, the Algerians added insult to ELF's injury by signing a joint production deal with ELF's chief competitor, Compagnie Française des Pétroles which will take over some of ELF's interests in the Algerian oil fields.

Scandinavia: Transportation unions in Denmark, Norway, Sweden, and Finland are preparing to boycott ships sailing under flags of convenience that have not signed contracts guaranteeing their crews minimum wages and working conditions. Pressure for the boycott has been brought on by the world slump in shipping, in which vessels with higher-paid union crews have been losing business to those

with nonunion crews. About one-third of the world's merchant fleet sails under flags of convenience, principally those of Liberia and Panama, but only about 1,000 vessels are affected by the Scandinavian ban and only a fraction of those actually visit Scandinavian ports. Before the boycott is instituted next May 1, the transport unions hope



Unwelcome in Scandinavian ports?

to get the support of their counterparts in Britain, France, the Netherlands, and Italy.

Indonesia: The Jakarta government of pro-Western President Suharto has agreed to accept Soviet financing for two major new hydroelectric projects on the island of Java. The agreement marks the first economic involvement with the Russians since 1965, when the Peking-oriented Indonesian Communist Party tried unsuccessfully to overthrow the government. The two installations—one in the 500-megawatt range at Saguling in West Java, the other a 180-Mw. facility at Mrica in Central Java—are expected to cost around \$200 million. The announcement of the linkup just before President Gerald Ford's visit to Indonesia is seen as an attempt by Jakarta to show that it is truly nonaligned.

Spain: General Francisco Franco's death is likely to result in an upsurge in business between Spain and the European Community (EC). The political ostracism of Franco's Spain by EC members had kept commercial relations to a relatively low level. France and West Germany, both of whose Presidents attended official ceremonies celebrating the accession of Juan Carlos this week, are the main contenders. The French and Germans particularly want a larger share of the fast-growing Spanish nuclear power market, which is now dominated by Westinghouse Electric Corp. The Europeans also will seek to broaden their roles in Spain's chemical and electronic industries, dominated by U. S. multinationals.

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International outlook/Germany: Drifting from socialism

erfit took nearly twice as long as U. S. plants to assemble garments. At one point, deliveries were so far behind that Ellinger had a film made featuring the Colombian plant "to show the customers that it really existed."

Intercontinental also suffered from inflation, which ballooned from around 6% to 25% during its time in Medellín, vastly increasing local labor costs. And quality was sometimes a problem. A while back, Intercontinental terminated an agreement with Caribou, a blue-jeans maker, because the product was below par.

Another disillusioned manufacturer is Area Code Inc., a New York-based jobber which has been selling to major wholesalers and retailers from Textiles Internacionales, its wholly owned \$1 million plant located in a special tariff-free zone in Barranquilla. An Area Code official says Colombian workers did not respond to financial incentives and that the company had to deal with two rival unions, one Communist and the other anti-Communist. Deliveries to the U. S. were often held up for weeks because the Colombian airlines were unreliable, he adds. Like several foreign-owned plants in Barranquilla, Area Code has stopped production.

Restrictions. Not all the foreigners have had bad experiences. David Weaver, a Texan whose Textiles Pepalfa plant in Medellín employs 2,300 Colombians, admits there are delivery and union problems, but says too many companies came in with a get-rich-quick attitude or were poorly financed. Alvaro Gomez, who runs Sears, Roebuck & Co.'s clothing export program, thinks many labor problems could be avoided if U. S. manufacturers displayed more tact.

Eduardo Gonzalez, who heads the Colombian Federation of Knitters, believes that exporters with good administration, solid finances, and diversified production that includes the local Colombian market can still do well.

Nevertheless, there are real signs that the Colombian clothing boom has passed its peak. Some time ago, the Colombian government reduced the export subsidy paid under the so-called Colombia Tax Certificate scheme from 15¢ on every \$1 worth of exports to 5¢ after finding that several companies had reported fictitious exports. An even stronger reason is the new U. S.-Colombia trade agreement which restricts imports of textiles and clothing. Although the clothing limits are about 30% higher than 1974 shipments, they are low enough to make foreign manufacturers think twice about new investments in Colombia. ■

West German Chancellor Helmut Schmidt's government appears to be veering away from the left. The most concrete sign will come in the next few weeks when the Chancellor is expected to propose legislation that would increase the workers' role on company boards but will keep it below the equal representation long sought by his Social Democratic Party (SDP).

The government's change of attitude is due to the growing political clout of the SDP's coalition partner, the tiny Free Democratic Party, and its influential spokesman, Economics Minister Hans Friderichs. The centrist, pro-business FDP is locked into a mutually beneficial coalition with the Social Democrats, and Friderichs is so popular that he and his party have a disproportionate influence on policy.

Some idea of how strange these bedfellows are came just before the SDP's recent conference in Mannheim. As militant young SDP members were making a strident plea for equality and a national ceiling of \$24,000 on individual incomes, Friderichs' ministry was talking about new corporate tax incentives to spur private investment and thus, of course, profits.

Give-and-take. The decision on codetermination was an example of how much weight the FDP carries among these disparate forces. The unions have been pressing for at least 50% representation on supervisory boards, to give them parity with management. But the new proposal is that fewer than half the members of boards will be from the workers' side, that the chairman will always be from management, and that at least one of the workers' representatives will come from a group called the managing employees, which includes mid-rank executives and can be expected to side with top management.

The FDP won its point by making the coalition's codetermination stance a key test of the coalition's survival. The FDP was obliged to insist on the anti-labor measure to retain the votes of the professionals and businessmen who make up its constituency. The Social Democrats went along to prevent the FDP from walking out of the partnership and linking up with the right-of-

center Christian Democratic Union. The hard line on codetermination has paid off for the FDP. The party has chalked up sizable gains in recent elections in Bremen and Schleswig-Holstein and is showing up well in national polls.

As an FDP standard bearer, Friderichs has won a large public following, both inside and outside his own party, because of his calm, thorough approach to economic issues. In dozens of speeches around the country, he gives the impression of being one of the few leaders in the industrialized world who understands what recession is about and has an idea of how to cure it. As an FDP colleague says of him: "He cuts a good figure, he speaks well, and with those soft deer eyes, he is very convincing."

Friderichs has been careful never to appear too optimistic about the German economy. Instead, he emphasizes that Germany's problems are long-term ones, involving scarcities of raw materials, high wages, a revalued Deutschemerk, and a sprawling government bureaucracy. His position has won him respect, even when the country's growth rate has been declining. Now, with an upturn apparently on the way, his star—and the FDP's—is likely to shine even brighter.

The FDP's stand on codetermination—which was reflected in the government's pullback earlier this month—has drawn fire from German labor. But what has saved Friderichs and the SDP-FDP coalition is that he has not touched any of the SDP-inspired reforms.

Boon to business. Since the SDP needs the Free Democrats and since Schmidt himself is to the right of his predecessor, Willy Brandt, the drift away from socialism by the supposedly socialistic West German government will clearly continue.







One beneficiary will be business, which will be under less pressure and will be offered more encouragement than it has been for six years. Another is bound to be the Free Democratic Party. In a change of heart that is by no means unusual, a prominent Frankfurt banker who has supported the CDU for 30 years, says that his vote will go to the FDP when the federal elections come round next year.



Friderichs: The key man.

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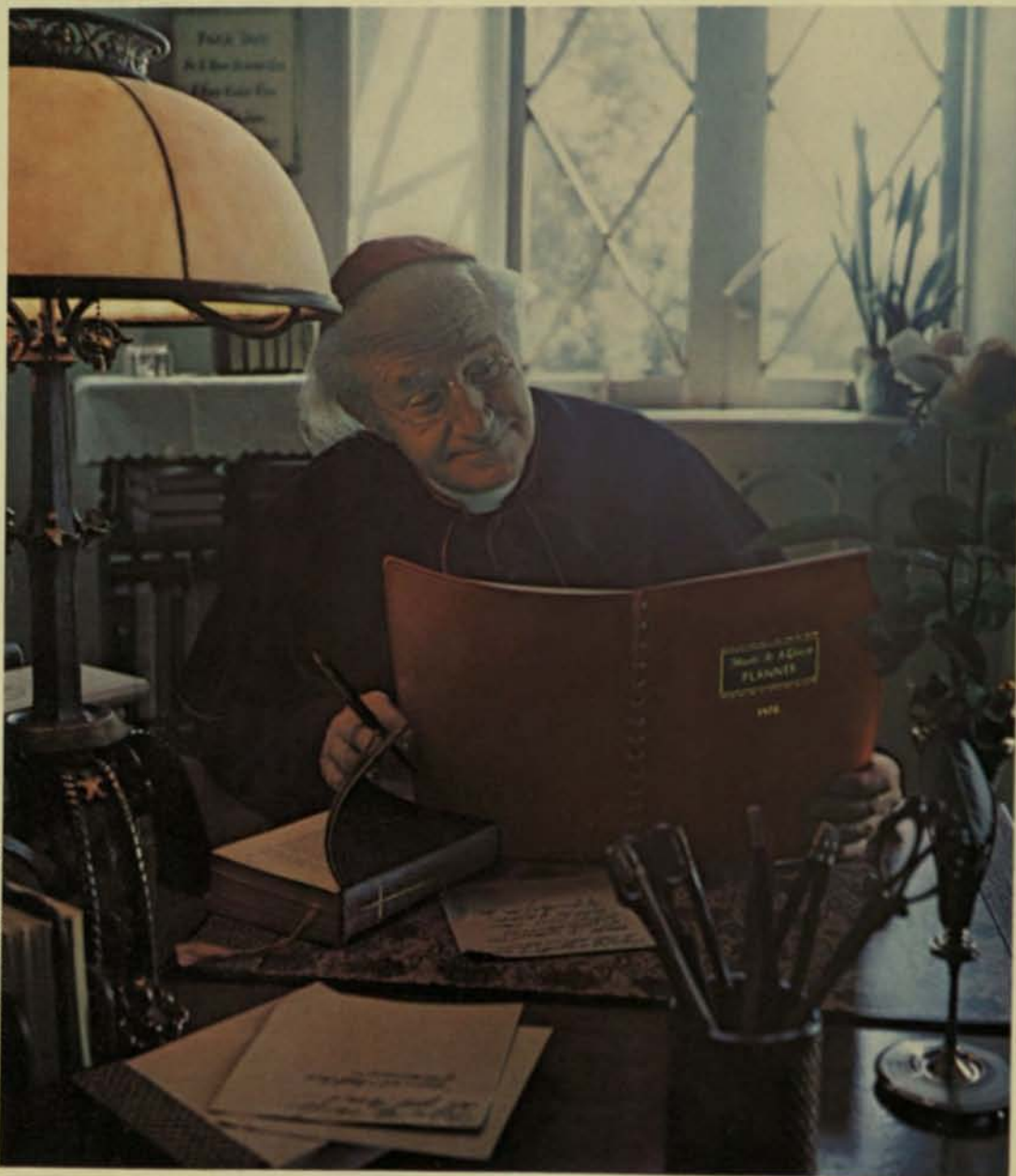
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Antitrust action in the shopping malls

Important tenants in shopping centers traditionally had an influential voice in what kind of competitors can rent space down the mall. But all that has changed dramatically in the past three years. The antitrust laws have struck again, and the industry is just beginning to wrestle with the fallout from a Federal Trade Commission policy labeling the once-common use-restriction clauses in mall leases as unlawful, and therefore unenforceable, restraints of trade.

In a typical case, a big national chain of dress shops recently faced up to just how little clout it now has. The owner of a major shopping mall in New Jersey was able to rent space to another women's dress shop despite a clause in the dress chain's lease that forbids any other tenant in the mall to direct more than half its line of merchandise to the same market. The chain's vice-president in charge of real estate says: "The landlord said 'tough.' We could go and litigate, but we decided in light of

The major stores can no longer bar competitors from the centers

what's going on in this field, who wants it?"

Contract provisions that in the early 1970s were standard in the industry are now virtually useless. And Washington regulators are planning still further assaults on mall-renting practices.

Veto power. In the 1950s, the big "anchor stores" that acted as magnets for customers of suburban shopping centers—and often owned them—demanded and won considerable say over the rest of the tenant mix. This veto power was primarily intended to keep out discounters and the kind of noisy promoters or "smelly" food outlets that might alter the center's tone. But specialty shops and smaller general merchandise outlets such as variety stores recognized the value of the veto and increasingly slapped restraints on the landlords, too. Supermarkets barred convenience food stores. Marriott Corp. regularly promised not to offer wait-res service in its Roy Rogers fast-food outlets in return for exclusivity in the fast-food category.

To the Federal Trade Commission, looking for new cases in the early 1970s, such deals certainly appeared to violate the FTC Act's ban against restraints of trade. In May, 1972, the commission filed complaints against

Tysons Corner, a regional shopping center in suburban Washington, and three department store chains: May Dept. Stores, City Stores, and Woodward & Lothrop. Later cases have been aimed at Gimbel Bros., Peoples Drug Stores, and Rouse Co., a big center developer. More cases are waiting in the pipeline in the commission's regional offices.

The FTC has managed to obtain consent judgments in virtually all its cases so far, and that record has encouraged state prosecutions—Ohio, for example, extracted a consent decree from Zayre Corp. In addition, would-be competitors kept out by the exclusionary covenants have begun filing private dam-

ments to delicatessens and fast food outlets without worrying about existing restrictions. Last summer he asked a supermarket chain to give him a waiver for a convenience food store to come in to a suburban Washington center. The chain at first refused but reversed itself "within 24 hours" when Rosenstein threatened to go to the FTC with the story. One big Redstone tenant—Dart Drug—recently decided, unprompted, to call off existing restrictions against other pharmacies and Hallmark greeting card outlets.

Major tenants' views. The original instigators of restrictive lease arrangements—the major department store tenants—are far less concerned these days, since they no longer worry much about discount-store incursions. The covenants "were never very meaningful anyway," says A. Alfred Taubman, one of the country's biggest mall builders. "That's why they were so quick to give them up." The reason, insists Albert Sussman, executive vice-president of the International Council of Shopping Centers, is that "most discount stores don't want to go into the regional shopping centers anyway."

Frank W. Clark Jr., the executive vice-president of May who in negotiations with the FTC agreed to drop the company's control over other tenants, says that at the time of the settlement, "I did not feel it would have a profound or substantial effect on our operation."

So far, in fact, the new antitrust realities have not produced the catastrophic over-competition that opponents have long feared. Landlords and merchants generally are agreeing on the proper commercial mix.

The anticompetitive problem is now shifting to the policies of the shopping center developers. The FTC is getting set to attack the power of the developer to unilaterally limit competition in his center. It has not yet decided whether to hit developers in individual actions or to issue a general trade regulation. One possibility: a suit against a mall's unilateral refusal to rent to a retailer because too much similar merchandise is already being sold in a center. It would be the first such case brought under U. S. antitrust statutes. ■



Who decides who can rent space on the mall?

age suits in federal court. Pay Less Drug Stores won its suit for access to an Oregon shopping center last spring.

The major impact of the new policy is being felt in smaller malls and among the smaller stores in the big regional centers. Old bars against overlapping product assortments are falling, and new kinds of merchants are finding they can move in. Parklane Hosiery Co., for example, is stuck with leases that usually say it is only permitted to sell hosiery. It has always provoked a battle when announcing its intention to expand into, say, leotards. "It's still a fight," says Parklane's real estate director Howard Laniado, "but landlords are less inflexible than they used to be."

Sam Rosenstein, president of Redstone Development, which builds community-sized centers, says he now

SEARS' IDENTITY CRISIS

It must figure out what it wants to be to its customers

There is a little wistfulness in the voice of the Texas merchant when he talks about the once-mighty Sears, Roebuck & Co. Dazzled by the giant retailer's merchandising and knowhow, he used to clip all of the chain's newspaper ads each day and tack them up on a wall alongside his own ads. If Sears was doing something that he was not, then he followed suit. Now things have changed. "I'm not scared of them anymore," he says. "They are just not as tough as they used to be. I haven't had one of their ads on my wall for over a year."

Nor have many other merchants. This week, as they ring in their big Christmas selling season, more than a few retailers are still hurting from the recession. At Sears, however, Chairman and Chief Executive Arthur M. Wood faces problems that go far deeper and that assume special importance for retailing at large—if only because of the importance of Sears itself.

Rather suddenly and precipitously, Sears is losing momentum—in its sales, profits, and its ability to control costs. Last year, on sales of \$13.1 billion, profits tumbled 25% to \$511 million. While that is still four times the profits

of second-ranking J. C. Penney Co., the Sears decline marked one of the sharpest drops among leading general merchandisers. This week, at a time when most other merchants are strongly rebounding from the recession doldrums, Sears announced both a quarterly sales increase (4.2%) and profit increase (12.6%) that trailed far behind most other major retailers.

For the nine months, Sears sales are up only 2% and profits are down 28%. By comparison, nine-month profits rose 7.4% at Montgomery Ward, 31% at Federated, 32% at Kresge, 41% at Allied. Even Penney, which suffered a calamitous drop of 87% in its first-quarter profits, has managed to hold the year's decline to 7.5%.

The biggest single drain on Sears is its wholly owned subsidiary, Allstate Insurance Co., the country's second largest insurer of cars and homes. Last year, Allstate contributed fully a third of the company's net income. Now like other casualty companies, Allstate has been hit hard by inflation, big jury awards, and the resistance of regulators to rate increases. In the first nine months, Allstate's underwriting

losses ran \$215 million, compared with an underwriting income of \$16.5 million for the same period last year.

Apart from Allstate, however, Sears faces enormous and, in some ways, even more menacing problems in retailing. Until the past two or three years, Sears seemed almost invincible. Nearly twice the size of the country's next largest retailer, Sears has ballooned into a merchandising colossus that accounts for just under half of all catalogue sales, 3.5% of total nonfood retail sales, and fully 1% of the country's gross national product. One out of every three American families now carries a Sears credit card.

Some outside help

In his office high up in the 110-story Sears Tower, the 62-year-old Wood bristles at the suggestion that Sears might have troubles. Wood, President A. Dean Swift, 57, and other top Sears executives put the blame squarely on the recession. "We know what we are doing here," insists Wood, giving an assurance that never had to be given before. To visitors, in fact, Wood repeats over and over the litany of his

Sears, Roebuck: Still way out front in the chain-store ranks

	Sales* [millions of dollars]	Cost of goods sold [millions of dollars]	Percent of sales	Selling, general & administrative expense [millions of dollars]	Percent of sales	Net income [millions of dollars]	Percent of sales	Number of stock turns per year
Sears, Roebuck	\$13,101.2	\$8,144.9	62.2%	\$3,821.3	29.2%	\$511.4	3.9%	6.8
J. C. Penney	6,935.7	4,979.9	71.8	1,533.8	22.1	125.1	1.8	5.9
S. S. Kresge	5,612.1	4,208.4	75.0	1,150.5	20.5	104.8	1.9	5.4
F. W. Woolworth	4,177.1	2,947.9	70.6	1,007.4	24.1	64.8	1.6	5.0
Montgomery Ward	3,622.7	2,579.7	71.2	799.7	22.1	44.3	1.2	4.6

Data: Investors Management Sciences, Inc.

*Fiscal 1975



Steve Anderson

Old vs. new: Sears may be losing its appeal to the low incomers who traditionally shop in its hardware departments (above) by promoting high-priced items (right).

company's philosophy and achievements, deriding charges that Sears has lost its way. "Outside observers see the external indications of headaches and conclude that we aren't the same old Sears," he says. "We'll come out of this in better shape."

While Wood publicly dismisses Sears problems as an offshoot of the recession, privately he is moving the company in several fresh directions—a confirmation, of sorts, that Sears recognizes trouble when it sees it. Basically, that trouble is the company's own sheer giantism. With a sprawling network of almost 900 stores, 1,700 catalogue and telephone sales offices, 13 huge distribution centers, and 124 warehouses, management coordination between the field and home office is beginning to falter. "So more and more for Sears, it comes down to the ultimate question of identity and figuring out just what it wants to be to its customers," says Thomas M. Macioce, president and chief executive of Allied Stores Corp. "Just how big is too big in retailing? This is a personal service business, and how personal can your

Once again, bedspreads are tapestries



Belissimo from Sears

Belissimo is the new tapestry bedspread from Sears. It's a beautiful, multi-colored tapestry that's perfect for your bedroom. It's made of 100% cotton and is available in several sizes. It's a great addition to your bedroom decor.

Lowest priced bedspread
\$19.99

service be when you are this large and this diffuse in your image. That's the real issue that Sears is trying to come to grips with."

As part of a broad offensive, Sears is launching a massive efficiency drive. This includes some cost-cutting layoffs and firings, tighter coordination and control of merchandising and sales personnel, better planning, and a new-store program that emphasizes fewer,

smaller, and—Sears hopes—more productive and profitable units. To get back its old growth rate and recover market share that has been slipping away to competitors, the huge retailer is also chopping prices and stepping up promotions. Within the Allstate subsidiary, which is under some of the severest cost pressures, there is a new push into more profitable financial and insurance services beyond the com-

pany's staple of auto and home owners coverage.

Above all, Sears is taking the momentous step—for Sears—of hiring an outside consultant, McKinsey & Co. With a reputation for self-confidence that borders on arrogance, the very idea that Sears would seek outside help suggests the magnitude of its problems. "It's healthy to have an objective review of organizational structure," says Wood. "Sears has not had such a review since the 1930s. With people costs going straight up, a review at this juncture will enable us to adjust our organization for possible improvements in productivity." Adds President Swift: "Most of us at Sears are home-grown, and an outsider can tell us some

things about how our organization might be made more efficient."

One other purpose of the study, according to those close to Sears, may be to help resolve the sense of confusion and thrashing about that the company's problems have reportedly triggered among upper management. Some even suggest that the debate is rooted in a power struggle for the top spot at the company, a position that will become vacant in a little over two years when Wood—then 65—faces mandatory retirement. "A lot of people with different points of view are jockeying for position at Sears, and they are all looking at Arthur Wood's chair," notes consultant Arnold B. Becker, vice-president and retail specialist for

Cresap, McCormick & Paget Inc. Among the front-runners: Swift, James W. Button, senior vice-president of merchandising, and Charles A. Meyer, vice-president of corporate planning.

At the heart of Sears' identity crisis are some fundamental and—for Sears at least—ominous changes in the retail environment. On the one hand, many of Sears' primary urban markets are approaching saturation and offering far less opportunity for growth. This reflects increased competition from department and discount stores, plus a whole new generation of specialty mass merchandisers. These specialists offer everything from toys (Lionel Leisure City, Toys "R" Us) and sporting goods (Herman's) to furniture (Levitz, J. Homestock, Wickes), home electronics (Tandy Radio Shack, Playback), home repair products (Handy Man, Handy Dan), and ready-to-wear (The Gap, Casual Corner). "Sears can show customers three types of footballs, but we can show them 40," says Sy Liv, marketing vice-president for Toys "R" Us.

Slow-up in growth

At the same time, there are signs that all these retailers may soon be splitting up a smaller and smaller pie. Because of soaring prices, general economic uncertainty, and an increasingly conservative consumer, some economists predict that the industry's real growth into the 1980s will fall below the 4.2% annual rate of the past decade. Hit by recession, retail sales slipped 4.2% in 1974 and an additional 2% so far this year.

"Since World War II," says the president of a West Coast department store group, "Sears has depended on three factors: explosive population growth in the suburbs, a high homebuilding rate, and a bursting automotive market. Today you can't count on any of these as major props for your business." Rate of family formation is slowing, he notes, "the population is getting older, inflation is more and more ruling out the single-family home, and people are putting a smaller percentage of their dollar into autos." In short, the mass market is not what it used to be, which has grave implications for all mass merchants because of their heavy dependence on volume economies.

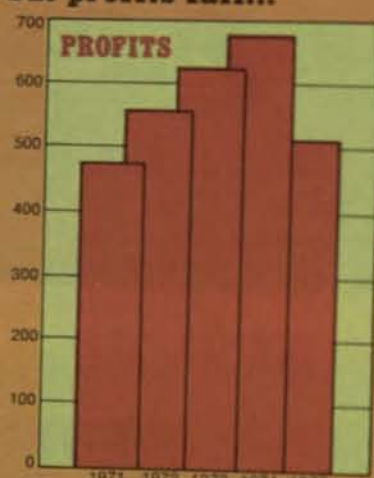
Sears, of course, is mindful of these trends and is trying to respond. Before World War II, people shopped at Sears because prices were low, quality was high, and service was good. Then after the war, as discretionary incomes began rising, Sears went after the

Sears, Roebuck's problem:

Its sales increase but profits fall...

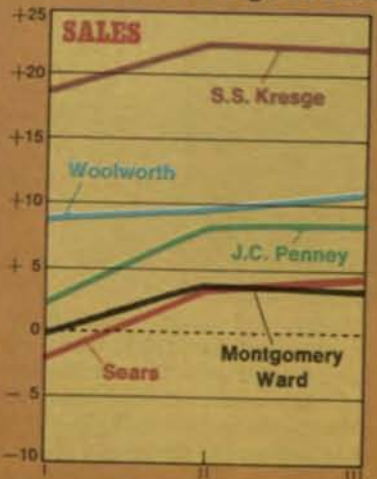


▲ Billions of dollars

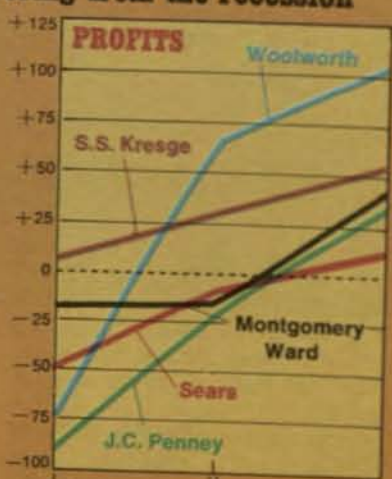


▲ Millions of dollars
Fiscal year ending Jan. 31

...and it lags in recovering from the recession



▲ Percent change by quarter, 1974-1975



▲ Percent change by quarter, 1974-1975

higher-income customer by adding fancier and more expensive products, mostly home furnishings and fashion softgoods. This raised some gross margins from their standard 32% or so to 45% or higher. It also lessened the chain's lopsided dependence on hardgoods, traditionally the biggest consumer casualty during any recession. From 32% of sales 20 years ago, softgoods have increased to 40% of the company's business.

With its upgraded merchandising, however, Sears quickly ran into headaches. One is simply the nature of a chain operation and the necessarily long lead time between ordering and delivery. This works against keeping pace with fast-changing fashions. As one Sears watcher notes, "Prewash denims were picked up by alert retailers last December, but I didn't see them at Sears until May."

An even bigger problem, other critics note, is the Sears image. Among apparel lines, in particular, they claim that higher prices at Sears are driving away many of its traditional low-income customers while failing to lure that many upper incomers because they simply do not associate Sears with fashion. "A wife doesn't want to buy a leather jacket for her husband at Sears, even if Sears has a good value on one," says William S. Hansen, president of Buffums, a California department store group. Often, he adds, "She doesn't want to buy fashion at the same place she buys hardware."

Merchandise Button argues that she will. And he claims just as strenuously that low incomers are not forsaking Sears. Without revealing his data, Button insists that he has research to back him up. "In dresses, tires, batteries, and a lot of other things," he maintains, "we were not carrying the higher-priced lines being demanded by the masses." Wood adds, "Much of the trading up came not because we wanted it, but because our customers told us they wanted it." Yet in almost the same breath, Wood concedes that in moving to higher-priced women's wear, Sears did indeed turn over a \$5 billion budget apparel market to competitors.

Hardnosed pricing

To get such customers back, Sears is now sharpening its prices. One strategy is a move into "budget shops" within the women's departments. With gross margins estimated at 36%, the shop's dresses typically start at \$5.99 and pants suits, \$9.99, roughly 15% to 50% less than the starting prices in the regular women's wear departments. Already, Sears has squeezed the shops into 155 stores. During the next few years, Sears plans to add another 300



Wood and Swift in the Sears boardroom: "We know what we are doing here."

budget units. While Sears has not announced plans for expanding the budget concept to other product lines, some store managers are said to be adding low-priced records, tapes, and casual shoes to their budget shops.

As part of the same offensive, Sears is also stepping up its promotion of all lower-priced items. In one campaign, full-page newspaper ads show every major item in a product line, from the cheapest to the most expensive. Pointing to one ad for $\frac{3}{8}$ -in. drills, Wood notes: "It shows we carry everything from the Rolls Royce of drills to the Chevette of drills." Last year Sears drew a similar bead on the panty hose market—repackaging, renaming, and stepping up the promotion for its Leg-tricity line, priced at 99¢. That compares with the chain's top-of-the-line Cling-Alon panty hose, priced up to \$5.

"We've seen a definite return by Sears to sharp price merchandising across the board," notes Daryl C.

Eagle, advertising director for the Los Angeles metropolitan group of Montgomery Ward & Co. "They're more hardnosed than ever on prices."

Sears is becoming more hardnosed, as well, in its merchandising. Zeroing in on Radio Shack, Playback, and other specialty merchants, Sears broke with a longtime tradition last year and for the first time began offering Fisher, Koss and other national brandname components in its home electronics departments. In the past, customers could buy only Sears private-label components. With an eye on the furniture specialists, Sears also redesigned its furniture departments early this year. They now include a wider assortment of styles in far more room settings.

The even bigger push is on coordinating merchandising among the various stores. Inevitably, this means less autonomy for store managers and more centralized control in Chicago. Right now, that control starts with

Wood and Swift at the top of the Sears pyramid. Below them are five executive vice-presidents who supervise 47 group managers in metropolitan areas and 12 zone managers in less populous sections. Next come the store managers and under them are division managers who supervise a broad merchandise line in each store. William Dikeman, a senior vice-president at Penn Mutual Life Insurance Co. and a former Sears executive, notes: "In the past, more decision making was left to the division managers within a store. But as Sears began changing its image and adding fashions, the people at the top assumed more responsibility."

Insiders claim that the new McKinsey study will recommend even more centralization of merchandising. While buying is handled out of headquarters, store managers still have a big say about what items they carry and in what quantity. Displays and promotions are also "suggested" by headquarters. But local managers can modify them, and often do.

A Sears salesclerk in Pittsburgh, for instance, admits that his own store has turned to "the silliest types of promotions." He describes "five-minute sales" that suggest something out of the darkest days of discounting. "Sirens sound and lights flash at a certain department counter, and everything in that department is on sale for five minutes," he says. "But how many people can you wait on in five minutes?"

A Texas department store executive points to a Sears ad in a Houston newspaper. "You tell us what to put on sale," the ad trumpets. It offers two coupons worth 10% off on any item in the store. "Sears is now resorting to cheap promotional stunts, because they're scared," the executive claims. While Button denies this, he does admit that it is not good for any merchant to put his whole store on sale.

Worse yet is the practice of putting items on sale that the merchant does not even have. A shopper in suburban Cleveland says that he spotted a Sears ad, offering a \$14.99 fireplace grate for \$10.99. When he arrived at his local Sears store, he was told the grate was out of stock. "What's so frustrating," he says, "is that it was right there in the paper. Sears should have had the grate in their stores."

Where the service went

In some instances, according to a proposed Federal Trade Commission complaint last year, such Sears ads are a deliberate "bait-and-switch" tactic aimed at luring customers into a store—only to get them to trade up to a

more expensive product. Wood states flatly that bait-and-switch selling is against corporate policy. More often, he suggests, store personnel may simply be cutting their inventories too close. "Management wants to keep inventories down but sales up," says a Sears salesman in Cleveland. "So you always have a potential out-of-stock situation." He claims that Sears employees are "depressed" because of such occurrences, "and this comes through to the customer," the salesman adds. "The thing Sears fails to realize is that a salesman gets so mad he doesn't care if he sells or not."



Boe: "The combination of events of the last year has never happened before."

That, of course, is a far cry from the Sears salesman of old. In the past, Sears salesmen and department managers were among the best in the business. "Then, when retailing went to 70 hours a week, those great Sears department managers who were equivalent to consultants in their product areas were supplemented by newer people who were less experienced," says a competing mass merchandiser. "It's a problem we all face. But it's affecting Sears more because it had the reputation for highly trained sales people." A Sears department manager in Pittsburgh reluctantly concedes as much. "Anymore," he says, "our department heads know very little about how to help customers who do not know what they need."

In a typical Midwestern market, a Sears salesman notes that Sears is divided into three basic operations: sales, service, and merchandising and warehousing. "And they all work against

each other," he says, "to the detriment of the thing that keeps it all going—the customer."

In its catalogue merchandising, where it is having more success, Sears is trying to achieve the same type of balance and coordination that it would like to see in its store merchandising. Today Sears' catalogue sales account for 21% of its total volume and are growing faster than store sales—10% per year for catalogue sales vs. 5% for stores. Yet in some ways the Sears catalogue is running into tougher challenges than the stores. In the past eight years, according to estimates by *Chain Store Age*, the Big Five catalogue houses (Sears, Ward, Penney, Spiegel, and Aldens) have dropped from 95% of the catalogue market to about 78%. During the same period, the Sears market share has plunged from 59% to roughly 44%. The big gainers have been the more than 4,000 department store and specialty catalogues that are burdening the mails.

Targeting the catalogue

To compete with them and the specialty merchants, Sears is now cranking out more and more of its own specialty catalogues. Compared with six specialty catalogues a decade ago, Sears now offers 17. They specialize in everything from home-improvement products to carpeting. When asked by a visitor about the vast assortment of products offered by specialty retailers, merchandiser Button grabs a Sears toy catalogue and cheerfully flips through 177 pages. Altogether, the catalogue group carries 160,000 items or nearly four times the number offered by the chain's biggest stores.

Sears pins much of the success of its catalogue business on proper planning. Yet curiously enough, the one area of Sears that seems destined for the biggest overhaul may be planning itself. All through the postwar years, planning at Sears was impeccable. Among major merchants, Sears led the way to suburban branches. It pioneered night hours, computerization of physical distribution, and a broad array of consumer services. Sears pushed credit while Penney and other leading retailers still demanded cash.

"Yet somewhere along the way," says one Eastern merchant, "Sears planning got off track, which is really what helped put Sears in its current predicament." As late as last November, when the auto industry was laying off workers and other merchants were already slashing inventories, Sears stuck by its forecasts for a strong Christmas season. The result was that

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Cutting back on store openings and sizes to trim costs

Sears ended the year with inventories a staggering 7% over budget.

Wood blames such mistakes on the volatility of the times. "I don't think we were inadequate on planning in the past," he says. "But we are seeking more coordination of our planning for the future, because business is affected by more outside influences"—meaning growing government regulation, soaring costs, and so on. "Planning is more difficult," Wood insists.

No central focus

To strengthen planning, Wood created the company's first corporate planning department two years ago. Today the department has six staffers. They are supposed to coordinate the planning of operating departments and encourage them to look at least 10 years ahead, instead of the previous five. So far, however, the department has scrupulously avoided anything that smacks of a master plan. This is a major failing in the eyes of one insider who has been close to Sears top management. He claims that there is too much planning duplication among merchandising, distribution, and other operating areas and "no decent central focus on where the company is going, what its image should be, and what market segments it should pursue."

In its store planning, Sears is taking the same cautious approach. To help trim costs and boost productivity, the company is cutting back on both store openings and sizes. Last year, the average new Sears store included 100,000 sq. ft. of selling space or 25% less than 10 years ago. Over-all last year, Sears added only 1.9 million sq. ft. of selling space, compared with an average 2.8 million sq. ft. that it opened each year in the last half of the 1960s. That gave Sears 58 million sq. ft. of selling space. By comparison, Penney (55 million sq. ft.) opened 2.8 million sq. ft., while Kresge's K mart (53 million sq. ft.) added a staggering 8 million sq. ft. "We are already in most markets that we want to be in," says President Swift. "We have become increasingly careful about putting a store in that takes away business from our existing stores."

Yet because Sears is expanding more slowly, it is now losing market share to many of its large rivals that continue to plunk new stores all around it. After World War II, for instance, Sears beat all other leading retailers into the booming suburban markets of Southern California. With 34 stores and more than \$635 million in sales, Sears is still the dominant retailer in the five-county area. But Ward, Kresge,

Penney, and several other merchants are adding stores at a faster clip and are gaining on Sears. Last summer, a study showed that Sears was one of only two major retailers that suffered a sales decline in Southern California. "We may not have scared Sears," says Montgomery Ward's Eagle. "But among Ward, Penney, and Kresge, we've sure eaten away some of its business."

The same thing is even happening in Sears own headquarters city of Chicago. There, a study last year showed that Sears lost market share in 13 of 20 product categories, including furniture, carpeting, and men's shirts.

Reassuring the financiers

Wood and other Sears executives, however, tend to regard such happenings as only momentary blips that will be corrected in time. For all of the problems that Sears seems to face, in fact, many of its critics profess confidence in the company's ability to re-establish a strong identity and market. The Sears network of 12,000 suppliers is unmatched for quality and service. Its distribution and electronic point-of-sale systems are among the most advanced in retailing. And most important of all, Sears has the driving momentum that comes from being the most powerful selling force in the world. "Frankly, I'm bullish on their ability to solve their problems," says Bert C. McCammon Jr., professor of business administration at the University of Oklahoma. "I just can't think of another organization that has a more extraordinary track record in reprogramming itself to adapt to change."

Even the prospects for the troubled Allstate subsidiary appear somewhat brighter for the longterm. Allstate Chairman and Chief Executive Archie R. Boe claims that, "The combination of events of the last year has just never happened before. And I don't ever look for them to happen again."

To get across the same message, Wood, Swift, Button, and other top Sears executives have also been traveling widely in the last few months, reassuring financial audiences. In one recent session before a group of Boston security analysts, Wood was unruffled by comments that Sears might be slipping. "Oh yes," he said, "sometimes we lose young people for a while. But they come back to us for (1) price, (2) quality, and (3) reliability and service." When and if Sears itself comes back to those same three selling tools, some of its competitors claim that the giant merchant just might regain the high road.

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Cutting back on store openings and sizes to trim costs

Sears ended the year with inventories a staggering 7% over budget.

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Sears 58 million sq. ft. of selling space. By comparison, Penney (55 million sq. ft.) opened 2.8 million sq. ft., while Kresge's K mart (53 million sq. ft.) added a staggering 8 million sq. ft. "We are already in most markets that we want to be in," says President Swift. "We have become increasingly careful about putting a store in that takes away business from our existing stores."

Yet because Sears is expanding more slowly, it is now losing market share to many of its large rivals that continue to plunk new stores all around it. After World War II, for instance, Sears beat all other leading retailers into the booming suburban markets of Southern California. With 34 stores and more than \$635 million in sales, Sears is still the dominant retailer in the five-county area. But Ward, Kresge,

Chairman and Chief Executive Archie R. Boe claims that, "The combination of events of the last year has just never happened before. And I don't ever look for them to happen again."

To get across the same message, Wood, Swift, Button, and other top Sears executives have also been traveling widely in the last few months, reassuring financial audiences. In one recent session before a group of Boston security analysts, Wood was unruffled by comments that Sears might be slipping. "Oh yes," he said, "sometimes we lose young people for a while. But they come back to us for (1) price, (2) quality, and (3) reliability and service." When and if Sears itself comes back to those same three selling tools, some of its competitors claim that the giant merchant just might regain the high road.

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Markets and investments

Taxes make trading on the NYSE costly

Many investors are missing an opportunity to save tax dollars by getting their stock trades executed away from the New York Stock Exchange. On Aug. 1 New York City upped its stock transfer tax, levied on all stock trades executed or transferred in the city, by 25%. The tax is expected to produce more than \$200 million for the hard-pressed city this year. But as more hard-pressed investors become aware of how much they are contributing to New York's support with no tangible benefit in exchange, more are likely to take their business elsewhere.

Both the Pacific and the Boston stock exchanges have run advertising campaigns to inform brokers of the savings they can achieve for their customers by trading on the regional exchanges. To avoid the tax, the trade must be executed, transferred, and delivered outside of New York State. According to the PSE, 80% of the stocks traded there have dual transfer agents, so a New York transfer can be escaped. In addition, the PSE says that it will execute orders up to 199 shares at prices equal to, or better than, the bid and asked quotes on the NYSE. "Buyers are nuts if they don't use it," says Thomas J. O'Connell, of Dean Witter & Co.'s San Francisco office. "The PSE guarantees

that it will either match the NYSE price or send the order there. And you don't have to pay the transfer tax."

Many brokers are much less enthusiastic about taking customers' trades to one of the regional exchanges to avoid the tax. Some, such as one man at E. F. Hutton & Co.'s Houston office, say they were not even aware of the tax increase. Nor are their customers, who are confused enough about negotiated stock commissions. Other brokers insist that their customers seldom request a non-New York execution and that they themselves almost never suggest it because the NYSE usually offers the best price on transactions.

But a study done by the PSE two years ago shows that 42% of orders executed there—100 transactions were compared—were better than the Big Board price. Some brokers confirm that although the PSE may be unable to handle exceptionally large blocks of stock, it is as liquid as the NYSE on transactions of ordinary sizes.

The New York transfer tax is not huge—the maximum is 5¢ a share, plus the new 25% surcharge—but some brokers feel they would be derelict if they failed to save their customers from paying it. As a test prior to the Aug. 1 increase, Mervin R. Lell, a trader with Hanifen, Imhoff & Samford Inc. in Denver, suggested that one of his customers have half of a 1,000-share order executed on the NYSE and the other

half on the PSE. Lell says the customer got the same price, \$10½ per share, on both exchanges but saved \$24 on the PSE by avoiding the transfer tax.

Because of the reluctance of some brokers to tell their customers about the exchange's cheaper execution, the PSE is about to launch a new advertising campaign aimed at individual investors. The ads will close with the statement, "So tell your broker: 'Execute my order on the Pacific.'" It is difficult to estimate how much new business the increased New York stock transfer tax has brought to the PSE. But Howard Stubblefield, PSE marketing director, notes that October trades on the exchange were 19.7 million shares, up 54% from September's 12.8 million. By contrast, the NYSE showed only a 32% increase in trades in the same period—some 363.4 million shares traded in October against 274.9 million in September. In October the PSE's volume, which normally runs 4% to 5% of the NYSE volume, was about 5.4% of Big Board trading.

Growing. Stubblefield calls the New York transfer tax "one of the fundamental reasons" for the increase in the PSE's share of trading. Its advertising campaign also emphasizes other Pacific exchange advantages. The PSE is open 1½ hours longer than the Big Board and trades 790 of the same issues, which allows traders to benefit from late news. Through its COMEX system, an automated execution system begun six years ago, the PSE can automatically execute orders up to 199 shares. With the concurrent savings in floor brokerage commissions, the PSE says that its prices on smaller trades are as good as the NYSE's. The system, to which 14 brokerage firms belong, has been so successful that the PSE has asked Securities & Exchange Commission approval to expand the size of trades it can handle from 199 shares to 299 shares.

The PSE, says Stubblefield, is just beginning to see more orders as the result of its advertising campaign. And some brokers report an increasing number of customers want orders executed away from the NYSE. The New York tax increase "accentuates a previous trend," says Norman Mesrirow, senior partner of Chicago-based Mesrirow & Co. "The customers we deal with regularly are very much aware of the tax," says an official at E. F. Hutton in Chicago. "If we can get away without closing a deal in New York, the customer tends to request it."

Investment figures of the week

	Latest week	Previous week	Year ago
Money market rates			
Federal funds	5.30%	5.24%	9.41%
New three-month Treasury bills	5.52%	5.47%	7.33%
Three-month CDs (large NYC banks)	6.25%	6.13%	9.25%
Stocks and bonds			
Average price/earnings ratio* (1,500 stocks)	10.38	10.59	6.93
Average dividend yield* (1,500 stocks)	4.44%	4.39%	6.03%
Standard & Poor's 500 stock index	89.70	91.00	68.83
Value Line composite index	70.38	71.21	52.29
Average daily NYSE volume (millions)	15.3	20.8	13.3
NYSE blocks (10,000 shares and over)	143	160	86
New Aaa utility bonds*	9.20%	8.95%	8.75%
New Baa utility bonds*	11.25%	11.00%	11.90%
U. S. government bonds (8½% issue of 1994-99)	8.38%	8.38%	8.07%
International finance			
British pound	\$2.0388	\$2.0376	\$2.3247
German mark	\$0.3851	\$0.3844	\$0.4073
Japanese yen	\$0.003302	\$0.003302	\$0.003333
Swiss franc	\$0.3759	\$0.3757	\$0.3740

All figures are as of Monday, Nov. 24—except those marked*, which are from Friday, Nov. 21.
Data: Salomon Bros., Investors Management Sciences.

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NEW ISSUE

November 14, 1975

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Senator Hart: His bill would require advance notice to the FTC and Justice Dept.

An antimerger bill raises some hackles

Investment bankers are perturbed by some aspects—so far overlooked—of an antitrust bill awaiting consideration by the Senate Judiciary Committee. The bill would oblige most companies with merger projects to give the Justice Dept. and Federal Trade Commission 30 days notice of their plans—and allow the authorities to get merger-halting injunctions automatically.

"It's another step toward disenfran-

chizing the shareholders of corporations under the guise of liberalism," warns Nicholas F. Brady, a managing director of Dillon, Read & Co. Another Wall Streeter goes further: "Congress always starts out to write a liberal bill to protect the small companies against the big ones," he huffs. "But it always ends up writing a conservative bill that protects entrenched managements against everyone."

The bill in question, co-sponsored by Senators Philip A. Hart (D-Mich.) and Hugh Scott (R.-Pa.), would make it much easier for the Justice Dept. or the FTC to stop mergers. Indeed Wall Streeters feel it would make this so much easier that it would stop mergers altogether. Says the head of one leading investment banking house, "The legislation would allow a court no option but to issue an injunction if Justice or the FTC asked for it."

Advance notice. This would kill most mergers before they started, the banker explains, "because no companies can sit around waiting for court trials of their projects." The bill stipulates that Justice and the FTC must be advised about plans 30 days before mergers are due to take place, if the property being bought is worth more than \$10 million in sales or assets, or if the buyer is worth more than \$100 million, or if the combined sales or assets of buyer and property amount to more than \$10 million.

Wall Streeters object because they believe the bill would protect incompetent company administrations. "Mergers are often in the public interest, because they result in improvements in management," says John C. Whitehead, a senior partner of Goldman, Sachs & Co. The investment community's anxiety over the bill could be academic. Congressional observers believe that if the Judiciary Committee ever acts on the bill—and that is uncertain—its provisions would probably be watered down.

Slapping at one way some banks sell CDs

Is it proper for a bank to sell its own certificates of deposit and overnight repurchase agreements (repos) to trust and pension funds that are under its management? No, asserts Dennis Kerns, finance director of New Castle County, Delaware, who just pulled the county's \$3.1 million pension fund out of Farmers' Bank of Delaware, citing poor performance and possible self-dealing. No again, said Pennsylvania Governor Milton J. Shapp, as he slapped the hand of Pittsburgh's Mellon Bank, the state's largest, last April. Shapp charged that the bank was act-

Market briefs

The slide in bond rates is slowing. Since the Federal Reserve Board entered the money market in October to pull down the rate on federal funds, long-term as well as short-term rates have declined sharply. The yield on 8½% U.S. Governments of 1999 fell 40 basis points, while yields on corporates sank even more—from 10% to 9.25% on Salomon Bros.' Aa utilities.

But after corporate borrowers hurried into the markets and the money supply rose—setting dealers to worry that the Fed would tighten again—rates are now hardening. A record volume of corporate bonds may be offered in December, and an increasing number of issues are failing to sell out. Last week debt securities of Phillips Petroleum, Montgomery Ward, and Stanley Works all fell sharply when released

from syndicate pricing restrictions, and an offering of Commonwealth Edison was selling very slowly.

Many New York City securities may be worth less than 50¢ on the dollar in the marketplace, but they're bringing in 100¢ at The Fountains, a huge condominium development in West Palm Beach, Florida. In a promotional gesture aimed at New York, which provides a very high proportion of condominium buyers, the Fountains is accepting the city's bonds and notes at full face value in down payments on condominium purchases.

"We will accept any New York City bond or note—no matter what the market value," says Steven J. Green, chairman of the Robino-Ladd Co., developers of the complex. Spokesmen

say savings can be substantial—\$5,000 or more on some units.

Latest art investment: Nicolai Fechin—a Russian artist who painted in New Mexico and California from 1923 to 1945. In just one recent weekend, Fenn Galleries Ltd. in Santa Fe sold 22 Fechins for \$320,000. "Some have appreciated 40% in the past year," says dealer Forrest Fenn. "One of our customers was offered \$25,000 for a Fechin he bought less than a year ago for \$16,000."

The Russian government has shipped 36 state-owned Fechins, including a portrait of Lenin, to Fenn Galleries for display at the show. Fenn expects to put together a show of American-owned works by the painter, for a tour of Russia next year.

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November 14, 1975

Inside Wall Street

Jeffrey Madrick / December 8, 1975

Rethinking the ratio of stocks to bonds

ing improperly in selling nearly \$380 million of its own CDs to two state funds that are under its management.

The cozy practice of selling their own short-term debt into funds under their discretionary care is fairly common among banks nationwide. But the Federal Reserve Board, which regulates state banks, frowns darkly on it. And the Comptroller of the Currency, which regulates national banks, prohibits banks from selling repos to their trust accounts. "To sell an asset from the commercial side to the trust side under a repurchase agreement is self-dealing," he insists. But the Comptroller's office does permit banks to place money in CDs pending investment elsewhere, although it is not enthusiastic about the practice.

Self-dealing is difficult to pin down. Most bankers indignantly claim they never use customer trust funds to buy their own CDs, except where the customers specifically direct them to do so. "You always run the risk of someone accusing you of feathering your nest," says an investment officer of a big Cleveland bank. But many bankers say they know others that do it.

Erosion of funds. Kerns became suspicious when he saw New Castle County's pension fund assets eroding some \$250,000 this year. He was distressed to learn that as much as \$1 million was periodically going into the bank's own repos, and going at rates that were not competitive with those of banks in New York.

In the Mellon case, public officials claim the bank was paying less than it might have on funds belonging to the state. Lawrence Beaser, counsel to Governor Shapp, claimed Mellon had been buying its own CDs exclusively for 10 years for two of the state's school building and facilities funds. Beaser was especially upset by the rates Mellon paid: He claims they were less than those the bank quoted other customers, and sometimes less even than those offered on Treasury bills.

In some cases, banks claim that what appears to be a conflict of interest is mandated by a trust indenture. Others—such as Farmers—say they are forced to park funds in their own debt instruments overnight, when they do not have time to shop around for better rates. And even the Comptroller of the Currency hedges from absolutely forbidding the practice—but condones it only if the bank concerned offers complete safety and the best yield available.

In the late 1960s, most investment managers shifted substantial portions of their accounts into equities and suffered the long bear market that followed. Today the high yields available on fixed-income securities have induced managers to put a sizable chunk of money back into fixed-income instruments. Could they be making an equally short-sighted mistake?



Merrill Lynch's Tint: Stocks return more.

Unfortunately, the practical needs of investors obscure any simple theoretical conclusions. Lawrence G. Tint, manager of the Investment Performance Measurement section of Merrill Lynch, thinks that long-term investors can afford the risk of investing almost totally in stocks. In many respects, Tint reflects the conventional view of most investment theorists. "If the economy is going to work in any way like it has in the past," he says, "stocks will have to return more than bonds." That means that either the current high yield on bonds will fall or, as Tint thinks more likely, it will remain high due to inflation, and stock returns will climb to 14% or 15% a year.

The difference in returns between common stocks and corporate bonds, has been about 5% a year since 1926. Even if it decreases some, Tint says, the long-term gains from stocks will be so much higher than from bonds that even if a manager chooses a diversified portfolio of stocks that underperforms the averages, he should still

do better than with a portfolio including bonds.

Comparative study. History is probably Tint's most persuasive ally. A study published this fall by two Dartmouth professors, Richard S. Bower and Kenneth J. McPartlin, compares the performances of bonds and a conservative, diversified portfolio of stocks over several overlapping 35-year periods. They found that an investor who contributed each year to the stock portfolio would have earned more than the investor who contributed to bonds in every 35-year period since 1927. That of course includes the Depression years.

But there are very few investors who can sit tight and wait 35 years for their payoff. In the interim, they may take heavy short-term losses that they cannot afford. Even Tint agrees that pension funds should only invest completely in equities when the company can easily put up the extra funds needed if investment performance is seriously off for a few years. Tint would recommend that such volatile businesses as airlines, for example, should hold a fair share of fixed-income securities in their pension portfolios. Similarly, he thinks individual investors and profit-sharing plan managers should invest some in fixed-income securities.

Gains and losses. Another recent historical study, this one published by Robert Levy, president of Computer Directions Advisors Inc., highlights these problems. In any 10-year period, Levy found, a manager who invested totally in AAA-rated bonds would never have lost money and would have earned 5% or more a year in 18% of the periods. An investor entirely invested in the stocks of the S&P 500 would have lost money in 8% of the 10-year periods but would have earned 5% a year or more 84% of the time. An investor who mixed his portfolio of stocks with 25% in bonds would also not have lost money, and would have earned 5% or more as often as the all-stock investor. His chance of earning more than 10% a year, however, would have been smaller.

Tint believes that if the economy goes unpredictably awry, as some say it will, he could be wrong about favoring equities. Under those circumstances, however, he says bonds probably won't prove a very safe or profitable investment, either.

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BP's new boss prods a faltering giant

This week British Petroleum Co., the world's fifth-biggest oil company, installed a new management team and readied itself to face up to a new kind of oil business. As David E. C. Steel, 59, replaced Sir Eric Drake as chairman and chief executive, the multinational company was embroiled in some of its most serious trouble since it was founded in 1914. During the first half of 1975, its profits fell 80%, after an eye-popping record performance last year. It has lost its ownership of important oil concessions in Kuwait, Iraq, Libya, Abu Dhabi, Qatar, and Nigeria and is negotiating participation by the British government in the company's valuable North Sea oil properties. Finally, starting next year, BP must compete in its British market without its long-term partner there, Shell Transport & Trading Co., which had supplied most of the marketing knowhow.

Steel is stepping into the chairmanship while the entire oil industry is still adjusting to the new rules being dictated by the Organization of Petroleum Exporting Countries. As BP's veteran Middle East negotiator, he has presided over what he calls the company's "staged withdrawal" from its OPEC concessions. "Once OPEC was formed, the writing was on the wall," says Steel. Reduced to a middleman's role in a new era of high-cost crude, BP and its competitors are under great pressure to make their profits on downstream operations. That is an especially big order for BP, which is comparatively weak when it comes to marketing. A competitor in London notes that the company is not No. 1 in any of its markets, including Britain.

BP's top-management style has been that of urbane, worldly diplomats who operated the company as if it were a commercial appendage of the illustrious British Empire. Now both the empire and the BP concessions are gone, and the former diplomats of BP—negotiator Steel included—are left without portfolio.

But the graying and slightly stooped Steel has a couple of aces up his sleeve. The potential is there for BP to reap a profit bonanza both from its North Sea oil and, through its 25% equity interest in Standard Oil of Ohio,

from Prudhoe Bay on Alaska's North Slope. BP's crude reserves in its North Sea Forties field, which piped its first oil ashore this month, are estimated at 1.8 billion bbl. Sohio's share of crude reserves in Prudhoe Bay is estimated at 5.1 billion bbl. "We were lucky to have



David Steel: "Once OPEC was formed, the writing was on the wall."



This barge linked the pipeline from BP's North Sea field.

found the oil," says Montague M. Pennell, 59, BP's new deputy chairman. "Now we have to prove that we deserve it."

Hurdles ahead. At the moment, the view from Steel's 31st-floor office in London's Britannic House is bleak. The loss of lush profits from third-party crude sales and the recession in Europe, a market that accounts for 60% of BP's total sales, have hit the company hard. BP's first-half profits dropped to \$174 million from \$913 million in the year-ago period while sales slipped 14%, to \$8.1 billion. For the full year, analysts estimate that the company will net only \$325 million, 73% below last year's \$1.1 billion on sales of \$18.3 billion. "Last year we were rubbing our hands—this year we're wringing them," says P. I. Walters, a BP director.

The cost of tapping into new sources of oil is steep—BP's spending in the North Sea and Alaska will total a staggering \$7 billion in the 1970s—and it limits BP's ability to expand its refining and petrochemical operations. BP's total debt jumped from \$1.7 billion in 1970 to \$2.9 billion last year and is expected to hit \$3.6 billion by yearend.

While wrestling with BP's financial problems, Steel must also carve away the flab that has built up at the company. Now that third-party crude sales are no longer the big money maker, every operation must pay its own way.

The new team. By background, Oxford lawyer Steel and Pennell, an exploration and production expert, seem an unlikely pair to cope with BP's problems. Although Steel is a 25-year BP veteran and Pennell has 29 years with the company, both are relatively inexperienced in finance and downstream operations such as marketing and chemicals. Top management at Shell, the only other major British oil company, is a proven quantity. "At BP it is an unknown quantity," says an oil industry expert in London.

But both executives played a role in planting BP's flag on Alaska's North Slope. When BP acquired its Prudhoe Bay leases in 1958, they were both serving with BP North America. At the time, BP was in a joint exploration venture with the former Sinclair Oil Corp. (absorbed by Atlantic Rich-



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Pennell: He is studying BP's businesses to see if they meet profit targets.

field Co. in 1969). "We potted about rather ineffectively looking for oil here and there, and someone—I don't remember who—suggested Alaska," recalls Pennell.

Under a 1970 agreement, BP handed its Prudhoe Bay leases, plus all its North American assets—including two refineries and 9,000 service stations acquired from ARCO—to Sohio in return for a 25% interest in the company. "The Sohio deal was an extremely well-played card," says oil analyst Douglas McGregor of London's Hoare & Co. "In one stroke a company that is strong on exploration and production but weak in marketing and refining aligned itself in the lucrative North American market with a company that has a proven tremendous ability to market refined product."

BP's initial 25% interest in Sohio will increase as oil from Prudhoe flows through the 798-mi. Alaska pipeline to the ice-free port of Valdez. The first oil is scheduled to flow in 1977 and, according to a formula based on that flow, BP's interest will increase to 52% when capacity of 1.2 million bbl. per day is reached in 1978. BP this year started to receive a return on its Sohio investment, which totaled \$636 million at the end of 1974, collecting dividends of \$9.1 million for the first nine months.

New oil bonanzas. When oil starts to flow from Alaska in two years, the impact of Sohio's performance will be substantial. Sohio's sales (\$2.1 billion last year) are expected to double, while its earnings (\$147.5 million last year) may increase as much as fivefold.

Although BP has three members on Sohio's 16-member board, they do not include Steel. He has stayed off the Sohio board, he says, because he wants a "give and take" relationship with Sohio Chairman Charles E. Spahr "outside the formality of the boardroom."

So far, BP has allowed Spahr to run Sohio on a largely autonomous basis.

BP's Forties field in the North Sea is scheduled to hit its full production rate of 400,000 bbl. per day in 1977. That is only one-tenth of the 4.4 million bbl. per day that BP extracted last year. But about 85% of BP's oil now comes

BP has had little exposure to the harsh realities of competing at the gas pump

from the Mideast, where buy-back provisions call for the company to pay about 95% of the listed price. The company nets only about 22¢ per bbl.

In contrast, under the generous write-off provisions written into the revenue tax on North Sea oil, BP will pay no tax on the Forties oil until it has recovered 175% of the \$1.75 billion development costs. That means BP can net an estimated \$10 per bbl. on its Forties oil.

Government interest. BP and other companies developing North Sea oil are understandably reluctant to sell a piece of that action to the British government. Britain has held an equity interest in BP since its formation and has two directors on its board. Earlier this year the effective government interest jumped to 68% when it purchased an additional 20% interest in BP from the financially strapped Burmah Oil Co. The government has not yet decided whether to keep the additional shares or sell them to such prospective buyers as Iran or West Germany. BP executives maintain that the government has always allowed the company to make commercial decisions free from interference.

But Steel has to wonder if the hands-off policy will continue. The British government now wants 51% participation in North Sea oil reserves. Government officials have vowed that oil companies will not suffer any losses by allowing government participation. But it appears that if the government takes title to the oil, the producing companies will lose some potential profits. However, the producers would presumably recover all their development costs and be allowed a "reasonable profit," as one observer puts it.

Barrister Steel has thrown some legal sand in the government's eyes on BP's behalf. Pointing to a United Kingdom Stock Exchange rule that calls for a vote by minority shareholders on any deals between listed corporations and major shareholders, BP has warned that any sale of North Sea assets to the government will have to be ratified by minority shareholders. Since about 12% of BP's shares are held in the U.S., this raises the possibility that U.S. investors may have an important voice in any final agreement.

BP has already been looking to the U.S. as a major source of capital. "We like to think of ourselves as part of the U.S. scene," says Steel. BP is tapping the U.S. market to help finance its share of costs of North Slope development and construction of the \$6.4 billion Alaska pipeline. The pipeline is being built by Alyeska Pipeline Service Co., in which BP owns a 15% stake and Sohio 33%. Last September, in the largest private placement ever, BP and Sohio raised \$1.75 billion to finance Alyeska construction. BP has also used the U.S. market to finance development of its Forties field.

To add value. If BP is to maximize the return on its North Sea investment, the company needs to change its ways. "There is little evidence of firm planning and control at BP," says a director of a competing oil company. "Its systems and procedures look less complete than those at Shell, for example."

Shell, unlike BP, has never been crude-rich, and the necessity to scratch for downstream profits has kept it a much leaner operation. Busy peddling crude, BP has had considerably less exposure to the harsh realities of competing at the gas pump. OPEC has changed all that. BP is now paying \$11.20 for a barrel of Mideast crude that it could get for \$1.50 three years ago. The point is not lost on C. C. F. Laidlaw, a BP managing director. "In this new world," says Laidlaw, "our emphasis is away from products sold in bulk, as for example to utilities. The joy comes from the value added, as in lubes, plastics, and petrochemicals." BP was a late comer to petrochemicals, not getting into that business until 1967. Last year chemicals generated less than 5% of sales. BP is moving more heavily into chemicals and is building a naphtha cracker in a joint venture with Imperial Chemical Industries.

The company is also weeding out losers. It has sold its Italian operations, which Laidlaw terms "very, very unprofitable." It is cutting out unprofitable gas stations in Germany and France. And Pennell heads a committee set up to examine BP's businesses and to improve them or dump them if they fail to meet profit targets.

Ironically, the acid test of BP's ability to punch up its marketing prowess will come in its home market. The joint BP/Shell marketing company that has been handling the gasoline marketing chores for both companies in Britain and South Africa will be disbanded at yearend. Then, for the first time, BP will be on its own in the British retail gasoline market, where it holds a 16% share vs. Shell's 24%. Considering the other problems that the company has, Laidlaw says, "one would wish we were not doing it now, but there is no perfect time for anything."



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The Italians spring a trap on Sindona—and miss



Sindona: He slaps his pursuers with lawsuits to clear his name.

In a bizarre legal maneuver, a trustee seized control of the financier's shares

For months, Giorgio Ambrosoli has been searching for the keys to the Byzantine business dealings of Italian financier Michele Sindona. Then, early last month, his quest apparently came to an end in the vaults of a Geneva-based Swiss bank. Ambrosoli seized the 4,000 bearer shares that represent ownership of Fasco, the Liechtenstein linchpin of Sindona's far-flung but crumbling \$500 million industrial and banking empire. But Ambrosoli's elation may prove short-lived. Late last week an indignant Sindona tried to slam the door on his opponent by bringing suits in a Geneva court to prove that the seizure of Fasco shares was illegal. The court has ordered the shares frozen.

The Swiss skirmish was just the latest in a running battle between Sindona, who claims the Italian establishment is persecuting him, and the Italian authorities, who hope to prove that the Sicilian-born financier improperly used money from banks controlled by him. But the skirmish may prove decisive. The question is just how much of Fasco's internal workings Ambrosoli will eventually manage to unravel. The 42-year-old lawyer, who was appointed by the Italian government to liquidate Sindona's bankrupt Banca Privata Italiana in Milan, claims it will take him until next summer to put together a report that will stand up in court. But, he says, "I think we already have all that we need."

Ambrosoli will need a lot. Sindona's empire may be in shambles but he already has proved that he is a crafty and tough opponent. Having removed himself from the reach of the Italian authorities—he lives in New York's plush Pierre hotel and operates from a small Park Avenue office—Sindona has counterattacked with lawsuits designed to regain his properties and clear his name. Indeed, he suggests that Ambrosoli took over Fasco to end the 20 to 30 legal suits that Sindona has brought in Italy. Most of these suits were officially filed by Fasco.

Losing ground. Certainly, Sindona moved swiftly to circumvent Ambrosoli's apparent coup, once he heard

about it. But for a while he was at least one step behind. As liquidator of Banca Privata, Ambrosoli had discovered in October, 1974, that Banque de Financement (Finabank), a Swiss bank owned by Sindona and also now closed, held 4,000 shares of Fasco in its vaults. The shares were recorded in the name of the Banca Privata and, as bearer shares, could be voted by any holder.

Ambrosoli did not grab the shares immediately because under Italian and Swiss law, directors must be present at a board meeting. That would have alerted Sindona. Early last month, however, Ambrosoli turned up a loophole. Under Fasco's bylaws, the holder of the shares can hold a meeting even if directors are not present.

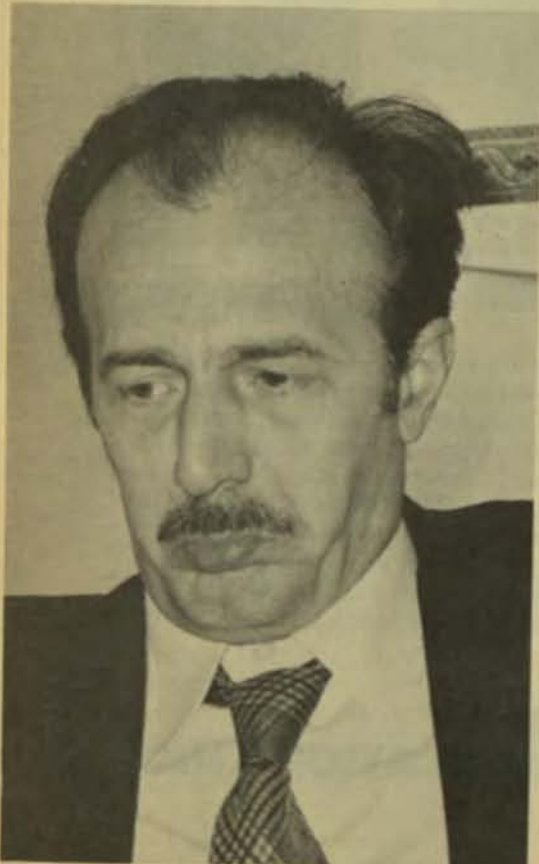
Before moving last month, Ambrosoli suffered another brief delay. He had to wait until Fasco sold two of its Italian industrial companies from its portfolio. "I had to let those sales go through," says Ambrosoli. "If I had blocked them, people would have lost their jobs and I would have had 5,000 workers demonstrating outside," he says, waving out the window on the second floor of the now closed Banca Privata headquarters in central Milan.

Although Sindona is fighting back, his empire is falling into disarray

Then on Oct. 10, Ambrosoli seized the Fasco shares and called a shareholders meeting in Finabank's Geneva office to vote out Sindona's board and bring in his own. A week later, Ambrosoli altered the Fasco register in Liechtenstein to reflect the changes and then sent a telegram to Sindona's Geneva lawyer telling him he was fired. A second telegram instructed Finabank to transfer Fasco shares to "bank X in country Y," according to Ambrosoli.

Within days, Ambrosoli's team sent 200 Telexes to the world's major banks, asking them "not to carry out any requests from the former board members," including Sindona, and to forward records of any transaction made for Fasco in the past.

But just as Ambrosoli's coup seemed assured, Sindona moved. His lawyers appeared in Liechtenstein and Geneva courts with documents that showed that the Fasco shares were sold to Sindona by Banca Privata in mid-1972 and they therefore are Sindona's private



Ambrosoli: His efforts to unravel Sindona's affairs led him to the vaults of a Swiss bank.

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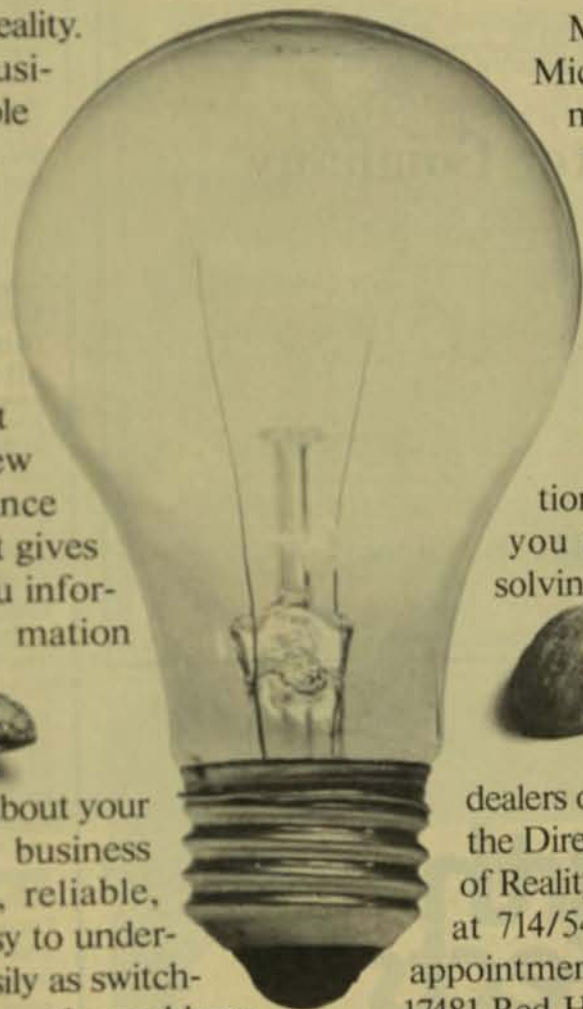
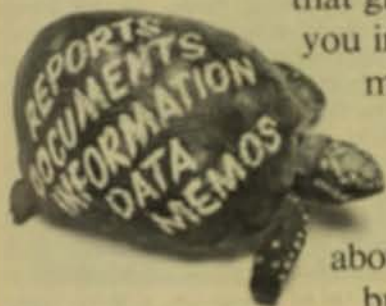
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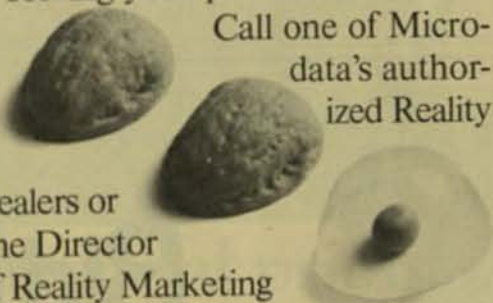
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property. That would invalidate Ambrosoli's seizure of them as liquidator of Banca Privata. Meantime Ambrosoli is preparing a brief to show that the sale was not made in good faith.

The question now is whether Ambrosoli really has managed to trace Sindona's financial handiwork within Fasco. The Milan lawyer has not been able to lay his hands on Fasco's books—Sindona's associates will not give them up—so he is working from Banca Privata records, information from the three banks that have so far responded to his Telexes, and other data on Fasco's holdings discovered in Finabank's vaults.

Ambrosoli will divulge little of what he has uncovered. But he does note that he has identified 43 subsidiaries of

Lawyer Ambrosoli: 'I think we already have all that we need'

Fasco, 36 of which he had never heard of before. He hopes to prove, as indicated in official Italian proceedings, that Sindona engaged in fraudulent activities by tracing the movement of money from Banca Privata through these subsidiaries to Fasco. Ambrosoli claims that Banca Privata has suffered a shortage of \$210 million.

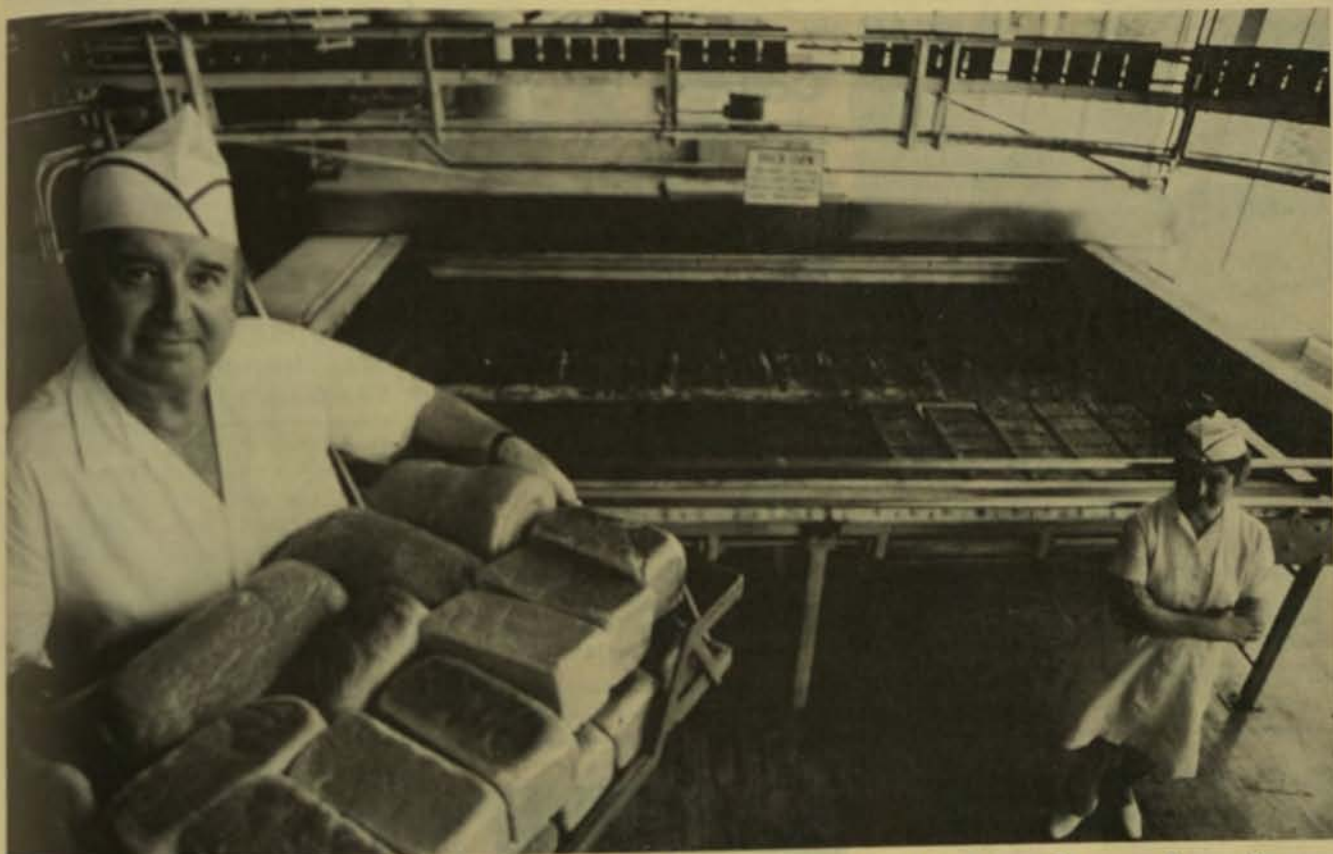
The Capisecc question. Ambrosoli is particularly interested in a subsidiary located in Luxembourg known as Capisecc. When Sindona was still in control of his empire and fighting to save it in early 1974, he asked the Italian government to authorize an increase in the capital of Finambro, a Milan-based finance company, to \$250 million. He claimed that a group of friends had formed a company called Capisecc, which held enough foreign money to purchase 80% of Finambro's newly issued shares. The government refused the authorization. Ambrosoli claims that Capisecc was offering not fresh capital but money from Sindona's Banca Privata through one of the Fasco subsidiaries.

Sindona denies this allegation in an interview with *BUSINESS WEEK*, and disclaims ownership ties with Capisecc. He says that Fasco performs only fiduciary services for Capisecc and the other subsidiaries discovered by Ambrosoli but, under Liechtenstein law, he is entitled to list them as subsidiaries. Says Sindona of Capisecc: "I own none of it."

But if Sindona is fighting back, it is a rearguard action. And as the fight rages, his once-imposing empire continues to fall into disarray. His banks, which once had deposits of just under \$2 billion and included Banca Privata, Finabank, and 21.6% of the U.S.'s Franklin National, are gone. So is Società Generale Immobiliare, a real es-

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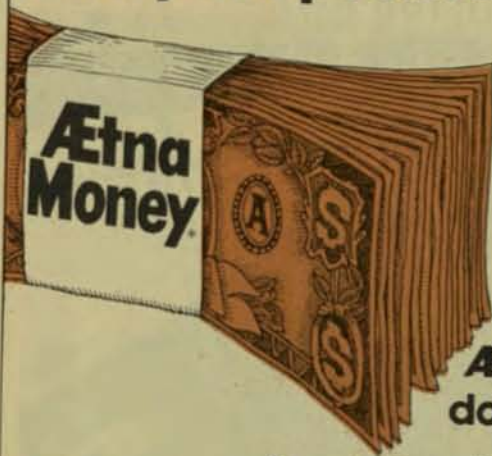
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tate development giant that once controlled assets of \$1 billion. The Bank of Rome took over SGI last year when Banca Privata could not repay a loan. The banks and the Edilcentro division of SGI all suffered from disastrous foreign exchange transactions.

Now, SGI, which was bought from the Bank of Rome by a group of Italian contractors is struggling to roll over \$155 million in short-term debt. The owners blame Sindona for their troubles, although the financier claims that SGI had no substantial short term debt when he turned it over to the bank. Indeed, Sindona insists that the new owners used a line of credit that he established but never tapped. What apparently happened was that several banks, including Franklin National

Viola: He is pressing Washington to act on Sindona's extradition

and Banca Privata, had made loans to SGI. When they demanded the money back, the debt began to appear. The Edilcentro foreign exchange losses piled the debts even higher.

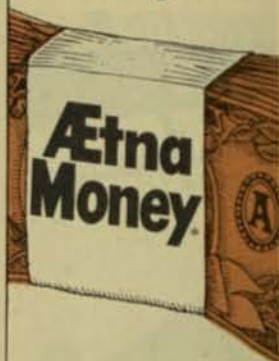
Whatever the reasons, there is serious speculation in Milan that a consortium of Italian banks will be forced to step in and prevent SGI from defaulting on loans from other banks. It is another black eye for Sindona.

Closing in. Indeed, there are signs that the ring may be closing upon Sindona, despite all his nifty footwork. This week, Guido Viola, a high-ranking official of Italy's Ministry of Justice, flew to Washington to meet with officials of the Justice Dept., the Securities & Exchange Commission, and the Federal Deposit Insurance Corp. Earlier this year, the SEC and the FDIC, which are investigating the Franklin National's collapse, sent teams to look into Sindona's affairs in Italy.

Viola predicts no earthshaking developments. "We simply want to coordinate what we have with what the Americans have, exchange information, and cooperate more closely," he says. Viola also says he is "bringing a little something" on Franklin with him, although Ambrosoli admits that he has not turned up any evidence of wrongdoing involving Franklin.

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How much exercise should you get?

Staying in shape over 35 is only wishful thinking for too many desk-bound executives. But your chances of sticking to a regular exercise program improve greatly if you go to the trouble of getting a physical and planning an exercise program. Your own doctor can advise you, of course. But there are also a number of places that specialize in quantifying the amount of activity you need and prescribing tailor-made exercise plans.

If you've been an armchair athlete for many years, you will have to ease into exercise gradually. Pedaling your bicycle alternate Saturdays can strain muscles—and could even be fatal. "Irregular exercise is hazardous and may be more counterproductive than no exercise," says James R. White, exercise physiologist of the Sun Valley Executive Health Institute in Idaho.

Before you exert yourself, you need a comprehensive physical. You might also take an exercise stress test. This measures the maximum amount of oxygen your body can consume under stress. Cardio-Metrics Inc. in New York is one place that will administer an exercise stress test—with a go-ahead from your personal physician. The test involves running on a treadmill or pedaling a stationary bike while technicians gradually increase the resistance tension. Expired air samples are collected and analyzed as you exercise. "When you're huffing and puffing, we look at your heart rate, electrocardiogram, blood pressure, and oxygen consumption," says director William S. Gualtiere. Cost: \$150 for the testing, consultation, and exercise prescription. People with heart disease pay \$190 for a more specialized program.

If you are a guest at the Greenbrier Hotel in White Sulphur Springs, W. Va., you can take advantage of their diagnostic study clinic complete with laboratory and X-ray facilities. The resort operates a physical exam program that spans three days and includes blood and urine analyses, X-rays, electrocardiogram, and stress testing if the physician O. K.s it. The basic cost for the physical is \$200. You also get to discuss test results with a physician who can prescribe treatment and recommend special diet or exercise regimens.

For about \$850 for five days at Sun Valley, you get a day-long physical exam with lab tests and stress testing, a week of planned exercise, lifestyle lectures, nutritionally balanced meals, and lodging.

Once you know the amount of exercise you need, the type of activity you choose isn't crucial. Anything that uses your legs or arms and upper body qualifies. That includes brisk walking, jogging, swimming, cycling, tennis, rope skipping, running in place, or stationary biking.

The main thing is to exercise to the point where you put strain on your cardiovascular system. You can determine this "threshold level" by measuring your pulse immediately upon stopping strenuous exercise. Count your wrist pulse for five seconds and multiply by 12. If you are aged 40 to 49, your "threshold pulse rate range" should be between 126 and 138 beats per minute. If you are aged 50 to 59, it should be 114 to 126 beats per minute. You have to use trial-and-error to determine which jogging or swimming speed, cycling rate, etc., will elicit the proper pulse rate.

But it's not enough simply to exercise—you have to spend 10, and eventually 20 minutes, per session performing at your threshold level. And that doesn't include 10-minute warm-up and cool-down periods before and after

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Personal business

continued

the session. You have to work out at least three or four times per week, preferably on alternate days.

The results? Within seven to nine months, your oxygen intake capacity should be 15% to 20% greater. That means a return of vigor, enhanced physical capacity, decreased blood pressure and body weight—and a lower risk of heart disease. And, adherents insist, a better sex drive.

Charter flights: Unscrambling OTCs, ITCs, and TGCs

When planning your next flying vacation, you're likely to be confused when your travel agent starts throwing out letters like OTC, ITC, and TGC. They are the initials for three different types of charter flights now available.

The OTCs (one-stop, inclusive tour charters) combine a charter flight with a ground arrangement package. Packages must last a minimum of four days for North American destinations and at least seven days for all other points. You have to book your trip at least 15 days in advance for North American trips and 30 days ahead for other destinations. You don't have to be a member of any club or even know anyone else on the trip. The savings can be substantial. One tour from St. Louis to Hawaii costs only \$389, including accommodations for seven days and round-trip airfare, for example. Another 10-day tour from New York to Greece costs only \$399.

Book your flight 60 days ahead

ITCs (inclusive tour charters) involve air travel and land (or sea) accommodations, too, but you must visit at least three places and stay at least seven days. And you can book an ITC at the very last minute. The cost savings are comparable to those for OTCs.

TGCs (travel group charters) include only your air fare. You don't have to buy any ground package. But the savings over regular air fare are sizable. The catch comes in the booking. Flights must be for a minimum of seven days for North American charters and at least 10 days elsewhere. You must book no later than 60 days in advance. But you can get on some TGCs at the last minute if there is a cancellation and you take someone's place.

There are thousands of different OTC, ITC, and TGC charters available through travel agents. One up-to-date directory is published by the Travel Information Bureau, P. O. Box 105, Kings Park, N. Y. 11754. Cost for the 1976 *Charter Flight Directory*, compiled by Jens Jurgen, is \$2.

Those helter-skelter tax shelters

Some very sophisticated investors have been badly burned of late by tax-shelter schemes. If you are running for shelter before the year is out, proceed with caution. Regardless of the shelter, be suspicious. A credit check of the promoter is simply not good enough. Says Jeremiah M. Bogert, president of Bishop's Service Inc., a New York company that conducts confidential investigations: "We've found that frauds often keep a spotless record while too often many otherwise sound business people get careless with credit."

A confidential report on any tax-shelter investment—from oil drilling to motion pictures to cattle feeding—costs about \$350 from companies like Bishop's Service. Included are such things as the promoter's performance record, integrity, financial status, standing with government and regulatory agencies, and litigation record.




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A computer that won't shut down

The proliferation of computer terminals at bank windows, airline counters, branch offices, and hotel reservation desks has brought a new problem for business: When an on-line computer stops, the business stops.

The surest and most obvious way to prevent such emergencies is to tie together two or more computers to create a "failsafe" system. Companies—mostly large ones—are already spending an estimated \$200 million a year to avoid the consequences of computer breakdowns, and the expenditure is growing at about 35% annually.

But such failsafe systems are virtually custom built for the user, who must invest in specialized hardware and devise his own software to link the backup system to the primary computer. Such costs can easily double the price of the original computer installation. The so-called fourth-generation computers, which are expected to be widely available within the next five years, will solve some of these problems because they will rely more on networks of interconnected small computers, each assigned a specific task. For many applications, they will eventually replace current large central computers that do multiple jobs. In such multiprocessing systems, no one breakdown will shut down a company.

But until then, businesses that depend on continuous and reliable computer operation suffer from a technological gap. This week a fledgling computer company called Tandem Computers Inc. announced a product that will attempt to fill that gap at a cost lower than current solutions.

"Most computers are just not designed to run with each other," says James G. Treybig, Tandem's 35-year-old president. "We decided to start from scratch and design a different kind of computer—one that runs all the time." The Tandem 16, which Treybig says will be ready for shipment in April, builds on minicomputer technology. It is designed around a series of low-cost processor modules using stock components. Each module can jump into action if another fails or loses its power supply. Similarly, all the peripheral devices and their controllers are designed to keep going despite processor failures.

Tandem is intriguing computer in-



Treybig: "Tandem incorporates all the interface devices the others sell as extras."

dustry observers for other reasons as well. The Santa Clara (Calif.) company has managed to secure \$3 million in financing at a time when most venture capital sources have all but run dry. And Tandem's concept of linking multiple processing units is widely expected to be the hallmark of the next generation of computers.

Raiding. With its Model 16 still in the engineering prototype stage, Tandem has little to show potential customers now except the résumés of its founders. But these are impressive because Treybig and his financial backers pulled off the unusual feat of recruiting top engineers from Hewlett-Packard Co., a company known for its ability to keep

Tandem Computer's new failsafe system will prevent costly breakdowns

people. Treybig, a Texan with an MBA from Stanford University, was marketing manager for H-P's minicomputer operation. He lured to Tandem Michael D. Green, vice-president for software development who designed H-P's first timesharing system; James A. Katzman, vice-president for engineering, who was a key architect of the 3000, H-P's biggest computer; and John C. Loustanou, financial vice-president, who was finance and cost accounting manager for H-P's Data Systems Group.

Tandem got its start early in 1973, when Treybig left H-P after a management shuffle and took his idea for a failsafe computer to Thomas J. Perkins, another former H-P executive who

is now a venture capitalist based in Menlo Park, Calif. Perkins was intrigued. "Jim had established that the idea was theoretically possible," he recalls, "but it needed development. So we hired him to work on Tandem and other ventures." Treybig worked about 18 months for Perkins and his partner, Eugene Kleiner, a founder of Fairchild Semiconductor, but he soon began spending all his time on Tandem. In mid-1974 Kleiner and Perkins put \$50,000 into the company, allowing Treybig to recruit Green, who was still at H-P, and Katzman, who was then working for Amdahl Corp.

"The real start of the company was Mike [Green] and Jim [Katzman] sitting down and deciding which hardware and software combination would be the most efficient," Treybig says. Kleiner and Perkins were so impressed with the design that they anted up another \$1 million to carry Tandem through 1975.

Last week Tandem closed the books on a second round of financing that brought in \$2 million more from such sources as E. M. Warburg, Pincus, Princeton-based Data Science Ventures—and Kleiner and Perkins, who added another \$500,000. Raising this amount of money at a time when few new ventures are finding financing is "a significant accomplishment," Tandem's Loustanou claims. "In fact," he adds, "we had to ask some potential investors to stop evaluating us."

Software support. What attracted the venture money was Tandem's unique approach to the backup market that today accounts for about 5% of mini-

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computer sales. Most computer systems stop running about once a year because of hardware failures, and some can be expected to fail every three or four months. To avoid such failures, Bank of America, for example, is in the design phase of a massive project to link dozens of minicomputers to thousands of teller terminals. "Having those terminals unsupported for even five minutes would have serious implications," says Russell L. Fenwick, the bank's senior vice-president for special projects. "It would have a very disruptive effect on service."

Typically, computer makers approach such assignments as special modifications of systems designed to run alone. In the B of A system, for example, General Automation Inc. will cluster four of its standard minicomputers into failsafe modules. At a minimum, a redundant system must include a device that allows two or more central processors to talk to each other. Usually there are also special switches and controllers that give the processors access to all peripheral equipment. "But the biggest problem," Treybig says, "is that somebody has to write the software to make all this happen. And it's often the user who has to do it."

Software costs alone can double the price of one of these special systems, Treybig claims. B of A's Fenwick agrees that the software cost is high when just two processors are linked. "But it may be only 25% more if additional processors are involved," he says.

Tandem customers, Treybig maintains, will pay no additional software costs. Moreover, he says, "the fact that we have a standard operating system to link processors might save some people millions of dollars." Tandem's Green notes that most computer operating programs lack many of the instructions needed when processors are linked together. For example, there may be no way to tell a program in one processor to send a message to another processor. "You either have to modify the operating system or put some of its functions into the user's own program," Green says—an expensive, time-consuming step that Tandem eliminates with its software.

Incorporating hardware. Tandem has been equally innovative in hardware, although it is using standard third-generation integrated circuits. "One of our processors is roughly the same price—\$18,500—as other minicomputers of this power," says Treybig. "But Tandem incorporates all the interface devices that the others sell as extras. If we weren't just starting up, we could sell it for a 15% to 20% premium over any solution offered by a small computer manufacturer."

Each processor is made up of only

two printed circuit cards that plug into a system that provides two communications paths between all processors. Input-output controllers, mounted in the same cabinet with up to eight processors, are each linked to two processors and share their power supplies. "We wanted to be sure," says Tandem's Katzman, "that you never lose those controllers. You don't want to take away the peripherals just because a processor dies."

A key problem in the hardware designing, Katzman says, was to ensure that any component could be replaced

The redundancies should keep the computer working for more than 100 years

without shutting down the entire system. A controller, for example, can be switched off manually and replaced without disrupting the operation of either the processors or the other controllers. "These kinds of problems have never been faced before," Katzman says. "The philosophy has always been, if something fails, you shut the system down and fix it."

Tandem's combination of hardware and software redundancy should mean a failsafe life that approaches 1 million hours, more than 100 years, according to Treybig. "We can't guarantee it because we have no way to be sure we'll be called when one component fails," he says, "but that's what we believe the system can do."

The selling job. Tandem's challenge now is to persuade some major computer users that its claims are justified and to tool up for manufacturing. But with the latest financing completed and a production model of the computer about ready, Tandem plans to open sales and service offices in New York, Chicago, and Frankfurt this month. The company also took a major step toward large-scale production recently by bringing Robert C. Marshall, a founder of Diablo Systems Inc., into the company as vice-president for manufacturing.

Tandem could start shipping in January, Treybig says, but instead will spend three months putting the hardware and software through exhaustive testing. "We will have three senior programmers writing programs to test the operating system," says Treybig. "One software bug will stop a nonstop system." This, too, is in contrast to the approach of most computer makers. "Typically the hardware comes out well before the operating system," remarks Michael A. Ford, former marketing vice-president of General Automation Inc. who now is a consultant to Tandem. "The initial testing is often done over a two-year period—by the customer."

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EGALITARIANISM: MECHANISMS FOR REDISTRIBUTING INCOME

Every year, in July, the Bureau of the Census issues a modest pamphlet titled "Money Income and Poverty Status of Families and Persons in the United States." At once, the desk calculators light up all over the country—in universities and scholarly institutes, in government offices, and in the headquarters of groups such as the National Assn. for the Advancement of Colored People and the National Organization for Women. Distribution of income is the central issue in the insistent push for greater social and economic equality in the U. S. The annual report of the Census Bureau serves as a score card for the egalitarians.

This year's report, covering the calendar year 1974, shows little significant change. The U. S. economy still rewards success with incomes far greater than the average, and it still penalizes the unsuccessful with incomes below the poverty level. The bottom 20% of American families received only 5.4% of total income in 1974, while the top 20% of families got 41% of income. The bottom two-fifths got only 17.4%; the top two-fifths got 65.1%.

Income figures are among the shakiest—both in concept and in accuracy—of all the numbers that come out of the government statistics machine. They show money income before taxes, including

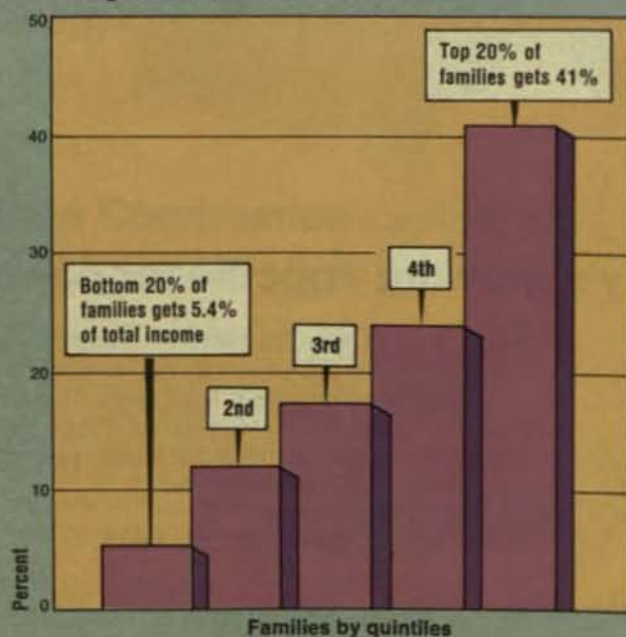
welfare and Social Security payments at the bottom, but not including capital gains at the top. Thus, they probably understate the width of the money gap between the rich and the poor. On the other hand, they do not include benefits in kind, such as food stamps for the poor. Consequently, they may make the difference in well-being between the bottom and the top look larger than it really is.

Over the long pull the figures show a small but distinct shift toward a more equal distribution of income. In 1935-36 the bottom fifth of families got only 4.1% of income, while the top fifth got 51.7%. A substantial part of this change came during World War II, when the U. S. got its first taste of full employment. But between 1950 and 1968, the share of the bottom fifth inched up steadily—from 4.5% to 5.6%. This trend has been halted for the past six years, suggesting that the great inflation has hit the low incomes somewhat harder than the top brackets.

The number of people living in actual poverty has decreased dramatically in the past decade. In 1974 the Census Bureau estimated that 24.3 million people were below the poverty line (\$2,495 for a single individual and \$5,038 for a nonfarm family of four). Ten years earlier 36.1 million people were below the poverty levels of that period. Even with an increase of 1.3 million, caused by the recession, the 1974 poverty total represents only 11.6% of the U. S. population, against 11.1% in 1973 and 19% in 1964.

The biggest change in incomes since World War II has not been in the shape of the curve but in the levels. The whole income structure has been moving steadily upward. Even when the figures are adjusted for inflation they show that each quintile of the population has been pushing up to higher real incomes. The median income of all U. S. families has risen from \$3,031 in 1947 to \$12,840 today. Deflated for price changes, this change still means that real income has doubled for the family that stands at the midpoint of U. S. income, with half of all families below it and half above it.

The big target for reformers: Unequal income distribution



Mario De Vincenzi—BW

Data: Census Bureau

A complex problem. On their face, these figures seem to suggest that with a little patience the U. S. could achieve a good life for everyone—though not equality—by "leveling up"—expanding the total national income so that everyone gets a larger slice. Every President since Harry Truman has tried to use economic growth to increase incomes and open up new job opportunities. The upward shift in the income structure is characteristic of an expanding economy.

But it is not as simple as that. The income figures for the bottom brackets include massive government transfer payments—including Social Security, welfare, and veterans' programs. As Joseph Pechman of the Brookings Institution points out, without these transfers the income curve would have

Although all incomes have been moving up, growth is not enough to satisfy egalitarians. They want more at the bottom

shifted toward greater inequality in the past five years. Edgar K. Browning, in a study for the American Enterprise Institute, estimates that in 1973, transfers accounted for 69% of the income of the bottom one-fourth of all families. His definition of income, however, includes in-kind benefits, which he puts at 40% of total transfers. According to his calculations, net money transfers would account for nearly half of average income per capita in the bottom quartile.

To the real egalitarians all this is interesting but beside the point. The philosophical egalitarians like Herbert Gans of Columbia University and David Gordon of the New School of Social Research want equality for its own sake, not just as a means of reducing hardship in the bottom brackets. The minority leaders look at the figures and see that white males working full time in 1974 had a median income of \$12,434, while black males got \$8,705, and men of Spanish origin got \$9,007. Women compare a median income of \$6,957 for full-time work with the all-male median of \$12,152. Municipal workers, fearful of shrinking jobs, see 41% of all income in the top quartile where it could be taxed to support bigger payrolls. Social workers simply see 24 million people living in poverty.

From one source or another, the push for equality of income as well as equality of opportunity and legal rights builds up steam.

Four main strategies are open to the government that undertakes to change the shape of the income curve and promote greater equality. It can:

- Push affirmative action programs to ensure equal job opportunities and equal pay for minorities and women.
- Increase taxes on the higher income earners and reduce taxes on the lower brackets.
- Increase transfer payments and extend them into new areas.
- Provide or subsidize public services—recreational facilities, transit, hospitals, entertainment.

In the past decade, the U.S. has tried all four approaches. As the pressure for more equality mounts, Congress and the Administration will have to decide how much further they are prepared to go. In the past, it has been possible to vote benefits for the poor without specifically facing the fact that this meant less for the rich. With federal, state, and local budgets strained to the breaking point, there is no way now to duck the issue. More spending for the bottom can be financed only by more taxes at the top. The U.S. must ask and answer the question: Just how much equality do we really want?

Jobs and pay. In the area of jobs and pay, the question has already been asked and answered. Congress and the courts have firmly committed the U.S. to

equal job opportunities for everyone and equal pay for equal work. The federal government is pushing affirmative action programs in colleges—which are threatened with a shutoff in federal grants—and in private companies that want to do business with the government. As time goes on, this program undoubtedly will be strengthened and extended. The U.S. Commission on Civil Rights already has proposed a new government agency with power to enforce equal job opportunity anywhere it finds discrimination.

Affirmative action creates problems. It upsets long-established seniority rules, raises costs, and sometimes puts unqualified workers into critical jobs. Somewhere in the future there will be violent collisions between the groups backing affirmative action and the old-line unions that are still determined to restrict membership and preserve seniority rights.

The sharp decline in poverty —except in recessions



Nevertheless, the U.S. is moving toward total equality in job opportunities and in the pay for a particular job. Over time, this will tend to establish what the economists call horizontal equality of incomes—equal rewards for equal performance throughout the economy. It will also tend to pull up the bottom of the income structure—by raising the pay of minority workers and women. If this narrows the gap between the top and the bottom, there will be a modest gain in vertical equality, but affirmative action by itself will not change the differentials between low-pay jobs and high-pay jobs.

The egalitarians, therefore, have to look elsewhere—to taxes, transfers, and public services—for mechanisms that will promote a significant move toward vertical equality in the U.S.

Tax leveling. Taxes are the obvious device, and every session of Congress yields a crop of bills designed to soak the rich and give tax exemptions to the poor. But the complex structure of U.S. taxes makes it

Mayors, governors, and local delegates are going to Washington to ask for massive expansion of help in providing public services

want it. Senator George McGovern lost labor votes in his Presidential campaign by suggesting a limit of \$100,000 on inheritances. Robert Nisbet of Columbia University observes that the American intellectual is "more hostile to the businessman who earned his money than to the man who inherited it."

Extending transfers. Transfer payments are a double-action lever. They shift money to the bottom brackets, and at the same time they increase the need for government revenue, which means heavier taxes on the middle and upper incomes. Unlike affirmative action programs, they are a powerful weapon for increasing the degree of vertical equality in the income structure.

In the second quarter of 1975, federal transfer payments, measured on the national income accounts basis, hit an annual rate of \$150 billion. This represented 42% of total federal spending.

It also represented a breathtakingly swift expansion in transfers. As recently as fiscal 1972, the total was only \$78.6 billion, or 33% of federal spending.

State and local transfers are harder to estimate, but they would add \$20 billion to \$30 billion to the 1975 total.

Not all of this money went to the poor, of course. The rich and poor alike draw Social Security benefits, and there is some spillover in medical care, aid to the blind, and other programs. But there is no question that without transfers, the bottom quintile of the income curve would get a much smaller share of the total.

Transfers have been the driving force in the expansion of the federal government apparatus in the past decade. The Health, Education & Welfare Dept., with 128,000 employees is now the biggest department in the government, with the exception of Defense and the Veterans Administration (195,000) which administers a huge transfer operation of its own. The "welfare industry," which reaches down through state and local governments to the kitchens of Harlem and the clothes closets of Los Angeles, has become one of the nation's biggest businesses.

Public services. The alarming growth rate and the multiplication of programs and subprograms are drawing heavy fire both from within the government and from without. Just before he left Washington, former HEW Secretary Caspar Weinberger lashed out at the "massive welfare state that has intruded into the lives and personal affairs of our citizens." He predicted: "If social programs continue growing for the next two decades at the same pace they have in the last two, we will spend more than half of our whole gross national product for domestic social programs alone by the year 2000."

Weinberger's answer to the "welfare mess" is to adopt "a completely new system that would be coordinated and administered through our tax system. . . . substitute a simple cash grant, based on

need, measured by income and payable only to those who meet a strong work requirement if they are able to work."

This is a variation of the negative income tax—a guaranteed minimum income for everyone. It has strong appeal not only for conservatives but also for the egalitarians, who would simply eliminate the work requirement and increase the benefits in Weinberger's plan. Eventually, some form of minimum income probably will replace the patchwork of overlapping programs that now make up the welfare system.

But in the immediate future, these programs are due for expansion rather than simplification. A national health program is almost a sure bet within the next few years. Day nurseries for the children of working women are one of the top demands of women's groups. Federal job programs to take up the slack in chronically depressed areas will get strong backing if the economic recovery does not generate a fast increase in employment.

The federal government will also be under mounting pressure to move deeper into the area of public services. The cities and states are close to the limit of their resources. They are calling on Washington to take over.

The federal government already is spending more than \$8 billion a year on education. Some of this takes the form of direct transfers—scholarships or loans to needy students—and some is earmarked for special programs such as aid to the handicapped. The rest goes to beef up school district budgets.

Housing programs, once a big item in the federal budget, have been suspended for the past three years, while the government tried to find a better way of encouraging building for low-income tenants. President Nixon proposed a system of rent subsidies for the poor, but the idea died in Congress. With the building industry still flat on its back and an acute housing shortage in prospect, a new program to provide low-income shelter is certain to be adopted sooner or later.

Mass transit is running deficits in city after city. Local governments dare not let the fare rise for fear of the voters' anger, but they find it increasingly hard to cover the loss. New York City clung to the 35¢ fare until the whole city was on the verge of collapse. Now it needs help to maintain a 50¢ fare.

And so all the mayors, governors, and local delegations to Congress converge in Washington to ask for massive expansion of federal help in providing public services. They will not get everything they want, but they are determined not to go home empty-handed.

As the egalitarians see it, people have a right to food, shelter, transportation, and entertainment. The business of government is to provide these things without regard to what they cost or where the money comes from. John Rawls, the philosopher most often quoted by the egalitarians, puts it simply: There can be no justification for differences in the conditions of individuals unless it can be shown that the difference benefits the inferior more than the superior.

This is the second of three articles on egalitarianism. The third, covering the conflict inherent in a system that combines political democracy with economic capitalism, will appear next week.



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TAXES: DOWN TO THE WIRE

The White House and Congress are looking for a face-saving way out of their confrontation over tax and spending cuts. Unless they find one, personal and business taxes will leap \$15.5 billion—threatening the economy's recovery—on Jan. 1.

Both sides have painted themselves into corners. President Ford is sticking by his public threat to veto any tax bill that does not include a spending ceiling for the next fiscal year. Congressional liberals are insisting that any extension of this year's tax cuts be linked to tax reforms.

Tax reformers will get their way when the House takes up the tax bill after Thanksgiving. But there is no time left for the Senate to enact a reform package.

That adds up to deadlock. But escape hatches are opening.

Treasury Secretary William E. Simon has sent Ford a memo spelling out two options if no tax bill is passed by yearend: Let withholding rates revert to 1974 levels, or order the Internal Revenue Service to hold current rates steady on the hope Congress eventually will produce an acceptable bill. Treasury's unspoken preference: Hold rates steady.

A NEW PROBE OF LABOR RACKETEERING

Despite Administration concern and labor opposition, the Senate may embark on a splashy new investigation of union corruption. The main target would be the Teamsters Union, but the probe would spread.

Republican whip Robert P. Griffin of Michigan is pushing for creation of a special investigating committee, modeled after the Senate Rackets Committee chaired by Senator John L. McClellan (D-Ark.) in the late 1950s. In the wake of former Teamsters President James R. Hoffa's disappearance, the Senate probably will move along quickly. The Justice and Labor departments would rather avoid such a probe. They fear that massive publicity would derail their own Teamsters investigations.

The AFL-CIO is stiffly opposed. McClellan's investigation was aimed at the Teamsters, too. But other unions were tarred, and Congress ended up enacting new restrictions on union operations—the Landrum-Griffin Act. Co-author of that bill, of course, was the then-Representative Robert P. Griffin.

THE AIR FORCE CHALLENGES NAVY CARRIERS

Newly installed Defense Secretary Donald H. Rumsfeld will have to settle a budding, high-stakes interservice rivalry. The Air Force and the Navy are going at it again—this time over which should have the job of controlling the air over oceans.

That is the Navy's mission now. And it is the chief justification for the Navy bid to build new supercarriers.

But the Air Force is challenging the Navy's plans. Its contention: Intercontinental B-52 bombers—and later, maybe, new B-1s—could "assist" the Navy in ocean control. The Air Force plans to arm some of its B-52s with McDonnell Douglas air-to-surface Harpoon missiles to test their effectiveness.

Capital wrapup

PEOPLE: Senator James G. Abourezk (D-S. D.) will introduce legislation imposing new disclosure requirements on companies seeking government research contracts. The purpose: to avert conflicts of interest. Abourezk's interior subcommittee is studying Bechtel Corp.'s role in conducting a federal study of coal transportation economics at the time it was cosponsoring construction of a \$750 million coal slurry pipeline in the West. . . . James C. Miller III, a staff economist at the Council of Economic Advisers, moves to the Council on Wage & Price Stability as associate director for government operations and research. His appointment indicates cowps will press efforts to intervene in regulatory agency cases.

REGULATIONS: Efforts to amend the 1970 Clean Air Act and ease auto emission standards are likely to collapse. That would force Detroit to meet tough nitrogen oxide standards starting in 1977. . . . The Labor Dept. wants to create a new assistant secretaryship, with a corresponding increase in staff, to administer last year's Pension Reform Act. . . . The Treasury has proposed tightening customs procedures for imported autos and other vehicles, including expanded bonding requirements, to assure that they meet U. S. safety standards. . . . The Bureau of Mines has cut its forecast of 1985 U. S. coal production by 20%, to 1 billion tons a year. Chief reason: environmental restrictions on coal-burning, which will reduce demand.

PREDICTIONS: Despite opponents' growing strength, Congress will pass a 10-year extension of the Price-Anderson Act, which limits nuclear utilities' liability in the event of a catastrophic accident and provides for federal aid in paying claims. . . . The Senate will soon approve House-passed legislation that in effect bars state "fair trade" laws that permit manufacturers to dictate minimum retail prices.

Risking credibility

President Ford is in danger of losing the one quality that a President needs above all others: credibility.

Late in October, as New York City teetered on the edge of financial collapse, the President declared in a speech to the National Press Club that there would be no federal help under any circumstances. New York, he said, would have to work out its own salvation and do penance for its fiscal sins.

Now it appears that this uncompromising, unqualified decision was a play for applause from the great Midwest grandstand. As time passed and New York squirmed through crisis after crisis, the White House passed the word that perhaps the President would help, probably he would help, under certain circumstances he would, and, finally, yes indeed he would. Meanwhile, the financial markets have been battered, and New York has remained dangling over the edge of the precipice—good entertainment perhaps, but no way to reassure a badly shaken economy.

Somewhat the same thing happened with the firing of Defense Secretary Schlesinger. Last August, President Ford said on television that he had his team and there would be no more changes. In November, he dismissed one of the star players on that team, with no explanation except a vague reference to the fact that Schlesinger was a holdover.

President Johnson lost credibility by covering up the extent of the U. S. commitment in Vietnam and the magnitude of the U. S. failures there. President Nixon destroyed all credibility with the Watergate fiasco. When President Ford took office, he recognized that what the country needed was the "open" Administration he promised to give it.

If he has forgotten that commitment, he is confusing politics with statesmanship. The U. S. is used to congressmen who prevaricate, straddle, and make sudden switches. It must have a President it can believe.

A bad compromise

After nearly a year of debating, maneuvering, and horse trading, Congress has settled on a thoroughly bad answer to the problem of oil price controls. House and Senate conferees have just agreed on a bill that would roll back the price of oil from new wells as a prelude to a decontrol program stretching over a period of 40 months.

The idea, of course, is to dazzle the voters with a drop in gasoline prices that would last until some time after next November's elections. But the drop would hardly be dazzling—no more than a penny or two a gallon at the pumps—and in the long run it would only exacerbate the oil problem.

The lower the price of new oil, the less incentive there will be for exploration and discovery. With output from existing wells already shrinking, the failure to develop new oil sources would make the U. S. increasingly dependent on imports. This would

strengthen the hand of the Organization of Petroleum Exporting Countries, which could then raise the price of crude once again. In the long run, the U. S. consumer would pay more than ever, but he would pay the Arab cartel instead of domestic producers.

Federal Energy Administrator Frank G. Zarb made a bad bargain when he agreed to accept the ceiling on new oil as the price of a slow phase-out of controls on old oil. The U. S. should be going all out to increase domestic production and to curtail consumption. The compromise energy bill that is now before Congress would discourage production and stimulate wasteful consumption by a temporary reduction in price. It would delay the inevitable long-term adjustment to reality by maintaining an artificial price structure for another three years.

The Administration should go back to its original position and insist on decontrol without a rollback. President Ford should reject the compromise. If Congress passes the bill, he should use his veto power to back up his demand for a better answer.

Too much union power

Shrewd lobbying by the unions is about to produce a bill that would move labor relations in the construction industry one step forward and then pull it two steps back.

The constructive part of the legislation, expected to reach the President's desk in mid-December, would set up a labor-management mediating panel that could help prevent strikes in an industry plagued by work stoppages. The management of the international unions—usually more moderate than the fire-eating locals—would be given a role in local negotiations. And the government would have a vehicle for intervening in important disputes.

This is all to the good. But the other half of the bill would give the unions new and disruptive power. It would allow them to conduct "common situs" picketing against contractors on a job who are not involved in the dispute.

Under present law, a union may picket a nonunion contractor in order to make him sign a contract. It is not allowed to picket union contractors on the same job, and so work can continue on the job site.

If Congress authorizes common situs picketing, the unions will be able to throw up lines against all contractors on the same job. They could use this privilege to attack the open shop or the "double-breasted shop" where union and nonunion contractors work side by side on the job site. This has become a common practice in industrial and commercial construction.

Labor Secretary John Dunlop is prepared to accept common situs picketing to get his mediating agency established. But this is paying too high a price. Common situs picketing would give the unions power they do not need. It would be a serious setback for the open shop, which now imposes the restraint of competition on union demands.

If the unions insist on all or nothing, then the answer should be no bill rather than a bad one.

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Business Week

A computer that won't shut down

A computer that won't shut down

The proliferation of computer terminals at bank windows, airline counters, branch offices, and hotel reservation desks has brought a new problem for business: When an on-line computer stops, the business stops.

The surest and most obvious way to prevent such emergencies is to tie together two or more computers to create a "failsafe" system. Companies—mostly large ones—are already spending an estimated \$200 million a year to avoid the consequences of computer breakdowns, and the expenditure is growing at about 35% annually.

But such failsafe systems are virtually custom built for the user, who must invest in specialized hardware and devise his own software to link the backup system to the primary computer. Such costs can easily double the price of the original computer installation. The so-called fourth-generation computers, which are expected to be widely available within the next five years, will solve some of these problems because they will rely more on networks of interconnected small computers, each assigned a specific task. For many applications, they will eventually replace current large central computers that do multiple jobs. In such multiprocessing systems, no one breakdown will shut down a company.

But until then, businesses that depend on continuous and reliable computer operation suffer from a technological gap. This week a fledgling computer company called Tandem Computers Inc. announced a product that will attempt to fill that gap at a cost lower than current solutions.

"Most computers are just not designed to run with each other," says James G. Treybig, Tandem's 35-year-old president. "We decided to start from scratch and design a different kind of computer—one that runs all the time." The Tandem 16, which Treybig says will be ready for shipment in April, builds on minicomputer technology. It is designed around a series of low-cost processor modules using stock components. Each module can jump into action if another fails or loses its power supply. Similarly, all the peripheral devices and their controllers are designed to keep going despite processor failures.

Tandem is intriguing computer in-



Treybig: "Tandem incorporates all the interface devices the others sell as extras."

dustry observers for other reasons as well. The Santa Clara (Calif.) company has managed to secure \$3 million in financing at a time when most venture capital sources have all but run dry. And Tandem's concept of linking multiple processing units is widely expected to be the hallmark of the next generation of computers.

Raiding. With its Model 16 still in the engineering prototype stage, Tandem has little to show potential customers now except the résumés of its founders. But these are impressive because Treybig and his financial backers pulled off the unusual feat of recruiting top engineers from Hewlett-Packard Co., a company known for its ability to keep

Tandem Computer's new failsafe system will prevent costly breakdowns

people. Treybig, a Texan with an MBA from Stanford University, was marketing manager for H-P's minicomputer operation. He lured to Tandem Michael D. Green, vice-president for software development who designed H-P's first timesharing system; James A. Katzman, vice-president for engineering, who was a key architect of the 3000, H-P's biggest computer; and John C. Loustanou, financial vice-president, who was finance and cost accounting manager for H-P's Data Systems Group.

Tandem got its start early in 1973, when Treybig left H-P after a management shuffle and took his idea for a failsafe computer to Thomas J. Perkins, another former H-P executive who

is now a venture capitalist based in Menlo Park, Calif. Perkins was intrigued. "Jim had established that the idea was theoretically possible," he recalls, "but it needed development. So we hired him to work on Tandem and other ventures." Treybig worked about 18 months for Perkins and his partner, Eugene Kleiner, a founder of Fairchild Semiconductor, but he soon began spending all his time on Tandem. In mid-1974 Kleiner and Perkins put \$50,000 into the company, allowing Treybig to recruit Green, who was still at H-P, and Katzman, who was then working for Amdahl Corp.

"The real start of the company was Mike [Green] and Jim [Katzman] sitting down and deciding which hardware and software combination would be the most efficient," Treybig says. Kleiner and Perkins were so impressed with the design that they anted up another \$1 million to carry Tandem through 1975.

Last week Tandem closed the books on a second round of financing that brought in \$2 million more from such sources as E. M. Warburg, Pincus, Princeton-based Data Science Ventures—and Kleiner and Perkins, who added another \$500,000. Raising this amount of money at a time when few new ventures are finding financing is "a significant accomplishment," Tandem's Loustanou claims. "In fact," he adds, "we had to ask some potential investors to stop evaluating us."

Software support. What attracted the venture money was Tandem's unique approach to the backup market that today accounts for about 5% of mini-

computer sales. Most computer systems stop running about once a year because of hardware failures, and some can be expected to fail every three or four months. To avoid such failures, Bank of America, for example, is in the design phase of a massive project to link dozens of minicomputers to thousands of teller terminals. "Having those terminals unsupported for even five minutes would have serious implications," says Russell L. Fenwick, the bank's senior vice-president for special projects. "It would have a very disruptive effect on service."

Typically, computer makers approach such assignments as special modifications of systems designed to run alone. In the B of A system, for example, General Automation Inc. will cluster four of its standard minicomputers into failsafe modules. At a minimum, a redundant system must include a device that allows two or more central processors to talk to each other. Usually there are also special switches and controllers that give the processors access to all peripheral equipment. "But the biggest problem," Treybig says, "is that somebody has to write the software to make all this happen. And it's often the user who has to do it."

Software costs alone can double the price of one of these special systems, Treybig claims. B of A's Fenwick agrees that the software cost is high when just two processors are linked. "But it may be only 25% more if additional processors are involved," he says.

Tandem customers, Treybig maintains, will pay no additional software costs. Moreover, he says, "the fact that we have a standard operating system to link processors might save some people millions of dollars." Tandem's Green notes that most computer operating programs lack many of the in-

structions needed when processors are linked together. For example, there may be no way to tell a program in one processor to send a message to another processor. "You either have to modify the operating system or put some of its functions into the user's own program," Green says—an expensive, time-consuming step that Tandem eliminates with its software.

Incorporating hardware. Tandem has been equally innovative in hardware, although it is using standard third-generation integrated circuits. "One of our processors is roughly the same price—\$18,500—as other minicomputers of this power," says Treybig. "But Tandem incorporates all the interface devices that the others sell as extras. If we weren't just starting up, we could sell it for a 15% to 20% premium over any solution offered by a small computer manufacturer."

Each processor is made up of only two printed circuit cards that plug into a system that provides two communications paths between all processors. Input-output controllers, mounted in the same cabinet with up to eight processors, are each linked to two processors and share their power supplies. "We wanted to be sure," says Tandem's Katzman, "that you never lose those controllers. You don't want to take away the peripherals just because a processor dies."

A key problem in the hardware designing, Katzman says, was to ensure that any component could be replaced

The redundancies should keep the computer working for more than 100 years

without shutting down the entire system. A controller, for example, can be switched off manually and replaced without disrupting the operation of ei-

ther the processors or the other controllers. "These kinds of problems have never been faced before," Katzman says. "The philosophy has always been, if something fails, you shut the system down and fix it."

Tandem's combination of hardware and software redundancy should mean a failsafe life that approaches 1 million hours, more than 100 years, according to Treybig. "We can't guarantee it because we have no way to be sure we'll be called when one component fails," he says, "but that's what we believe the system can do."

The selling job. Tandem's challenge now is to persuade some major computer users that its claims are justified and to tool up for manufacturing. But with the latest financing completed and a production model of the computer about ready, Tandem plans to open sales and service offices in New York, Chicago, and Frankfurt this month. The company also took a major step toward large-scale production recently by bringing Robert C. Marshall, a founder of Diablo Systems Inc., into the company as vice-president for manufacturing.

Tandem could start shipping in January, Treybig says, but instead will spend three months putting the hardware and software through exhaustive testing. "We will have three senior programmers writing programs to test the operating system," says Treybig. "One software bug will stop a nonstop system." This, too, is in contrast to the approach of most computer makers. "Typically the hardware comes out well before the operating system," remarks Michael A. Ford, former marketing vice-president of General Automation Inc. who now is a consultant to Tandem. "The initial testing is often done over a two-year period—by the customer." ■

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Fivefold Work-Force Swell

Tandem Sees Tenfold Revenue Boom by '85

By Jeffrey Beeler

CW West Coast Bureau

CUPERTINO, Calif. — Tandem Computers, Inc., which grossed slightly less than \$109 million during fiscal 1980, expects its revenues to balloon tenfold to more than \$1.12 billion by 1985.

During the next five years, the company also expects its worldwide work force to swell to 11,500, a fivefold jump over this year's expected total of 2,300 employees.

Both estimates of Tandem's 1981-1985 growth rates are contained in the firm's latest five-year business plan, which was disclosed publicly for

the first time on Jan. 30 by company director Robert Marshall.

Speaking at the firm's annual stockholders' meeting, Marshall revealed that the plan had already been shown to Tandem's employees as part of an effort to keep them informed of the company's long-range goals. He also cautioned stockholders not to regard the plan as a formal business forecast.

Rapid Sales

Among its main objectives, the plan calls for Tandem's revenues to jump to \$187 million during the current fiscal year ending Sept. 30. Thus far during fiscal 1981, Tandem's order rates are

running 95% ahead of the level for the comparable 1980 period, but still appear to be lagging slightly behind the company's hoped-for sales pace. During the first quarter ending last Dec. 31, the firm's revenues totaled \$40.6 million, more than \$6 million short of Tandem's planned gross.

On the other hand, the company's first-quarter earnings topped \$4.66 million, which represents a record 116% increase over the vendor's \$2.16 million profit from the same period a year ago.

One of the keys to Tandem's rapid sales and earnings growth thus far has been high internal productivity, Marshall said. The board-of-directors member estimated his firm's current productivity at \$108,000 per employee. That historically high level of operating efficiency will have to be maintained if Tandem hopes to meet its 1981-1985 revenue objectives, Marshall said. Whether the company succeeds in keeping its productivity high will depend in large part on its ability to hire the right people to fill its thousands of future job openings, the speaker explained.

Accounts Receivables

Another factor that will likely play a key role in Tandem's future success or failure is its skill at managing its accounts receivables. "We're not satisfied with the way we've handled our receivables in the past, and we intend to do a better job in the years to come," the company director said.

The reason for Tandem's concern about improving the management of

its accounts receivable is simple. If the company's current accounts receivable, inventory and profitability levels were to remain the same, the firm's management would have to raise an additional \$200 million of investment capital through 1985, the five-year plan shows.

If Tandem could somehow cut its accounts-receivable level or favorably change the other two factors affecting its future cash requirements, the company could trim its need for investment capital significantly below the \$200 million mark, Marshall explained.

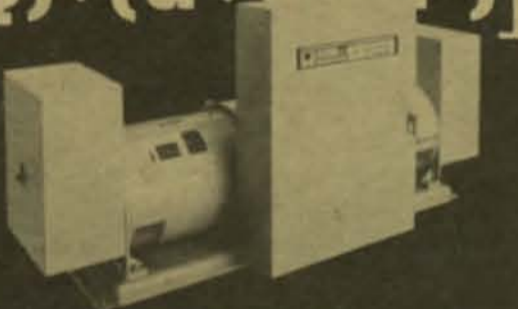
In other comments at the firm's latest stockholders' meeting, Tandem president and cofounder James Treybig offered few concrete details when asked to speculate about when the company could expect to encounter its first head-to-head market competitor. Treybig did voice faith in his firm's ability to cope with any competition, even if the rival proved to be IBM.

The company president based his confidence, he explained, on his belief that Tandem holds a five- to six-year technological edge over any would-be competitor and is unlikely to blow that lead as long as its employees continue to apply themselves.

"The greatest risk to our market leadership is ourselves, not the future competition," Treybig said. "We have to keep working hard and stay motivated. I've never heard of a case where a hard-working company got a five- to six-year head start on the rest of the industry and then lost its lead to the competition."

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Executive Corner

• Walter F. Mondale, former U.S. vice-president, and Marvin G. Rogers, executive vice-president of finance at Control Data Corp., were recently

elected to that company's board of directors.

• Dr. Gerald P. Dinneen will join Honeywell, Inc. as corporate vice-president of Science and Technology. He was also elected a corporate officer by the company's board of directors.

• Barry J. Schiffman has recently been appointed president of Heuristics, Inc.

• James B. Skaggs has been named president and chief operating officer of Systems Development Corp.

• Robert F. Collings has been elected chairman and chief executive officer at Data Terminal Systems, Inc., and Warren C. Tyler has been named president and chief operating officer.

• William Patton Jr. has been named vice-president, business development, for Ampex Corp. In the newly created position, Patton will be responsible for developing new markets for the company's full line of computer products.

• William Woodward has been elected a vice-president of the Mitre Corp.

• Thomas F. Harincar has been appointed vice-president and controller of Informatics, Inc.

• Gerald W. Fleming has been named group vice-president, marketing and sales, of Microdata International Corp.

• Christopher J. Lynch has joined Durango Systems, Inc. as marketing vice-president for both domestic and international markets.

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TANDEM HISTORICAL INFORMATION
— SAN JOSÉ MERCURY NEWS 8/27/95 —
(JIM KATZMAN ARTICLE)

High-tech pioneer is giving something back

■ WEIMERS

from Page 1H

In 1971, he left H-P to work for a new start-up, Amdahl. "Gene Amdahl had come from IBM, and the IBM culture is night and day from H-P," Katzman notes. "When I was at H-P, memos would go to 'Jim K., Bob R., Dave P.' If you went up to Bill Hewlett and said, 'Hi, Mr. Hewlett,' he'd correct you: 'My name is Bill.' At Amdahl, memos went to 'Dr. G. Amdahl, Mr. J. Katzman.' It sets the tone. And at Amdahl, everyone was in two-man cubicles. It was very quiet when you walked in the door. At H-P, everything was open bullpen, noisy as hell. I learned that both styles had pros and cons."

At both H-P and Amdahl, Katzman's skills were noticed. In 1974, the young design engineer got a call from a former H-P division manager, Tom Perkins, who'd gone into venture capital work as a partner with Kleiner Perkins Caufield & Byers.

An idea takes shape

"I figured he was doing due diligence on Amdahl, which was looking for money," Katzman says. But when Perkins picked him up for lunch, another former H-P co-worker, marketing exec Jim Treybig, was with him. "We went out and Treybig started talking about an idea for a new computer company. I realized about 15 to 20 minutes after they'd started that they didn't care about Amdahl at all — they hadn't mentioned the name."

Treybig had with him a thick notebook filled with newspaper and magazine horror stories about computers crashing, about the loss of business — and, occasionally, life — such technical failures caused. He told Katzman he was interested in developing a computer that wouldn't fail, that had backup systems in case of emergency. Did Katzman think it was possible, from a technical standpoint, to design the hardware to do it?

"I said it would be a challenge, but it could be done," Katzman recalls. "But the software was going to be very difficult. He asked me who the best software guy I'd ever worked with was. I said Mike Green, who was one of the



Jim Katzman, at 49, sits on five boards, one for-profit company and four non-profit organizations.

MICHAEL RONDOU
MERCURY NEWS

guys I'd worked with on the H-P 3000. (Treybig) said, 'I figured you'd say that because I've done some research on the people you've worked with — and I've got lunch with Mike tomorrow.'"

Katzman waited until the next night, called Green and asked how lunch had gone. Green said he'd told Treybig that developing the software would be straightforward, but that the hardware would be tough.

"Treybig told us later he thought the hardware and software were impossible, but that if we could build it, he could sell it," Katzman says, chuckling. "We each thought we had the easiest job."

Perkins provided the lead capital and one of Kleiner Perkins' finance managers — Jack Lous-taunou, "who convinced himself that this was the best deal he'd seen since he'd been at Kleiner Perkins," Katzman says — as financial officer. Once secondary financing was secured, Tandem Computers — with Treybig, Katzman, Green and Lous-taunou at the helm — was off and running.

"We worked very long hours, but most people I'd say didn't notice them because it was fun," Katzman says. "It's not bad to spend long hours when you're winning, when it really works, when you're getting lots of positive feedback. Customers loved the stuff. It (Tandem's fault-tolerant computer) wound up getting into almost every major

bank, every stock exchange in the world."

By 1982, Tandem had grown into an international success, but Treybig and Katzman had grown apart. "If the only guy you couldn't get along with is your boss," Katzman says he reluctantly decided, "it's time to go."

Changing course

Tough decision. "Being in a very successful start-up can be intoxicating," he notes. "People can go into it thinking, 'If we make it, I'm going to stop at some point and have this second career, pursue what I want to pursue. I didn't ever say that; I didn't have anything mapped out. A lot of who you are is tied to that business. It's hard to stick to a plan, to quit at some point and go dig ruins in Yucatán."

Katzman wasn't sure what he wanted to do next, but he was sure it wouldn't be at Tandem. He left, 36 years old and financially secure as only a founder of a successful Fortune 500 company can be, and took a year off to reacquaint himself with his wife, Sylvia, a former high school sweetheart, and their two children. "I did some traveling with my fami-

ly. I hadn't really seen them a lot. I'd been working really hard. I got to know my family again."

He also got to know more about himself. "Just as I was leaving Tandem, Jenny Magid, who was working in our VIP customer relations area and was one of the founders of Hospice of the Valley, asked me if I'd be on the hospice board. I told her I didn't have enough time. Then Sylvia's mother contracted cancer. We had all the questions you have when a loved one goes into a crisis mode.

"We asked Jenny, and received a lot of information and emotional support. Then, when Jenny asked me a few months later if I'd consider being on the board, I had a different attitude. I was still too busy. But I'd make time."

Katzman says he loves — some people "like" but he enthusiastically "loves" — the experience of working with the hospice (he was its president in 1987 and is back in that role again this year.) "I have a lot of loves, actually," he adds: Family. Playing piano. Skiing. Bike riding. Astronomy

(which explains his volunteer work with UC-Santa Cruz and its Lick Observatory). Religion, and more volunteer work at Stanford and at the Jewish community center. "It's my alma mater. I'm Jewish. It's a natural fit."

Investing in ventures

He also has kept busy as a venture capitalist, first as a limited partner with a number of major investment firms, and more lately going it alone from his Saratoga home in seed-capital work, investing smaller amounts of money in very early-stage technology companies. This permits him to follow another of his loves — working with start-up companies, participating in their single-focus excitement.

Unlike some other Silicon Valley founding fathers, he deliberately keeps a low profile, agreeing to talk with me only to give exposure to the charities with which he works and to encourage others to volunteer for such work. "I've been a pretty private individual, and it's worked very well for me," Katzman says. "It's nice not to be under that magnifying glass."

But it is nice to give back.



LEIGH WEIMERS

"With local charities, I can see the work I'm doing," he says. "I can see the results. I see people swimming at the Y or the kids at camp or the plays the performing arts community does — it's all very gratifying."

And fun. "I've never worked on something I didn't really enjoy," Katzman explains (even he and Treybig are close again). "That's a lesson I've tried to give my kids. You've got to find something you love."

There's that word again. "If you find something you love," he points out, "it's not work."

Leigh Weimers' columns appear in the Living section Mondays, Wednesdays, Fridays and Sundays. Write to him at the Mercury News, 750 Ridder Park Drive, San Jose, Calif. 95190; phone (408) 920-5547; or fax (408) 271-3786. Send Mercury Center e-mail to LWeimers or Internet e-mail to LWeimers@aol.com.

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LEIGH WEIMERS

New career for high-tech star: service

THE WORD "board" plays a big role in Jim Katzman's life these days.

The word "bored" does not.

"I'm only on one for-profit board of directors, and I'm considering going on another," says Katzman, one of the four co-founders of Tandem Computers.

"And I'm on four non-profit boards. My time these days is more in the service area, and I find that's very satisfying."

Working more for charitable causes than performing high-tech heroics is something of a change for Katzman, 49. But he puts the same zeal into Hospice of the Valley, the Stanford University Jewish Studies Program Board, the Addison Penzak Jewish Community Center of Greater San Jose and the University of California, Santa Cruz, Dean's Council for Natural



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It was that same enthusiastic approach that helped propel Katzman into high-tech history — if not widespread notoriety — in Silicon Valley's early days. The son of a St. Louis hardware store owner, Katzman had gotten a bachelor's degree in electrical engineering, with an emphasis on computer design, from Purdue University and eagerly headed for California.

"It was everything I expected," he recalls happily. "I was young. I was working for a great boss at Hewlett-Packard (his first employer). I was having a great time going to Stanford (at H-P expense for his master's). I actually saw women in my classes (where they'd been a 6-1 minority at Purdue). It blew me away!"

Katzman found Hewlett-Packard's environment as educational as Stanford's. "It was a great first job because it's a well-run company with great management," he says. "They have a lot of great lessons, not only in how to run a business but also in how to deal with people, how to keep them motivated."

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