

Financial Services and Insurance

Brokerage Services

A core area

Sales is a core area of most securities firms, comprising the vast majority of people and relationships and accounting for a substantial portion of revenues. Securities salespeople can take the form of a classic retail broker, an institutional salesperson, or a private client service representative. Retail brokers develop relationships with individual investors and sell securities and advice to the average Joe. Institutional salespeople sell securities to and develop business relationships with large institutional investors – those that manage large groups of assets such as pension funds or mutual funds. Lying somewhere in between retail brokers and institutional salespeople are private client services (PCS) representative, who provide brokerage and money management services for extremely wealthy individuals. A firm's PCS unit is often referred to as its Wealth Management department. All salespeople, no matter who they're selling to, make money through commissions on trades made through their firms.

Retail brokers

Some firms call them account executives, others call them financial advisors, and still others give them the financial consultant moniker. Regardless of the official designator, firms are still referring to your classic retail broker. The broker's job involves managing the account portfolios for individual investors – usually called retail investors. Brokers charge a commission on any stock trade and also give advice to their clients regarding stocks to buy or sell and when to buy or sell them. To get into the business, retail brokers must have an undergraduate degree and demonstrated sales skills. The Series 7 and Series 63 examinations are also required before selling commences. Having connections to people with money offers a tremendous advantage for a starting broker.

Private client services

As a private client services (PCS) representative, your job is to bring in individual accounts with at least \$2 million in assets. The PCS job can be exhilarating, exhausting and frustrating – all at once. It involves pounding the pavement to find clients, and then advising them on how to manage their wealth. PCS is a highly entrepreneurial environment. Building a roster of clients is all that matters, and managers typically don't care how PCS reps spend their time – whether it be on the road, in the office or at parties – as long as they're bringing in cash. Culture-wise, therefore, one typically finds a spirited entrepreneurial group of people in PCS, working their own hours and talking on the phone for the better part of the day.

Recent Trends

Typically, where the equities markets go, the brokerage industry follows. Which means the brokerage industry was hit particularly hard in the past few years with the end of the long running bull market.

However, most recent results indicate that equities are back on track. For the third quarter 2003, all the major stock indexes posted positive results. The NASDAQ Composite rose 10 percent, the S&P 500 went up 2.7 percent and the Dow Jones Industrial Average increased by 3.8 percent respectively. And from a year earlier, all of these indices posted double-digit year-to-date gains.

As a result, some of the top retail brokerage firms have been cashing in. Merrill Lynch's global private client business reported its best results in 14 quarters. For the third quarter of 2003, the firm's brokerage division put up pre-tax earnings of \$466 million, an increase of 47 percent over its 2002 third quarter. Another giant in the industry, Morgan Stanley also recently reported healthy quarterly earnings. For the three-month period ended November 30, 2003, the firm's individual-investor group netted earnings of \$79 million, a sharp increase from the \$11 million loss it reported for the same period a year earlier. While unveiling its earnings, Morgan Stanley also reported that it hopes to hire 1,800 new brokers during fiscal 2004, this after reducing broker headcount by 12 percent in fiscal 2003. Merrill also plans to increase its brokerage staff. The firm said it would increase the number of brokers on staff by 5 percent during each of the next three years, beginning with 2004.

Credit Card Services

Credit card nation

Issuing credit cards is one of the most common ways in which financial services firms provide credit to individuals. Via the credit card, firms provide individuals with the funds required to purchase goods and services, and in return, individuals repay the full balance at a later date, or make payments on an installment basis. While you're most likely familiar with how a credit card works, you might not be familiar with just how large the credit card industry is today. In the U.S. alone, the market for credit card issuance was worth \$738 billion in 2002, a sharp 26 percent rise from the \$586 billion the industry was worth in 1998. As of July 2003, Citigroup was the top card issuer ranked by owned and managed credit card receivables, with \$113.3 billion in receivables, followed by MBNA with \$98.5 billion and Bank One with \$74.2 billion.

Heavy metal

The credit card traces its roots back to 1914 when Western Union began doling out metal cards, called "metal money," which gave preferred customers interest-free, deferred-payment privileges. Ten years later, General Petroleum Corporation issued the first metal money for gasoline and automotive services, and by the late 1930s, department stores, communication companies, travel and delivery companies had all begun to introduce such cards. Then, companies issued the cards, processed the transactions and collected the debts from the customer. The popularity of these cards grew until the beginning of World War II, when "Regulation W" restricted the use of cards, and as a result, stalled their growth.

After the war, though, cards were back on track. Modes of travel were more advanced and more accessible, and more people were beginning to buy expensive modern conveniences such as kitchen appliances

and washing machines. As a result, the credit card boomed in popularity, as consumers could pay for these things on credit that otherwise they couldn't afford to buy with cash.

Charge-it

In 1951, New York's Franklin National Bank created a credit system called Charge-It, which was very similar to the modern credit card. Charge-It allowed consumers to make purchases at local retail establishments, with the retailer obtaining authorization from the bank and then closing the sale. At a later date, the bank would reimburse the retailer and then collect the debt from the consumer. Acting upon the success of Franklin's Charge-It, other banks soon began introducing similar cards. Banks found that cardholders liked the convenience and credit line that cards offered, and retailers discovered that credit card customers usually spent more than if they had to pay with cash. Additionally, retailers found that handling bank-issued cards was less costly than maintaining its own credit card program.

Also in the 1950s, the Diner's Club charge card was created. This card, which gave users 60 days to make repayment, was the first to allow consumers to pay for goods and services from a variety of retailers. Another 1950s credit card milestone was the BankAmericard, created by California's Bank of America. The BankAmericard was the first "revolving credit" card – it gave cardholders the option to pay their debts in whole, or in monthly minimum payments while the issuers charged interest on the remaining balances.

The association and the Master

Bank of America continued its credit card innovations in the 1960s with the introduction of the bank card association. In 1965, Bank of America began issuing licensing agreements that allowed other banks to issue BankAmericards. To compete with the BankAmericard, four banks from California formed the Western States Bankcard Association and introduced the MasterCharge. By 1969, most credit cards had been converted to either the MasterCharge (which changed its name to MasterCard in 1979) or the BankAmericard (which was renamed Visa in 1977).

Cutting the cost of transaction processing and decreasing credit card fraud were the next innovations introduced to the industry. Electronic authorizations, begun in the early 1970s, allowed merchants to approve transactions 24 hours a day. By the end of the decade, magnetic strips on the back of credit cards allowed retailers to swipe the customer's credit card through a dial up terminal, which accessed the issuing bank card holder's information. This process gave authorizations and processed settlement agreements in a matter of minutes. In the 1980s, the ATM (Automatic Teller Machine) began to surface, giving cardholders 24-hour access to cash.

The debut of the debit, the climb of the cobrand

The 1990s saw the debit card rise in popularity. The debit card grew from accounting for 274 million transactions in 1990 to 8.15 billion transactions in 2002. The 1990s also witnessed the surge of cobrand-ed and affinity cards, which match up a credit card company with a retailer to offer discounts for using the card (think Citibank's AAdvantage cards and American Express' Mileage Rewards program). Although cobrand-ed cards took a dip in the late 1990s – according to some industry experts, this was because issuers

had exhausted the most lucrative partners – they’ve recently returned in full force. Consider some of the deals struck between some of the largest credit card companies and retailers in the past year: Bank One and Disney launched a card allowing holders to earn points at Disney theme parks and hotels and for Disney cruises and other products. Bank One also recently partnered with Starbucks to release a cobrand-ed card that offers holders rewards at the specialty coffee retailer. MBNA also partnered with two big brands. Along with Royal Caribbean, MBNA issued a card geared toward cruisers, and with Air Canada, the bank introduced the AeroPlan card, which rewards cardholders with 5,000 miles for their first purchase and, after that, one additional mile for every dollar spent using the card.

The two that tower pay up

In September 2003, a federal court upheld a lower court ruling that cost credit card powerhouses Visa and MasterCard a combined \$3 billion. The court found Visa and MasterCard rules preventing the companies’ member banks from also issuing American Express and Morgan Stanley’s Discover cards to be illegal and harmful to competition. MasterCard was forced to pay \$2 billion in damages and Visa paid \$1 billion. As a result of the ruling, Amex and Discover will be free to partner with the thousands of banks that issue Visa and MasterCard, which should allow Amex and Discover to gain ground on the two credit powerhouses. The two still, though, have a ways to go to catch up the two industry leaders. In 2002, Visa reported total credit volume of \$609 billion, MasterCard posted a volume of \$530 billion, Amex had \$234 billion, and Discover had \$97 billion.

Commercial Banking

The lenders

“Neither a borrower nor a lender be,” Polonius advises Laertes in Hamlet. Good thing commercial banks haven’t taken Shakespearean bromides to heart. (It didn’t get Polonius anywhere, either.) Commercial banks, unlike investment banks, generally act as lenders, putting forth their own money to support businesses as opposed to investment advisors who rely on other folks – buyers of stocks and bonds – to pony up cash. This distinction, enshrined by fundamental banking laws in place since the 1930s, has led to noticeable cultural differences (exaggerated by stereotype) between commercial and investment bankers.

Commercial bankers (deservedly or not) have a reputation for being less aggressive, more risk-averse and simply not as mean as investment bankers. Commercial bankers also don’t command the eye-popping salaries and elite prestige that I-bankers receive.

There is a basis for the stereotype. Commercial banks carefully screen borrowers because the banks are investing huge sums of their own money in companies that must remain healthy enough to make regular loan payments for decades. Investment bankers, on the other hand, can make their fortunes in one day by skimming off some of the money raised in a stock offering or invested into an acquisition. While a borrower’s subsequent business decline can damage a commercial bank’s bottom line, a stock that plummets after an offering has no effect on the investment bank that managed its IPO.

We'll take your money

Commercial bankers make money by their legal charter to take deposits from businesses and consumers. To gain the confidence of these depositors, commercial banks offer government-sponsored guarantees on these deposits on amounts up to \$100,000. But to get FDIC guarantees, commercial banks must follow a myriad of regulations (and hire regulators to manage them). Many of these guidelines were set up in the Glass-Steagall Act of 1933, which was meant to separate the activities of commercial and investment banks. Glass-Steagall included a restriction on the sale of stocks and bonds (investment banks, which could not take deposits, were exempt from banking laws and free to offer more speculative securities offerings). Deregulation – especially the Financial Services Modernization Act of 1999 – and consolidation in the banking industry over the past decade have weakened these traditional barriers.

The lending train

The typical commercial banking process is fairly straightforward. The lending cycle starts with consumers depositing savings or businesses depositing sales proceeds at the bank. The bank, in turn, puts aside a relatively small portion of the money for withdrawals and to pay for possible loan defaults. The bank then loans the rest of the money to companies in need of capital to pay for, say, a new factory or an overseas venture. A commercial bank's customers can range from the dry cleaner on the corner to a multinational conglomerate. For very large clients, several commercial banks may band together to issue “syndicated loans” of truly staggering size.

Commercial banks lend money at interest rates that are largely determined by the Federal Reserve Board (currently governed by the bespectacled Alan Greenspan). Along with lending money that they have on deposit from clients, commercial banks lend out money that they have received from the Fed. The Fed loans out money to commercial banks, that in turn lend it to bank customers in a variety of forms – standard loans, mortgages, and so on. Besides its ability to set a baseline interest rate for all loans, the Fed also uses its lending power to equalize the economy. To prevent inflation, the Fed raises the interest rate it charges for the money it loans to banks, slowing down the circulation of money and the growth of the economy. To encourage economic growth, the Fed will lower the interest rate it charges banks.

Making money by moving money

Take a moment to consider how a bank makes its money. Commercial banks in the U.S. earn 5 to 14 percent interest on most of their loans. As commercial banks typically only pay depositors 1 percent – if anything – on checking accounts and 2 to 3 percent on savings accounts, they make a tremendous amount of money in the difference between the cost of their funds (1 percent for checking account deposits) and the return on the funds they loan (5 to 14 percent).

Insurance

Risky business

The insurance industry combines to form a multi-trillion-dollar market dealing in risk. In exchange for a premium, insurers promise to compensate, monetarily or otherwise, individuals and businesses for future losses, thus taking on the risk of personal injury, death, damage to property, unexpected financial disaster, and just about any other misfortune you can name.

The industry often is divided into categories such as life/health and property/casualty. Life insurance dominates the mix, making up about 60 percent of all premiums. The bigger categories can be subdivided into smaller groups; property insurance, for instance, may cover homeowner's, renter's, auto, and boat policies, while health insurance is made up of subsets including disability and long-term care.

But these days, you can find insurance for just about anything – even policies for pets (a market that grew 342 percent from 1998 to 2002, with sales of up to \$88 million, according to research firm Packaged Facts), weddings and bar mitzvahs, and the chance of weather ruining a vacation. Even insurance companies themselves can be insured against extraordinary losses – by companies specializing in reinsurance. Celebrity policies always get a lot of press – while rumors that Jennifer Lopez had insured her famous asset (sorry) for \$1 billion proved to be unfounded, other such policies do indeed exist. In fact, the phrase “million dollar legs” comes from Betty Grable's policy for that amount (a similar policy is held by TV's Mary Hart); other notable contemporary policies include Bruce Springsteen's voice, reportedly covered at around \$6 million.

The world's top five

Though the U.S. is well ahead of the rest of the world in terms of insurance coverage, with nearly 40 percent of the world's premiums in 2002, insurance is a truly global industry. Ranked by sales, the top five insurance companies are Germany's Allianz, the Netherlands' ING, New York-based American International Group, Inc. (AIG), France's AXA, and Nippon Life Insurance Company, of Japan. Other leading U.S. insurers include State Farm, MetLife, Allstate, Prudential, Aetna and Travelers.

Consolidation is the name of the game – Hoovers reports that the top ten property/casualty insurers account for nearly half of all premiums written. Perhaps the most notable example of the mergers and acquisitions mania in the industry was the \$82 billion merger in 1998 between Citicorp and the Travelers Group, which created Citigroup. Some insurance companies have also begun to reconfigure themselves from mutual insurers, or those owned by policyholders (e.g., State Farm), to stock insurers, or those held by shareholders (e.g., Allstate). This process, known as “demutualization,” promises to raise even more capital for insurance companies to indulge in more acquisitions.

The last 25 years have seen a shift in the industry away from life insurance toward annuity products, focusing on managing investment risk rather than the (inevitable) risk of mortality. With increasing deregulation in the U.S. and Japan, these insurers are moving ever closer to competition with financial services firms. Indeed,

the business of the insurance industry doesn't end with insurance. The world's top insurance companies have broadened their array of financial services to include investment management, annuities, securities, mutual funds, health care management, employee benefits and administration, real estate brokerage, and even consumer banking. The move towards financial services follows the 1999 repeal of the Glass-Steagall Act, which barred insurance companies, banks and brokerages from entering each other's industries, and the Gramm Leach-Bliley Act of 1999, which further defined permissible acts for financial holding companies. Now insurance companies are free to partner with commercial banks, securities firms, and other financial entities.

At the speed of the Internet

Like many other industries, the insurance market has been transformed in recent years by the Internet. Traditionally, insurance products have been distributed by independent agents (businesspeople paid on commission) or by exclusive agents (paid employees). But insurers who sell over the Web reap the benefits of lower sales costs and customer service expenses, along with a more expedient way of getting information to consumers. is transforming those traditional methods by cutting costs and increasing the amount of information available to consumers. By 2005, Celent Communications estimates that the online insurance market will top \$200 billion, or 37 percent of personal insurance premiums, up from 19 percent in 2003. Of course, an automated approach to doing business means fewer salespeople are needed – Celent reports that insurance giant Cigna, for instance, eliminated 2,000 jobs in 2002 because of increased efficiencies.

With more IT comes a greater need for IT security – Celent estimates that U.S. insurers will spend around \$618 million on security alone in 2004, and more than \$770 million by 2006. Aside from the threat of viruses, hackers, and the like, regulations have made security a top priority – the Health Information Portability and Accountability Act (HIPAA), for instance, which went into effect in 2003, sets strict standards for the privacy and security of the patient information transferred between health insurers and providers.

Recovering from September 11

The September 11 terrorist attacks sent shockwaves through the industry. Not only did they constitute perhaps the largest insured loss in U.S. history – with estimates ranging between \$40 billion and \$50 billion in claims for loss of life and property, injuries and workers' compensation – they also caused insurers and re-insurers to take a hard look at how they would handle the risks associated with possible future terrorist acts. The Terrorism Risk Insurance Act, signed into law by President Bush in November 2002, aimed to deal with the nearly incalculable risk posed by this threat. Among other things, the law defines a terrorism-related event as one with a minimum of \$5 million in damages. It provides for the sharing of risk between private insurers and the federal government over a three-year period, with each participating company responsible for paying a deductible before federal assistance is available. If losses are incurred above the insurer's deductible, the government is obliged to pay 90 percent. While the measure met with a considerable amount of grumbling from all parties involved, for the most part the industry acknowledged that the plan at least allows for the potential risk to insurers from terrorism-related disasters to be quantified.

Fraud: The \$100 billion challenge

Another trend in the industry is the problem of fraud, which costs an estimated \$85 billion to \$120 billion per year, according to the Insurance Information Institute. Fraud comes in two flavors, “hard” and “soft,” with hard fraud being a deliberate invention or staging of an accident, fire, or other type of insured loss to reap the coverage. Soft fraud covers policyholders’ and claimants’ exaggeration of legitimate claims, such as when victims of burglaries overstate the value and amount of lost property, or when car accident claimants pad damage claims to cover their deductibles.

Unhealthy healthcare

Medical malpractice is another hot topic. Health insurers generally get a bad rap from the public, with a 2003 Harris Poll indicating that just 40 percent of health insurance companies do a good job of taking care of their customers (in fact, only the tobacco industry ranked lower in the poll). The media and politicians give plenty of air time to horror stories about managed care companies slighting critically ill patients, and insurers refusing to cover necessary treatments or technologies. Is this reputation deserved? Depends on who you ask, but the industry has its own battles in health care – for example, it sees medical malpractice claims, which have skyrocketed in recent years, as a true crisis. Indeed, according to the Insurance Information Institute, some insurers have quit writing malpractice policies entirely rather than shoulder the risk (the median malpractice award in 2001, the latest year for which this figure is available, was \$1 million). Insurance company Farmers, which racked up more than \$100 million in malpractice-related losses in 2003, announced it would get out of malpractice coverage in September of that year.

Working in insurance

According to the U.S. Bureau of Labor Statistics, the industry employed 2.2 million people in 2002. Of these jobs, three out of five were with insurance carriers, while the remainder were with insurance agencies, brokerages, and providers of other insurance-related services 2 out of 5 jobs. Another 141,000 workers in the industry were self-employed in 2002, mostly as insurance sales agents. Most insurance agents specialize in life and health insurance, or property and casualty insurance. But a growing number of “multi-line” agents sell all lines of insurance. An increasing number of agents also work for banking institutions, non-depository institutions, or security and commodity brokers.

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Government and Politics

Washington, DC has largely been an untapped source of career opportunities for business school students and MBAs. However, several recent trends indicate that MBAs may start looking to Washington for positions not available elsewhere. These trends include a heightened interest in employment with non-profits and a burgeoning effort by some Federal agencies to recruit MBAs. Additionally, there are MBA employers that exist only in Washington, such as the World Bank.

Despite increased interest in hiring MBAs by many of these employers, in general, these organizations have limited and spotty recruiting efforts on business school campuses. The onus remains on interested students to research appropriate opportunities and network with individuals with similar interests. The section below contains a guide to several of the employment options for MBAs in Washington along with advice on how to identify opportunities and successfully apply for positions.

Federal Government

Washington, DC is slowly, but increasingly, becoming more aware of the benefits of the MBA as well as the need to bring in qualified managers with more than just government experience. When George W. Bush was sworn in as the 43rd President of the United States, he was commonly referred to as the “MBA President,” since, as a graduate of the Harvard Business School he is the first chief executive of the United States to hold the degree. Several of his appointments to fill key administration posts were also MBAs, including Elaine Chao, the Secretary of Labor, who received her MBA from the Harvard Business School and Don Evans, the Secretary of Commerce, who received an MBA from the University of Texas. Many other of his top appointments were culled from the world of business, including Paul O’Neil, his first Secretary of the Treasury and former CEO of Alcoa, as well as his replacement, John Snow, who was the head of CSX Corp.

The change at the top has not translated yet into widespread opportunities for MBAs, but the government has grown more receptive to MBAs as it begins to appreciate the skills and capabilities they bring to bear. For example, there have been recent efforts to recruit on MBA campuses. In the 2003 recruiting season, the U.S. Department of the Treasury has visited select campuses seeking to fill internships and full time positions. At times, the CIA has promoted opportunities with MBA programs and advertised for MBAs as part of its financial analysis teams on popular job posting sites, such as HotJobs.com and the Washington Post.

In 2002, Secretary Chao of the U.S. Department of Labor launched an initiative specifically to recruit MBAs to the department. With a large proportion of senior department personnel scheduled to retire in the coming years, Secretary Chao moved aggressively to create a new pipeline of talent and specifically identified hiring MBAs as the future of the department.

Finding a position with the Federal government

As would be expected with the Federal government, bureaucracy rules the hiring process. However, as with any organization, there are paths around the human resources quagmire. MBAs interested in finding an appropriate position with the Federal government should apply the tools emphasized by any career counseling office: identify your interests, find out the general requirements for position, network, and utilize internships.

Since the Federal government is required to post nearly all vacancies, one potential resource to use in identifying appropriate opportunities is its career listing website, www.usacareers.com. However, a word of warning: while the site provides a useful starting point and a valuable research tool, using it exclusively for a job search with the Federal government would sell your efforts short. Instead, for MBAs it can be best used as means to examine the types of positions available and the general salary ranges. Still, even the position descriptions can be overly bureaucratic, and therefore the site should only be considered a starting point in the research process.

According to several MBAs employed by the federal government in Washington, the best way to identify opportunities is by networking with those already working in the Federal government and with those in the nonprofits and other entities that regularly partner or interact with the Federal agencies. Two good ways to make such contacts are through MBA alumni networks and student or school sponsored conferences focusing on the public sector and non-profit management.

Applying for positions can also be highly bureaucratic, and again, interested applicants are well advised to use their networks to begin the application process. While all applicants must eventually go through the human resources department to determine whether they are qualified and if so, their pay level, it is far more fruitful to begin the application process with the office one wishes to join than with the human resources department. This is where networking can pay off, since ultimately hiring decisions are made within a specific office for high-level candidates. In fact, many government managers already have an applicant in mind before a position is posted.

One MBA graduate who returned to the Federal government after graduation says that while finding government position can take effort, the MBA is definitely seen as a benefit. "There are a lot of hiring managers who will be receptive to talking with MBAs simply because they hold the credential," he says. "MBAs with a specific interest should seek out managers in the Federal government, send them their resumes, and then try to follow up."

The insider also confirmed that there is a growing awareness of the value of an MBA, but that the government hasn't been fast enough to quickly establish the right recruiting policies to bring more business students into the Federal workforce. "The fact of the matter is that the government just doesn't pay what the private sector does," he says. "But, for those with a strong interest in government work, there are many ways in and many rewarding career paths."

Areas of Interest to MBAs

Since most MBAs aren't interested in becoming lifetime bureaucrats, they usually consider specific opportunities in order to gain the experience they need to advance in their chosen professions. The following are areas of the Federal government that provide career enhancing opportunities:

Community and economic development

Community and economic development is an area that has captured the interest of MBAs. Since community and economic development is often the result of cooperation among public sector, private sector and non-profit entities, a position with the Federal government can be an effective way to build experience, gain contacts within the development community and gain an understanding of the government's role in community and economic development and the resources it makes available.

There are several agencies within the Federal that have community and economic development functions. These include the U.S. Department of Treasury, the U.S. Department of Commerce, and the Small Business Administration. Since roles within each agency will vary with the specific mission of the department, interested candidates should try to learn about each department's operations and opportunities through networking with organizations such as Net Impact, alumni, and by contacting hiring managers directly to discuss opportunities.

Management

There are many opportunities within the Federal government for MBAs to gain management experience. However, these opportunities must be ferreted out, and will depend on what the MBA hopes to gain by joining the Federal government. For example, an MBA with an interest in the Federal budget process could attempt to locate an analyst position with the Office of Management and Budget. Another potential source of management positions will be the newly created Department of Homeland Security. Since the Homeland Security Department will be free of some of the Federal employment regulations imposed on virtually every other Federal entity, there may be more opportunities for MBAs to utilize their management abilities to a greater degree than elsewhere in the Federal bureaucracy. MBAs need to think creatively about how their skills relate to government management. Since the Department of Homeland Security is being created from programs and agencies run by a variety of Federal entities, it could be thought of in business terms as a "post-merger integration project." (As of this writing, the Department of Homeland is still being formed. Openings, as they are identified, are posted at the Federal government's employment site, www.usajobs.opm.gov.)

One avenue for MBAs into the Federal government is through the Presidential Management Internship (PMI) program, which is open to all students pursuing masters or doctoral degrees. To be considered for the program, students must submit an application and be nominated by the dean, chairperson, or program director of their academic program. Once accepted, PMIs must find an appropriate position within the Federal government. The program lasts two years, with PMIs beginning at the GS-9 level (approximately \$35,500 to \$46,100). After one year, they are eligible for promotion to the GS-11 level (\$42,900 to \$55,800). At the end of the program, PMI program participants may be converted to a permanent position with the Federal government and are eligible for the GS-12 grade level (\$51,500 to \$66,900). For detailed information on the program, see its website at www.pmi.opm.gov.

Additionally, the Department of Labor has begun to actively recruit MBAs for general management positions with strong results. For 2002, its first year in operation, Department's MBA recruitment program reported receiving more than 250 applications for thirty openings. While MBAs start at the GS-9 level, the Department is offering other incentives, including recruitment bonuses and loan forgiveness programs.

Upon acceptance into the program, MBAs will be allowed to rotate through several different assignments before being placed in a permanent position. The permanent assignments are based on the needs of the Department and the long-term interests of each participant.

A senior official working on the program glows about its initial results: "We didn't know what to expect when we first put the program into place, but we have been very pleased with the results. In fact, several other offices within the Federal government have approached us about putting up similar recruitment programs for themselves."

Application information is available on the Department's website at www.dol.gov.

International development

The Federal government also provides options for MBA students interested in International development, a field that has traditionally and still remains dominated by economists.

Since there are no formal recruitment programs in place for MBAs for international development positions with the Federal government, interested students will have to network with both on-campus and outside organizations to uncover opportunities.

The U.S. Department of Treasury's Office of International Affairs often recruits MBAs for financial analysis positions covering such issues as debt policy or international trade. It particularly is interested in MBA with strong experience in the banking and financial service sector as well as international experience. The office's recruitment efforts include posting position openings with MBA career offices and general advertising.

Employer Directory

U.S. Secret Service



950 H Street, Suite 3800
Washington, D.C. 20223
Phone: 202-406-5830
www.secretservice.gov
rhcc@uss.treas.gov

The United States Secret Service is one of the most elite law enforcement organizations in the world. It has earned this reputation throughout more than 139 years of unparalleled service to this nation. As one of the oldest Federal law enforcement agencies in the country, the United States Secret Service has dual missions that include investigations, as well as protection of the President and Vice President of the United States and others. These unique challenges distinguish the United States Secret Service from all other law enforcement organizations.

Inter-American Development Bank

1300 New York Ave. NW
Washington, DC 20577
Phone: (202) 623-1000
Fax: (202) 623-3096
www.iadb.org

International Finance Corporation

2121 Pennsylvania Avenue, NW
Washington, DC 20433
IFC switchboard: (202) 473-1000
www.ifc.org

International Monetary Fund (IMF)

700 19th Street, N.W.
Washington, DC 20431
Phone: (202) 623-7000
Fax: (202) 623-4661
www.imf.org

Office of Management and Budget

725 17th Street, NW
Washington, DC 20503
Phone: (202) 395-3080
Fax: (202) 395-3888
www.whitehouse.gov/omb

Small Business Administration

409 Third Street, SW
Washington, DC 20416
Phone: 1-800-U-ASK-SBA
www.sba.gov

U.S. Department of Commerce

1401 Constitution Avenue NW
Washington, DC 20230
(202) 482-2000
www.commerce.gov

U.S. Department of Education

400 Maryland Avenue, SW
Washington, DC 20202
Phone: (800)- USA-LEARN
www.ed.gov

U.S. Department of Justice

950 Pennsylvania Avenue, NW
Washington, DC 20530-0001
Phone: (202) 353-1555
www.justice.gov

U.S. Department of Treasury

1500 Pennsylvania Avenue NW
Washington, DC 20220
(202) 622-1260
www.treasury.gov

U.S. Department of Labor

200 Constitution Ave. NW
Washington, DC 20210 U.S.A.
Phone: (202) 693-6000
Fax: (202) 219-5721
Toll free: (866) 487-2365
www.dol.gov

U.S. Department of State

2201 C Street NW
Washington, DC 20520
Phone: (202)-647-6575
www.careers.state.gov

The World Bank Group

1818 H Street, N.W.
Washington, DC 20433
Phone: (202) 473-1000
Fax: (202) 477-6391
www.worldbank.org

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Health Care

Health Care Industry Overview

The health care industry

You can't live with it, you can't live without it – this pretty much sums up the attitude many Americans have toward today's health care industry. The industry is made up of a variety of providers of patient care, including hospitals, nursing homes, and physicians' offices, as well as those who help coordinate, manage, and pay for that care, like HMOs and other health insurers. It's no secret that the sector is a volatile one. Despite making up nearly 15 percent of the nation's GDP, with U.S. health care spending at \$1.6 trillion in 2002, the industry has had a tough time figuring out how to turn healthy profits in a way that benefits both providers and patients.

Having a senior moment

By the year 2050, seniors will outnumber children for the first time in world history, according to the AARP. With approximately one million people turning age 60 each month worldwide, the phenomenon known as "global aging" promises to have a deep impact on the demand for and delivery of health care services. In the U.S., the Baby Boom generation – those born shortly after the Second World War up to the mid-1960s – makes up a sizable portion of the total population. In fact, people aged 50 and older are the fastest-growing demographic group in the nation. This shift is already sparking interest in all issues affecting senior health – from preventive health care to ward off problems later in life, to programs promoting home care and assisted living as alternatives to the dreaded nursing home option for seniors who can't take care of themselves.

Creaky Medicare

With an aging population comes growing pressure on the nation's reimbursement system for seniors and low-income patients. In the U.S., the federal government looms large in health care – though not as large as some patient advocates would prefer (we'll get to health care reform later). In fact, ranked by sales, the government's own Centers for Medicare & Medicaid Services (CMS, formerly known as the Health Care Financing Administration) ranks number one in the industry, according to Hoover's data. Around 40 million people currently are eligible for Medicare coverage, more than twice as many as when the program was first established in 1966 under President Johnson. In 2002, Medicare spending made up about 17 percent of total health care expenditures, or \$267 billion, roughly equal to the 16 percent coming from Medicaid (which is administered by the states and covers low-income patients as well as older people).

Medicare claims are submitted by health care providers through fiscal intermediaries or carriers, entities that have contracted through the government to serve as middlemen in the payment process. After navigating a tricky labyrinth of rules, these claims are reviewed and either accepted or denied by the contrac-

tors. Top Medicare contractors include BlueCross BlueShield organizations in a number of states, plus other companies such as Palmetto GBA and Empire Medicare Services.

The Medicare program, perennially the subject of reform packages in Congress, is a political hot potato. Under the Bush Administration, a heated battle was waged between patient advocates and lobbyists for insurers and pharmaceutical companies in an effort to get prescription drug costs under control. In 2003 the administration established a prescription drug discount card for Medicare beneficiaries, but critics argued that it wasn't the solid overhaul the program ultimately requires.

Flying without a net

The rest of the population – those who aren't eligible for Medicare or Medicaid coverage – either have to buy private insurance on their own, get it at discounted rates through an employer, or just go without and hope for the best. An alarming number of Americans, including many children, are in the latter category. In early 2004, almost 44 million Americans (about 15 percent of the population) were uninsured. Not only do these people risk financial meltdown when faced with unexpected medical emergencies, they're also less likely to maintain their good health and prevent more serious conditions later on through routine visits to doctors, dentists, and the like. In addition, reports indicate that health care is more expensive overall for the uninsured. For example, some hospitals bill uninsured clients a higher rate for the same procedures provided to those with health coverage, since big insurance companies are able to negotiate discounts with providers.

The situation isn't rosy for consumers fortunate enough to have coverage, either. Private health insurance companies paid for 35 percent of the total health expenditures in the U.S. in 2002, nearly \$550 billion. But as the cost of providing health care coverage continues to rise, many employers are finding they can no longer afford this benefit, and are passing more of the costs onto employees in the form of higher premiums and stingier reimbursement plans.

Unmanageable care

Managed care, which came into prominence in the 1980s and 1990s as a response to rampant inflation in health care costs, has changed the face of the industry. Under these systems, insurers (also known as "payers") figured out that they could rein in costs by establishing networks of providers who participate in a network, or health maintenance organization (HMO), which in turn covers a host of covered patients' needs. But in order to be reimbursed profitably, health care providers have to curb their costs themselves. This includes keeping strict limits on the amount of time they spend with patients to maximize the number of appointments they can squeeze in during a day – leading to the hour-in-the-waiting-room, five-minutes-in-the-exam-room doctor visits many Americans experience today. Top managed care corporations include Anthem, HealthNet and UnitedHealth Group.

As illustrated by Hollywood dramas and prime time news programs, the public largely sees HMOs as stingy and heartless, willing to deny society's neediest members basic procedures that are deemed too costly or unnecessary through an impenetrable system of rules and limits. For their part, managed care organizations argue that without these limits, the cost of health care would rise for everyone in the net-

work (and society at large), nullifying the benefits of such a system. Meanwhile, the government has gotten into the managed care game, allowing patients to participate in the “Medicare+Choice” program, which also operates under the provider network philosophy. As with much government-speak, the program actually controls costs by limiting patient choice, not adding it, skeptics contend.

The doctor will see you now

At the other end of the spectrum, consumers who can flash the cash increasingly are turning to “concierge” or “boutique” physician practices. These private practices offer the attentive, personal, and thorough care associated with pre-HMO days and Norman Rockwell paintings – for a price. Patients shell out an annual fee up front that can range from several hundred to tens of thousands of dollars to join an exclusive roster of clients seen by a participating internist. So rather than scrambling to see up to 30 patients a day as in a typical managed care practice, boutique physicians can limit their number of cases to a select handful. Some of these practices charge for appointments above and beyond the annual fee (which is just a sort of retainer for their services); some accommodate reimbursement by health plans for things like specialized tests. As health care costs skyrocket and patients grow frustrated with insurance plans and the quality of managed care, these practices are becoming more popular – and profitable – business options for those doctors who don’t see exclusive care for the well-off as an ethical dilemma.

The quest for reform

Every time a campaign season rolls around, the health care coverage crisis gets a lot of buzz – but since the failed initiative led by Hilary Clinton early in her husband’s tenure as president, few mainstream candidates have been willing to outline a specific, coherent strategy for reform. In fact, rejection of sweeping health care reform is somewhat of a tradition in the U.S., going back to the days when President Truman stumbled in the 1940s after introducing a universal coverage proposal. In addition, of those citizens who actually get out and vote each season, a large majority (92 percent in the 2000 election) have health insurance anyway, so officials aren’t exactly running to fix the problem of the uninsured, according to an April 2004 *BusinessWeek* article. So while many reformers say a “single-payer plan” – one in which the government takes over the administration of all health care costs – is the only reasonable way to tame the coverage dragon, it may take a while to show up as a viable proposal.

Liability looms

Another type of reform that gets plenty of Congressional buzz is in the area of medical malpractice liability. In fact, the powerful American Medical Association has made the issue its top priority recently. The association has taken to identifying states that are in a “medical liability crisis” owing to exploding insurance premiums and their effect – providers limiting or halting certain services because of liability risks. As of June 2004, there were 20 such states on the AMA’s list. One such state, Massachusetts, is a case in point – according to Massachusetts Medical Society research, 50 percent of the state’s neurosurgeons, 41 percent of orthopedic surgeons, and 36 percent of general surgeons had been forced to limit their scopes of practice because of insurmountable medical liability costs. With multi-million-dollar judgments against providers making headlines regularly, a solid industry of trial lawyers is devoted to representing patients

who complain of poor care (and in some cases, abuse or the deaths of loved ones). At the same time, such judgments cause liability insurers to panic, and many are refusing to cover health care providers at all. The insurers who have stayed in the medical liability market can charge a premium that providers increasingly can't afford to pay. For lawmakers, the issue is a tough one – how do you set a cap on the amount a plaintiff can receive for the preventable death of a loved one? Patient advocates frame the issue as a David-versus-Goliath scenario, charging that the monolithic medical community wants to limit consumers' rights to sue providers for poor care. Meanwhile, as the industry waits for the federal government to come up with a solution, states have begun to tackle the issue themselves, setting their own limits on the amount of money a malpractice judgment can reap for the plaintiff.

Hot hospitals

In 2002, hospital spending increased by 9.5 percent from the year before, to \$486.5 billion. Growing demand for hospital services, along with higher rates from private insurers, have led to the fourth straight year of growth in this sector. Among the approximately 6,100 hospitals in the U.S., a few tower over the rest. Each year, *U.S. News & World Report* publishes a ranking of the nation's top hospitals, surveying doctors around the country about hospitals' reputations in 17 medical specialties as well as other factors like staffing, morbidity rates and technology. In 2004, *U.S. News & World Report's* list named Baltimore's Johns Hopkins Hospital as number one overall – a position the institution has held for 14 years running. Second-ranked was the Mayo Clinic, followed by Massachusetts General, The Cleveland Clinic, and UCLA Medical Center.

Tenet Healthcare, the nation's second-largest hospital chain, provides a cautionary tale about the perils of doing business in health care. The company, with 98 acute care hospitals and numerous other facilities nationwide, has been the subject of federal investigations into the way it handled Medicare payments over the last few years. Charles Grassley, chair of the Senate Finance Committee, has said that Tenet “appears to be a corporation that is ethically and morally bankrupt.” In May 2003, beleaguered CEO Jeffrey Barbakow stepped down after 10 years of heading the firm. The company paid a record settlement amount of \$375 million in 1994 for alleged kickbacks and bribes to doctors as inducements to refer patients to its psychiatric hospitals. Tenet made headlines again as, 10 years later, in June 2004, it began talking to the feds about a possible \$1 billion settlement to end an investigation into charges it performed unnecessary heart surgeries on patients – and muttering about a possible bankruptcy filing. Another headline-grabbing health care scandal recently involved HealthSouth, the nation's largest provider of physical rehab, outpatient surgery and diagnostic services. In 2003, the Securities and Exchange Commission hit HealthSouth with charges of cooking the books, accusing the company and its founder and CEO, Richard Scrushy, of overstating earnings by \$1.4 billion since 1999. Scrushy was forced to leave his company in disgrace, though he still maintains his innocence. Who says health care isn't full of intrigue?

The dreaded “home”

The term “nursing home” strikes fear in the hearts of many American consumers, primarily due to media reports detailing abuse and foul conditions at many facilities – and often because of consumers' first-hand experiences with these institutions. But the nation's nursing homes – also sometimes called “skilled nurs-

ing facilities” (SNFs) or “long-term care facilities” – have traveled a rocky road in recent years. Indeed, their crisis helps illustrate larger trends in the health care industry as a whole, particularly among providers that, like nursing homes, rely heavily on federal and state dollars to reimburse them for the cost of patient care. By 2001, nine of the top nursing home corporations in the country, including top names like Genesis Health Ventures, Vencor, Sun Healthcare Systems, and Mariner Post-Acute Networks, had passed through the bankruptcy court system, saddled with hundreds of millions in debt.

What brought these billion-dollar companies to this low point, when they have such a steady stream of consumers desperate for their services? For one thing, many long-term care facilities overextended their debt burdens in the 1990s, investing in rehab facilities and other ancillary services that promised big (some would say “inflated”) paybacks from Medicare. Then Medicare struck back, as Congress passed the Balanced Budget Act of 1997, which, among other things, sought to reduce federal health care spending by instituting entirely new payment systems for major health entities like nursing homes, home care agencies, hospitals, and doctors. Under the old system, providers were basically paid a fixed amount, or fee, for each service they provided to Medicare patients. Fair enough, but patient advocates and Congress began to worry that nursing home clients were receiving a bit too much care – excessive and unnecessary therapy services, for instance – simply because facilities could make more money by providing and charging the feds for it. In the BBA, Congress mandated a new “prospective payment system” (PPS) that set up strict guidelines for how long-term care facilities were to be reimbursed for care provided to Medicare and Medicaid patients. Under PPS, facilities are basically paid a fixed per-diem for a patient’s care depending on the severity of her needs (or “acuity level”), classified under a host of intricate rules. The system also set certain limits, or “caps,” on services such as rehab, under which Medicare would only pay a fixed amount per patient annually.

The combination of leftover debt and poor financial management, plummeting federal dollars, and skyrocketing liability insurance due to high-profile malpractice judgments – plus a host of other factors like low staffing due to undesirable working conditions and a higher acuity level among the patient population – sent at least 10 percent of the nursing home industry into Chapter 11 by 2001, by some estimates. Most of the nursing home giants have recovered and are learning to adjust to the new payment system, but the situation provided a valuable lesson to other health care providers, like rehab hospitals, whose new Medicare PPS systems took effect after the long-term care revamp had done its damage. Congress, acknowledging that it may have been a bit enthusiastic with the red ink, also kicked in some million-dollar concessions to boost reimbursements after intense industry lobbying.

Others weren’t so lucky – many providers of those once high-paying ancillary services, like physical therapy, were forced to close their doors in the aftermath of PPS. Home health care providers, also highly dependent on Medicare and Medicaid payments, weathered a similar crisis to that of long-term care under their own new payment system – and, like their counterparts, managed to eke out some financial givebacks from Congress during the last few years.

Virtual care

Despite fancier defibrillators and sleeker MRIs, many observers have argued that the health care industry actually is a dinosaur when it comes to technology. In fact, less than 5 percent of the total amount of health

care spending in the U.S. will go toward information technology in 2004, CMS estimates. But both providers and payors have caught on to the benefits of doing business electronically in recent years. From the providers' side, patient advocates argue that care can be improved by standardizing practices using digital technology – for instance, using hand-held devices to transcribe, translate, and store doctors' near-illegible notes in patient records. These types of solutions may help cut down on the estimated 44,000 to 98,000 patient deaths per year said to be caused by provider errors (as outlined in a widely publicized 1999 Institutes of Medicine report).

One Chicago-area hospital profiled in a July 2004 *BusinessWeek* article has taken the plunge and gone entirely “paperless” over the past three years. Evanston Northwestern Healthcare’s \$60 million project has made nearly every point along the patient care continuum virtual, putting everything from surgical bay orders to medical records transcription online. The hospital predicts the overhaul will save \$10 million per year. Patients benefit from such a system, too – at Evanston, doctors can access results of mammograms in just one day, as opposed to three weeks under the old system, and the hospital has slashed the late administration of meds to patients by 70 percent. Among the IT solutions health care systems will be investing in over the coming decade are information systems that can standardize the clinical treatment of diseases and bar-code systems for managing drugs and lab samples. Even the government has gotten onboard the IT bandwagon – the Bush Administration has said it wants all U.S. patient care records in an electronic format by 2014.

Going with the flow

Payors also have gone digital, requiring electronic filing of claims by providers and switching to online systems to provide essential information like updates on Medicare rules. As more and more patient health information flows through virtual data streams, however, systems needed to be put in place to help the disparate entities in the health care chain communicate with one another in a standardized way, and, most importantly, to protect the privacy of that free-flowing patient data. Thus was born the Health Insurance Portability and Accountability Act (HIPAA), signed by President Clinton, which covers both the privacy of medical records and the transmission of claims among payors and providers.

HIPAA, which promises hefty fines if providers violate a host of intricate stipulations, sent the health care world into a minor panic – and thus a multi-million-dollar software, education, and consulting industry was born. As the HIPAA rules began to be enforced, in 2003, visitors to doctors' offices may have noticed subtle changes, such as an extra “Notice of Privacy Practices” sheet in their clipboard upon check-in, one requirement of the law. Such requirements often are seen as busywork by harried health care providers, but some of the law's provisions respond to very real concerns – such as the fear that prospective employers or other decision-makers could hijack a patient's medical records off the Information Superhighway. Other, less extreme examples include the regulation of how much information hospitals and other providers can reveal regarding patients under their care, and the setting of limits on the amount of time patient records can be left to molder in basement file drawers. On the claims-processing side, HIPAA mandates an electronic transaction standard for Medicare claims sent between providers and Medicare contractors. The reward for compliance with the standard, in theory anyway, is more efficient and timely payment of these claims.

Where the jobs are

In spite of its daunting complexity, the health care industry has one big upside – it's a reliable producer of job opportunities. The health services industry, the largest of all industries categorized by the Bureau of Labor Statistics (BLS) as of 2002, provided nearly 13 million jobs that year. Of the 20 occupations the BLS projects to grow the fastest in coming years, half are in the health services sector. And of new wage and salary jobs that will be created by 2012, about 16 percent will be in health services – more than in any other industry.

While employment in the health care industry conjures visions of crushing med school debt and grueling internships, in fact the majority of jobs in the sector require less than four years of college education. Graduates of one- and two-year certification programs might work as medical records and health information technicians. Service occupations abound, including medical and dental assistant, nursing and home health aide, and facility cleaning jobs. The BLS predicts particularly strong growth in jobs outside the inpatient hospital sector, such as medical assistants and home health aides. In the industry, there's a constant clamor for more nurses, as facilities face growing regulatory pressure to meet mandatory staffing levels. A large and vocal organized labor presence exists in the industry, despite efforts at union-busting by facilities.

MBAs in Health Care

Got a hankering to use that MBA for health as well as wealth? Here's a quick look at some of the options available to MBAs in the health care industry.

MBA with no health care experience

New MBAs with no health care experience often find jobs in similar venues as undergraduate liberal arts majors: consulting or financial services firms. While they come in with more responsibility and a much higher salary than undergraduates, MBAs without previous experience in health care are unlikely to be assigned to work exclusively within the health care industry. MBAs with a strong interest in developing health care experience should seek out opportunities as internal analysts or administrators for managed care companies, hospital or corporate health benefits offices. Other routes include finding work in the marketing offices of large pharmaceutical companies and physician groups.

MBA with health care experience

MBAs with previous health care experience have a range of options working in the health care industry or in related service industries such as consulting and public relations. Consulting firms often hire these individuals exclusively to work and develop new business among health care clients. McKinsey & Company hires individuals with substantial health care experience (either in consulting or industry) as “practice experts,” a track separate from the more the general business analyst and associate tracks.

Depending on the nature of their previous experience, MBAs with previous health care experience join hospitals or hospital systems as junior administrators with the option of staying and rising through the ranks of the institution's administrative hierarchy. MBAs with clinical experience as physicians have the most lucrative opportunities: Many of these individuals are called on to oversee and manage the intersection of financial and clinical processes as hospital quality administrators or managed care medical directors.

Health Care Consulting

Once you land a job in the health care consulting, what you can expect depends largely on the type of firm you choose. Graduate degree holders with health care-related degrees or those who have substantial experience in the health care industry prior to attending graduate school are usually pegged early in the recruiting process to the firm's health care industry practice.

New hires at larger firms are more likely to have a standardized, predictable experience compared to their counterparts at smaller firms without formal internal processes for allocating work. But a "can-do" attitude regardless of the nature or size of the task is rewarded at all firms.

Kinder and gentler

The organizational motivation of most consulting firms includes an unspoken irony – each project implies a strong commitment to a client's interests without any guarantees of a long-term relationship or of any follow-up beyond the project's contractual boundary. In this environment the motivations of consultants stem largely from the project's intellectual challenges. While consultants often "believe" in what they are trying to accomplish for a client on a project, their visceral rise results from the application of intellectual muscle to complex questions.

Government involvement in regulating and purchasing health care reflects public opinion that health care is a social good that government should work to preserve. Even private health care market participants (and their consultants) tend to have a more humanitarian orientation compared to other industries that are more exclusively concerned with "bottom-line" issues. On the other hand, bottom-line issues are still the focus as the government looks to control public spending on health care and publicly traded technology providers and managed care organizations seek profit-increasing efficiencies. All in all, health care consultants are expected to have the same skill set as all other consultants, but may be seen as "kinder and gentler" than their counterparts consulting in other industries.

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Hartford, CT 06156
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Indianapolis, IN 46204
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Humana Inc.

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Louisville, KY 40202
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Fax: (502) 580-4188
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Fax: (510) 271-6493
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Cypress, CA 90630
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www.pacificare.com

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Phone: (805) 563-7000
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www.tenethealth.com

UnitedHealth Group Incorporated

UnitedHealth Group Center
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Minnetonka, MN 55343
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Phone (212) 476-1000
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1 WellPoint Way
Thousand Oaks, CA 91362
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www.wellpoint.com

Hedge Funds

What is a Hedge Fund?

In a recent article by *The Wall Street Journal*, Tremont Advisors reported that hedge funds took in approximately \$72.2 billion in assets in 2003 and that worldwide hedge fund investment is now as high as \$750 billion in assets.

Hedge funds are considered an “alternative investment” vehicle. The term “alternative investment” is the general term under which unregulated funds operate; this includes private equity and real estate funds. The total “alternative” category (would include private equity and real estate) is not covered within the scope of this section but it is useful to know that often people refer to hedge funds as alternative investments. Mainstream funds are investment funds that everyday investors can purchase, mutual funds are the prime example of a mainstream fund.

Over the past decade, hedge funds have grown tremendously in terms of assets under management and also garnered a lot of media attention. Although, despite their growth and popularity, hedge funds still remain a mystery to many people who do not understand exactly what they are and how they work. In this chapter we will try to elaborate into one of the most popular investment vehicles today. So what exactly is a hedge fund?

A Concise Definition of “Hedge Fund”

A ‘private unregistered investment pool’ encompassing all types of investment funds, companies and private partnerships that can use a variety of investment techniques such as borrowing money through leverage, selling short, derivatives for directional investing and options.

During the early years of the hedge fund industry (1950s to 1970s), the term ‘hedge fund’ was used to describe the ‘hedging’ strategy used by managers at the time. “Hedging” refers to the hedge fund manager making additional trades in an attempt to counterbalance any risk involved with the existing positions in the portfolio. Hedging can be accomplished in many different ways but the most basic technique is to purchase a long position and a secondary short position in a similar security. This is used to offset price fluctuations and is an effective way of neutralizing the effects of market conditions.

Today, the term ‘hedge fund’ tells an investor nothing about the underlying investment activities, similar to the term “mutual fund.” So how do you figure out what the hedge fund manager does? You are able to figure out a little more about the underlying investment activities by understanding the trading/investment strategies that the hedge fund manager states he trades. The “investment strategy” is the investment approach or the techniques used by the hedge fund manager to have positive returns on the investments. If a manager says he trades long/short equity then you know he is buying undervalued equities and selling overvalued equities. Although this description is the long/short equity strategy at its most basic, it is

important to understand the strategies that the manager says he employs. For more information on specific hedge fund investment strategies, see the *Vault Career Guide to Hedge Funds*.

Distinguishing Characteristics

So now that you have reviewed some of the basic terminology in the industry, we will explain the key points in depth. The main distinguishing characteristics of hedge funds are the following:

- Hedge funds can “hedge” their portfolio
- Hedge funds use derivatives
- Hedge funds can short sell
- Hedge funds have the ability to use leverage.

These characteristics make hedge funds different from most other investment funds, especially mutual funds. To get a good understanding of how a hedge fund manager operates, it is very important to understand these concepts. The four concepts are now defined in detail:

Hedging

Hedging refers to the execution of additional trades by the hedge fund manager in an attempt to counterbalance any risk involved with the existing positions in the portfolio. Hedging can be accomplished in many different ways, although the most basic technique is to purchase a long position and a secondary short position in a similar security (See Gap example). This is used to offset price fluctuations and is an effective way of neutralizing the effects of market conditions.

Hedging Example

Courtney is a hedge fund manager who invested in the Gap stores. Here we will see how he hedges his risk. Courtney is ‘long’ (he’s bought) 100 shares of Gap Stores but he now believes the retail industry may be vulnerable to a down turn in the market. He wants to hedge this risk and does this by going “short” (selling) Abercrombie & Fitch, which is in the same retail industry.

Q. What would happen if the retail industry did poorly?

A. The share prices of both Gap and Abercrombie & Fitch might decline.

Q. How would this affect any money Courtney makes?

A. Since Courtney is long on Gap (he owns it) he would lose money on this trade. Since Courtney is also short (he has already sold it) Abercrombie & Fitch, he would make money on that trade. Therefore he can offset some of his losses from Gap with gains from Abercrombie & Fitch. He reduces his risk of Gap by hedging with Abercrombie & Fitch.

Q. When you say Courtney gains from the Abercrombie & Fitch trade, what does this mean?

A. When Courtney goes short A&F it means he has sold it before he owns it. So say he sold 100 A&F shares short for \$50 each. He receives \$5,000 cash for doing so. This transaction is conducted through

his broker and he now owes 100 A&F shares to his broker, to be paid back at some time the future. As time goes by the retail industry does poorly and the share price of A&F falls to \$40.

Q. If the stock price of A&F falls to \$40, what does this mean for Courtney's profits?

A. Since Courtney owes 100 A&F shares to his broker he can now go out and buy the 100 shares for \$40 each, costing him a total of \$4,000. Therefore Courtney has made \$1,000 profit. (He received \$5,000 from the original short sale and then paid \$4,000 to buy A&F, so his profit is \$1,000)

Derivatives

Derivatives that are used by hedge funds can take on many forms, and the more complex derivatives (interest rate swaps, foreign currency swaps, contract for differences, total return swaps, etc.) are not covered in this book. Discussed now are the most basic forms of derivatives: 'put' and "call' options on stocks:

Option Definitions

Put option

A 'put' option gives the holder the right to sell the underlying stock at a specified price (strike price) on or before a given date (exercise date).

Call option

A 'call' option gives the holder the right to buy the underlying stock at specified price (strike price) on or before a given date (exercise date).

Option writer

The seller of these options is referred to as the "writer" – many hedge funds will often write options in accordance with their strategies. This is the person who originates an option contract by promising to perform a certain obligation in return for the price or premium of the option. Any investor can sell options (write options) provided they have answered an options questionnaire provided to them by their broker. This would determine the knowledge of the investor and whether they understand the risks associated with writing options.

How does a hedge fund manager use options to reduce risk?

Consider Kristin, a long/short hedge fund manager, who in January 2004 owns 1,000 Wal-Mart shares. The current share price is \$73 per share. Kristin is concerned about developments in Wal-Mart's illegal immigrant lawsuit that may cause the share price to decline sharply in the next two months and wants to protect herself from this risk. The process that Kristin would go through to hedge the risk of Wal-Mart's share price falling would be:

- Kristin could buy 10 July 'put' options with a strike price of \$65 on the Chicago Board Options Exchange (www.cboe.com).

- This 'put' option gives Kristin the right to sell 1,000 shares for \$65 per share at any time before it expires in July. If the market price of Wal-Mart falls below \$65, the options can be exercised so that Kristin received \$65,000 for the entire holding. When the cost of the options is taken into account, the amount realized is \$62,500.
- If the quoted option price is \$2.50, each option contract would cost \$250. Since each option contract is valued per 100 shares, the total cost of the hedging strategy would be $10 * \$250 = \$2,500$.
- Although this strategy costs \$2,500, it guarantees that the shares can be sold for at least \$65 per share for the life of the option (it expires in July).
- But if the market price stays above \$65, the options are not exercised because Kristin can make more money by just selling the shares for market price.

The Chicago Board Options Exchange (CBOE)

The CBOE created an orderly market with well-defined contracts on 16 stocks when it began trading call option contracts in 1973. The exchange began trading put options in 1977. The CBOE now trades options on over 1,200 stocks and many different stock indices. Many other exchanges throughout the world also trade option contracts. To learn more, visit the exchange's web site at www.cboe.com.

Short selling (going "short")

Short selling involves the selling of a security that the seller does not own. Short sellers believe that the stock price will fall and that they will be able to repurchase the stock at a lower price in the future. Thus, they will profit from selling the stock at a higher price, then buy it in the future at a lower price. (The opposite of going "short" is going "long," when investors buy stocks they believe will rise.)

Short Selling Example

Jimmy believes that McDonald's is overvalued and that he can profit by selling short "MCD." Jimmy sells short 100 shares at \$50 which means he has sold stock that he does not yet own, this is a stock loan. In the future he has to buy the stock to repay the stock loan he entered into when shorting the stock. But, McDonald's price continues to rise to \$75, this means that in order to buy the stock (this is called "covering" his stock loan), Jimmy pays \$75 per share which results in him losing \$2,500 ($100 * \25)

Before Jimmy enters into the short sale, he must ensure that he is able to borrow the stock (get a stock loan), usually through its prime broker. Jimmy will call the stock loan department of the prime broker to see if the prime broker has the stock available to lend to him. If the stock loan department has the stock to lend, then Jimmy can short sell the stock (borrowing it from the prime broker). If the stock is not available for borrow, Jimmy cannot sell short the security.

Leverage

Leverage measures the amount of assets being borrowed for each investment dollar. Leverage (borrowing additional funds) is utilized by hedge fund managers when they believe that the cost of the borrowed funds will be minimal compared to the returns of a particular position. It can be a key component to hedge fund management since it gives the hedge fund managers the ability to have higher returns (and potentially lose more) with borrowed funds.

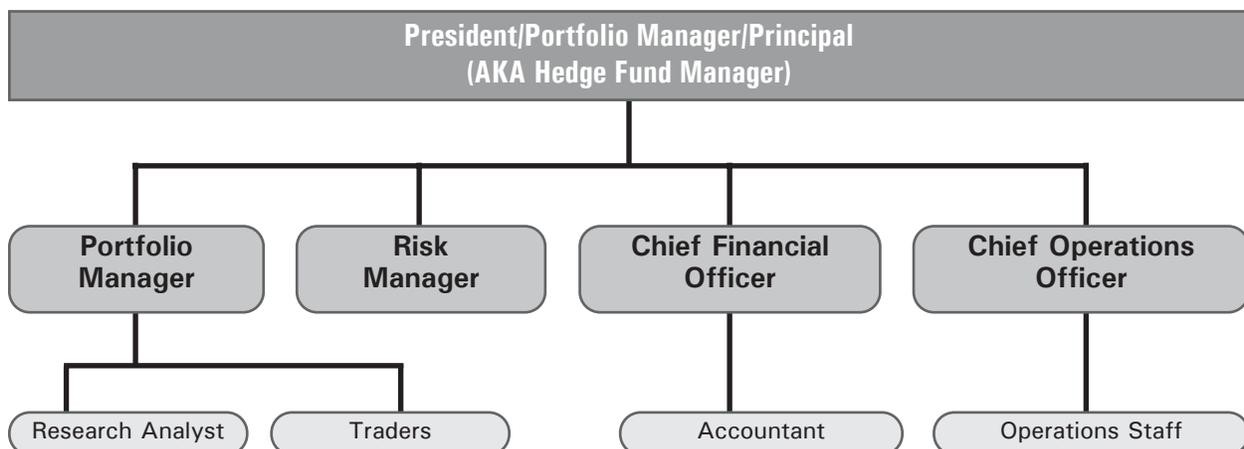
Typical hedge fund leverage depends on the type of financial instruments that the hedge fund trades. Fixed income has lower risk levels so it is not uncommon to have four or five times the value of the fund borrowed. Equities have a higher risk profile and therefore typical leverage is one and a half to two times the value of the fund. However hedge funds are usually comprised of long and short positions, so a large market rise or fall has little impact if their profitable positions were equally balanced by their losing positions.

The simplest examples in everyday life of leverage are house mortgages and car loans. The bank manager uses the house or the car as collateral for the loan from the bank. The bank manager can then sell the house or the car if you default on your loan. Similarly, the hedge fund manager uses the financial instruments in his account as collateral for the funds they have borrowed from their bank (prime broker). The primary sources of leverage are financial institutions and banks. If the hedge fund manager cannot pay the loan back, the financial institution can then sell the collateral (the financial instruments in the account) to pay back the loan.

Leverage Calculation Example

If the hedge fund has \$1 million of invested money and is borrowing another \$2 million, to bring the total dollars invested to \$3 million, then the leverage used is 200 percent. The amount of leverage typically used by the fund is shown as a percentage of the fund.

Organizational Structure of a Typical Hedge Fund



So what exactly are hedge fund managers and what do they do? A hedge fund manager is normally the founder and the key person in charge of overseeing the whole operation of the hedge fund. This means that he/she is responsible for overseeing the portfolio, often making trading decisions, hiring personnel, monitoring the risk of the portfolio and ensuring that the accounting and operations departments are in order. The hedge fund manager is often referred to as the principal or president and can often also be called the portfolio manager.

Hedge funds vary in size from assets under management from as little as \$1 million to over \$10 billion. Unlike a typical investment bank, the roles of the employees at hedge funds are not the same for each hedge fund. Someone entering an investment bank as a trader will likely have a similar role to someone else entering another investment bank as a trader. Traders at hedge funds are likely to have different responsibilities, which are usually determined by the size of the fund. At a smaller fund the trader is much more likely to be involved with the operations of the trade whereas a larger hedge fund would have a separate operations person to handle this element. A smaller hedge fund may have 3- 4 employees whereas a larger hedge fund may employ over 300 people.

A typical hedge fund will have various departments: operations, accounting, trading, and risk and investor relations. These departments support the trading decisions and operations of the hedge fund. Since the size of hedge funds vary dramatically, the number of people in each department can range from 1 to over 20. As a hedge fund grows in size (manages more money), more personnel are added to support the increased trading volume.

In the next few pages we will attempt to clearly outline the different departments at hedge funds and the distinct roles within each department. While you read through the different roles it is very important to note that specific job titles are not important at hedge funds. This is because one role (job) can have many different titles depending on the hedge fund. For example, an Operations Analyst can also be called Portfolio Analyst, Trading Assistant or Accountant depending on the size and environment of the fund.

In addition, due to the varying sizes of hedge funds, employees tend to have a more diverse range of responsibilities, which may overlap between several different departments. This unique nature of the hedge fund job requires superior teamwork skills and the ability to deal with a variety of people.

Director of Operations

Most individuals carrying this title either have several years of experience in the same capacity, a MBA or both. At this stage one generally has a staff of 2-10 people who are direct reports. The job functions are similar to the Operations Specialist although there is much more responsibility for the employees working under you as well as maintaining relationships between prime broker, banks, and off shore administrators.

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This position will generally pay between \$100,000 and \$250,000 depending on experience, background and size of hedge fund.

Summary: After interviewing 10 people in Operations role here are few pros and cons that we gathered and some hands on information we gathered:

A Day in the Life: Director of Operations

7:30 a.m. – Arrive at the office and log on to the computer, along will various back office and portfolio systems such as DTC. (See Glossary)

8:15 – Go over exception reports (available only to a manager) that show trades that have not settled and any Margin Calls for accounts and speak to the member of staff who works on it to get status on the item.

9:00 – Have weekly team meeting and go over team workload and coverage for the week.

10:00 – Get on a call with a manager in the prime broker because a large wire needs to be sent out for management fees and there needs to be extra attention give to it to make sure it goes through properly. The Prime Broker is described in detail in a few pages. In summary it is a department at an Investment Bank that offers products, technology and clearing services to a hedge fund.

11:00 – Have a meeting with the Head Trader on the Convertible trading desk who does not agree with the final position on a particular security. Go over each transaction and see if anything was incorrectly booked. Have one of the staff members print all transaction reports internally and at the prime broker to find a solution to this problem as it may involve large losses for the desk.

1:00 p.m. – Have lunch at the desk while browsing through some stories on Bloomberg.

2:00 – Field calls and help the staff resolve any pending problems.

4:00 – Re-Review all reports from the morning and make sure all highlighted discrepancies are resolved otherwise jot them down as “open items”.

5:00 – Create a list of agenda items for the next day and look at the calendar of any meetings.

6:00 – Leave work and meet the prime broker for dinner who it taking the Operations team out.

7:00 – Discuss rates with the prime broker over dinner and get to know them better.

10:00 – Head home and try to get the motivation to go to the gym before crashing.

Risk Management

The risk department proactively monitors each hedge fund, identifying potential risks and then determining and understanding the importance of various types of risks. This department uses various propriety or vendor tools and methodologies for risk management and implements strategies to prevent any risk completely or to deal with them if they occur.

At a hedge fund, a risk management role can vary depending on the size of the fund. At a small fund generally the principals or the trading group may monitor the risk and there are no specific risk personnel versus at a larger fund there is a group who is solely responsible for monitoring risk. Many hedge funds are

also known to outsource their risk controls through third party vendors specialized in providing this service to corporations, hedge funds, mutual funds etc. Many investment banks also provide such added value service through their prime broker departments (described later in the book).

Fund of funds are known to have a very large risk teams because of two reasons: Firstly, due to the way fund of funds operate they are dealing with a large variety of securities product base and secondly the risk group plays a large role in alleviating concerns of existing and potential investors.

Risk Associate

This associate level position will play a supporting role in the risk department. Many hedge funds don't have a separate risk department but this position would be available at an investment banks prime broker department.

At a prime broker the risk associate will perform the same duties except he will be monitoring risk for several hedge funds that are prime broker clients. This position generally requires a minimum of a bachelor's degree and a few years of relevant experience. A thorough understanding of a variety of trading products (i.e. options, fixed income, mortgage backed securities, swaptions), options risks (i.e. delta, gamma, Vega, rho, and theta)* and strong analytical skills are strongly recommended. The daily job duties include but are not limited to maintaining Value at Risk (VAR) data, back-testing and stress-testing securities within a portfolio and reporting the analyzed data to senior risk management.

For example, Heather works with the trading group to monitor risk. The hedge fund where she works subscribes/utilizes a risk monitoring system designed by a large investment bank. Every morning she will perform analysis to the short portfolio measuring how minor changes in the stock market such as the Dow Jones Industrial Average decreasing substantially in one day, could affect the value of the portfolio. Heather does not have to compute everything manually because the Risk system has built in mathematical models to attribute for different scenarios, although Heather needs to understand what the output of results mean and be able to verbally communicate those clearly to the traders and portfolio managers along with having spreadsheets and graphs as back up of her analysis.

This position generally pays from \$50K to \$70K depending on geographical location, previous experience, education skills and size of the corporation. The Risk position could potentially have interaction with clients (investors) depending on the size of the fund. Some Hedge Funds have a designated Investor Relations employee whose sole responsibility is to field calls from investors. Although, in smaller funds investors may call the Risk group directly to state and address any risk concerns. It is important that a hedge fund has a strong risk monitoring system because this reduces the likelihood of error and losses in the fund and will also help alleviate the investor's worries.

Risk jobs are found through job agencies or through connections. Generally traders also are well aware of job openings in the Risk groups and can be a good source of contact/network.

Day in the Life: Risk Analyst at a Large Hedge Fund

7:30 am – Get into the office and check e-mail. Chat with colleagues about interesting stories in the WSJ.

8:00 – Daily Risk Conference Call with Traders, Portfolio Manager and Principals

9:30 – Monitoring the portfolios on one screen while looking at the markets affecting the various securities on another screen. Quantify illiquid positions and valuations risk and compare margin requirements of all positions with the custodian/prime broker making sure you are in agreement.

10:00 – Call the prime broker risk department and discuss risks involved in utilizing more leverage for a particular option arbitrage fund. Write up a report based on the call to present to the principals.

11:00 – Compile statistics for the ongoing Exception Report for non-investment risk issues such as trade settlement, particular trader leaving the organization, etc.

12:00 – Making sure that the portfolio is maintained within established risk parameters

1:00 – Eat lunch at the desk while preparing for the 1:30 meeting with potential investors of the hedge fund who want to discuss business and corporate structure of the hedge fund and its links to the investment manager.

1:30 – 2:30 – Meeting with investors in a conference room. Emphasize the safety of assets to the investor because of proper risk monitoring.

2:30 – Re cap the meeting with principals, see how it went and make a list of items to follow up with the investor. It is very important that the Risk Manager gets rid of any potential investors concerns of sudden losses.

4:00 – Work with the CFO or Accounting team to have them clarify a problem you noticed on last months audit.

5:00 – Field calls and answer e-mails on all risk and portfolio inquiries to internal and external people.

7:00 – Look over notes from today and jot down any items that needs to be addressed tomorrow.

7:15 – Review schedule for next day.

7:30 – 8 – Head home and get to bed early for a good night's sleep.

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Fax: (212) 224 6010
www.andorcap.com

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245 Park Ave.
New York, NY 10167
Phone: (212) 692 2042
Fax: (212) 867 9328
www.angelogordon.com

Caxton Associates

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New York, NY 10022
www.caxton.com

Citadel Investment Group

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Chicago, IL 60603
Phone: (312) 395-2100
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www.citadelgroup.com

Farallon Capital Management

1 Maritime Plaza Suite 1325
San Francisco, CA 94111

Maverick Capital

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11th floor
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www.pequotcap.com

Soros Fund Management LLC

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Fax: (212) 245-5154

The information in this section was excerpted from the *Vault Career Guide to Hedge Funds*. Get the inside scoop on hedge fund careers with Vault:

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High Tech

Technology is Everywhere

Information Technology (IT) is a huge, ever-changing field. It encompasses the products and services necessary to store, convert, and deliver information electronically. This includes the entire computer infrastructure of an organization: computer hardware, packaged software, computer system architecture, documents outlining technical procedures, many other computer-related products, and lots and lots of people.

Computers and IT continue to have an explosive impact of on life and business. More than ever, companies must rapidly evolve, incorporating new technologies into their daily operations to remain competitive. From one-man sales companies to international medical labs, almost every type of business utilizes an IT infrastructure to run, to expand, and occasionally, to simply comply with the law.

IT is essential to business because it allows people to communicate faster, more efficiently, and with more capabilities than older technologies. A lone costume maker in Illinois can suddenly turn her enterprise into an international business by putting up a web site. A corporate executive can instantaneously deliver vital information to associates in Japan, South Africa, and England through the power of a secure network. A student whose laptop gets stolen can immediately retrieve all of his lost information from a backup database server. A doctor can use a computer program that makes all of his patients' correspondences and information secure from prying eyes. There is power in IT.

Since technology issues are so critical to a company's health, a significant portion of business is involved with IT. In fact, one in every 14 jobs in America is an IT or IT-related position. IT careers cover a broad range of businesses, skill paths, office sizes, and backgrounds.

The scope of IT

Today, IT is integral in most businesses, and its definition is still being redefined. Although most jobseekers know that IT involves widespread technologies, few trying to enter the field probably know just which technologies or which jobs it encompasses.

Authorities describing IT demonstrate how widespread yet "blurry" the field is. First of all, "There is not a government-wide definition of who is classified as an Information Technology worker," says Roger Moncarz, an economist for the U.S. Bureau of Labor Statistics. "There's a wide sampling of estimates out there, for exactly how to define an Information Technology worker."

Moncarz continues, "Based on our definition of information technology workers, and based on government occupational surveys, we come up with 3.3 million to 3.5 million IT workers in America. The Information Technology Association of America (ITAA), in their recently released study, says there are 10.4 million IT workers. So there's wide discrepancy."

Regardless of who may define it, one thing is certain: IT is everywhere. Offices large and small must maintain, utilize, and upgrade IT infrastructures to be effective in the marketplace. Because of the ubiq-

uitous and demanding nature of the technology, IT jobs run the gamut from entry-level, low-tech positions to tech-savvy engineering managers.

The MBA in Tech

So you're in IT and you decided to get an MBA. Perhaps your degree even came with a technology specialty, which is an increasingly common option. Where will your degree get you?

Despite the lore of the 1970s-era computer "hackers" who revolutionized personal computing by working out of garages, many other people even then were studying for MBA degrees and were interested in technology. In the five-year period from 1976 to 1981, Harvard Business School produced Dan Bricklin (VisiCalc), Scott Cook (Intuit), Donna Dubinsky (Palm), Meg Whitman (eBay), and many others. Bricklin was an MIT-educated engineer, but has stated that he thought of many core ideas for the electronic spreadsheet while in business school.

Today, working in IT or working at a technology manufacturer offers many opportunities for MBAs to advance. Some of the popular fields are consulting, director-level positions, finance, law, marketing, project management, sales, training, and the ultimate, which is C-level leadership.

Project management

As a project (or product) manager, you have a very specific set of goals to meet. They typically include detailed technology specifications to follow, deadlines to make, and of course a budget to stick with. Maybe you'd be put in charge of an IT department's rollout of a new software product for internal users, or in charge of a certain operating system version of a certain piece of hardware. Either way, acquiring an MBA as a project/product manager can lead to doing the same job but with a bigger company, or to a position with a VP title. As in marketing, project/product managers need a very wide range of skills and knowledge, so having your MBA can only help. If you're a hardcore engineer or programmer, the MBA will help you get into project/product management in the first place.

Marketing

If the intensity of the IT lifestyle makes you feel burned-out, and you have some creative DNA, then you may be a good fit for a position in technology marketing. The field involves dealing with advertising, partners, the press, and anything related to corporate outreach. In technology marketing, more so than in other fields, you will be expected to know quite a bit about the technology in question. By getting that MBA you can also understand the technology's business strategic situation, and have a good chance at moving up into upper management.

Tech consulting

Many tech consultants are former successful technologists who desire to share what they've learned with others. With just IT experience, you can get an entry-level consulting job, which means interfacing with

your client's own IT staff about their special needs. With a few years of experience and the addition of an MBA degree, you can open your own consulting firm, be invited to participate in panels at trade shows, or perhaps move from out of consulting and into the exciting world of venture capital. (To be a VC, you need to excel at understanding business and technology hand-in-hand, just as good consultants do.) You can also become an in-house consultant for a very large company, which may involve more deadlines and politics to play, but leaves you not having to worry about finding new customers.

Director jobs

If you work for a company that makes technology products, instead of working in the IT department of a company that simply utilizes technology, then possessing an MBA degree will often lead you into a "director"-level job. For example, you might become the director of printers for a company that makes business technology, or the director of R&D for a military software contractor. As a director, your role is a notch below the division vice president and a notch above the various product managers. Product managers work on just one thing, but as director you're also working on a technology group's sales, marketing, manufacturing, etc.

Finance and law

Finance and law positions in an IT department or at a technology vendor have some aspects that are unique compared to working in other fields. You may have to deal with patent issues, foreign employee visas, international licensing laws, making sure the IT staff follows legal compliance rules for backing up data, and working with multiple layers of distributors, partners, and resellers. By getting an MBA degree as well, you are in good position to become a company's operations director, or even to get a C-level position if you have extensive sales or technology experience as well.

Sales

In sales the job description is very clear: generate revenue for the company. By having an MBA you can manage entry-level staff, get the best and biggest clients, get into working with partners and resellers, or even enter the field of "competitive intelligence" which is a nice way of saying corporate espionage.

Training

As an IT trainer you have many career options. You can work in a classroom setting, manage advanced customer support, become involved with technical writing, educate the sales staff, or work with your company's technology partners. With an MBA degree you can become a manager and get a title such as call center director or VP of user experience.

Upper management

Last, and the hardest job to get, is technology upper management. To become a CIO, CTO, or even a CEO in the technology field, an MBA degree is almost a requirement, especially at large companies. There are

a lucky few who become business leaders straight out of core technology jobs (and with a lot of natural talent) – the world’s richest person, Bill Gates, never even finished his undergraduate degree. But for mere mortals, if you want to become an IT business leader, you can’t go wrong with an MBA: it will help you close big sales, manage your company’s logistics, strategize for growth, and prepare you for the executive suite.

Tech Experience and the MBA

Of course, getting an MBA is not enough for a successful career in tech. “My gut reaction is, get the real-world experience,” says Paul Buonaiuto, director of recruiting for Computer Associates International Inc., the Islandia, N.Y. company specializing in business management software. The problem with classroom experience alone, he says, is that “Unless you’re really out in the trenches, it’s difficult to implement sometimes what you read in a book. Real-world experience I hold in more high regard.” And even when a rookie MBA gets hired, there is usually the need for some amount of re-training, as “A lot of the [MBA] case studies are dot-com [or] an Enron or a latest-greatest merger,” Buonaiuto explains.

To really stand out in the hiring process, the ideal job candidate should also have some kind of hands-on technology experience, Buonaiuto said. Candidates that well rounded come along “almost never,” he says. When a pure MBA interviews in technology, “What’s sorely lacked in those folks looking for a job is research skills. It becomes painfully evident in the interview” that they know about CA’s stock performance but know nothing about its technology other than what’s on the web site, he said.

Many future executive candidates start out as technical employees or lower-level managers. For them, many companies will pay for a portion of their MBA educations. There are a wide range of choices for where to get it – a traditional MBA program gives you the recognition that business is business and profits are profits, regardless of your industry, while a specialized technology MBA program (such as in e-commerce or systems management) will make you stand out but can be risky if your chosen specialty market has a downturn. Magazines like *Computerworld*, *BusinessWeek*, and *U.S. News & World Report* sometimes publish features dedicated to ranking the graduate programs. The relative newness of specialized degrees is another common point of debate: it’s been noted many times before that the leading rankings often wildly disagree. Even once a degree is held, “They will be given additional opportunities for advancement” with appropriate salaries, but it should not be taken for granted. “There’s not a hand-in-hand correlation,” Buonaiuto noted.

The information in this section was excerpted from the *Vault Guide to Technology Careers*. Get the inside scoop on tech careers with Vault:

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Investment Banking

What is investment banking? Is it investing? Is it banking? Really, it is neither. Investment banking, or I-banking, as it is often called, is the term used to describe the business of raising capital for companies and advising them on financing and merger alternatives. Capital essentially means money. Companies need cash in order to grow and expand their businesses; investment banks sell securities to public investors in order to raise this cash. These securities can come in the form of stocks or bonds, which we will discuss in depth later.

The Firms

The biggest investment banks include Goldman Sachs, Merrill Lynch, Morgan Stanley, Credit Suisse First Boston, Salomon Smith Barney, J.P. Morgan Chase and Lehman Brothers, among others. Of course, the complete list of I-banks is more extensive, but the firms listed above compete for the biggest deals both in the U.S. and worldwide.

You have probably heard of many of these firms, and perhaps have a brokerage account with one of them. While brokers from these firms cover every major city in the U.S., the headquarters of every one of these firms is in New York City, the epicenter of the I-banking universe. It is important to realize that investment banking and brokerage go hand-in-hand, but that brokers are one small cog in the investment banking wheel. As we will cover in detail later, brokers sell securities and manage the portfolios of “retail” (or individual) investors.

Many an I-banking interviewee asks, “Which firm is the best?” The answer, like many things in life, is unclear. There are many ways to measure the quality of investment banks. You might examine a bank’s expertise in a certain segment of investment banking. Those who watch the industry pay attention to “league tables,” which are rankings of investment banks in several categories (e.g., equity underwriting or M&A advisory). The most commonly referred to league tables are published quarterly by Thomson Financial Securities Data (TFSD), a research firm based in Newark, N.J. TFSD collects data on deals done in a given time period and determines which firm has done the most deals in a given sector over that time period. Essentially, the league tables are rankings of firm by quantity of deals in a given area.

Corporate Finance

Stuffy bankers?

The stereotype of the corporate finance department is stuffy, arrogant (white and male) MBAs who frequent golf courses and talk on cell-phones nonstop. While this is increasingly less true, corporate finance remains the most white-shoe department in the typical investment bank. The atmosphere in corporate finance is, unlike that in sales and trading, often quiet and reserved. Junior bankers sit separated by cubicles, quietly crunching numbers.

Depending on the firm, corporate finance can also be a tough place to work, with unforgiving bankers and expectations through the roof. Although decreasing, stories of analyst abuse abound, and some bankers come down hard on new analysts to scare and intimidate them. The lifestyle for corporate finance professionals can be a killer. In fact, many corporate finance workers find that they literally dedicate their lives to the job. Social life suffers, free time disappears, and stress multiplies. It is not uncommon to find analysts and associates wearing rumpled pants and wrinkled shirts, exhibiting the wear and tear of all-nighters. Fortunately, these long hours pay remarkable dividends in the form of six-figure salaries and huge year-end bonuses.

Personality-wise, bankers tend to be highly intelligent, motivated, and not lacking in confidence. Money is important to the bankers, and many anticipate working for just a few years to earn as much as possible, before finding less demanding work. Analysts and associates tend also to be ambitious, intelligent and pedigreed. If you happen to be going into an analyst or associate position, make sure to check your ego at the door but don't be afraid to ask penetrating questions about deals and what is required of you.

The deal team

Investment bankers generally work in deal teams which, depending on the size of a deal, vary somewhat in makeup. In this chapter we will provide an overview of the roles and lifestyles of the positions in corporate finance, from analyst to managing director. (Often, a person in corporate finance is generally called an I-banker.) Because the titles and roles really do not differ significantly between underwriting to M&A, we have included both in this explanation. In fact, at most smaller firms, underwriting and transaction advisory are not separated, and bankers typically pitch whatever business they can scout out within their industry sector.

The Players

Analysts

Analysts are the grunts of the corporate finance world. They often toil endlessly with little thanks, little pay (when figured on an hourly basis), and barely enough free time to sleep four hours a night. Typically hired directly out of top undergraduate universities, this crop of bright, highly motivated kids does the financial modeling and basic entry-level duties associated with any corporate finance deal.

Modeling every night until 2 a.m. and not having much of a social life proves to be unbearable for many an analyst and after two years many analysts leave the industry. Unfortunately, many bankers recognize the transient nature of analysts, and work them hard to get the most out of them they can. The unfortunate analyst that screws up or talks back too much may never get quality work, spending his days bored until 11 p.m. waiting for work to come, stressing even more than the busy analyst. These are the analysts that do not get called to work on live transactions, and do menial work or just put together pitchbooks all the time.

When it comes to analyst pay, much depends on whether the analyst is in New York or not. In NYC, salary often begins for first-year analysts at \$45,000 to \$55,000 per year, with an annual bonus of approximately \$30,000. While this seems to be a lot for a 22-year-old with just an undergrad degree, it's not a great deal if you consider per-hour compensation. At most firms, analysts also get dinner every night for free if they work late, and have little time to spend their income, often meaning fat checking and savings accounts and ample fodder to fund business school or law school down the road. At regional firms, pay typically is 20 percent less than that of their New York counterparts. Worth noting, though, is the fact that at regional firms 1) hours are often less, and 2) the cost of living is much lower. Be wary, however, of the small regional firm or branch office of a Wall Street firm that pays at the low end of the scale and still shackles analysts to their cubicles. While the salary generally does not improve much for second-year analysts, the bonus can double for those second-years who demonstrate high performance. At this level, bonuses depend mostly on an analyst's contribution, attitude, and work ethic, as opposed to the volume of business generated by the bankers with whom he or she works.

Associates

Much like analysts, associates hit the grindstone hard. Working 80- to 100-hour weeks, associates stress over pitchbooks and models all night, become experts with financial modeling on Excel, and sometimes shake their heads wondering what the point is. Unlike analysts, however, associates more quickly become involved with clients and, most importantly, are not at the bottom of the totem pole. Associates quickly learn to play quarterback and hand-off menial modeling work and research projects to analysts. However, treatment from vice presidents and managing directors doesn't necessarily improve for associates versus analysts, as bankers sometimes care more about the work getting done, and not about the guy or gal working away all night to complete it.

Usually hailing directly from top business schools (sometimes law schools or other grad schools), associates often possess only a summer's worth of experience in corporate finance, so they must start almost from the beginning. Associates who worked as analysts before grad school have a little more experience under their belts. The overall level of business awareness and knowledge a bright MBA has, however, makes a tremendous difference, and associates quickly earn the luxury of more complicated work, client contact, and bigger bonuses.

Associates are at least much better paid than analysts. An \$80,000 salary generally starts them off, and usually bonuses hit \$25,000 and up in the first six months. (At most firms, associates start in August and get their first prorated bonus in January.) Newly minted MBAs cash in on signing bonuses and forgivable loans as well, especially on Wall Street. These can amount to another \$25,000 to \$30,000, depending on the firm, providing total first-year compensation of up to \$150,000 for top firms. Associates beyond their first year begin to rake it in, earning \$250,000 to \$400,000 and up per year, depending on the firm's profitability and other factors.

Vice Presidents

Upon attaining the position of vice president (at most firms, after four or five years as associates), those in corporate finance enter the realm of real bankers. The lifestyle becomes more manageable once the associate moves up to VP. On the plus side, weekends sometimes free up, all-nighters drop off, and the general level of responsibility increases – VPs are the ones telling associates and analysts to stay late on Friday nights. In the office, VPs manage the financial modeling/pitchbook production process in the office. On the negative side, the wear and tear of traveling that accompanies VP-level banker responsibilities can be difficult. As a VP, one begins to handle client relationships, and thus spends much more time on the road than analysts or associates. You can look forward to being on the road at least two to four days per week, usually visiting clients and potential clients. Don't forget about closing dinners (to celebrate completed deals), industry conferences (to drum up potential business and build a solid network within their industry), and, of course, roadshows. VPs are perfect candidates to baby-sit company management on roadshows.

Directors/Managing Directors

Directors and managing directors (MDs) are the major players in corporate finance. Typically, MDs set their own hours, deal with clients at the highest level, and disappear whenever a drafting session takes place, leaving this grueling work to others. (We will examine these drafting sessions in depth later.) MDs mostly develop and cultivate relationships with various companies in order to generate corporate finance business for the firm. MDs typically focus on one industry, develop relationships among management teams of companies in the industry and visit these companies on a regular basis. These visits are aptly called sales calls.

Pay scales for vice presidents and managing directors

The formula for paying bankers varies dramatically from firm to firm. Some adhere to rigid formulas based on how much business a banker brought in, while others pay based on a subjective allocation of corporate finance profits. No matter how compensation is structured, however, when business is slow, bonuses taper off rapidly. For most bankers, typical salaries may range from \$100,000 to \$200,000 per year, but bonuses can be significantly greater. Total packages for VPs on Wall Street often hit over \$500,000 level in the first year – and pay can skyrocket from there.

Top bankers at the MD level might be pulling in bonuses of up to \$1 million or more a year, but slow markets (and hence slow business) can cut that number dramatically. It is important to realize that for the most part, MDs act as relationship managers, and are essentially paid on commission. For top performers, compensation can be almost inconceivable.

Day in the Life: Associate, Corporate Finance

We've asked insiders at leading investment banks to offer us insight into a day in the life of their position. Here's a look at a day of an associate I-banker at Goldman Sachs.

- 8:15 a.m.** Arrive at 85 Broad Street. (Show Goldman ID card to get past the surly elevator guards).
- 8:25 a.m.** Arrive on 17th Floor. Use "blue card" to get past floor lobby. ("Don't ever forget your blue card. Goldman has tight security and you won't be able to get around the building all day.")
- 8:45 a.m.** Pick up work from Word Processing, review it, make changes.
- 9:00 a.m.** Check voice mail, return phone calls.
- 9:30 a.m.** Eat breakfast; read The Wall Street Journal. ("But don't let a supervisor see you with your paper sprawled across your desk.")
- 10:00 a.m.** Prepare pitchbooks, discuss analysis with members of deal team.
- 12:00 p.m.** Conference call with members of IPO team, including lawyers and client.
- 1:00 p.m.** Eat lunch at desk. ("The Wall Street McDonald's delivers, but it's the most expensive McDonald's in New York City; Goldman's cafeteria is cheaper, but you have to endure the shop talk.")
- 2:00 p.m.** Work on restructuring case studies; make several document requests from Goldman library.
- 3:00 p.m.** Start to prepare analysis; order additional data from DRG (Data Resources Group).
- 5:00 p.m.** Check in with vice presidents and heads of deal teams on status of work.
- 6:00 p.m.** Go to gym for an abbreviated workout.
- 6:45 p.m.** Dinner. ("Dinner is free in the IBD cafeteria, but avoid it. Wall Street has pretty limited food options, so for a quick meal it's the Indian place across the street that's open 24 hours.")
- 8:00 p.m.** Meet with VP again. ("You'll probably get more work thrown at you before he leaves.")
- 9:45 p.m.** Try to make FedEx cutoff. Drop off pitchbook to Document Processing on 20th Floor. ("You have to call ahead and warn them if you have a last-minute job or you're screwed.")
- 10:00 p.m.** Order in food again. ("It's unlikely that there will be any room left in your meal allowance – but we usually order in a group and add extra names to bypass the limit.")
- 11:00 p.m.** Leave for home. ("Call for a car service. Enjoy your nightly 'meal on wheels' on the way home.")

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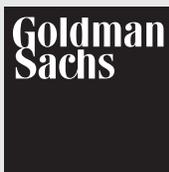
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Investment Management

How many industries can you think of that impact households all over the world? Very few. That is one of the many exciting aspects of the asset management industry – more people than ever before are planning for their future financial needs, and as a result, the industry is more visible and important than ever.

Investment management vs. asset management

A quick note about the terms investment management and asset management: these terms are often used interchangeably. They refer to the same practice – the professional management of assets through investment. Investment management is used a bit more often when referring to the activity or career (i.e., “I’m an investment manager” or “That firm is gaining a lot of business in investment management”), whereas “asset management” is used more with reference to the industry itself (i.e., “The asset management industry”).

More stability

Because of the stability of cash flows generated by the industry, investment management provides a relatively stable career when compared to some other financial services positions (most notably investment banking). Investment management firms are generally paid a set fee as a percentage of assets under management. (The fee structure varies, and sometimes is both an asset-centered fee plus a performance fee, especially for institutional investors.) Still, even when investment management fees involve a performance incentive, the business is much less cyclical than cousins like investment banking. Banking fees depend on transactions. When banking activities such as IPOs and M&A transactions dry up, so do fees for investment banks, which translates into layoffs of bankers. In contrast, assets are quite simply always being invested.

History

To better understand why asset management has become such a critical component of the broader financial services industry, we must first become acquainted with its formation and history.

The beginnings of a separate industry

While the informal process of managing money has been around since the beginning of the 20th century, the industry did not begin to mature until the early 1970’s. Prior to that time, investment management was completely relationship-based. Assignments to manage assets grew out of relationships that banks and insurance companies already had with institutions – primarily companies or municipal organizations with employee pension funds – that had funds to invest. (A pension fund is set up as an employee benefit. Employers commit to a certain level of payment to retired employees each year and must manage their funds to meet these obligations. Organizations with large pools of assets to invest are called institutional investors.)

These asset managers were chosen in an unstructured way – assignments grew organically out of pre-existing relationships, rather than through a formal request for proposal and bidding process. The actual practice of investment management was also unstructured. At the time, asset managers might simply pick 50 stocks they thought were good investments – there was not nearly as much analysis on managing risk or organizing a fund around a specific category or style. (Examples of different investment categories include small cap stocks and large cap stocks. We will explore the different investment categories and styles in a later chapter.) Finally, the assets that were managed at the time were primarily pension funds. Mutual funds had yet to become broadly popular.

ERISA, 401(k) plans and specialist firms

The two catalysts for change in the industry were: 1) the broad realization that demographic trends would cause the U.S. government's retirement system (Social Security) to be underfunded, which made individuals more concerned with their retirement savings, and 2) the creation of ERISA (the Employment Retirement Income Security Act) in 1974, which gave employees incentives to save for retirement privately through 401(k) plans. (401(k) plans allow employees to save pre-tax earnings for their retirement.) These elements prompted an increased focus on long-term savings by individual investors and the formation of what can be described as a private pension fund market.

These fundamental changes created the opportunity for professional groups of money managers to form “specialist” firms to manage individual and institutional assets. Throughout the 1970s and early 1980s, these small firms specialized in one or two investment styles (for example, core equities or fixed income investing).

During this period, the investment industry became fragmented and competitive. This competition added extra dimensions to the asset management industry. Investment skills, of course, remained critical. However, relationship building and the professional presentation of money management teams also began to become significant.

The rise of the mutual fund

In the early to mid 1980s, driven by the ERISA laws, the mutual fund came into vogue. While mutual funds had been around for decades, they were only used by financially sophisticated investors who paid a lot of attention to their investments. However, investor sophistication increased with the advent of modern portfolio theory (the set of tools developed to quantitatively analyze the management of a portfolio; see sidebar on next page). Asset management firms began heavily marketing mutual funds as a safe and smart investment tool, pitching to individual investors the virtues of diversification and other benefits of investing in mutual funds. With more and more employers shifting retirement savings responsibilities from pension funds to the employees themselves, the 401(k) market grew rapidly. Consequently, consumer demand for new mutual fund products exploded (mutual funds are the preferred choice in most 401(k) portfolios). Many specialists responded by expanding their product offerings and focusing more on the marketing of their new services and capabilities.

Modern Portfolio Theory

Modern Portfolio Theory (MPT) was born in 1952 when University of Chicago economics student Harry Markowitz published his doctoral thesis, “Portfolio Selection,” in the *Journal of Finance*. Markowitz, who won the Nobel Prize in economics in 1990 for his research and its far-reaching effects, provided the framework for what is now known as Modern Portfolio Theory. MPT quantifies the benefits of diversification, looking at how investors create portfolios in order to optimize market risk against expected returns. Markowitz, assuming all investors are risk averse, proposed that investors, when choosing a security to add to their portfolio, should not base their decision on the amount of risk that an individual security has, but rather on how that security contributes to the overall risk of the portfolio. To do this, Markowitz considered how securities move in relation to one another under similar circumstances. This is called “correlation,” which measures how much two securities fluctuate in price relative to each other. Taking all this into account, investors can create “efficient portfolios,” ones with the highest expected returns for a given level of risk.

Consolidation and globalization

The dominant themes of the industry in the 1990s were consolidation and globalization. As many former specialists rapidly expanded, brand recognition and advanced distribution channels (through brokers or other sales vehicles) became key success factors for asset management companies. Massive global commercial and investment banks entered the industry, taking business away from many specialist firms. Also, mutual fund rating agencies such as Lipper (founded in 1973, now a part of Reuters) and Morningstar (founded in Chicago in 1984) increased investor awareness of portfolio performance. These rating agencies publish reports on fund performance and rate funds on scales such as Morningstar’s 4-star rating system.

These factors led to a shakeout period of consolidation. From 1995 to 2001, approximately 150 mergers took place, creating well-established and formidable players such as Capital Group and Citigroup. As opposed to specialist firms, these large financial services firms provide asset management products that run the gamut: mutual funds, pension funds, management for high-net-worth individuals, etc. While many excellent specialist firms continue to operate today, they are not the driving force that they once were.

The Industry Today

Wealth creation in the 1990s has led to even greater demand for money management services today. In the U.S. alone, 2.8 million families have reached millionaire status. Mutual fund demand has continued to increase; as of 2002, there were 8,000 different funds in the market, up from just 3,000 in 1990. In fact, nearly 50 million households invest in mutual funds, with a total worth of \$8.5 trillion, up from only \$340 billion in 1984 and \$1 trillion as recently as 1990.

As the industry has matured, total assets under management (AUMs) in the United States have grown to \$20 trillion. Consolidation and globalization have created a diverse list of leading industry players that range from well-capitalized divisions of investment banks, global insurance companies and multinational commercial banks to independent behemoths, such as Fidelity and Capital Group.

Below is a list of the 20 largest worldwide asset management companies as of 2001. Pay attention to one critical component that may not be immediately obvious: the leading players in the industry are located all over the U.S. Working in the industry, unlike other areas of financial services like investment banking, does not require that you live in a particular region of the country.

Portfolio Management

The portfolio management segment of the firm makes the ultimate investment decision; it's the department that "pulls the trigger." There are three jobs that typically fall under this component of the firm: portfolio managers, associate portfolio managers and portfolio manager assistants. Recent college graduates often fill portfolio assistant positions, while individuals with many years of investment experience hold associate and senior portfolio manager assignments. MBAs are not hired as portfolio managers right out of business school unless they have a ton of experience. Typically, MBAs who wish to pursue a career in portfolio management join investment management firms in their investment research divisions. After two years in research, MBAs will then have a choice: either stay in research or leverage their research experience to move into an associate portfolio manager position.

Senior portfolio manager

Portfolio managers are responsible for establishing an investment strategy, selecting appropriate investments and allocating each investment properly. All day long, portfolio managers are presented with investment ideas from internal buy-side analysts and sell-side analysts from investment banks. It is their job to sift through the relevant information and use their judgment to buy and sell securities. Throughout each day, they read reports, talk to company managers and monitor industry and economic trends looking for the right company and time to invest the portfolio's capital.

The selection of investments must adhere to the style of the portfolio. For instance, a large-capitalization growth manager might be screening for only companies that have a market-capitalization in excess of \$3 billion and earnings growth characteristics that exceed its industry. Therefore, the portfolio manager would not even consider a \$500 million utility stock with a 6 percent dividend yield.

Associate portfolio manager

The associate portfolio manager position requires an MBA, CFA or considerable investment experience. Typically, the job is filled by successful research analysts who have at least 3 to 5 years of post-MBA experience. The job itself is very similar to that of the senior portfolio manager with one main exception: associates interact less with clients than senior managers do. Associate portfolio managers are usually assigned smaller, less sophisticated portfolios to manage or serve as lieutenants on large, complicated portfolios.

The role of the associate portfolio manager differs depending on which segment of the market is being served – mutual fund, institutional or high-net-worth. For instance, associate portfolio managers at many mutual fund firms will either act as the lead investor on a sector fund or as second-in-command on a large diversified fund. Depending on the firm, an associate could also act as a lead on a sector fund and a second-in-command on a diversified fund at the same time. Alternatively, on the institutional side, associate portfolio managers typically apprentice with seasoned portfolio managers on the largest and most complicated portfolios. After they have succeeded in that role, the firm will assign them smaller institutional accounts to manage on their own.

Successful associate portfolio managers will usually be promoted to senior portfolio managers within 2 to 5 years.

Investment Research

The investment research segment is responsible for generating recommendations to portfolio managers on companies and industries that they follow. Similar to the portfolio management segment, there are three potential positions: senior research analyst, investment research associate and investment research assistant. Senior research analysts typically have 2 to 4 years of post-MBA research experience. Research associates are usually recent MBA graduates, while assistants are recent college graduates.

Senior research analyst

Senior research analysts are investment experts in their given industry focus. An equity analyst covers stocks; a fixed income analyst covers bonds.

Their role is to predict the investment potential of the companies in their sector. For instance, take an equity analyst covering computer hardware companies, including Apple Computer. The analyst would be responsible for predicting Apple's future earnings and cash flow, and comparing the fair value of Apple to the expectations of the stock market. To do this, the analyst would build a financial model that included all of the potential variables to derive Apple's earnings and appropriate value (e.g., sales growth and business costs, as well as research and development).

A fixed income analyst focusing on telecom, for example, might be looking at a new high-yield corporate bond issued by Qwest. The main thing the analyst will be looking for is Qwest's ability to pay off that loan – the amount of the bond. The analyst will look at historical cash flows, project future cash flows

and look at other debt obligations that might be more senior to the new bond. This will tell the analyst the likelihood that Qwest will be able to pay off the bond.

Analysts spend a considerable amount of time attending industry conferences, meeting with company management and analyzing industry supply and demand trends to derive business forecasts. Many analysts follow 20 to 30 companies and must be an expert on each.

An important part of a senior research analyst's job is to convey their recommendations to the portfolio management teams. Therefore, senior analysts spend considerable time presenting to portfolio managers and issuing investment reports. Because of this, senior research analysts must be articulate and persuasive in their convictions in order to earn respect within the firm.

Senior research analysts typically have served as investment research associates for 2 to 4 years, post MBA or CFA, before assuming their position. If successful in their role, many senior analysts move into portfolio management roles later in their careers.

Investment research associate

This is the role for most MBAs or those with equivalent experience. Essentially, investment research associates have the same responsibilities as senior research analysts with one exception: associates are given smaller industries to follow. Typically, the industry assigned to an associate is a component of a broader sector that is already being analyzed by a senior analyst. For instance, a research associate might be assigned HMOs and work closely with the senior analyst in charge of insurance companies.

The associate analyst creates investment recommendations in the same manner as a senior analyst. In general, new associates spend several weeks familiarizing themselves with their industry by reading industry papers, journals and textbooks, and attending industry conferences. A large percentage of a research analyst's time is spent monitoring industry and company trends to predict financial results for the company. Therefore, research associates are constantly speaking with management, customers and suppliers to gauge the current status of the company they are analyzing. Armed with financial models and fundamental company analysis, they develop investment recommendations that they distribute to the firm's portfolio managers.

One of the greatest challenges for a new associate is the steepness of the learning curve. Portfolio managers don't have the patience or the luxury to allow an analyst to be uninformed or consistently incorrect. New associates work extremely hard building trust with portfolio managers.

Obviously, financial acumen and quantitative skills are a must for a research associate, but communication skills are also critical. Research associates need to be able to clearly and persuasively communicate their investment recommendations. These associates must also be able to respond to detailed inquiries from portfolio managers that challenge their ideas – which requires a strong tact and a great deal of patience. Furthermore, associates need to be energetic, diligent and intellectually curious.

Research associates are usually promoted to larger industries within 2 to 4 years of joining the firm.

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Management Consulting

What is Consulting?

A giant industry, a moving target

Consulting, in the business context, means the giving of advice for pay. Consultants offer their advice and skill in solving problems, and are hired by companies who need the expertise and outside perspective that consultants possess. Some consulting firms specialize in giving advice on management and strategy, while others are known as technology specialists. Some concentrate on a specific industry area, like financial services or retail, and still others are more like gigantic one-stop shops with divisions that dispense advice on everything from top-level strategy, to choosing training software, to saving money on paper clips.

But consulting firms have one thing in common: they run on the power of their people. The only product consulting firms ultimately have to offer is their ability to make problems go away. As a consultant, you are that problem-solver.

Not the kind of consulting we mean

As a standalone term, “consulting” lacks real meaning. In a sense, everyone’s a consultant. Have you ever been asked by a friend, “Do I look good in orange?” Then you’ve been consulted about your color sense. There are thousands upon thousands of independent consultants who peddle their expertise and advice on everything from retrieving data from computers to cat astrology. There are also fashion consultants, image consultants, and wedding consultants. For the purposes of this section, we are going to use the term “consulting” to refer specifically to management consulting.

Management consulting firms sell business advisory services to the leaders of corporations, governments, and non-profit organizations. Typical concentrations in consulting include strategy, IT, HR, finance, and operations. Types of problems in consulting include pricing, marketing, new product strategy, IT implementation, or government policy. Finally, consulting firms sell services in virtually any industry, such as pharmaceuticals, consumer packaged goods, or energy.

Firms can be organized or broken up according to topic, type of problem, or industry. For example, a firm might focus on strategy problems only, but in virtually any industry. Bain & Company is an example of one such firm. Another firm might focus on a specific industry, but advise on nearly any type of issue. Oliver, Wyman and Company, which focuses on the financial services industry, is an example of this type of firm. Many of the larger firms have a “matrix” organization, with industry practice groups but also functional practice groups. And some firms are extremely specialized. For example, a firm might have only two employees, both focusing solely on competitive analysis in the telecommunications industry. All of these are examples of management consulting.

Caveats about consulting

All this might sound great, but before we go on, we should address some common misconceptions about consulting.

- **Implementation** – You might be thinking, “All consultants do is figure out problems at companies and explain them. Awesome. I’m going to be making great money for doing something really easy.” Unfortunately, that’s not true. Spotting a client’s problems is a mere fraction of the battle. (Most people with a fair amount of common sense and an outsider’s perspective can identify a client’s problems. And in many cases, clients also understand where the problems lie.)

The job of the consultant, therefore, isn’t just about knowing what’s wrong. It’s about figuring out how to make it right. Even finding the solution isn’t the end of the story. Consultants must make sure the solution isn’t too expensive or impractical to implement. (Many consulting firms have what’s called an 80 percent rule: It’s better to put in place a solution that takes care of 80 percent of the problem than to strive for a perfect solution that can’t be put into place.) A corollary to this is the 80/20 rule: 80 percent of a problem can be solved in 20 percent of the time. Consultants must also get buy-in from the clients. Not only does bureaucracy often make implementation tough, but consultants must also convince individual client employees to help them make solutions work. It’s tough to solve problems – and that’s why clients hire consultants.

- **Glamour** – Consulting can indeed be exciting and high profile, but this is the exception, not the rule. Chances are, you won’t be sitting across from the CEO at your next project kick-off, and you probably won’t be staying in four-star hotels in the coolest cities in the world (though both are possible). Depending on the industry and location of your client’s business, your environment might be a mid-range hotel in a small city, and you might be working with the senior vice president of one of the company’s many business units.
- **Prestige** – Consulting is widely thought of as a prestigious career among business circles, particularly MBAs. But you should realize that in contrast to work in investment banking, your work in consulting will probably never get mentioned in *The Wall Street Journal*. Very few consulting firms are publicly recognized for the help they give.

As a result, few people outside of the industry really understand what consulting is. In fact, a running joke about consulting is that no one can explain it, no matter how hard or many times one tries. If you want a job you can explain to your grandmother, consulting isn’t for you. Most “civilians” won’t have heard of your firm – unless it has been involved in a scandal, that is.

- **Income** – The salary looks attractive on paper, but remember, it’s not easy money. Divide your salary over the (large) number of hours, and the pay per hour isn’t much better than other business careers.

So what does a consultant actually do, anyway?

Most “non-consultants” are mystified by the actual job and its day-to-day responsibilities. There are good reasons why this is so. While you’re used to giving advice and solving problems, you may not understand how this translates into a career path. The problem is compounded because consultants tend to use a very

distinctive vocabulary. You may not know what your skill set is, or how not to boil the ocean, or what the heck consultants mean when they talk about helicoptering. In addition, many consulting firms have their own specific philosophies and problem-attacking frameworks, which only raise the level of jargon.

The short answer is that you will be working on projects of varying lengths at varying sites for different clients. What you do will depend on your seniority, experience, phase of the project and your company. If you are a partner, you are selling work most of the time, whereas if you have a recent MBA degree, you are probably overseeing a couple of entry-level consultants doing research. For the most part, we'll describe the job that entry-level and mid-level (MBA or the equivalent) consultants do. Generally, projects follow the pitching/research/analysis/report writing cycle.

Depending where you are in the project lifecycle, here are some of the things you could be doing:

Pitching

- Helping to sell and market the firm (preparing documents and researching prospective clients in preparation for sales calls)
- Helping to write the proposal
- Presenting a sales pitch to a prospective client (usually with PowerPoint, Microsoft's presentation software)

Research

- Performing secondary research on the client and its industry using investment banking reports and other research sources (these include Bloomberg, OneSource, Hoover's Online, Yahoo! News and SEC filings)
- Interviewing the client's customers to gather viewpoints on the company
- Checking your firm's data banks for previous studies that it has done in the industry or with the client, and speaking to the project leads about their insights on the firm
- Facilitating a weekly client team discussion about the client company's business issues

Analysis

- Building Excel discounted cash flow (DCF) and/or other quantitative financial models
- Analyzing the gathered data and the model for insights
- Helping to generate recommendations

Reporting

- Preparing the final presentation (typically a "deck" of PowerPoint slides, though some firms write up longer reports in Microsoft Word format)
- Helping to present the findings and recommendations to the client

Implementation

- Acting as a project manager for the implementation of your strategy, if your firm is typically active during the implementation phase of a project
- Executing the coding, systems integration, and testing of the recommended system, if you work for an IT consulting practice
- Documenting the team's work after the project is over

Administration

- Working on internal company research when your firm has no projects for you. (Being unstaffed is referred to as being "on the beach," a pleasant name for what is often a tedious time.)
- Filling out weekly time tracking and expense reports

Keep in mind that the analysis phase – usually the most interesting part – is probably the shortest part of any assignment. Consultants staffed on projects typically do a lot of research, financial analysis, Excel model building and presentation. You will attend lots of meetings in your quest to find the data, create the process and meet the people who will help you resolve the issues you've been hired to address. And, when you're not staffed, you will spend time "on the beach" doing research on prospective clients and helping with marketing efforts. (It's called "on the beach" because the time when you're not staffed on a paid engagement is usually less frenetic – though not always so!) Consulting firms spend a lot of time acquiring the work, and depending on how the firm is structured or how the economy is doing, you could spend significant amounts of time working on proposals. For you, this usually means lots of research, which is then elucidated on the omnipresent PowerPoint slides.

To some extent, though, the boundaries of the job are virtually limitless. Each project carries with it a new task, a new spreadsheet configuration, a new type of sales conference, or an entirely new way of thinking about business. To top it all off, you often must travel to your work assignment and work long hours in a pressurized environment. It's not easy.

Consulting Skill Sets

Consultants focus their energies in a wide variety of practice areas and industries. Their individual jobs, from a macro level, are as different as one could imagine. While a supply chain consultant advises a client about lead times in their production facility, another consultant is creating a training protocol for a new software package. What could be more different?

Despite the big picture differences, however, consultants' day-to-day skill sets are, by necessity, very similar. (Before we go any further: by skill set, we mean "your desirable attributes and skills that contribute value as a consultant." Skill set is a handy, abbreviated way to refer to same.)

Before we talk about the skill sets, keep in mind that there is a big difference between the job now and the job six to eight years from now, if and when you are a partner. We are going to talk about whether you would like the job now, but you should think about whether this might be a good long-term career for you. Is your goal to see it through to partner? If you would rather have an interesting job for six years, you just

have to know you have the qualities to be a good consultant and manager. To be a partner, you have to be a persuasive salesperson. You will spend nearly 100 percent of your time selling expensive services to companies who don't think they need help. Your pay and job security will depend on your ability to make those sales.

Do you have the following characteristics in your skill set?

- **Do you work well in teams?** Consultants don't work alone. Not only do they frequently brainstorm with other consultants, but they also often work with employees at the client company, or even with consultants from other companies hired by the client. Consultants also frequently attend meetings and interview potential information sources. If you're the sort of person who prefers to work alone in quiet environments, you will not enjoy being a consultant.
- **Do you multi-task well?** Not only can consulting assignments be frenetic, but consultants are often staffed on more than one assignment. Superior organizational skills and a good sense of prioritization are your friends. Would your friends describe you as a really busy person who's involved in a ton of activities, and still able to keep your personal life on track?
- **Speaking of friends, do you like talking to people?** Do you find yourself getting into interesting conversations over lunch and dinner? If you consider yourself a true introvert and find that speaking to people all day saps your energy, you will likely find consulting quite enervating. On the other hand, if you truly relish meetings, talking to experts, explaining your viewpoints, cajoling others to cooperate with you and making impromptu presentations, you've got some valuable talents in your consulting skill set.
- **Did you love school?** Did you really like going to class and doing your homework? There's a high correlation between academic curiosity and enjoyment of consulting.
- **Are you comfortable with math?** Consulting firms don't expect you to be a math professor, but you should be comfortable with figures, as well as commonly used programs like Excel, Access and PowerPoint. If you hate math, you will hate consulting. On a related note, you should also relish and be good at analysis and thinking creatively. Consultants have a term, now infiltrating popular culture, called "out of the box thinking." This means the ability to find solutions that are "outside the box" – not constrained by commonly accepted facts.
- **Are you willing to work 70, even 80 hours a week?** Consultants must fulfill client expectations. If you must work 80 hours a week to meet client expectations, then that will be your fate. If you have commitments outside work, for example, you may find consulting hours difficult. Even if you have no major commitments outside work, understand what such a schedule means to you. Try working from 8 a.m. to 10 p.m. one day. Now imagine doing so five days a week for months on end.
- **Last, but certainly not least, are you willing to travel frequently?** (See the next section for a discussion of travel in consulting.)

Be truthful. If you can't answer most of these points with a resounding "yes," consulting is most likely not for you. The point is not just to get the job, but also to know what you're getting into – and to truly want to be a consultant.

The Traveling Salesman Problem

A lot of people go into the consulting field with the notion that travel is fun. “Traveling four days a week? No problem! My last vacation to Italy was a blast!” However, many soon find the traveling consultant’s life to be a nightmare. Many consultants leave the field solely because of travel requirements.

Here’s what we mean by consulting travel. Different consulting firms have different travel models, but there are two basic ones:

- A number of consulting firms (the larger ones) spend four days on the client site. This means traveling to the destination city Monday morning, spending three nights in a hotel near the client site, and flying home late Thursday night. (This will, of course, vary, depending on client preference and flight times.) The same firms often try to staff “regionally” to reduce flying time for consultants.
- The other popular travel model is to go to the client site “as needed.” This generally means traveling at the beginning of the project for a few days, at the end of the project for the presentation, and a couple of times during the project. There is less regularity and predictability with this travel model, but there is also less overall time on the road.

Here are some variations of these travel modes that pop up frequently:

- International projects involve a longer-term stay on the client site. (Flying consultants to and from the home country every week can get expensive.) For example, the consultant might stay two or three weeks on or near the client site (the client might put you up in a corporate apartment instead of a hotel to save costs) and then go home for a week, repeating the process until the end of the project.
- Then, there is the “local” project that is really a long commute into a suburb, sometimes involving up to two hours in a car. Examples of this include consulting to Motorola (based in not-so-convenient Schaumburg, IL) while living in Chicago, or consulting to a Silicon Valley client while living in San Francisco. In these cases, you might opt to stay at a local hotel after working late, instead of taking the long drive home. This is not very different from non-local travel, and it can be more grueling, due to the car commute.

You need to ask yourself a number of questions to see if you are travel-phobic. For example, when you pack to go on vacation, do you stress about it? Do you always underpack or overpack? Do you hate flying? Do you hate to drive? Do you mind sleeping in hotel rooms for long periods of time? Are you comfortable with the idea of traveling to remote cities and staying there for three or four nights every week for ten weeks? If you’re married, do you mind being away from your spouse (and children if you have them) for up to three nights a week? Does your family mind? Will your spouse understand and not hold it against you if you have to cancel your anniversary dinner because the client wants you to stay a day later? If you and your spouse both travel for work, who will take care of the pets? Does the idea of managing your weekly finances and to-do lists from the road bother you?

If these questions make your stomach churn, look for consulting companies that promise a more stable work environment. For example, if you work in financial consulting and live in New York City, most of

your clients may be local. But because consulting firms don't always have the luxury of choosing their clients, they can't guarantee that you won't travel. Moreover, many large companies build their corporate campus where they can find cost-effective space, often in the suburbs or large corporate parks. (If you absolutely can not travel, some of the largest consulting firms, such as Accenture, have certain business units that can guarantee a non-traveling schedule. Ask.)

Note that travel is common in the consulting field, but not all consultants travel. And not all clients expect you to be on site all the time. It absolutely depends on the firm's travel model, industry, your location, and most importantly, your project.

Day in the Life: Associate Strategy Consultant

Greg Schneider is an associate at the Boston office of a top strategy consulting firm office. He kindly agreed to share a "typical" workday with Vault, noting that no day at any consulting firm can be called typical.

6:15 a.m.: Alarm goes off. I wake up asking myself why I put "run three times per week" into the team charter. I meet another member of the team, and we hobble out for a jog. At least it's warm out – another advantage of having a project in Miami.

7:15 a.m.: Check voice mail. Someone in London wants a copy of my knowledge building document on managing hypergrowth. A co-worker is looking for information about what the partner from my last team is like to work with.

7:30 a.m.: Breakfast with the team. We discuss sports, Letterman, and a morning meeting we have with the client team (not necessarily in that order). We then head out to the client.

9:00 a.m.: Meet with the client team. We've got an important progress review with the CEO next week, so there's a lot going on. We're helping the client to assess the market potential of an emerging technology. Today's meeting concerns what kind of presentation would be most effective, although we have trouble staying off tangents about the various analyses that we've all been working on. The discussion is complicated by the fact that some key data is not yet available. We elect to go with a computer-based slide show and begin the debate on the content.

10:53 a.m.: Check voice mail. The office is looking for an interviewer for the Harvard Business School hell weekend. The partner will be arriving in time for dinner and wants to meet to discuss the progress review. A headhunter looking for a divisional VP. My wife reminding me to mail off the insurance forms.

11:00 a.m.: I depart with my teammate for an interview. We meet with an industry expert (a professor from a local university) to discuss industry trends and in particular what the prospects are for the type of technology we're looking at. As this is the last interview we plan to do, we are able to check many of our hypotheses. The woman is amazing – we luck out and get some data we need. The bad news is, now we have to figure out what it means.

12:28 p.m.: As I walk back in to the client, a division head I've been working with grabs me and we head to lunch. He wanted to discuss an analysis he'd given me some information for, and in the process I get some inter-

esting perspectives about the difficulties in moving the technology into full production and how much it could cost.

1:30 p.m.: I jump on a quick conference call about an internal knowledge building project I'm working on for the marketing practice. I successfully avoid taking on any additional responsibility.

2:04 p.m.: Begin to work through new data. After discussing the plan of attack with the engagement manager, I dive in. It's a very busy afternoon, but the data is great. I get a couple "a-ha"s – always a good feeling.

3:00 p.m.: Short call with someone from Legal to get an update on the patent search.

6:00 p.m.: Team meeting. The engagement manager pulls the team together to check progress on various fronts and debate some issues prior to heading to dinner with the partner. A quick poll determines that Italian food wins – we leave a voice mail with the details.

6:35 p.m.: Call home and check in with the family. Confirm plans for weekend trip to Vermont. Apologize for forgetting to mail the insurance forms.

7:15 p.m.: The team packs up and heads out to dinner. We meet the partner at the restaurant and have a productive (and calorific) meal working through our plans for the progress review, the new data, what's going on with the client team, and other areas of interest. She suggests some additional uses for the new data, adds her take on our debates, and agrees to raise a couple issues with the CFO, whom she's known for years. She takes a copy of our draft presentation to read after dinner.

9:15 p.m.: Return to hotel. Plug in computer and check e-mail, since I hadn't had a chance all day. While I'm logged in, I download two documents I need from the company database, check the Red Sox score, and see how the client's stock did.

10:10 p.m.: Pre-sleep voice mail check. A client from a previous study is looking for one of the appendices, since he lost his copy. The server will be down for an hour tomorrow night.

10:30 p.m.: Watch SportsCenter instead of going right to sleep, as I know I probably should.

Note: Had this been an in-town study, the following things would have been different: I wouldn't have run with another member of my team, and we'd have substituted a conference call for the dinner meeting, so we could go home instead. Also, I probably wouldn't have watched SportsCenter.

The information in this section was excerpted from the *Vault Career Guide to Consulting*. Get the inside scoop on consulting careers with Vault:

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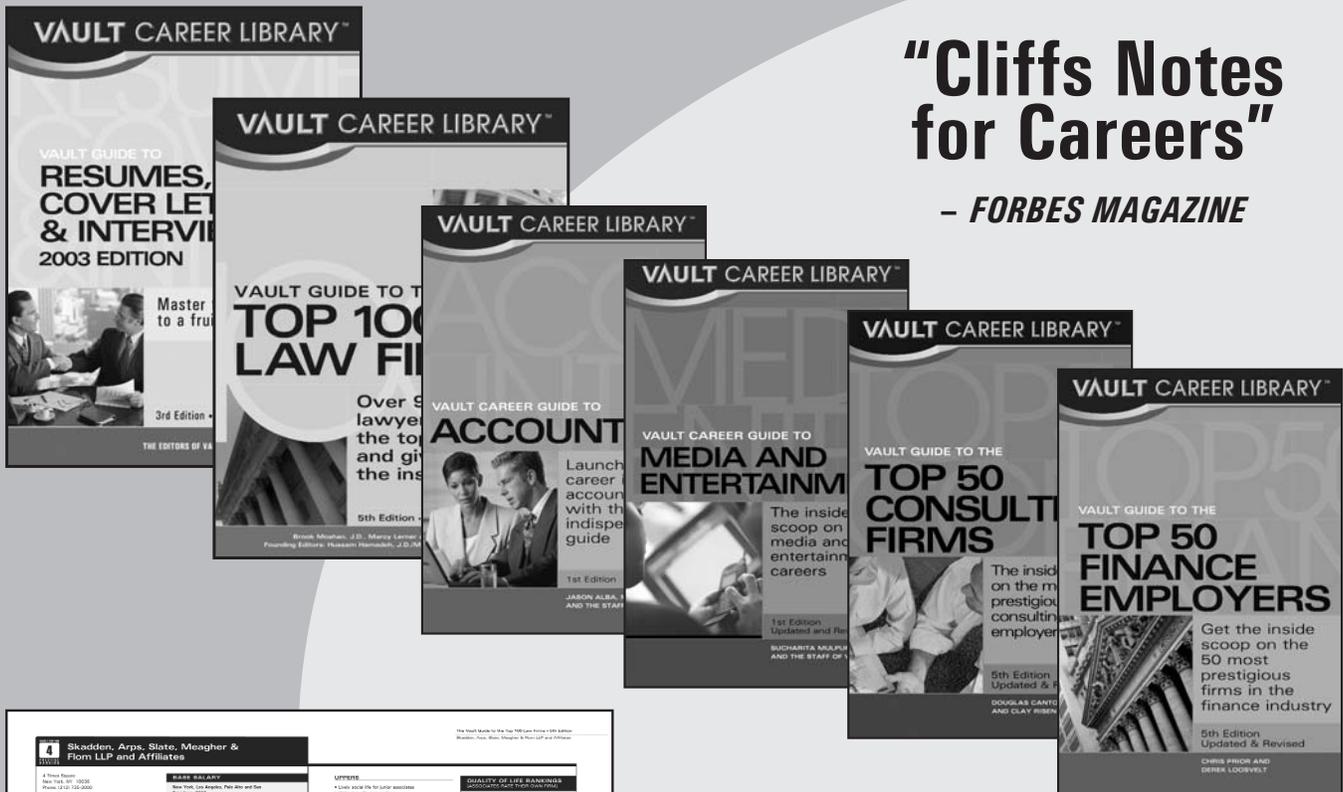
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Manufacturing

The Engine Driving the Economy

The manufacturing industry

America's manufacturing industry is a powerful engine driving the nation's economy, making up roughly one-fifth of all U.S. economic activity. Between 1992 and 2000, the industry contributed 22 percent of the country's economic growth, or 28 percent with the addition of software production. It's a major force in employment, as well, comprising 12 percent of all jobs. Through its "multiplier effect," manufacturing actually creates economic output in other industries by using intermediate goods and services in its production process – so that every \$1 of a manufacturing product sold to a final user creates an additional \$1.43 in intermediate economic output, according to the Department of Commerce. The U.S. continues to lead the world in many manufacturing sectors, including automobiles, aerospace, steel, telecommunications and consumer goods, and it also maintains the lead in exports of manufactured products. It's no wonder economists pay such close attention to U.S. manufacturing stats and figures – and no wonder that the pronounced slump in the sector since 2000 has been cause for concern.

The big slump

Beginning in 2000, following a boom that spanned most of the 20th century, manufacturing was hit by a recession that eventually led to the loss of more than 2.7 million jobs, or about 17 percent of the sector's workforce. A number of circumstances led to the slump, including high interest rates, increased natural gas prices, and a strong U.S. dollar that weakened the export trade, according to the National Association of Manufacturers (NAM). Recovery began in 2003, though at the slowest pace recorded since the Federal Reserve started keeping track of such things in 1919. And though overall hiring came back, the industry, which had seen job losses each month for more than three years in a row, was still on shaky ground.

More efficiency, fewer jobs

Like many industries, manufacturing has seen a steady push toward technologies that promise greater efficiency and productivity – while reducing the need for manpower. So even as employment figures edged up in early 2004, manufacturing giants like 3M continued to make cuts. The Bureau of Labor Statistics (BLS) predicts total manufacturing employment will decrease by 1 percent through 2012. It's likely that many of the factory jobs lost since the beginning of the century will never return, signaling a fundamental shift in the industry as a whole.

A shift also has taken place in the makeup of the industry. According to the NAM, chemicals, industrial machinery and equipment, and electronics are the three largest manufacturing sectors today, making up a third of the industry's gross domestic product. Fifty years ago, the three largest sectors in manufacturing were food, primary metals and motor vehicles.

The auto sector

Still, manufacturing is closely tied to the production of automobiles – indeed, an assembly line in Michigan may be what many people think of when they hear the term “manufacturing.” In 2002, the latest year for which BLS data is available, the auto sector accounted for about 1.2 million jobs. For the most part, the U.S. was able to ward off the competitive threat from Japanese companies that surfaced in the early 1990s by improving their quality and product lines domestically (a bullish environment on Wall Street and economic weakness in Asia also helped). The so-called “Big Three” automakers – General Motors, DaimlerChrysler and Ford – had about 57 percent of the domestic passenger car market in 2000. But since big-ticket purchases like cars are closely tied to consumer confidence, the terrorist attacks of September 11 and the resulting economic turmoil forced car makers to offer customers heavy discounts (such as the zero-percent financing campaign initiated by GM) and cash-back incentives to keep inventory moving. Capacity also needed to be slashed to bring inventories in line with reduced demand, leading to an unhealthy combination of diminished productivity and weak prices. All of this has led to major job cuts, as well as negative ripple effects for related sectors like steel companies.

Though the auto industry has attempted to rebound by revamping cars to meet consumer demand for items like SUVs and, in contrast, fuel-efficient hybrid vehicles, analysts warn that U.S. companies need to look to the east again as the Asian markets improve and manufacturers like Toyota (currently number four in terms of sales) pick up the pace.

Steely resolve

Steel is another traditional mainstay in U.S. manufacturing. Like its manufacturing counterparts, the steel sector recently experienced its worst days since the Depression, with more than 30 U.S. steel companies, including giants like Bethlehem Steel and National Steel, filing for bankruptcy since 2000. But more recently, steel has rebounded, largely due to the lifting of tariffs on steel imports to avoid reprisals from Europe. With efficiency in line, steel producers raised prices by 20 percent in late 2003, and have continued to post strong orders. The sector isn’t slowing down – in fact, the U.S. is actually producing 50 percent more steel today than it did in the early 1980s.

Flying the friendly skies

Aerospace also contributes significantly to U.S. manufacturing. In the commercial sphere, aerospace manufacturing is dominated by Boeing and European rival Airbus. These companies and others, like Lockheed Martin, Northrop Grumman, and Raytheon, also are involved in the production of military aircraft, missiles, and equipment for space. But following 2001’s domestic terrorist attacks, civilian air travel plummeted, and major airlines like United were driven into bankruptcy. Fewer planes were being ordered, leading to massive layoffs in the sector. Though the industry has been bolstered a bit by innovations such as Boeing’s new 7E7 Dreamliner, a fuel-efficient passenger jet that should take to the skies by 2008, total sales for civilian and military planes in 2004 were expected to grow by less than one percent, to \$148 billion – down \$7 billion from 2002, according to the Aerospace Industries Association.

All about chemicals

In the chemical manufacturing sector, high-profile names like BASF, DuPont, and Dow Chemical lead the market. The chemical giants have struggled in recent years, since they're dependent on materials like natural gas and petroleum, which have seen sharp increases in prices. And when prices for energy increase, the chemical manufacturers' customers – such as automakers – cut back on production, weakening demand for chemicals. This all has added up to decreased revenues during the first years of the century, along with an increased drive toward mergers and acquisitions. Notable deals recently have included Dow Chemical's purchase of Union Carbide and Valspar's purchase of Lilly Industries.

Other manufacturing sectors include the forest products industry, estimated at around 7 percent of U.S. manufacturing output. Here again, employment figures have plummeted in recent years due to a convergence of unfavorable economic conditions and changes in demand due to the new "paperless" business environment. Additional heavy manufacturing sectors include plastics, textiles, apparel, rubber and minerals.

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Media and Entertainment

Media and Entertainment MBAs

Not long ago, the creative types in media kept a wary eye on the suits or the bean counters, as the business side of media is known. For years, Wall Street paid little attention to the media biz, an industry it didn't take that seriously. Now, with the rise of the global conglomerates and the aftermath of dot-com meltdown, many media professionals, both on the creative and business sides, are finding it necessary to pursue an MBA.

A new order

“When we started, I had two courses and we had about 40 people in each. Today, in any given semester we have about 400 to 500 students taking one or more classes,” says Al Lieberman, Executive Director of NYU Stern's Entertainment, Media and Technology Initiative. Started in 1996, Stern's EMT program awards a certificate to those students who complete at least nine credits in courses like Entertainment Finance and The Business of Sports Marketing. Over at Fordham Business School, Dr. Everette Dennis, Chair of the Communications and Media Management program has also seen an increased interest over the last couple of years, “We have a relatively small program, but we've had probably a 20 to 25 percent increase in applications.” Fordham's program, believed to be one of the first in the country, began in the mid-80s when Arthur Taylor, a former president of CBS, arrived as the business school's new dean and brought in William Small, another CBS executive, to head up the program.

So why are more and more media professionals interested in an MBA? Of course, many can argue that a wave of dot-com dropouts have decided to hide out in business school in the wake of the collapse of the dot-coms and the weak ad market. Lieberman argues that this is no trend. “It's a fundamental change because the competitive factors that are driving this are not going away. They are intensifying.” He is talking about the shakeup of the media landscape. Deregulation and mergers have given rise to media behemoths.

Technology, without a doubt, has wrought havoc in the industry, forcing firms to rethink their business strategies. That's one reason why Jason Oberlander, a first-year student at Columbia Business School, has finds the business side of media so attractive. “The technology that comes out, it's coming out so quickly that it requires people who are able to adapt and think on their feet and are able to pursue new opportunities in order to be successful and compete effectively.”

Consumers today have a rainbow of media products to choose from. Dennis says the media industry has become an important economic engine and Wall Street has taken notice. “All of the sudden this was an industry to be reckoned with.” Lieberman points to a shift towards cooperation and the building of alliances as well, in an industry that has been notoriously competitive. The current negotiations between CNN and ABC News would have been unheard of just ten years ago. Not only has media seen enormous domestic growth, but abroad as well; says Lieberman, “For every dollar that is generated in the United

States, 15 years ago the most they could look for was maybe 25 cents outside, as an export. Now it is dollar for dollar.”

What does an MBA really offer?

“A few years ago, I would have said, ‘An MBA that would be nice, but it really isn’t necessary.’ Now, I think an MBA, or at least some exposure to business practices, is probably essential,” says Dennis. He cites a growing need for better understanding of market research, audiences, how to manage change and the cash position of a company. In the mid-80s, Lieberman started a marketing firm focused on entertainment and media. At the time, he couldn’t find enough qualified candidates to keep pace with the growth of the firm. He ended up recruiting people right out of one of the courses he was teaching at NYU. “I taught this course that I created, called The Marketing of Entertainment Industries at the NYU School of Continuing Education. Out of the 40 or 45 adults that would come in from all kinds of industries to learn about this, I’d pick one or two that were the best and offer them jobs.”

Oberland left Showtime as a Communications Manager in Sports and Event Programming, but felt an MBA was the only way to increase his chances for advancement. “I felt that doing the transition within the company would have been difficult. I certainly would have had to take a significant step down in title and in compensation.” Dennis concurs that an MBA is increasingly becoming a requirement for management in media companies. “I think people on the creative side are not going to move into major management and executive roles unless they either get this kind of background and experience on their own in some way, or they go to a business school and get it where it is taught systematically.”

Bridging the gap

“One of the biggest problems was the business people who stepped into this world of creativity, didn’t understand the creative product, didn’t understand how it made money, didn’t understand how to apply the basic strategic thinking, therefore there was a huge disconnect,” says Lieberman. It takes two to tango, and the creative side has also contributed to the disconnect. Fordham, recognizing the interest by some creative folks to bridge this gap, will be launching a new MS program soon, “It’s really tailored to the people from the creative side who do need to know and understand more about business.” Stern is also helping the business types better understand the creative process by encouraging Stern students to take courses in filmmaking at the Tisch School of the Arts. “They’re not going to make films, but at least they understand the skills, so they don’t come on a set and make complete idiots of themselves.” At the end of the day, Oberland argues that you need the overall package to get ahead. “I think someone who balances the creative skills with business skills is the most suitable person to run a business from a general management standpoint.”

Media Business Positions

Strategic planning

Strategic planning groups are small groups of about five to 40 professionals that serve as in-house consulting and investment banking arms. Not coincidentally, most employees are ex-consultants and bankers. Strategists are involved in valuation and negotiation decisions for acquisitions, business plans for new ventures, the expansion of the current business lines (and sometimes creating new ones), forward-looking financial plans to provide budgeting and overall prognosis for the health of all divisions of the company, and any other high-level issues that the company as a whole may be facing.

Because these projects affect the overall health of the company, meetings are often power sessions in the corporate dining room or top-floor board rooms with the company's senior executives, including the CEO, COO and CFO. While exposure to these individuals is one of the perks of this position, the jobs also tend to be incredibly challenging and taxing, as inordinate amounts of background data, research and information are synthesized and spun into a story prior to the presentation of findings. This group's job is all the more challenging, given that the recommendations that strategic planning groups deliver must necessarily be at odds with decisions that have already been made. Strategic planners, after all, are constantly trying to maximize the returns on the company's capital, which means analyzing and dismissing many current projects.

This function is also sometimes called corporate development, business development or in-house consulting. Because of the frequent exposure to high-level executives, the overall clout of the group and its impact in the major decisions of media conglomerates, these tend to be highly sought-after jobs, mostly filled by top-notch MBAs.

Corporate finance

Corporate finance is a sister group to strategic planning. Corporate financiers are the people who work in concert with investment bankers (or in lieu of them) to price deals, investigate options and plot the course of the company's growth through acquisitions of other companies.

Nearly all the major entertainment companies have grown through major acquisitions in the past two decades, increasing the importance of their corporate financiers. Corporate finance professionals investigate acquisition opportunities, gather competitive intelligence on other companies, determine synergies and negotiate deals. Likewise, they also divest businesses that may be undesirable in exchange for cash.

Most individuals in the corporate finance function are former investment bankers, accounting wizards and CFOs-to-be who bring their expertise in finance and public company performance to the entertainment industry.

Corporate marketing

Corporate marketing assesses consumer reaction to new projects, initiatives and endeavors. Often these groups are direct reports of business units (where each division has its own marketing group), but there are also many cases in which these groups are centralized under corporate and provide their services on an as-needed basis. The benefit of centralized marketing is that it enables the sharing of data across the company since the information is compiled by one group that can then spread the information. It also provides leverage with outside vendors (advertising agencies, media placement agencies, market research firms) when negotiating fees: the more money a company plans on spending with one deal, the better its negotiating position when choosing among competing agencies.

Corporate marketing encompasses many objectives:

- Market research and the execution of both quantitative and qualitative research
- The management of outside vendors who oversee new software, focus groups or large research studies
- Determining revenue projections for new products
- Soliciting consumer feedback on new and existing products
- Creating pricing models
- Estimating market penetration and rollout strategies
- Authoring marketing plans
- Supervising advertising and direct mail
- Overseeing overall brand equity and elements of brand differentiation like logo and identity
- Overseeing product-specific public relations efforts that drive coverage in the media

Corporate marketers often have an extensive background with advertising agencies or marketing consultancy firms.

Corporate public relations

For years, corporate PR was considered to be exclusively for damage control during events like the Exxon Valdez or the Tylenol cyanide scare. Whenever a CEO had problems with the press, the white knights of corporate PR came to the rescue to help avert a worse catastrophe. Corporate PR groups still perform this function. However, the work of corporate PR groups is much broader than just handling crisis management. Corporate PR groups now manage corporate spokespersons, serve as experts on media training and public appearances and coach CEOs as they prepare for media appearances and event marketing.

The corporate PR group is also known for initiating major press coverage in industry and business trade publications, as well as corporate-focused articles in general interest magazines like Time, Newsweek or Vanity Fair. PR professionals also develop relationships with government officials and lobbying groups that may have influence over legislation affecting the company's growth and development. Often, this group works with outside public relations agencies like Edelman Worldwide, Bozell or Hill & Knowlton.

Internet strategy

As content becomes increasingly commoditized due to the fact that so much on the Internet is free, there are challenges in protecting the hallowed material that entertainment companies create. While studios would love to use the Internet to hoard their content and prevent anyone else from distributing and profiting from it (sort of a preemptive strike against companies like Napster), the Internet is also an incredibly seductive resource for marketing, mainly because information can be communicated broadly and cheaply – much more inexpensively than TV commercials, billboards and bus shelters. The popularity of The Blair Witch Project, a surprise hit, was partially attributed to a very effective web site.

This tension (to promote our properties or protect them?) feeds the very complex and critical role that Internet strategy plays in the growth of media and entertainment companies. Because of the constantly evolving and still uncertain nature of the business, there are hundreds of individuals at nearly all major entertainment companies, tracking evolving technologies, coding pages, maintaining fresh web site content and otherwise marketing via the Web. Media companies with Internet strategy groups include Walt Disney/ABC and AOL Time Warner.

Real estate development

Real estate development within an entertainment company involves not only theme parks, but also extensions of an entertainment empire's brands, including themed restaurants (Hard Rock Café), sports stadiums, entertainment complexes (Sony Metreon) and other destinations that involve large tracts of land that can both provide steady revenue streams and impress an entertainment-seeking audience. The major entertainment companies often have proprietary lots of their own land that were either part of the company's origin (as Disney does with its land in Florida and Southern California, now managed under the aegis of the Disney Development Corporation), were results of acquisitions or were acquired over time.

As real estate development is its own unique business with special financing rules and its own intrinsic rewards, the field generally attracts individuals from outside the entertainment industry. The most successful individuals in these divisions are those with substantial experience managing vendors, contractors and landscape architects, working with community development offices, leveraging tax benefits and executing visionary blueprints. Real estate development is a particularly exciting division for individuals wishing to combine interests in the hospitality industry, finance and real estate.

Our Survey Says: Lifestyle and Pay

Hours

Like so many industries, there is a work-life tradeoff that comes in the entertainment industry. “There are tons of tradeoffs,” says one longtime employee in the strategic planning group of a studio. “The entertainment industry definitely doesn't come to mind when I think about a balanced lifestyle. It's a rare day I don't put in 12 hours.”

But that's not always the case. There are many individuals that report (mostly outside of strategic planning and other corporate groups) consistently being home by 6. While the career trajectory is slower and the compensation is lower in the "business units" (versus the "corporate side"), the hours and the requirements are less demanding. There are always exceptions. Says one theme park executive: "Hours are usually 9 to 6, but every year for a few weeks in the spring during our five-year planning process, it's not uncommon for us to put in 12 hours a day, 7 days a week."

One rule of thumb: Corporate jobs that report to the CEO typically face "fire drills" (i.e. urgent deadlines imposed at the last minute) on a regular basis. Jobs that are more predictable (i.e., positions with business units rather than corporate-level positions) generally have more predictable hours.

Pay

"The pay in corporate jobs is usually up there with investment banking and management consulting," reports one former consultant-turned-analyst at a publishing house. The business units, however, are typically known for paying less, both because they are responsible for profit and loss (high salaries come straight out of the topline) and because of the less grueling hours. (For the difference between corporate and business units, see Organizational Chart of Media Companies.)

At the corporate level, beginning-level analysts out of college typically start at around \$40,000, with several thousand dollars in bonus and a 15 percent raise after a year. Managers make at least \$80,000 and directors usually crack six figures. VPs earn in the low \$100k range.

In business units, the pay can be anywhere from 10 to 30 percent lower.

Other perks

Entertainment is attractive partly because of its perks. "Let's face it, I got into the industry hoping to hang out with rock stars," confesses one record industry insider. Employees get discounts on products, invitations to advance screenings of movies and tickets to movie premieres and gala parties. That said, the perks are not nearly as lavish as the expense accounts and freebies that come on the creative side of the business. There are the stories of the business folks who occasionally get free lunches, tickets to movie premieres and celebrity wedding invitations, but these are mostly the result of a person's personal connections.

Another practice, widely considered a perk, is that many within the industry itemize taxes and deduct all their entertainment expenses in the name of the job. "I itemized everything from my stereo to my movie tickets," boasts one corporate finance manager.

Promotions and competition

There is indeed jockeying for certain roles and positions, as there is in any industry, but the business side is not as ugly as the creative side when it comes to competition. Promotion decisions are not based on whether people like you, or on how your last film did, but rather on the body of your professional work.

Even though there is an oversupply of people vying for the available jobs, it is a largely meritocratic industry.

Day in the Life: Strat Planning Executive

While there's no "typical" day in strat planning at a media company, below are some of the most common day-to-day tasks:

- Interfacing with other business units, domestically and abroad, either in calls or in meetings (25%)
- Presentations to the senior executive team on key decisions (25%)
- Presentations from the business units on growth initiatives within other groups (10%)
- Responding to requests from senior management (25%)
- Managing junior team members (15%)

If this sounds murky or unclear, read on for an illustration of the specifics. Overall, the hours are long. There are often stories of many executives who do not have families or children, or often forsake them for their careers.

7:00 a.m.: Arrive at work, make conference calls to Europe to discuss progress on a major new initiative to expand in Europe.

8:00 a.m.: Breakfast meeting with a manager in another business unit, to update one another on work and "keep both ears close to the ground."

9:00 a.m.: Review a subordinate's presentation, assigned last night. The presentation is due early tomorrow for the CEO – revisions must be made with haste.

10:00 a.m.: Return some morning phone calls. Glance at e-mail for anything urgent.

10:30 a.m.: Leave for an off-site meeting to discuss what to do with a waning division in which the top chief just left.

10:45 a.m.: Call my assistant. Have her type up e-mail responses to some new e-mails and send them off on my behalf.

10:55 a.m.: Arrive at off-site meeting. Listen to presentations from key leaders on what to do next.

12:00 p.m.: Depart for lunch meeting with a senior VP at another small entertainment company to propose an acquisition.

1:30 p.m.: Return to office to debrief with CFO on the numbers needed for a 5-year plan.

3:00 p.m.: Answer e-mails, review daily trade publications, The Hollywood Reporter and Daily Variety.

3:45 p.m.: For fun and to build team morale, respond to office pool on what the weekend's box office will be.

3:47 p.m.: Spontaneous meeting with CEO in the hallway – turns out the presentation originally due tomorrow is not that urgent.