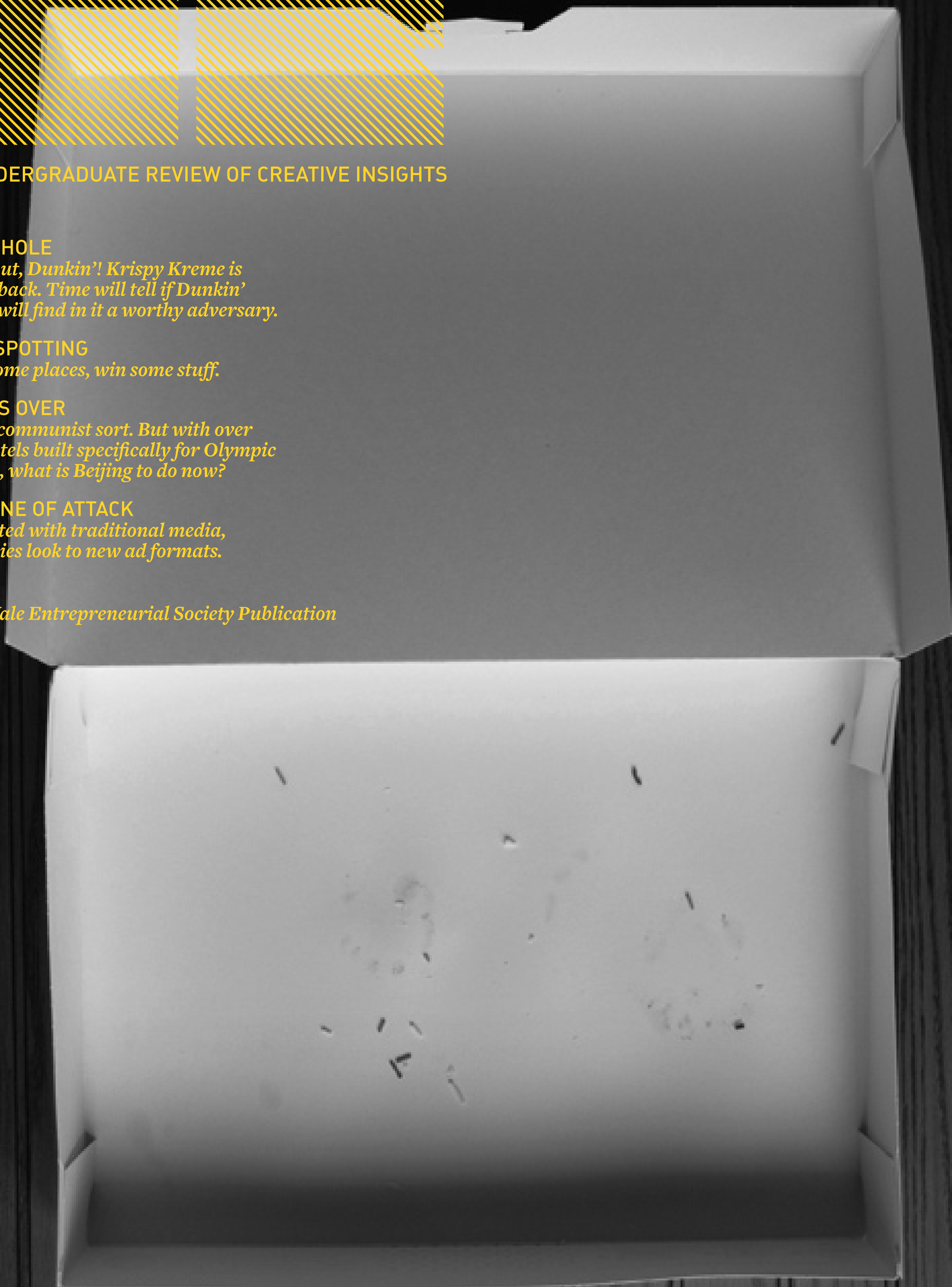
05 | Winter/Spring 2009

YE

AN UNDERGRADUATE REVIEW OF CREATIVE INSIGHTS



IN THE HOLE
Watch out, Dunkin'! Krispy Kreme is coming back. Time will tell if Dunkin' Donuts will find in it a worthy adversary.

PLACESPOTTING
Name some places, win some stuff.

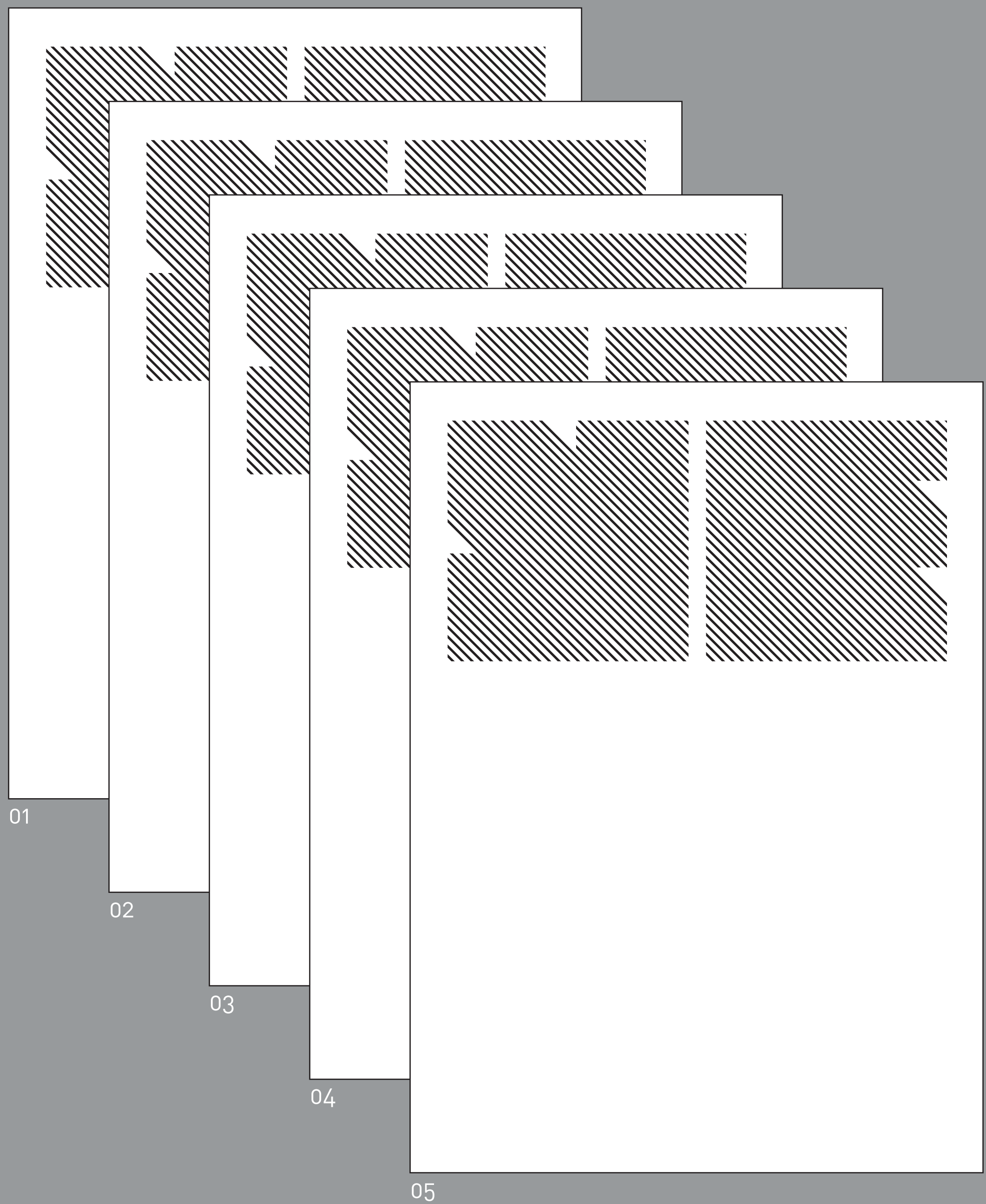
PARTY'S OVER
Not the communist sort. But with over 4,000 hotels built specifically for Olympic tourism, what is Beijing to do now?

NEW LINE OF ATTACK
Frustrated with traditional media, companies look to new ad formats.

YE *is a Yale Entrepreneurial Society Publication*

Celebrating Ten Years This Spring

Find inspiration in all five issues.



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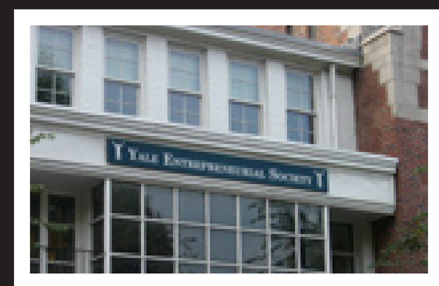

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CONTENTS— WINTER/SPRING 2009, no. 5

PUBLICATION NOTES

YALE ENTREPRENEUR *is a publication of The Yale Entrepreneurial Society. The magazine is printed semesterly by Expedi Printing, 1300 Metropolitan Ave., Brooklyn,* NY *11237.* YE *is written and published solely by an undergraduate staff at Yale University. We are independent of Yale and our views and opinions don't reflect those of the University.*

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OH, HELLO THERE!

FROM THE DESK OF THE MAGAZINE

We proudly present the fifth issue of the *Yale Entrepreneur*. YE is a business, arts, and culture magazine produced by undergraduates at Yale University since 2006. With this printing we open a period of decisive expansion. While previously offered only to the Yale community, the publication will now be distributed more broadly. We are also very pleased to announce the launch of *YE Speaks!*. The web site will be updated regularly with print-edition articles and blog-exclusive pieces.

At YE we are first and foremost students, so in creating our magazines we do what students do best. We rummage the Internet for information, old and new, in blogs and through social networks. We locate and write about ideas that we believe demonstrate creativity of the highest degree and deserve to be recognized. In these pages, YE takes on topics like the current U.S.-Mexico trade relationship, the challenges facing women who seek venture capital, and the fall and resurgence of doughnut franchise Krispy Kreme.

For us, entrepreneurship is a lifestyle in which we receive as much joy from the process as the end product. We therefore owe tremendous thanks to the groups and individuals who help make this endeavor possible. This includes the Yale Entrepreneurial Society, whose members have served as a constant source of support as well as inspiration. Any student with an original idea or interest in business is strongly encouraged to contact this promising group of aspiring entrepreneurs. We also would like to thank Donald Green, A. Whitney Griswold Professor of Political Science and Director of the Institution for Social and Policy Studies, for his interest and incredible generosity. Last but certainly not least, we would like to thank the entire YE staff for their tireless devotion to the magazine.

Enjoy the issue.

Sincerely,

Gary Dyal
EDITOR IN CHIEF

Justin Woo
PRESIDENT/CREATIVE DIRECTOR

SMALL TALK—
RANDOM GOOD-TO-KNOW FACTS

DO YOU CHACHA?

Real people looking for real answers

Most of us have experienced the frustration of having a burning question left unanswered because we are away from the Internet. Maybe we're struggling to recall the name of some obscure movie character. Maybe we're arguing with a friend over who won Super Bowl XII. For those of those without iPhones or Blackberries, a company known as ChaCha has launched a cheaper solution to this common problem. Their system functions as a text-message based answering service. All you do is text a question to 242242 (chacha) and within minutes an answer is sent back in reply. ChaCha employs "guides" who work from their own computer, logged into the ChaCha system. The guides are sent questions and essentially serve as middlemen, looking up the answer for you from their own computer. Questions are even routed to guides knowledgeable in the subject of the question, and automated responses are available for stocks and weather.

The only charge for the service is the basic text-messaging fee from your phone service provider.

How does the company make money? Texting this question to ChaCha yields the automated answer, "ChaCha earns revenue from advertising on its website and through its strategic partnerships." While original answers did not include any form of advertising, users now receive a text message of an ad prior to the response to their question. The "strategic partnerships" may include making deals with telephone companies to replace current 411 services. With its high prices (about $1.50 on most cell phones), 411 assistance represents a lucrative revenue stream for many telecom companies. ChaCha's rapidly growing, completely free alternative might afford them the opportunity to strike a lucrative bargain with phone providers in the near future.

—*BA*

WWW.MUJI.COM/US

AMERICA, MEET JAPANESE MINIMALIST PORN

An award-winning household products retailer from Japan gets an American fan base.

MUJI, a derivative of *Mujirushi Ryohin* (literally translated into English as 'No Brand Quality Goods'), began as a product brand of the Japanese supermarket giant The Seiyu. Since the opening of a MUJI-only store in Japan in 1983, it has emphasized obsessive minimalism (which critics liken to 'porn'), environmental responsibility, no-frills packaging and plainly yet elegantly designed products. With over 181 retail locations in Europe and Asia, MUJI has gained a cult following. Shortly after the completion of the New York Times Building in New York, MUJI opened one of its first U.S. stores. With more soon to come, the company hopes to spread the 'MUJI way of life.' They're even looking into housing construction. —*JW*

UNLOADING STUFF AND THINGS

As the economy crumbles, pawn shops across the country thrive.

As the economy stirs, shakes, and crumbles in the wake of the financial crisis, there is one industry that is benefiting immensely from the tanking markets. Pawn shops—the last resort stop of many desperate for cash—are experiencing a boom of business and prosperity even as other industries fall apart.

People's Pawn in Springfield MA, reports 200 customers a day; Bend Pawn Co. in Oregon experienced a 30 percent increase in customers between September and October; Estate Jewelry and Pawn in Fort Myers even received a gold medal from a 2008 Olympic medalist.

During pressing financial times, pawn shops become a popular destination for those seeking quick access to cash. Apart from an item to leave as collateral and enough credibility to gain the pawn broker's trust, there is little to nothing required to take a loan from one of these establishments.

These lax standards come at a price: pawn shops have much higher interest rates than other types of loans, often charging as much as 20 percent. This, however, has not discouraged those in need of money. "We've been on a continuous uphill run for a number of months," said Dough Robinson of Crown City Loan to the *LA Times*, "and I don't see anything that will stop it." —*LJ*

PREDICTION MARKETS

Forget Wall Street—'stocks' traded in prediction markets can yield some pretty satisfying payoffs.

Centrist Messenger, a small political advertising company, is willing to guarantee you a full refund on your ad purchase if the candidate or cause of your choice does not ultimately win. How? By engaging in one of the most novel and creative ways of lowering risk—hedging on prediction markets.

A prediction market is an alternative stock market where the "stocks" traded represent events—like Osama Bin Laden being captured or neutralized in the next year, the U.S. entering a recession by February, or *Dark Knight* winning an Oscar. Each contract pays out $10 if the event occurs, and $0 if it does not. The price charged for the contract (between $0 and $10) represents the perceived likelihood that the event will take place.

Prediction markets are particularly popular before major events like presidential elections. Intrade, a large prediction market, saw the price of its Obama contract fall by up to $1 every eight hours or so for a couple days in early October. Since this sudden price drop came at a time when the Obama campaign was at its strongest, Intrade was concerned about political tampering and decided to launch an inquiry.

The company found that large institutional clients were buying McCain contracts to hedge political risks. Intrade keeps its customers private, but the defense and alternative energy sectors come to mind as areas that would benefit heavily from one candidate's election over the other.

Centrist Messenger was one of these firms. Hedging on Intrade allowed them to keep their refunds promise and still balance their profits regardless of the winning candidate. Others thought to have contributed to the unusual price swings include Las Vegas bookies concerned about the massive imbalance of bets made on Obama over McCain and very high-income individuals worried about an increase of the highest marginal income tax rate. —*GDE*

SEEING BLACK

Chinese computer users hit another roadblock. No, this time it's not government censorship.

Microsoft Corp. has had enough of Chinese pirated Windows software. According to the trade group, Business Software Alliance, more than 80% of personal computer software in China last year was pirated. On October 21, Microsoft adopted Windows Genuine Advantage (WGA), a new anti-piracy tool that targets computers using unauthorized copies of Windows XP Professional and Office and blackens their screens every hour, nonstop. Although only 5% of users of pirated software have reported getting the "Black Screen of Death", this tactic has set off a wave of protest among Chinese consumers, who claim that these measures allow Microsoft to hack not just pirates, but all of its users. Some have even argued that it threatens national security. Most online polls, however, show that consumers are more outraged over the attack on their freedom to use knockoff products. Users have little moral qualms when versions of Microsoft Office, which normally sell for $140, can instead be downloaded for $5-10. Considering the rate at which Chinese hackers are working against WGA, Microsoft's valiant attempts to "educate" its users seem likely to turn up short. —*MKN*

PARTY'S OVER

Not the Communist sort. But with over 4,000 hotels built specifically for Olympic tourism, what is Beijing to do now?

In preparation for the 2008 Summer Olympics, China's tourism industry launched a massive construction project to accommodate the crowds expected to visit Beijing for the games. According to the official tourism bureau, by the start of the games visitors to the Chinese capital could stay in one of 5,700 hotels (an increase of 20% from the previous year) and choose from over 40,000 restaurants (more than New York, London, and Paris *combined*). While the Olympic torch was extinguished months ago, Beijing's tourism board is now working to keep these hotels and restaurants in business by maintaining the city's appeal as a tourist destination. Officials hope that even without world-class athletes the 1,135-hectare Olympic Park will continue to draw visitors. The Water Cube has started hosting musical fountain shows, charging tourists CNY 200 ($30) for admission. Early signs appear promising; the latest Beijing news reports state that the 20,000 tickets allotted daily are routinely sold out. According to a *China Daily* article, the local government is now working to transform the Water Cube into a themed water park, set to open in 2010. —*JC*

SAVE ME, GOOGLE TEXT!

For those lost on city streets or worried about missing their flight, Google Text can provide quick answers without having to wait for some yahoo to look up information for you (see ChaCha, p.9). Text your query to '466453' and receive a response instantaneously. The service uses a series of keywords to provide information on things like directions, product prices, weather, and flight times. Unlike ChaCha, however, Google Text can't tell you the name of Princess Jasmine's pet tiger.

FOR MORE INFORMATION AND A LIST OF QUERY KEYWORDS
WWW.GOOGLE.COM/MOBILE/DEFAULT/SMS

WIN THIS!—

THESE **MUJI FREECUT RAINCOATS** ARE YOURS IF YOU CAN NAME AND LOCATE THE PLACES. UNIQUE AND MADE-TO-MEASURE. JUST CUT ALONG THE DOTTED LINE FOR A CUSTOM FIT. RETAIL $12. CLEAR WITH TWO SIZES TO GIVE: S AND M. FOR MORE INFORMATION, WWW.YESPEAKS.COM

WHERE IN THE WORLD?

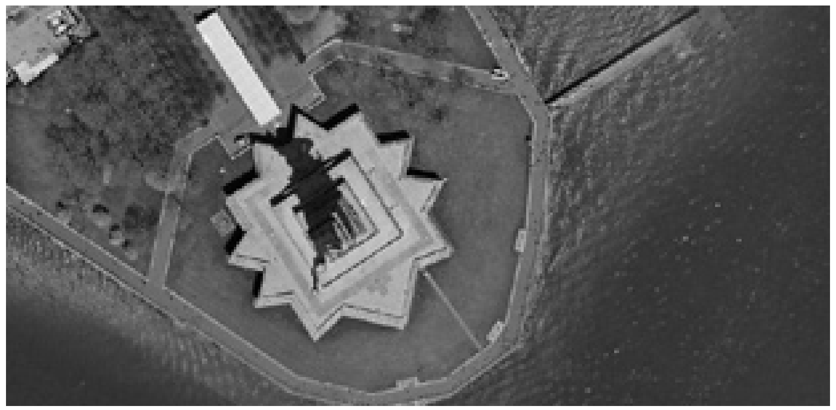
User-created map puzzles give new use for Google Maps.

A website called Placespotting.com has found an interesting new use for Google Earth. Visitors to the site are presented with a "puzzle" in which they must use the program to narrow down from a map of the entire Earth to a satellite image of a certain place. The puzzle is solved when the latitude, longitude and zoom level of your map match that of the image given in the puzzle. In order to aid in the process, clues are provided on where the image might be located. With the clues "Fifa World Cup '06" and "New Railway Station," it took about five minutes to find the image of the impressive Hauptbanhof in Berlin, which was completed in time to handle the enormous number of soccer spectators drawn to the city two summers ago. Users are also able to use the site to create their own puzzles and share them with friends. —*GDY*

Hints

A Victorian gothic gateway to the Union.
B Seriously, this is easy.
C Holy figure on a ragged head.

A



B

The Rules

In our print version of Placespotting, name and locate the three satellite images. Send a screenshot with the correct map zoom level to yemagazine@gmail.com by 02 April 2009. The first contestant to locate all three places wins this issue's prize, a MUJI Freecut Rain Coat (retail $12, Muji.com).

C

Frustrated with traditional media, companies look to new ad formats to reach consumers. TiVo leads the way (so don't let its kooky logo fool you).

A

B

NEW LINE OF ATTACK

Writer *Janice Chen*

In 1939 a *New York Times* article predicted that "television will never be a serious competitor of [radio] broadcasting." The reason? To watch television, the piece explained, "people must sit and keep their eyes glued to the screen…the average American family hasn't time for it." Seventy years later, the pervasiveness of televised programming and the relegation of radio to our cars stereo systems demonstrate that article's lack of foresight. Recognizing this trend, companies have altered their advertising strategies to keep up with TV's rise. According to a February 2006 report by TNS Media Intelligence, annual expenditure on TV advertising has topped $53.8 billion—five times that spent on radio broadcast ads.

The rapid evolution of entertainment and the need for advertisers to adjust was clear in the transition from radio broadcasting to television. Now, nearly a decade into the 21st century, we are in the midst of another shift, spearheaded by the spread of TiVo and the proliferation of high-speed internet. With these technologies, the entertainment industry has successfully met consumers' demands for flexible entertainment options. In order to survive this transformation, advertisers have once again been forced to find new, creative ways to get their message across to increasingly impatient consumers.

At the forefront of the entertainment industry revolution is TiVo, the poster child of a new breed of Digital Video Recording (DVR) providers. Since these devices enable consumers to record shows and then

C

A The TiVo-Amazon interface

B Amazon-on-Demand logomark

C all-UC does not host videos of popular shows itself. The site links users to other video hosts like YouTube.

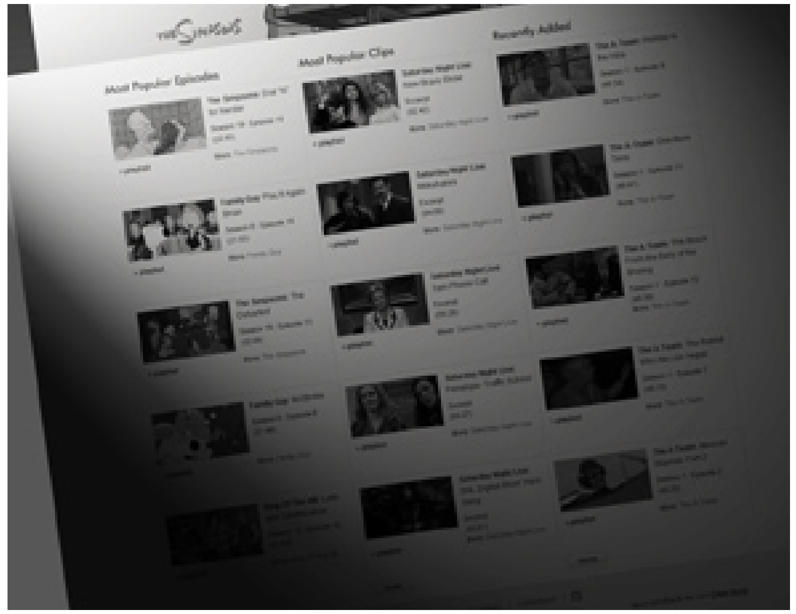
fast-forward through commercials, advertisers now face an audience no longer shackled to predetermined schedules and 30 second ads. According to Nielsen Media Research, the DVR industry is now estimated to extend services to 25% of American households.

Considering DVR's increasing market presence, adapting to this technology is no longer optional for companies who hope to have their ads reach potential consumers. Rather than resist the trend, many businesses and advertisers have embraced the new technology and kick-started efforts to capitalize on the unique capabilities of DVR—especially its interactivity—in order to continue to connect with viewers. As part of a promotional campaign in 2006, KFC engrained a secret message in an ad that could only be seen if played in slow motion—a direct appeal to the DVR market. The KFC advertisement, which rewarded viewers with a coupon for a free sandwich, became an overnight sensation. While customers were technically capable of simply finding out the code from a friend, the publicity generated by these groundbreaking ads was just as important to the company as the actual number of viewers. KFC's website traffic increased 40% while the advertisement was in circulation.

Earlier this year, TiVo and Amazon launched a partnership designed to further exploit DVR technology. Since July, advertisers have been able to offer their products for sale through Amazon while viewers watch their shows. This new "produce purchase" feature gives consumers the convenience of buying products right as they are advertised without disrupting what they are watching. Through TiVo, users can even save their intended purchases in their Amazon account and return to the site later to complete the transaction. Evan Young, TiVo's director of broadband services, believes that the interactivity that his company is providing will open "a whole new dimension to the TV viewing experience."

DVRs, however, are not the only threat to traditional broadcasting and advertising. A number of viewers, particularly those with busy schedules, now prefer to watch their favorite shows online in order to avoid the constraints of traditional program scheduling. To meet this demand, a number of pirate sites such as all-UC and Tvlinks began to offer streaming episodes of popular shows such as *The Office* and *Heroes*. In addition to being illegal, however, many of these sites are unreliable and offered content with poor video and sound quality. As an alternative, companies such as Hulu and NBC now present many programs on the Internet, often immediately after the shows have aired on regular TV. Some have even developed web-specific content called "webisodes," which are available to viewers between shows and seasons.

Not to be left behind, advertisers are learning to capitalize on this new format. Nissan, for example, launched a massive online ad campaign through the NBC website to sell the Nissan Rogue, its new crossover automobile. Whenever viewers watch an episode of the popular *Heroes* series on NBC's website, they now encounter Nissan Rogue ads every few minutes. The 30-second commercials are interspersed up to six times throughout the 45-minute runtime of the episodes, and viewers must sit through all of them to finish the show. Pirated episodes may not include any of these commercial interruptions, but viewers often opt for advertisement-embedded internet episodes because they feature higher quality, more reliable feeds and greater ease-of-use than their advertisement-free counterparts.



D

E

D The Simpsons is among the most popular series on Hulu.

E Hulu does not support video viewing outside the U.S., yet.

Beyond online entertainment, internet advertising has also transcended the once-original pop-ups and banner ads that are now considered dull nuisances. The prevalence of pop-up blockers and the desire to avoid frustrating potential consumers has led many companies adopt what are known as "rich media commercials"—industry parlance for large animations that combine video, sound, and user interactivity. Jupiter Research predicts that of the $7.2 billion to be spent on online advertising this year, 40% will be through rich media. By striking a balance between high-quality, aesthetics, product placement, and user participation, rich media ads have garnered increasing favor. AOL.com, for instance, has experimented with an expandable banner that feature cubes with music video clips playing inside. Clicking on these tumbling cubes triggers options like access to exclusive videos of live performances. While such interactive science has not been completely developed, experts like Jim Nail, senior marketing analyst at Forrester Research, believe advertisers should recognize the real potential with rich media.

Just as 70 years ago when television began to replace radio as the dominant entertainment platform, DVRs and the Internet have started to supplant regular television broadcasting. People have long yearned for the power to spend less time viewing commercials and more time watching their favorite shows, and new technologies have finally given them this ability. Advertisers must innovate or risk being ignored by the consumers they are trying to target. By continuing to innovate and remaining responsive to consumer demands, companies can make their advertisements an increasingly integral part of the entertainment experience rather than mere nuisance that prompts an immediate reach for the remote.

IN THE HOLE

Several years ago Krispy Kreme seemed unstoppable. Its breakneck growth and popularity threatened to dethrone the mighty Dunkin' Donuts. Then diet fads and runaway expansion led to problems. But Krispy Kreme isn't about to give up just yet.

WRITTEN BY *Robert Quigley*
WITH PHOTOGRAPHY BY *Justin Woo*

Features

KRISPY KREME WAS POISED TO BE THE BRAND OF THE 21ST century. When the doughnut chain went public in April of 2000, Krispy had it all: an impressive rate of growth, ambitious plans for future expansion, a cultish following among investors, journalists, and laypeople alike, and, at the sweet gooey center, an unstoppable product.

Krispy Kreme was the brainchild of the itinerant salesman named Vernon Carver Rudolph. He set up shop in Depression-era Winston-Salem, North Carolina, and found his yeast-, egg-, and potato flour-based recipe an instant hit in spite of the tough times. According to company lore, Rudolph started out intending to sell his doughnuts to local grocers, but when passersby were lured to Rudolph's kitchen by the smell of frying doughnuts, he switched gears and began selling them directly to customers through his window.

That smell and the sweet taste it portended became the dual engines for decades of steady expansion throughout the Southeast. Krispy Kreme hardly changed its formula over the years, no easy task in the competitive, low-margin fast food industry. The brand had what Warren Buffett calls a "moat," an ingrained competitive advantage that could survive the test of time. It had the Original Glazed.

Although Krispy Kreme sells more than thirty varieties of doughnuts today, its workhorse remains the Original Glazed, which has more or less held true to Rudolph's recipe over the years. Since 1962, the heart of every Krispy Kreme store has been a conveyor belt down which hot, freshly baked doughnuts roll through a waterfall of milk and sugar and emerge as Original Glazed doughnuts. The doughnut sets itself apart from other doughnuts by virtue of its high-quality ingredients, the fact that it is served warm and fresh, and its unique consistency. The Original Glazed is a so-called "yeast doughnut" and is therefore lighter and fluffier than the heavier "cake doughnuts" sold by competitors like Dunkin' Donuts and Entenmann's. Yeast doughnut enthusiasts—and there are a lot of them—contend that yeast doughnuts just taste better, and Krispy Kreme enthusiasts—and there are a whole lot of them—contend that Krispy is the best of its breed.

A

After amassing more than 100 stores in the South over the course of six decades, Krispy Kreme was ready for its great push North. Krispy first crossed the Mason-Dixon Line in 1995, opening a store in Indianapolis; Wilmington, Philadelphia, and New York soon followed. When a new Krispy Kreme opened, record sales were sure to follow: in Indianapolis, where Krispy Kreme had only 2 percent brand recognition prior to entering the market, a line stretched out the door for blocks on the store's opening day. In New York, Krispy Kreme was an overnight sensation. There, as elsewhere, Krispy Kreme didn't spend any money on advertising. Instead it simply handed out free doughnuts to the press and to early customers. Raving reviews and recommendations soon followed. The first people who tried Krispy Kreme in any given market effectively did Krispy Kreme's advertising for them by telling their friends and relatives about the great new doughnut shop that had just opened up. Long before "viral marketing" became a buzzword in the business world, Krispy Kreme was depending on the concept to ensure the success of each new store.

From the late 1990s to the early 2000s, it seemed that Krispy Kreme could do no wrong. In 2000, the company went public, both to allow old franchisees to cash out and to finance aggressive expansion. Over the next three years, the stock soared 235 percent, an affirmation of the breakneck growth rate that investors foresaw for the company. Between 1995 and 2003, the number of Krispy Kreme stores more than doubled to 292, while growth in preexisting stores continued to grow steadily.

Krispy Kreme, once just a tiny thorn in the side of its mammoth competitor Dunkin' Donuts, appeared ready to overtake its rival as leader of the American doughnut market. In a 2001 interview, Krispy Kreme's VP of marketing said that Krispy Kreme had sold 1.8 billion doughnuts the prior year against Dunkin's 2.3 billion. Dunkin' Donuts had almost thirty times as many stores, which implied that Krispy Kreme was selling more than twenty times as many doughnuts per store, 10.3 million versus Dunkin's 480,000. The Original Glazed was in ascendance. Then, everything came crashing down.

In May of 2004, Krispy Kreme's CEO Scott Livengood issued a statement blaming Krispy Kreme's first-ever quarterly loss since going public on the sudden popularity of low-carb diets such as the Atkins Diet and the South Beach Diet. Livengood, the helmsman of what was by that point one of the most closely-followed, heavily hyped companies in existence, was undoubtedly under a lot of pressure to explain away the disappointing results. *Fortune* had proclaimed Krispy Kreme "The Hottest Brand in America" in a cover story only the year before. Now the public was demanding an explanation for its underperformance, and the Atkins explanation had a ring of truth to it.

Krispy Kreme had left itself vulnerable. Even as it grew by leaps and bounds, the brand was essentially a one-trick pony: without doughnuts, Krispy Kreme had next to nothing to offer. Most fast food chains of any considerable size diversify their menus to capture as many different kinds of customers as possible and to weather shifts in prevailing tastes. Krispy Kreme, despite efforts to push coffee and sandwiches at its stores and franchises, still made more than ninety percent of its revenue selling doughnuts. The brand's single-mindedness was a blessing when Krispy Kreme was a scrappy outsider on the rise, allowing Krispy to zero in on a niche that its competitors had left unsatisfied. But when Americans turned on high-carb foods, Krispy's limited menu became a curse.

A After drive-through service was suspended a year ago at the Mountain View, California location, the convenience is back, marking the recovery of the branch. A hand-written sign that alerted customers of the suspension is flipped upside down.

B Glazed Cruller (240 cal.)

C Maple Iced Glazed (240 cal.) Krispy Kreme offers 27 doughnut varieties as well as 4 types of doughnut holes.

Left A Mountain View, California Krispy Kreme store

In contrast, Dunkin' Donuts, which had lagged during the 1990s, successfully reinvented itself as a proudly unpretentious coffee chain, resurging precisely when Krispy began to suffer in the mid-2000s. Dunkin' rode a wave of anti-Starbucks sentiment to become a formidable rival to the Seattle-based chain, and with doughnut sales making up only fourteen percent of its sales in 2004, Dunkin' was buffered from any potential Atkins Effect.

But Krispy Kreme's greater sin was its overly aggressive expansion. In its desire to post ever-increasing numbers of locations every quarter, it built stores and licensed franchises too close together or in inhospitable locations. In a moment of hubris, Krispy Kreme even attempted to encroach upon Dunkin's home turf in Boston.

Even worse, Krispy began selling packaged doughnuts in supermarkets and convenience stores. They sold decently, but they compromised the brand's image. Krispy Kreme had conjured up a craze and gained so much ground in so little time because it wasn't just a doughnut, it was an experience. The sight of a warm Original Glazed rolling down the line and the sweet smell in the shop as they fried somehow just made them taste better. As unhealthy as the doughnuts may have been (each doughnut contains 200 calories), they were hot and they were fresh and they were good.

Krispy Kreme doughnuts may have gotten their momentum among non-Southerners as a novelty, but they stood on their own merits in a world of preservatives and microwaves. When the Krispy Kreme name was tied to something cold in a box that had probably been sitting on a shelf for a few days, however, the brand was diluted in ways that bottom-line businessmen hadn't foreseen, and the stores suffered as a result.

Krispy Kreme paid dearly for its missteps. Livengood's hand-wringing about Atkins didn't persuade many investors, and the company's stock began a long downward slide. It didn't help when the company admitted it had inflated past earnings or that shaky accounting on some of its acquisitions led to bad faith and lawsuits with shareholders. These setbacks prevented Krispy Kreme from getting the financing it needed for expansion to continue and destroyed the brand's credibility on Wall Street.

This may all have been invisible to most consumers, but the decline of Krispy Kreme was not. The once-ubiquitous brand began to silently disappear all across America. Each store sold fewer and fewer doughnuts. The company racked up losses quarter after quarter, well after the Atkins Diet had faded from public consciousness. And growth, the magic word that had enticed investors and driven management during the expansionary heyday of the late 90s and early 2000s, proved a dangerous mirage.

Krispy Kreme was greeted enthusiastically in overseas markets like Japan and Puerto Rico, but this was small consolation as it was forced to close many of its stores across America. Krispy Kreme shut down 17 locations in Chicago, leaving only one. Dunkin' Donuts all but strong-armed Krispy Kreme out of New England, leaving only a few stores behind in a region Krispy had once desperately hoped to capture. In the Southwest, troubled

D Chocolate Iced with Sprinkles (270 cal.)

E A Krispy Kreme dozen box maintains the corporate mark it has had since its early days. Trans fat-free and fundraising opportunity labels are responses to current customer trends.

Nutritional information on all doughnut varieties can be found at: **www.krispykreme.com/nutri.html.**

franchising agreements and declining sales decimated a once-bourgeoning market.

According to the *Winston-Salem Journal*, in 2004 there were 373 Krispy Kreme stores in the U.S.; today, there are 234. The plucky old Southern doughnut chain that had articulated its dream to grow and grow in the 90's—and seemed unstoppable for nearly a decade—choked on the thin air that came with this ascent.

It is still struggling to find a balance.

Krispy Kreme's efforts to implement changes and recover from its fall have been met with lukewarm reactions from consumers. In an effort to attract healthier eaters, Krispy Kreme has introduced a whole-wheat doughnut and cut trans fats from all of their products. These changes, however, came more than three years after the devastation wrought by Atkins, and the new wheat doughnut has only twenty calories fewer than the original varieties. While admirable moves from the point of view of public health, these steps seemed to be too little too late for the struggling company.

When a brand fades, it often must reinvent itself to survive. In September, Krispy Kreme announced its plans to sell a new soft-serve ice cream, Kool Kreme, at every store. Since Krispy Kreme doughnuts can't really compete as a healthy breakfast or snack, ice cream will cement the brand's stature as a go-to place for indulgent treats. The results of this shift in strategy remain uncertain. The ice cream market is already fairly crowded and Krispy Kreme faces an uphill battle in convincing consumers to pick its unknown brand over, say, Cold Stone Creamery. As the company evolves, it must also remain true to its roots. Krispy Kreme does have the inherent advantage of hot doughnuts to go with that ice cream. The reinvention may work if it is part of a comprehensive strategy to complement its impeccable doughnuts, but by itself, it's unlikely to be a game-changer, and it may even cause additional damage.

Efforts to turn the company around are showing some signs of promise. Slowly but steadily, Krispy Kreme has been repaying the debt it piled up during its years of hyperexpansion, and Q1-08 was its first profitable quarter in 3 1/2 years (in the most recent quarter, however, it once again lost money). The great die-off of American locations seems to have subsided, and overseas growth has been strong. Many of the Krispy Kremes launched outside of North America have had jubilantly busy opening days that bring to mind the first store openings outside of the South back in the 90s.

Right now, the challenge that Krispy Kreme's managers face is to repair the damage wrought by years of overzealous expansion. Even if they can do that, it seems unlikely that the brand will ever again be the commercial behemoth it once was. The slow-growth, unsexy Southern Krispy Kreme of the 1930s through the 1980s may well be the best business model available to the company's future stewards. But in a boom-and-bust, faddish world that so often hypes up ambitious little companies only to grind them into dust, that might not be such a bad thing.

STILL THE ONE?

Will America's trade partnership with its southern neighbor survive the rise of cheaper labor markets?

Writer *Gary Dyal*

During the recent presidential campaign, the NAFTA agreement ratified in 1994 regained national attention when President Barack Obama promised that as president he would unilaterally withdraw from the treaty if it was not amended to include more stringent labor and environmental standards. In an interview last June with *Fortune*, however, Obama dismissed many of his comments as "overheated and amplified" campaign rhetoric. Despite these clarifications, America's trade relationship with Mexico faces threats on another front: the opening of cheaper, less regulated areas to American businesses looking to reduce production costs.

In 2008 the Bureau of Labor Statistics reported that the average hourly manufacturing wage in Mexico was only 13 percent of the average wage in the United States. While this figure certainly offers a significant cost reduction, it pales in comparison with the savings available in China and Latin America, where average wages are as low as 4.4 percent of those in the U.S. Based on this factor alone, it would appear that regardless of NAFTA's status, U.S. companies would pass up investment in Mexico and look further to the south and east instead. Even as the relative cost of doing business in the country appears to rise, however, Mexico retains certain important advantages that should continue to attract American companies and investors.

During the agreement's fourteen-year existence, American entrepreneurs have taken advantage of open borders by forging into Mexico and learning how to conduct business in a foreign economic climate. The process has not always been an easy one. According to María Teresa Fustagueras of the American Chamber of Commerce, one of the most common misconceptions following NAFTA was the assumption that Mexico would become merely an extension of the U.S. business world, sharing norms, legislation and regulations. For better or for worse, however, Mexico has retained a unique business culture despite the strong bonds it has formed with the economies of its neighbors. "Interpersonal relationships in Mexico are of extreme importance," states Kim Hansen, also of the Chamber. "As trust is such a valued commodity in Mexico, it is through the non-business events and conversations that this is gained."

This trust is readily apparent in the offices of ITW Safety, an Illinois-based manufacturer that opened a Monterrey division in 2006. All of the division's 52 employees, including top management, are Mexican. In contrast to several Japanese and Korean companies in the area, who have exported to Mexico exact duplicates of their Asian plants, ITW's Mexican management has been given the green light by their U.S.-based superiors to shape their own operations strategy. "Some things that work well in the U.S. just do not work in Mexico," explains Plant Manager Alberto Vázquez. "We took the best things from the U.S. plants and then defined the rest for ourselves."

Mexico has also demonstrated an ability to quickly and reliably provide supplies to U.S. companies operating in the country. After opening their Mexican plant, ITW imported almost all of their supplies across the border from the U.S. Since then local suppliers have gradually replaced all but

Overleaf In Irapuato, Mexico, a man works at a sewing machine in a licensed factory.

Left A man works in a makeshift shoe factory at the back of a home in León, Mexico. The air is thick with the odor of adhesive cement used to bind an outsole to a dress shoe.

40 percent. Like many other companies, ITW's eventual goal is to find all of its supplies in local markets. The same trend can be seen on the other end of production. Many U.S. companies with plants in Mexico are hoping to sell a portion of their products in that country rather than ship them across the border. ITW has recently opened a sales and marketing division that will specialize in developing relationships with domestic customers.

When looking to expand its operations in 2007, Chicago-based Panduit chose to open its wiring and communication product plants in Monterrey, Mexico rather than in a far cheaper location in Costa Rica. "Monterrey has everything we need," explains Manager Carlos Cano. This includes a broad selection of local suppliers, universities turning out top professionals and easy access to the U.S. market. The Costa Rica site, in contrast was in the middle of the jungle.

These advantages do not mean Mexican businesses are still leading in every category. In 2003, China surpassed Mexico as the number two supplier of U.S. imports. In 2007, Americans imported $321.5 billion worth of Chinese goods and only $210.1 billion from Mexico. This difference, however, seems less severe when one considers that China is more than twelve times the size of Mexico. For the most part, the rise of China has resulted in a shift in Mexican production rather than a reduction. While competition with China has hurt Mexican production of textiles, furniture, appliances, household goods, computers and peripherals, employment continues to rise in chemicals, services, electronics, machinery and transportation.

The U.S. economy is also far more closely integrated with the Mexican economy than it is with that of China, with U.S.-Mexico trade flows much more likely to be inter-firm than U.S.-China trade. If a U.S. company wants to open a division in China, it must first overcome the obstacles posed by the country's distance, government and culture. "Many of the companies that moved their operations from here to China have since come back," states Ralph Silva, General Director of paper producer Danhill's Monterrey division. The reasons for the return often include problems with logistics, the inability to find local customers and suppliers and the uncertainty presented by a dramatically different culture and communist government. None of these problems are found in Mexico, whose expanding industrial centers are well connected to one another as well as to U.S. markets. The country's democratic government, while young, has demonstrated the ability to hold the free and fair elections that provide protection from the arbitrary governance that businesses fear.

Mexico may no longer be the cheapest place for American companies to do business. Anyone visiting a city like Monterrey will find living standards reminiscent of most major U.S. cities. Faced with these rising costs, businesses looking only for savings may increasingly turn east rather than south. China's gains, however, do not necessarily translate directly into Mexico's losses. "For Americans," explains Daniel Griswold of The CATO Institute, "China is the big-box retailer on the edge of town, while Mexico is our next door neighbor and business partner." This partnership will change as Mexico continues to develop, but U.S. firms that value the country's infrastructure and unique business culture will not be leaving any time soon.

STRIKING OUT ON HIS OWN

Writer *James Jiang*

Worried about stability in the financial sector, Yale senior Victor Wong forges his own path and starts a business.

Up a narrow staircase, shoehorned between Ashley's Ice Cream and The Elm City Artists Gallery, lies the hub of Yale's start-up community, the Yale Entrepreneurial Institute. Inconspicuous apart from a signboard emblazoned with the institute's molecular logo, this unassuming façade is the public face of the family of business ventures undertaken by Yale's student body.

Among a number of successful companies, PaperG has distinguished itself. An online advertising network that connects local advertisers with local websites, the company is the brainchild of Victor Wong '09. Founded in 2007 by Wong and a group of undergraduates from Yale and Harvard, PaperG boasts a client base of high-profile websites run out of Boston, New Haven, Durham, and Westchester that cater specifically to their local communities.

Quotables.

'We're entering an industry that respects a lot of age and wisdom, so we put together a very credible board of advisors to lead us and help us make the right connections to the right people.'

—Victor Wong
Yale, Class of 2009

'...We realized that online ad was largely dominated by large national companies... We came up with the Flyerboard in response to that.'

—Tyler W. Bosmeny
Harvard, Class of 2009

'It's a great way to communicate and exchange information in the most technically advanced way, but using a concept that's been around for hundreds of years.'

—Denise Jillson,
Executive Director of Harvard Square Business Association (HSBA)

'People want local information...That's what we're giving them.'

—Victor Wong
Yale, Class of 2009

PaperG launched its headline product, the Flyerboard, in early 2008. Using Flyerboard, local advertisers can post virtual flyers of events on multiple local websites at once without having to navigate advertising schemes that had previously been too obscure, expensive, or non-standardized for smaller organizations. The publications can in turn be sure that the advertisements are relevant to their readership, a high priority in online advertising that leads to increased profits for both companies and the publications through which they place ads.

Papers, DVDs, and a Rubik's Cube lie strewn atop a desk in the PaperG office. Messily scrawled across a whiteboard pinned to the wall is a matrix of names and figures. Near the bottom of the board is a sketch of an aircraft poised tentatively at the edge of a runway. Then there is Wong, looking relaxed in a striped shirt and khakis. Our interview had been postponed until today because of Wong's unexpected meeting with the *New York Times*' Director of Corporate Development and Strategy earlier in the week.

When asked what inspired him to start his own company, Wong recalls the interview process he underwent last year for a prominent investment bank's alternative asset management division. At that point, PaperG had not yet become a full-time commitment. He was confronted by a momentous choice: either embark on a career with one of the world's most prestigious investment banks or assume an equity stake in a start-up that he could truly call his own.

Ultimately, it was Wong's sense of risk in the markets that tipped the scales. For this, he pays tribute to Robert Schiller, the iconic Yale professor of economics who earned fame for his anticipation of the sub-prime mortgage crisis. Schiller's prophetic enunciations, Wong said, made him worry about the long-term viability of a job within a complacent financial sector. He saw the pervasive sense of security within the financial community for what it really was: a mere symptom of the 'too-big-to-fail' syndrome that has since crippled the market.

Wong also recognized that even if you don't have to deal with the turbulent financial markets in your everyday job, there is an inherent risk in not working for yourself. As he points out: "Holding down a day-to-day job requires the double coincidence that you are successful at what you do and that your superiors will recognize your success and reward you proportionately. This is difficult to achieve."

According to Wong, being an entrepreneur is not just about forging your own path in the corporate wilderness, but also minimizing exposure to variables over which you exercise little control. While the events of recent months have vindicated his decision, he refuses to base his success or failure as an entrepreneur on the fate of PaperG.

"Being successful is being rational when things don't go well and making the best decision at the time, when you're able to make decisions upon fundamentals rather than sentiment," he muses. "Failure is letting sentiment such as loss aversion drive your actions."

This mature outlook is necessary for Wong given the age of the industry in which PaperG is trying to compete. When asked about the obvious age gap between himself and the business executives with whom he deals on a regular basis, Wong points to the Internet as a great leveler. Advertising in the newspaper industry is undergoing significant disruption as websites such as Craigslist decimate the classifieds base. As the internet forces the market to restructure itself, Wong sees an extraordinary opportunity for young entrepreneurs who have grown up with the World Wide Web at their fingertips to provide the solutions. "Not being boxed in by the old framework," he readily asserts, "allows for radical solutions."

In helping local advertisers become more efficient, PaperG marks a paradigmatic shift in the way that the Internet can be utilized as a tool for strengthening the vibrancy of local communities. For Wong, emphasis on the local heralds a "third wave" of the web. According to his genealogy of the Internet, the first phase of development focused on providing access to the world, and the second on social networking and connecting people using tools such as Facebook. In the third phase, Wong envisages the Internet as finally breaking into the sphere of people's daily lives and interactions, the vast majority of which occur in the context of their local community. As evidence of this trend, he points to the new slogan adopted by HSBC: "the world's local bank."

According to Wong, the drive behind his entrepreneurship is a desire to "make a palpable difference in the world." As an example of what he wants to accomplish, Wong cites another one of his recent start-ups: Mangrove Partners is a company that provides loans to domestic micro-finance institutions in order to help them offer loans to low-income entrepreneurs. Citigroup, spotting the same market inefficiency that induced Wong to start the company, has also acted to meet this need. Not that Wong particularly minds. "The great thing about social entrepreneurship is that there is a pay-off for everyone regardless of who solves the problem," he says.

Wong's entrepreneurial vision can be gleaned from whom he considers his tutelary spirit. It's not Keynes, not Greenspan, not even Galbraith, but the great German polymath Goethe. Wong quotes him to summarize his philosophy, "Talent is formed in solitude, character in the bustle of the world." In the world of contemporary entrepreneurship, Victor Wong proves that it is not too much to ask for both.

DOUBLE FEATURE
2/ KREMLIN
KICKBACKS

DOUBLE FEATURE [1] BORDER INVESTING

[1] BORDER INVESTING

WRITER [JOSH TANNEN]

Investing in a diversified set of assets—be they stocks, bonds, or mutual funds—is one of the best strategies for increasing the likelihood of profits and decreasing the magnitude of losses. The old adage, "don't put all your eggs in one basket" remains one of the soundest pieces of financial advice. Many investors, however, fail to realize just how many "baskets" are available to them. Focusing solely on American markets considerably limits portfolio diversification. Investors only have to look overseas to find a world of other opportunities.

Since 2004, Americans have invested over $200 billion in foreign exchanges. These investors have traditionally done so using American Depository Receipts, better known as ADRS, which represent shares of ownership in foreign businesses. Anyone can buy an ADR through an American brokerage account.

The benefits of ADRS include the fact that they are traded in U.S. dollars and can be purchased by individual investors. Since they are only placed on the market if foreign companies file for them, however, ADRS tend to be available from large institutional firms rather than smaller businesses. The list of available ADRS consists of less than 500 stocks, including companies like Toyota and AstraZeneca.

Another drawback of ADRS is that they may be traded over-the-counter (directly between the two parties) instead of via an exchange. Stocks sold over-the-counter do not have to meet the standards of financial statements required of those listed on the NASDAQ or the NYSE and are thus more prone to price changes not accountable to the public.

Nevertheless, the popularity of investing in foreign companies that do not trade on American exchanges has skyrocketed in the past few years, thanks in large part to the increased transparency of world markets and the reduced cost of international transactions. To invest in these companies, individuals need only to contact a broker that buys and sells assets on foreign exchanges. Many of the best-known online brokerages, such as E*Trade and Charles Schwab, have recently begun to allow customers to trade on various foreign exchanges.

Foreign investment, however, does have its costs. Schwab sets a minimum of $5,000 to invest in markets abroad, far higher than its domestic minimum. Americans also have to pay a percentage (usually less than one percent) of the trade's value in order to complete the transaction. The most cost-effective option may be Interactive Brokers, which permits trading in over 50 world markets in 16 countries at the cheapest rates of any of the online brokerages.

In addition to ADRS, these brokers offer a variety of other investment options for the countries in which they trade. Global mutual funds have managers who choose the stocks they feel will grow the most so that individual investors who may lack the necessary knowledge can avoid having to make these decisions themselves. Exchange-traded funds (ETFS) also hold assets like stocks and bonds, but unlike mutual funds, trade at the same price as the net value of all of the assets they hold on a given day. ETFS are less expensive than mutual funds and are easier to trade because they are found on exchanges. As a result, an increasing number of world markets are working to make this popular investment option available. The Market Vectors-Russia ETF became the first to invest exclusively in Russian companies when it began trading in 2007. Early the following year the WisdomTree India Earnings was launched, trading a million shares immediately upon its opening.

While many who invest abroad place funds in the stable markets of developed nations, others turn instead to more exotic emerging markets that offer the chance for higher returns but involve greater risk. Visor Capital was founded as an investment bank in Kazakhstan aimed at capitalizing on the recent high rate of economic growth in Central Asia. They have an English website and an office in London designed to make these financially attractive markets more accessible to foreign investors.

Recently, investors choosing to put money in foreign stock markets have been rewarded with impressive returns. In the past few years, average annual returns in certain corners of East Asian markets were in the double or even triple digit range. In 2003 alone the Thai stock exchange

Continued on p.40

2/ KREMLIN KICKBACKS

In early 2005 William F. Browder, an American-born financier who made several billion dollars investing in Russia's emerging economy, was a paragon of post-Soviet capitalism. Only a few months later, his visa was canceled, he was blacklisted as a national security threat, and his assets came under siege.

What happened? Mr. Browder's investment fund, Hermitage Capital, was the victim of "corporate raiding," the seizure of private companies and assets with the support of corrupt judges and lawmakers. Over the next two years, Hermitage employees were assaulted, several privately held entities were commandeered, and Hermitage's Moscow headquarters was ransacked. For many entrepreneurs like Browder, direct foreign investment in Russia means accepting the risk of such occurrences.

"Russia's corruption problem is well known and it is present on such a scale that for business it's the no. 1 concern," says Carlo Gallo, a senior risk analyst at Control Risks. Global awareness of Russian corporate corruption is currently at record levels. Some international rankings list Russia as less transparent than countries like Iran and Uganda. Businesses face a widespread dilemma: whether to tolerate entrenched corruption while pursuing profits or to abandon ship and protect their assets from sudden seizure.

For some foreign companies, the costs of government intrusion are simply no longer tenable. They must shift resources elsewhere to mitigate losses. TNK-BP, an oil company formed after an even merger between BP and several Russian interests, recently found itself at the center of a global controversy. TNK-BP offices were raided and BP employees were delayed from obtaining the requisite visas to work in Russia. BP has alleged that the Kremlin is trying to seize the business. Concerned about the government's motives, the company is in the midst of recalling the last of its TNK-BP staff from Russia and plans to try to run its operations in the country from abroad. Analysts, however, believe the endeavor is likely to prove impossible.

This flight from Russia is not limited to foreign investment: many of Russia's own wealthiest citizens have shifted their assets abroad in recent years. Roman Abramovich, a native Russian oligarch, purchased the Chelsea Football Club, a British soccer team, for £140 million ($205 million USD) in 2003. Although Abramovich has been running Chelsea as a hobby rather than as an investment, he is engineering cost cuts that might allow the club to turn a profit as soon as 2010. More recently, Vladimir O. Potanin, a self-made billionaire, acquired a 35 percent stake in American fuel cell manufacturer Plug Power for $241 million. For investors like Abramovich and Potanin, investing abroad insulates holdings from the unsteadiness of the Russian marketplace.

"What you see is a glut of oil money in Russia seeking its way into calmer waters," explains Ariel Cohen, a Russia analyst at the Heritage Foundation. "These Russian tycoons and oligarchs are looking to place their money in jurisdictions with more dependable legal systems where they are not subject to expropriation by the state."

The consequences of rampant Russian corruption have not gone unnoticed by the country's government. President Dmitry Medvedev has recently embarked on a campaign to fix these problems in order to increase the flow of money into the country. Most analysts, however, believe the current system is too firmly entrenched for these efforts to bring about significant change in the near future.

The lack of a reliable legal system is not only factor chasing away investors. The recent economic crisis has led many to opt for the relative security of U.S. markets rather than accept the added risk inherent in the emerging market funds that have guided foreign investment to Russia in recent years. The government's recent pursuit of an aggressive foreign policy, especially its actions in Georgia last August, has further increased concerns about the country's stability.

For some investors, the long-term attractiveness of the Russian economy continues to outweigh the risks that accompany investing in the country. Russia has posted gross domestic product growth of 6.4% in 2005, 7.4% in 2006, and 8.1% in 2007, rates that place it well above the United States and other developed nations. According to the World Bank, Russia was the fourth largest recipient of foreign direct investment (FDI) in 2007 after China, India, and the U.S. and outperformed other top developing countries on a per-capita basis. The $369 of FDI for each of its 141 million people was six times the comparable figure for China.

No amount of growth, however, can compensate investors who, like William F. Browder, have assets seized by a corrupt system as a result of their success. If stories like Browder's become more common, the government will have an increasingly difficult time attracting investment into the country. Since its expulsion from Russia, Hermitage Capital has since raised another $625 million to invest in new infrastructure companies abroad. This time, the company is focusing on the United Arab Emirates.

WRITER/ ERIC HEIMARK

Above — Following the market crash, newspapers and magazines kept a close eye on the economy and reported every change.

CROWDING OUT ON WALL STREET

Turmoil in finance forces college seniors to look elsewhere.

Writer *Lynn Wang*

The current economic situation has made the normally competitive job hunt more challenging than ever.

Especially in recent years, investment banking has been a common choice for graduates from top universities. Job seekers are drawn to the engaging work and high salaries available in this field, while firms seek intelligent recruits. During the most recent recruiting season, however, low supply and high demand in the industry raised the competition for these jobs to unprecedented levels. Firms granted interviews to fewer applicants, and those who did receive interviews found it more difficult to advance to the final rounds and land an offer.

The crisis has even impacted students who successfully completed financial internships over the summer. Zach Dewitt '09, who interned at Goldman Sachs last summer, says that the situation in his office differed greatly from previous years. "Traditionally, there are 15 interns, and in the past, 13-14 of them would receive job offers," he explains. "This year, there were only about 4-5 offers, while another 4-5 people were put on hold." Dewitt was

one of the lucky few to get an offer, but before signing the contract he took three full weeks to look at other options in consulting, the Marines, and business school. With the financial industry more volatile than it has been for decades, Dewitt thought these other fields might offer more job stability. After ultimately deciding to take the job at Goldman, he is now trying to appreciate the benefits of entering an industry during a period of transformation. "It's a great opportunity to be at a big institution when changes are happening," he explains. "You get to learn how to adapt."

Of course, the most dramatic changes have been for those who interned at Lehman Brothers, which declared bankruptcy in September, and Merrill Lynch, which was recently purchased by Bank of America. "Lehman started going down when I worked there," said one senior who interned last summer. "Everyone knew the firm was in trouble, but instead of grumbling, they were all rallying to the cause in a very positive way. People all loved working there." Offers that were made at Lehman have not all been revoked; Barclays, a British bank, is taking many of them on instead. These jobs, however, have been granted selectively based on the firm's need to fill certain positions.

Similarly, Bank of America is honoring most of Merrill's job offers. The majority of the original contracts will not be significantly altered, with salaries remaining the same as they were in the original offers. Adam Trusley '09, who worked at Merrill over the summer, was recently offered an investment banking position in the health care group of Bank of America. These offers, however, were not made immediately. Students had to watch the news about their company being purchased and wonder what these reports meant for their own futures. "For a while, I didn't know if I had a job," Trusley explains. "It was terrifying."

During his period of uncertainty, Trusley thought about pursuing work at the State Department or the CIA. After receiving the offer, however, he is no longer concerned with searching for alternatives. "Honestly, Bank of America is simply too big to fail," he said. "It has over ten percent of all American deposits."

Faced with a bleak outlook in traditionally popular fields like consulting and investment banking, many seniors without job offers are considering alternative careers that may offer greater opportunity for advancement and more job security.

"I have a feeling that a large percentage of the Class of '09 will be going into helping-the-world jobs with lower opportunity cost," predicts Nate Becker '09. Upon graduation, Becker hopes either to land a position in economic consulting or to receive a financial research fellowship in China.

Some believe that while the competition has intensified, the shortage of available investment banking jobs will simply serve to weed out those who lack sincere interest in finance, and only those pursuing investment banking solely for the paycheck will find it difficult to find employment. "You didn't need a lot of skill to be a banker in the last few years," said an anonymous senior. "Now, the competition brings value back to the skill in the industry."

No matter how a large depository bank like Bank of America, or even a smaller, more risk-oriented investment bank, may fare in the coming years, it is unlikely that the entire financial sector will collapse. Although the scope of the current crisis has surprised almost everyone, those involved in the industry have always recognized the underlying risks associated with finance. Recent events may have a significant impact on some seniors, but most will still find a variety of opportunities awaiting them upon graduation.

BEATING THE ODDS

Writer *Stephanie Marton*

For women, getting venture capital to start a business has never been an easy process.

In 1997, Maureen Ellenberger received venture capital to found Eggrock Partners, a software maker and consulting firm that only three years later was acquired in a stock deal worth 250 million dollars. Since leaving Eggrock, Maureen has gone on to found and direct several other successful information technology companies. While her accomplishments are certainly impressive, Ellenberger is concerned that she merely represents an exception to the difficulties that continue to confront women who seek venture capital. In light of her own success, Ellenberger has served as a mentor for a group of what she describes as "incredibly talented" female CEOs. "Out of that group," she explains, "[only] one has a successful investment relationship...the rest are struggling or have shut down."

A study conducted in 2004 by the Center for Women's Business Research found that "women-owned businesses are just as financially strong and creditworthy as the average U.S. firm." In 2006, however, companies with female founders represented only 6.5 percent of venture-funded U.S. companies. A number of studies have raised concerns about the discrepancies in early venture financing, venture capital firms, network access, and even self-perception between male and female-led companies. Women are already considered disadvantaged in the general business sector, but the factors stacking up against them when seeking venture capital appear particularly problematic.

All entrepreneurs face challenges from the beginning. Women who hope to start their own business, however, seem to receive a disproportionately low amount of funding to help them do so. According to a 2007 annual small business report and study conducted by Dow Jones Venture One, women own 14 percent of small businesses but received only 8 percent of all venture capital money awarded.

Many point to a bias against women among those who award venture capital as the root cause of this discrepancy. According to Ellenberger, however, this explanation may only account for part of the problem. The funding gap may also result from the fact that entrepreneurs need to be scrappy, a quality she claims woman often lack when compared to their male counterparts. Before attracting investment, entrepreneurs need to "bootstrap" their businesses, work creatively and often without salary. Ellenberger explains that many amateur entrepreneurs overlook the need to *have* money before you *ask* for money—venture capitalists are not looking just for ideas, but the customer base and contracts that prove that an idea is and will continue to be valuable. Ellenberger believes that this initial scrounge for money presents problems for women especially: "Women for the most part are uncomfortable asking for [money]. If you have to hustle for cash, men are more likely to feel entitled to it...Women have to get comfortable going out and asking."

Since attitudes of firms affect their funding allocations, researchers have also hypothesized that the under-representation of women within venture capital firms is a reason for the gender financing disparity. According to the Boston Business Journal, in 2002 only 8 percent of venture capital professionals were women. Furthermore, they make up only 4 percent of all chief executives of venture capital-backed companies. These low numbers result from what for women is an unfortunate cycle. Entrepreneurs who succeed join venture capital firms themselves, and help fund other entrepreneurs when they get there. Since there are fewer female entrepreneurs who make it big, less take that route into the venture capital world.

This explanation rests on the conventional belief that the obstacles women face result from preconceived assumptions that others make about female competency and leadership abilities. In 2004, however, a research team of female professors in Boston, dubbed "the Diana Project," published a book that challenges this notion. The book asserts that a woman's own assumptions about herself can be just as damaging to her chances of breaking into venture capital funds. They write, "it comes down to a collision of beliefs about entrepreneurs in general and specific perceptions and expectations about women's roles and capabilities." The Global Entrepreneurship Monitor Report on Women supports this hypothesis: "Women's levels of optimism and self-confidence in starting a business were highly influenced by the culture and social norms of their native countries."

Ellenberger's personal experience has led her to agree with this idea that a woman's own perception of her capabilities can hold her back. As an example, she tells the story of "a good friend who is working as VP, in a way, of a consumer marketing company...Great reputation and really smart. She's been recruited to run another company. I asked her if she was going to do it. [She said] 'I just want to be the marketing person. I'm not qualified to be a CEO.'"

Fortunately, a number of organizations have cropped up to find ways to ensure that talented female entrepreneurs receive the funding they deserve. An organization called Women's Business Centers holds networking events that connect local like-minded female business owners with each other as well as with potential investors. Women-specific certification programs like the Women's Business Enterprise National Council hold conferences to generate contracts for women-owned enterprises. Springboard Enterprises, a "venture-catalyst" organization, hosts venture forums and offers educational workshops for women looking to grow their venture. Together, these efforts aim to counteract the disadvantages women face by giving them access to the same types of networks that men traditionally dominate and by inspiring hope and self-confidence in the growing number of female entrepreneurs.

Continued from p.35, '1: Border Investing'

experienced an impressive growth of nearly 150 percent.

The attention of investors has begun to shift, however, as signs point to an end of the glory days of certain Asian exchanges. A popular mutual fund, Fidelity South East Asia (FSEAX), was up 60 percent in 2007, but ended the year by falling 11 percent in November.

Declines like these have caused interest to move west to areas like Eastern Europe and India. The Hungarian stock exchange, located in Budapest, has in recent months represented one of the most attractive foreign exchanges. Over 80 percent of Hungary's GDP comes from the private sector, an important figure because private sector funds are often more remunerative than public sector money. While a significant portion of public sector investment aims at improving people's welfare, private sector investment focuses on profits and thus benefits investors.

In addition, Hungary receives one-third of all foreign direct investment going into Central Europe. The country has a decent debt rating of BBB+ and since 2004 has been receiving the economic benefits associated with European Union membership. As an emerging economy, Hungary avoided the housing bubble that has resulted in the current U.S. crisis.

Many investors have also begun to consider the Indian stock exchange in Mumbai as one of the best opportunities for investment in Asia, believing it safer than the exchanges in China or Russia. India has the fourth largest economy in the world (after fixing for purchasing power parity) and, with a rate of GDP growth of 9.4 percent, it is also among those growing the fastest. Just a few years ago, the Indian government started allowing Indian companies to keep up to 100 percent of their stocks in the hands of foreign investors.

The financial crisis that began in the United States has had global repercussions from which no market will emerge entirely unscathed. While current conditions may serve to reduce the apparent attractiveness of many investments, in any economic climate investors can benefit from taking full advantage of all of the opportunities available to them. Individuals might be dissuaded from investing abroad due to a perceived lack of foreign expertise, but the practice is not as intimidating as it first seems. The potential for larger profit margins more than compensates for the cost of hiring a broker to handle the more technical aspects of the process. In a global economy where it has become increasingly simpler to capitalize upon emerging markets, exposure to the undervalued economies of other countries is quickly becoming a necessity for any fully diversified investment portfolio.

TROUBLE ON THE KING'S HIGHWAY

Spanish for 'The Royal Highway,' El Camino Real isn't exactly an interstate freeway. Strip malls and car lots dot the side of the six-lane road that extends from San Jose through the heart of the Silicon Valley to San Francisco. National economic collapse has struck locally the roadside businesses with a devastating effect. What were prosperous bookstores and retail chains a few months ago are now foreclosed lots and empty commercial spaces. On this road, 1 in every 5 lots have visible signs of abandonment.

WORDS AND PHOTOGRAPHS BY JUSTIN WOO

THIS PAGE: *¡Una Más! opened its first store in 1991 in San Jose, California. It quickly grew to twenty locations throughout Northern California. But with increasing competition from Chipotle a few blocks away, this Sunnyvale Una Más location shut its doors this fall. The lot has since been fenced-in and put up for sale.*

PREVIOUS PAGE: *A discarded playpen sits in front of the former ¡Una Más! restaurant. Other similarly abandoned items have since been picked up.*

OVERLEAF: *Big Burger Freeze of Mountain View, California has seen great change in its 60-year history. Web-giant Google set up its headquarters nearby. The 3-acre C.J. Olson Cherry Orchard estate a mile down the strip was sold to a developer. Feeling increasingly anachronistic in a gentrified section of the strip, the restaurant closed its doors. The 'Burger Freeze' signage rusted and collapsed under its own weight in September.*


freeze

INTERIOR OF AN EMPTY CAR DEALERSHIP IN SUNNYVALE, CALIFORNIA.

UNSOLD CARS AT MOUNTAIN VIEW BMW, ONE OF THE LARGEST DEALERSHIPS IN THE SAN FRANCISCO BAY AREA.

POOP AT THE MTA

FROM THE DESK OF THE MAGAZINE

I saw poop at the 23rd street station last month. I'm no scatologist, but the fecal fiesta on the edge of the platform looked distinctly human. Perhaps the offender was roaringly drunk, mightily impatient, or criminally angry; I suspect our hero was a combination of all three.

I can't say I was surprised, and why should I be? Haven't we all had our pants irreversibly stained by spilled purple medical fluid on the A downtown? It's nearly a right of passage to have native New Yorker hawk Trident between your flip-flop and heel as you walk off the 6 train. I wouldn't be surprised in the least if, late one night, I found myself the sole audience member of a drunken nudie show on a train to the Bronx.

Why is the subway a communal cesspit for our collective morality and self-respectability?

When the MTA was formed in the Sixties as the governing body for the then newly united New York City Subway, very little attention was paid to design. It met the bare minimum of functionality—all other aesthetic considerations were ignored. Today, confusing signage leads riders up a flight of stairs, down another, around, and back to where they started. The subway map confuses tourists, who go from Midtown under the East River to Brooklyn instead of to Chinatown where all they really wanted was a knock-off Coach bag. The list goes on.

It's no wonder people treat the subway like a Medieval garderobe. Mounting frustrations from impatient commuters and confused tourists manifest themselves physically in the uncomfortably familiar filth and vandalism blanketing stations and cars. The decrepit condition leads to disrespect for the system and in turn, *more* filth and *more* vandalism. It's a self-perpetuating cycle of putrefaction and impertinence.

Of course the problem with the subway isn't merely a design issue. Regardless, there are obvious and simple solutions that should be implemented now. First, move all signs that hide behind support columns to the center of the platform. Second, make a schematic map (SEE London's Underground) that is easier to understand. Third, color-code trains with decals so it's clear which train is what.

It's about time the MTA dumps its misguided bottom-line aesthetics for an efficient subway system that aims for a higher moral purpose. It'll be cheaper in the end anyway: there won't be poop to scrape off the floor. —*JW*

Do you have any New York Subway stories? Ideas? Send them to yemagazine@gmail.com. A few will be selected to appear online at www.yespeaks.com.

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