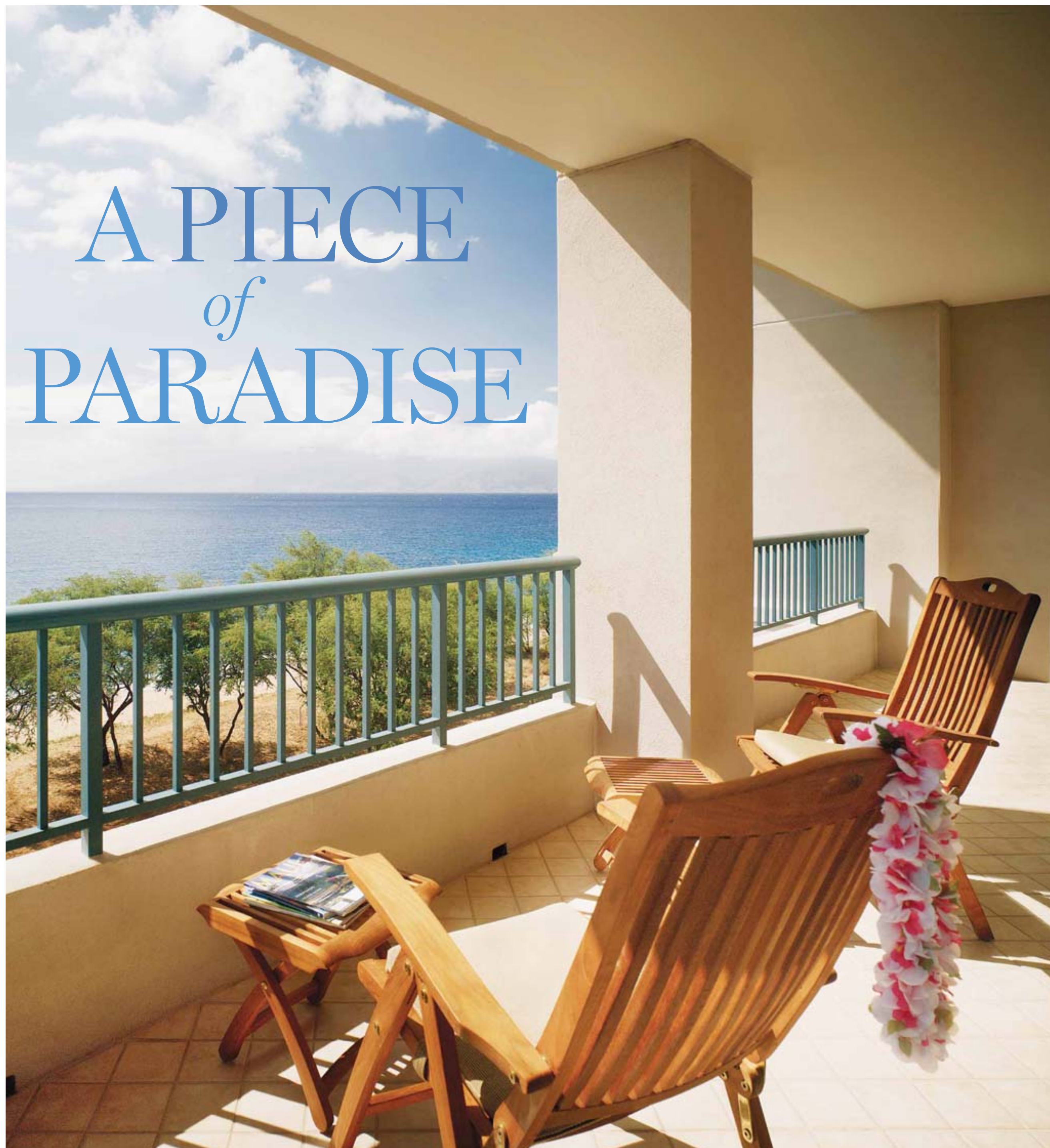
Executive Edition

Edited by Tim Smart



Shoe maven Steve Madden is back on the street and back in business Page EE10

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COURTESY STARWOOD VACATION OWNERSHIP

Home Sweet Time Share

Vacation retreats go upscale as hotel chains cash in on their growing popularity

By Nisha Ramachandran

SKI RETREAT. A "destination club" in Telluride, Colo.

As Mike and Jackie Bosworth headed into retirement two years ago, they toyed with the idea of buying a vacation home. But the Portland, Ore., couple, who wanted to escape gray winters for sunnier climes, could never decide where to settle down. "We liked everything," says Mike Bosworth, 58. "We liked the oceans; we liked the mountains. We liked to travel." The one thing the Bosworths did not like: the prospect of living out of suitcases and bouncing from hotel to hotel. "We wanted it to feel like: 'Gee, I want to go to my own home in Aspen next month,' " he says.

Their solution? A membership in Tanner & Haley's Private Retreats, a "destination club" consisting of multimillion-dollar properties around the world. So far, the Bosworths have enjoyed extended stays at homes in the Caribbean; Cabo San Lucas, Mexico; and Deer Valley, Utah. "It's a great way to share an

COURTESY TANNER & HALEY DESTINATION CLUBS

experience with family and friends," says Mike Bosworth. Last year, the couple turned Tanner & Haley's 8,000-square-foot Italian-style villa in San Diego into the makeshift headquarters for their daughter's wedding, housing both their family and in-laws under one roof.

Destination clubs, along with the familiar concept of time shares, have become increasingly attractive to those who want it all: the creature comforts of a vacation home without the headaches of traditional ownership. No-hassle ownership is just part of the newfound appeal: Once considered dowdy stepsisters, time shares have gained new respectability under the imprint of well-established hotel companies, expanding to ritzier properties and offering the high-end services of name-brand operators.

"Selling a reality." Investment in the new, improved time-share market has paid off handsomely. Despite slack demand in the hospitality industry following the terrorist attacks of Sept. 11, 2001, the time-share industry has steadily posted double-digit gains. New sales of U.S. time shares soared 21.4 percent last year, from $6.5 billion in 2003 to $7.9 billion, according to the American Resort Development Association, and construction of new units is projected to increase by nearly 12 percent this year. "It's really a good time in the industry," says Dick Ragatz, president of Ragatz Associates, a market research firm that tracks the industry. High-end options have grown at an even faster rate: Destination-club sales worldwide jumped from $140 million to $450 million during the same period. And "fractionals," a term that refers to the most expensive time shares where owners can bunk for more than the typical time-share week, saw their worldwide sales more than triple from $373 million to $625 million in 2004.

Not so long ago, time shares were more likely to be associated with pushy sales people and predatory marketing tactics than with a restful vacation. That has largely changed. The time-share concept, which dates to the mid-1970s, was devised as a solution to a glut of condos on the market. Starting in the early 1980s, a host of better legislative and regulatory protections, along with the development of trade associations, have helped clean up the time-share industry's tarnished reputation and protect buyers from fraud. "No one can be selling someone a dream," says Howard Nusbaum, president of ARDA. "They have to be selling a reality."

Further cleansing the time-share image has been the participation of marquee hotel chains like Hilton and Marriott. The latter was the first to jump into the game back in 1984. Not only did their presence lend the reputation of established brand names, but it also provided more stable financing for new developments. "The hotel companies have really changed the face of time shares away from the high-pressure sales tactic," says Joseph Greff, a lodging analyst with Bear Stearns. Today, the big three hospitality companies in the time-share industry, Mar-

SEA AND SUN. Destination-club members pay an upfront fee, plus annual charges, to use properties like this one in Cabo San Lucas, Mexico. Long-term stays are often possible.

COURTESY TANNER & HALEY DESTINATION CLUBS (2)

riott, Hilton, and Starwood, account for a third of all domestic sales.

So far, the hotel chains' foray into time shares and their fractional cousins has proved a reliable source of income. "This is about capturing the customer for a lifetime," says Raymond Gellein, CEO of Starwood Vacation Ownership. "It's a huge brand-extension strategy." Internal surveys at Marriott point to the same conclusion: Those who own a time share with the company are more likely to be repeat customers at its hotels.

Stable flexibility. Perhaps most important, the time-share segment seems to be immune to the roller-coaster ups and downs of the general hospitality industry. While hotel occupancy dropped dramatically after 9/11 and took the next two years to fully recover, time-share occupancy slumped for only two months before hitting previous marks. Last year, occupancy rates at time-share properties hit nearly 85 percent.

> Despite a hospitality-industry slump after 9/11, the **time-share segment** has registered steady double-digit growth.

All this is good news for potential time-share owners, too. Hotel brands have helped introduce new options. "In the early days, it was commonplace to sell a fixed week in a fixed unit," says Stephen Weisz, president of Marriott Vacation Club International. "An owner would buy the third week in June at unit No. 7." Now, prospective buyers can choose from an array of choices, depending on where they want to vacation, how long they'd like to stay, and how much they have to spend. Those with six-figure incomes and up can opt for the superluxurious fractional model, which typically allows owners longer stays at exclusive properties. Run by operators like the Four Seasons and Ritz-Carlton, which started offering fractionals in 1999, these properties tout features like heated marble floors, plasma TVs, and concierge services. Many fractionals

Where the Action Is in Fractions

The time share and its variants appeal to those who can't afford a vacation home, abhor the hassles of ownership, or don't want to be tied down to one place.

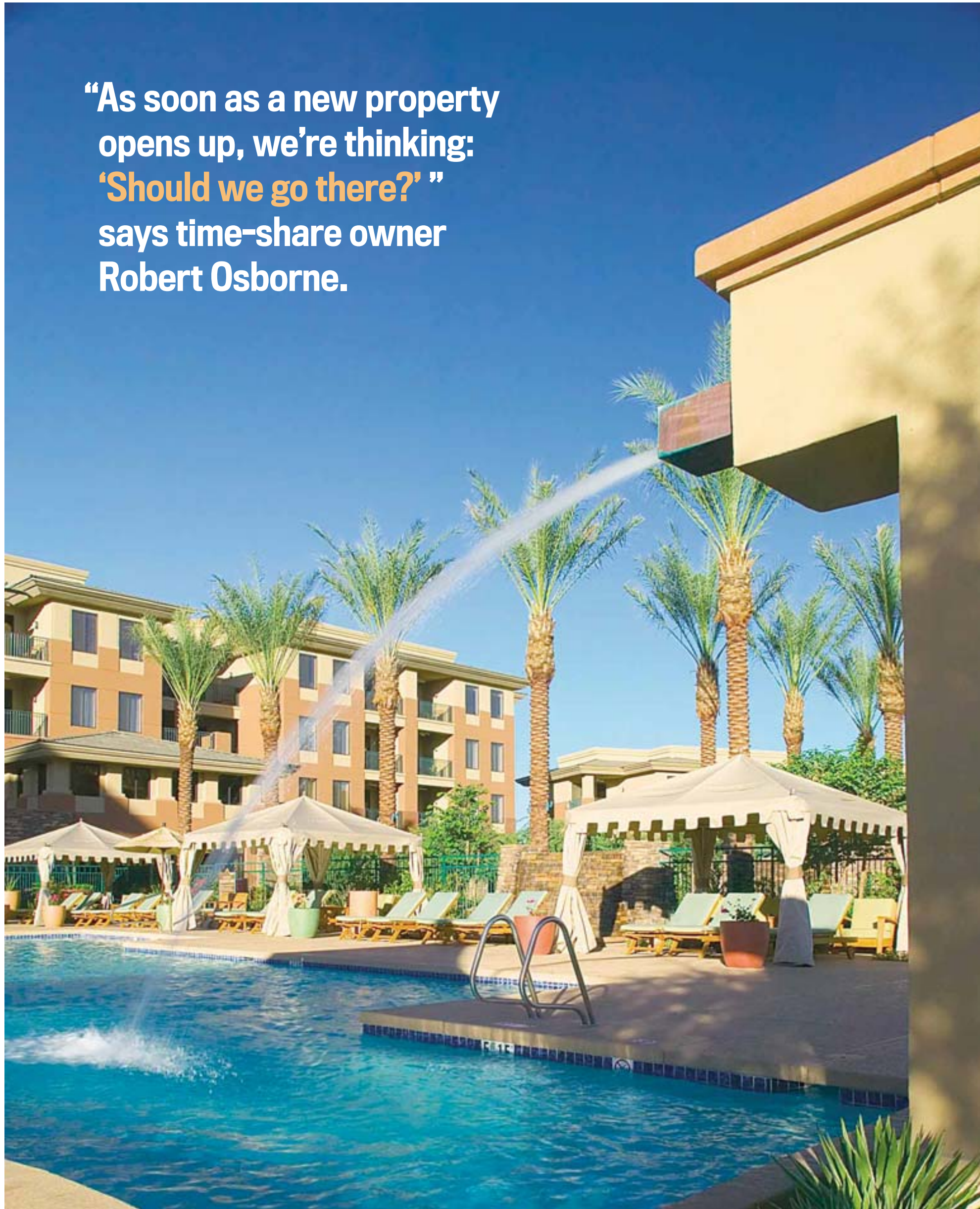
Time shares: Usually purchased in weeklong increments, time shares give owners the right to use a unit for a specified time period. Time shares are typically sold either as deeded property, where a buyer owns a slice of real estate, or through right-to-use, which guarantees access to the property for a certain number of years. Members do not own any real estate under a right-to-use agreement. A time share with Marriott can start as low as $7,800 per week and run as high as $85,000. A deeded week at Marriott's Newport Coast Villas, in a two-bedroom, two-bath unit, would run around $28,000 with maintenance fees of $664.

Fractionals: The upscale cousins of time shares, fractional properties tend to be located in more desirable vacation spots, are more expensive to purchase, and come with more high-end services. As with time shares, buyers are given a deed for the property. Prices range from $100,000 to well over $1 million, depending on location, length of stay, vacation dates, and housing arrangements. Four weeks at a Starwood's St. Regis villa, including a holiday week, can cost $1 million.

Destination clubs: The latest entrant, destination clubs, are upscale. Vacationers buy a membership that provides access to homes around the world. Members do not own any real estate but, depending on club policy, may be able to sell their membership back to the club. For those interested in a 15-day stay or less, Exclusive Resorts offers a membership priced at $195,000 with yearly dues of $9,500; memberships for 45 to 60 days of lodging are $395,000, with an annual fee ranging from $20,000 to $30,000. At the upper end, $1.5 million with annual fees of $72,000 will buy 56 days of usage in Tanner & Haley's newest club, Legendary Retreats. *–N.R.*

FLORIDA FANTASY. This Ritz-Carlton golf-club home in Jupiter, Fla., is a fractional property.

COURTESY THE RITZ-CARLTON CLUB



DESERT OASIS. The Westin Kierland Villas, a Starwood property in Scottsdale, Ariz., is an upscale time share.

will even stock up on groceries or take the skis out of storage, all before an owner arrives for vacation.

Even the basic time share has diversified, offering owners more-creative ways to get the most out of their reserved weeks. Many time-share operators now allow owners to split weeklong stays among more than one property, make use of a smaller property for a longer period of time, or trade their time shares for use of properties across the world.

Robert Osborne and his wife bought their first time share from Marriott 15 years ago in Palm Springs, Calif. The couple typically stuck with the unit they purchased, finding it difficult to trade for weeks in other locations. Today, using improved trading systems, the Osbornes frequently head off to other destinations. The couple, who have since bought additional time shares with Starwood and Marriott, have found that the increased availability of time shares has broadened their horizons. "As soon as a new property opens up, we're thinking: Should we go there?" says Robert Osborne, 65, a retired naval officer. They have traveled through Europe and Mexico, all by using their time-share weeks.

Chasing the big dollars are the destination clubs, which are aimed at individuals who can afford membership prices starting at $100,000 and going much higher.

While still a fledgling industry, destination clubs have recently piqued the interest of heavy hitters like Steve Case, former AOL Time Warner chairman. Case is now chairman of Exclusive Resorts, founded in 2002. Exclusive Resorts and Tanner & Haley Resorts control about 75 percent of the marketplace.

Resale rights. These clubs, modeled after the exclusive country or golf club, offer access to multimillion-dollar properties across the world rather than a deed to a unit like time-share and fractional properties. "Members are buying a right to use," says Rob McGrath, who is credited with creating the concept in 1998 and now runs Tanner & Haley. "They are not buying an interest in a specific asset." Members may be able to resell their interest, depending on club policy. Exclusive Resorts offers a flat 80 percent back of the original membership fee while Tanner & Haley will refund the full fee at the going market price.

The upward march of home prices in many desirable vacation spots has raised the cost of time shares and destination clubs alike. Still, compared with the price of a second home, a time share may seem approachable. "Real-estate prices are astronomical," says Bill Logan, 58, a pilot with Alaska Airlines. "The benefit of a time share was, for less money upfront, I'm able to go to Maui or Barbados. I could go to the south of France." Logan, who frequently vacations in Hawaii, considered purchasing a second home there before turning to the less expensive time-share option. "It bought me more power for travel and vacation than a home did," he says.

But unlike in the red-hot housing market, experts see few speed bumps ahead for growth in the time-share industry. Relatively few Americans own a time

COURTESY STARWOOD VACATION OWNERSHIP

share or fractional or have joined a destination club. As of 2003, only 2.7 percent of all U.S. households owned at least one time-share interval—and just 6.7 percent of those earning over $75,000 a year. Industry analysts believe this leaves ample room for growth. "There is a lot of money out there in the marketplace for these properties," says Ragatz. He thinks time shares and their cousins may take business away from second homes among the 17.8 million upper-income, middle-aged American households that are the industry's target market. Time-share ownership in this group could hit 15 percent, experts say. That creates a revenue potential of $42 billion, according to a recent report by Bear Stearns.

Beyond demographics, analysts see a promising trend of "togetherness" among families that like to vacation as a group and find traditional hotel stays awkward. "This is a way for them to orchestrate the fun family reunion," says Weisz. "It's not uncommon for couples or large groups to tour our properties and all decide to buy."

Typical of this new breed is Marla Yessenow, 49, and her husband, Jeffrey, who often take their three teenage children and one or both sets of parents on vacation. "When you try to make hotel reservations over the holidays, you maybe end up with three different rooms," says Marla Yessenow, who owns a fractional with the Ritz-Carlton Club in St. Thomas, Virgin Islands, that the couple bought for $95,000 (and could probably sell for $250,000 today, she says). "This is so nice because you all end up in the same place." As for that second home, Yessenow says she's not in the market yet. "We're too young," she says. "Maybe in four or five years. But for now, this is perfect."

That attitude is what time-share and destination-club operators are counting on for the future. Just perfect. ●

CITY LIVING. Marriott operates this fractional property in London.

UPDATE

Steve Madden

Martha Stewart isn't the only ex-convict making a rebound in the executive suite this year. After serving 32 months in prison for stock swindling, released nine months early for good behavior, designer-shoe maven Steve Madden is back in action with a lucrative new contract, and his Long Island City, N.Y.-based footwear business is looking better than ever.

Madden, 48, is planning to tell his story publicly soon in a carefully orchestrated media rollout. For now, his lawyer, Joel Winograd, says only that Madden is actively involved in new designs for the company he founded: "He has a real talent and has an eye for style." Madden now holds the title of "creative and design chief," having relinquished his post as chief executive officer in 2001 when he pleaded guilty to a scheme to manipulate more than 20 initial public stock offerings, including that of his own company in 1993.

"Cobbler." A college dropout who started out selling shoes out of the back of a van, Madden built his company into a fashion bastion with $326 million in annual sales of chunky platform shoes and boots. On his way to federal prison, he told *Women's Wear Daily,* "I'm a cobbler, not a hardened criminal." But he admitted wrongdoing in the stock scheme, and under his agreement with the Securities and Exchange Commission, he is barred from serving as an officer or director of any public company through 2008. His compensation package perhaps provides him some solace: Documents filed with the SEC show his new contract inked this summer gives him, on top of a $600,000 base salary, a percentage of company earnings and revenues from new lines of business that analysts have estimated is worth $3 million to $4 million annually. Also, there's a small allowance for expenses: $200,000 a year.

Steve Madden, the company, also is seeing something of a comeback. Profits were down dramatically in early 2005, with officials blaming competition, high freight costs, and increased legal and accounting fees to comply with the Sarbanes-Oxley corporate reform law. At about that time, the company began using the founder's imminent release from prison as a marketing tool, with eye-catching posters and print ads lamenting, "There's been one pair of shoes that's been impossible to fill." Coincidentally or not, business turned around, and by August, Steve Madden reported quarterly profit up 29 percent. A recent survey voted Steve Madden shoes one of the must-have brands for high school and college students returning to school this fall.

–Marianne Lavelle

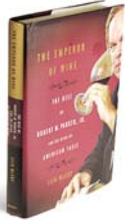
FROM TOP: COURTESY GRAND RESIDENCES BY MARRIOTT; ROBERT MECEA—AP

BOOK NOOK

The American Emperor

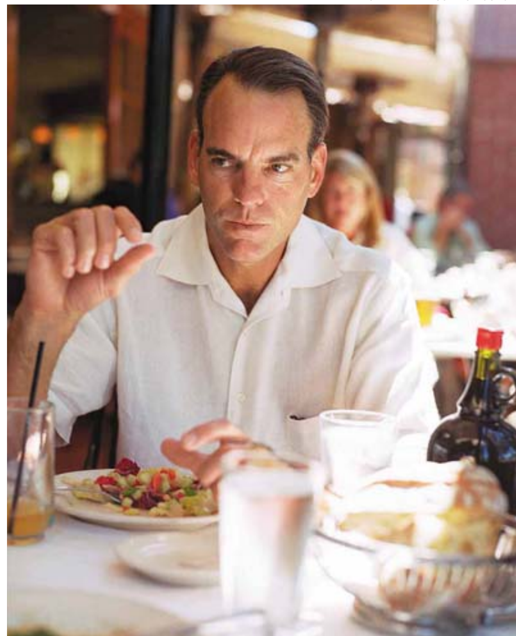
If someone told you the most important man in the wine world is a lawyer who lives near Baltimore, you might think your source had partaken too much of the grape. But the story of **Robert Parker,** a country kid raised on Coca-Cola who became the world's most powerful wine critic, is true. And Elin McCoy recounts it well in *The Emperor of Wine: The Rise of Robert M. Parker, Jr. and the Reign of American Taste.*

Starting in college, Parker, now 58, became obsessed with rating wines. His palate is legendary: He says he remembers almost every wine he has tasted. Inspired by consumer advocate Ralph Nader, he launched *The Wine Advocate* in 1978. Parker's revolutionary 100-point scale noted wine bargains and exposed overpriced bottles, giving Americans an easy guide to the arcane hierarchy of French wine. Yet the newsletter sputtered along until Parker championed the 1982 vintage in Bordeaux, propelling him into the elite of wine critics.



The sheer power of American wine consumers, many of whom continue to consider his ratings divine revelations, sent him well beyond his peers. Now, with Parker's particular taste in mind—he's a sucker for super-ripe fruit bombs—some vineyards are changing the way they make wine specifically to appeal to him. They have been, say critics, "Parkerized." *–Matthew Benjamin*

LESLIE WILLIAMSON FOR *USN&WR*



GRABBING A BITE

Jug-gernaut

Courtney Benham doesn't order wine with lunch. "I'm not as hard-core as some of these other guys in the business," says Benham, 46, owner of Martin Ray Winery in Sonoma County, home of Angeline, the fastest-growing major brand in California last year. "If I have anything right now, I'll be asleep in an hour."

Don't get Benham wrong, though. He may eat light, ordering the risotto with chicken and mushrooms, and he may look the very model of the unruffled Marin County businessman—a former tennis pro who jumped into wine in 1990 when he stumbled across a forgotten stash of aged Martin Ray library wines in a warehouse and bought the label.

What sells. But there is another side to this easygoing Californian. No yeoman farmer or vintner artiste, his background is in sales and marketing. And as he watches prices compress, he is the latest to acknowledge that even in the wine business—or *especially* in the wine business—packaging is everything.

Enter Red, Benham's newest brand, a blend including cabernet franc, merlot, and cabernet sauvignon. In a market flooded with wine cubes and juice boxes, Benham says, "we wanted to try something different." Released this summer, Red comes in a 1-liter jug with a screw cap that looks as if it could be filled with maple syrup. This is no bargain-basement wine, though. The glass comes from Italy; the label is silk-screened in Canada. High-quality wine, affordable prices—"that's where all the action is," Benham says. Younger drinkers and women, especially, seem hooked. After selling through three vintages and 40,000 cases, Red, which goes for $15 a jug, is primed to go national at Cost-Plus this holiday season.

With marketing gimmicks, Benham knows, comes vulnerability to fickle consumer trends. "It's the kind of thing that could be gone in two years," he says, "then the next trendy thing will take over." So be it, he shrugs. "I'm in it now!" *–Justin Ewers*

WISH LIST

No cave: A pyramid-shaped waterfall system is designed to maintain the ideal humidity for maturing fine wine in this cellar. Systems start at $7,295 and are available at *vineyardwinecellars.com.*

FROM TOP: JEFFREY MACMILLAN FOR *USN&WR*; COURTESY VINEYARD WINE CELLARS

STRATEGY

A Chip on His Shoulder

AMD CEO Hector Ruiz

By Megan Barnett

When Trek Bicycle senior designer Michael Sagan was modeling Lance Armstrong's bike in 2000, he spent more time working from home than at the office. His personal computer, powered by a chip from Advanced Micro Devices, ran his design software applications more efficiently than the Intel-based computers at the office, and he got more done at home. By 2003, AMD had formed a partnership with Armstrong's team, and today more than a dozen Trek designers and engineers use AMD-powered computers to create virtual wind tunnels to test and reduce drag on racing bikes. "With AMD machines, we've seen our design-cycle times come down by about 50 percent," Sagan says. The computers at Trek are being used for graphics, Web and industrial design, and mechanical engineering.

AMD may be the biggest little chip company you've never heard of, and it is desperately trying to change that image. The Sunnyvale, Calif., company has been a distant second behind semiconductor behemoth Intel since the early days of computing. The two companies compete to build the internal brains of computers—the microprocessors that

STEVE LABADESSA

An AMD factory in Dresden, Germany

"With **AMD machines,** we've seen our design-cycle times come down by about 50 percent." **Michael Sagan,** Trek Bicycle

power the math, word processing, and graphics. Intel commands a dominant 82 percent market share in terms of units sold, with AMD as the only other noteworthy competitor. Intel has a $148.6 billion market capitalization, dwarfing AMD's $9.9 billion.

Intel and AMD have a storied past, and their rivalry is only getting uglier. In April 2003, AMD released the Opteron chip for servers, which analysts praised as cheaper and faster than Intel's offerings. Since its launch, AMD has gained share in the server market—during this year alone it jumped from 7.4 percent in the first quarter to 11.2 percent in the second, according to Mercury Research—and Intel has still not released a comparable chip. Then in June, AMD sued Intel for allegedly violating antitrust laws, while launching a media campaign to raise consumer awareness about what it claims are bullying tactics by Intel. Intel denies any wrongdoing.

At AMD's helm is CEO Hector Ruiz. A 59-year-old Mexican immigrant with a Ph.D. in electrical engineering, Ruiz spent 22 years climbing the ranks in Motorola before coming to AMD in 2000 and then ascending to CEO in 2002. "Internally, people say we've turned the company upside down," says the soft-spoken Ruiz.

The 64-bit Opteron processor was unique in its ability to allow systems to run both newer 64-bit software applications and older 32-bit models, which means companies don't have to upgrade their entire systems at one time. In April, AMD launched a version with two processors instead of one. Intel plans to launch a competing dual-core processor for servers later this year.

Moving on. AMD is trying to leverage the market bang it got from Opteron beyond servers—the large boxes that hum inside corporate closets, processing and storing massive amounts of data generated on corporate networks—into the corporate desktop market. Intel dominates this business in partnership with PC giant Dell, which uses the semiconductor giant's chips exclusively. But AMD hopes technology managers who are pleased with the performance of servers powered by its chips will influence purchasing decisions when it comes to desktop deals. "I decided the only way we were going to compete was to go at the belly of the beast—the [corporate] enterprise market," Ruiz says. "There is huge opportunity, considering we are starting at zero."

AMD hopes its partnerships with computer makers Hewlett-Packard, IBM, and Sun Microsystems will help it win new business. Recent successes in the server market include Unilever, 7-Eleven, and Airbus. AMD has made inroads into the corporate desktop market with deals with Northeast Utilities and the U.S. Air Force. "Many of the 64-bit products were in the latter stages of development when Ruiz took over, so he was being dealt a reasonable hand," says Nathan Brookwood, an analyst and consultant in the semiconductor industry for Insight 64. "He played it well."

AMD has also had success in the consumer market with its Athlon chips, which power notebooks and desktops made by the likes of Gateway and HP. But it's a tough slog: Dell's reliance on Intel limits how much headway AMD can make. Intel's relationship with Dell and its highly successful "Intel inside" marketing strategy are targets of AMD's antitrust complaint against Intel. Many in the industry question whether AMD has the manufacturing capacity to compete against Intel should Dell decide to throw it some business, but Ruiz insists the company would find the capacity if it needed to. "We cannot ignore them, but they've chosen to ignore us based on a series of financial incentives," says Henri Richard, AMD's chief sales and marketing officer.

The alleged financial incentives are detailed in AMD's complaint, which Intel adamantly denies. The federal court filing is a lively read, giving one example after another of how Intel purportedly bullies computer makers, distributors,

MATTHIAS HIEKEL—DPA / LANDOV

and retailers into excluding AMD from deals. In all, it mentions 30 major players in the computing world and quotes several high-profile industry executives. It argues that Intel's tactics have prevented AMD from winning business in spite of its competitive products.

Intel countered last month, filing an answer to the complaint in which it denies the bulk of AMD's allegations and insists it operates within antitrust laws. It says AMD is to blame for its own low market share. "AMD's position in the marketplace reflects nothing more than the choices AMD has made and its track record with its own customers," Intel writes. Intel spokesman Chuck Mulloy says it is merely competing. "AMD has a very competitive product, and the market has responded."

AMD's antitrust action is not the only one Intel faces. Earlier this year, Japanese authorities charged Intel with violating antitrust laws, which Intel did not dispute. In addition, the European Commission and South Korea are investigating Intel's practices. "There is growing international concern," says Chuck Diamond, who represents AMD in the case. In addition, more than 60 class action lawsuits have been filed, mostly in California and Delaware.

While some industry insiders perceive AMD's suit as merely a vehicle to raise consumer awareness about its products, others see it as a viable lawsuit. "This is the best-written complaint I have read in an incredibly long time," says David Balto, a former policy adviser for the Federal Trade Commission who is not involved in this case. "I think even if they are in front of a conservative court, if they can prove their allegations, the court will be sympathetic."

A tough sell. In the meantime, AMD is continuing to put pressure on Intel in the marketplace. Last week, it announced faster models of the dual-processor Opteron, on the same day Dell announced it would ship the first servers with Intel's yet-to-be-released version of its own dual-core processor later this year.

But even with the edge AMD continues to have over Intel in certain critical technological areas, Wall Street remains skeptical about AMD. Earlier this month, Merrill Lynch analyst Joseph Osha downgraded its stock and upgraded Intel's because, in spite of AMD's recent gains in the server market, Intel's increased pressure is likely to have an effect on AMD in the next year. JPMorgan analyst Christopher Danely recently reiterated an "underweight" rating on AMD stock. "In spite of the upside, we remain concerned with the company's historically spotty execution, increasing operating expenses, increasing inventory, and the potential for processor overcapacity in 2006," Danely says. But AMD investors should be more pleased than Intel stockholders. During the past six months, AMD's stock has shot up nearly 50 percent while Intel's price has gained less than 10 percent.

The overcapacity question stems from the opening of a new manufacturing plant in Dresden, Germany, which will sharply increase AMD's chip production. The new facility will provide a welcome relief from AMD's current plant, which is maxed out, but the company does not currently have enough orders to use both facilities at maximum capacity.

Wall Street is also worried about the pending spinoff of AMD's Spansion business, which manufactures flash memory products mostly for mobile devices such as cellphones and digital cameras. AMD owns 60 percent of Spansion in partnership with Fujitsu, and it filed papers with the Securities and Exchange Commission for an initial public offering back in April. A slowdown in the flash business put a damper on its prospects for investors, and the spinoff remains in limbo. The division represents 40 percent of AMD's total sales, but its costs have become a drain on the company's income statement. In the second quarter, AMD eked out a small profit that would have been substantially bigger were it not for the Spansion unit, which lost $90 million.

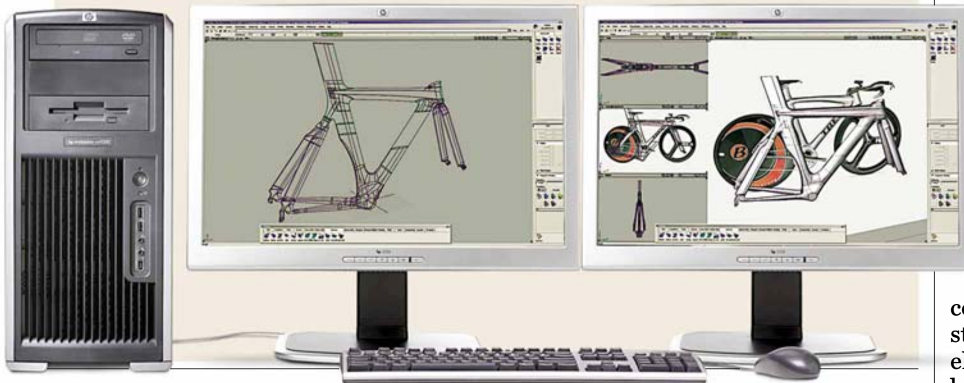
But mostly AMD can't seem to shake off its history. The company was embroiled in litigation with Intel through the late 1980s. Each technological advancement AMD made was matched or surpassed by Intel in little time. "Because of AMD's past inconsistent performance, many analysts have been burned," says Brookwood. "Some see [AMD's current success] as a streak of good luck and eventually the natural order of the universe will return." But don't tell that to Ruiz. "It's irreversible," he says of AMD's recent progress. "We've been able to make inroads, and we've forced our competition to follow suit. There has been a huge change."

Perhaps, but as Lance Armstrong knows well, the competitor with the yellow jersey on in the middle of the race won't necessarily win. ●

A TALE OF TWO CHIPMAKERS

AMD	Intel Corp.
Headquarters Sunnyvale, Calif.	**Headquarters** Santa Clara, Calif.
CEO Hector Ruiz	**CEO** Paul Otellini
Employees 8,300	**Employees** 85,000
2004 revenues $5 billion	**2004 revenues** $34.2 billion
Q2 2005 profit $11.3 million	**Q2 2005 profit** $2 billion
Market value $9.9 billion	**Market value** $148.6 billion
Latest microprocessor Opteron	**Latest microprocessor** Xeon

Designers used AMD-powered PCs to design a time-trial bike for Lance Armstrong.



AMD's share of the $30.3 billion chip market has grown 1 percentage point from a year ago to 16.2 percent.

BUSINESS WIRE / GETTY IMAGES

ASK THE EXPERT

Competing With India and China

By Richard J. Newman

A former top executive with General Electric, **Vivek Paul** *was CEO of Wipro, the Indian information technology firm. He recently became a partner with the venture-capital firm Texas Pacific Group, where he will spearhead new investments in medical technology, focusing on India.*

Is the United States becoming less competitive with other economies?
Simply put, India and China are rising as a percentage of the world's innovation. But that doesn't mean the United States is falling. Those countries in the past have had too small a share of the global economy. Now the share of the dollars going to those countries is getting closer to the share of souls in those countries.

India and China are rising because people are willing to work for less than in the United States. But that's not sustainable. Wages are already going up. The United States has a system that is sustainable through thick and thin. It is a very nimble economy. The banking system is the best in the world. It has the evergreen rejuvenation of immigration. It has companies that are global giants. It is the only political superpower left. Anybody who says this is the demise of the United States is missing the story.

What about the shift of jobs from the United States to Asia?
The U.S. companies going overseas are not being unpatriotic; they're being smart. Look at the demographics. The number of U.S. workers in the global workforce overall is going to go down. At the same time, India and China are adding workers. If you step back and take a planetary view, this offsets each other very nicely.

That's great for companies and their shareholders but not necessarily for employees here in the United States.
Companies have been moving jobs around for decades. The difference is today it's very easy for individuals to see they have to compete with somebody elsewhere in the world. The pressure is not on job availability; it's on who has the skills to do the job at the right price.

If the U.S. workforce continues to be as productive as it is, U.S. workers have nothing to worry about. But there will be a transition while the global economy makes its way to a point of balance. And there are going to be people who are affected. So while that's happening we need a safety net.

How far will the global shifting of work go?
There are downsides to India and China's success. China's success is slowing down its own reform. [Chinese President] Hu [Jintao] came in as a reformer, and he's beginning to look like an old party guy. We could be seeing the rebuilding of political tension in China.

India has gone swiftly from having a big population problem to its population being considered an asset. It will add more people to its workforce in the next 20 years than any other country. If there's no job creation in India, it could lead to massive social problems.

Some U.S. executives, like Bill Gates, say they have to send work overseas because there's a shortage of software engineers and other specialists like that here in the United States. But others think that's just an excuse to hire the cheapest labor. Do you think there's a shortage of talented workers here?
Our customers at Wipro were in a war-for-talent mode. They're not finding it that easy to find engineers and other talented people, whether it's in the United States or India or someplace else. ●

RICHARD MORGENSTEIN