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Foster's bleeds red in US

Helen Matterson June 9

FOSTER'S Group has downgraded its 2004 earnings after a major review of the Beringer Blass global wine business called for writedowns to vineyards and surplus stock of as much as \$300 million.

The group is also promising to cut costs and spend the savings on marketing for its wine brands, in a delayed reaction to market conditions that have changed dramatically since the \$2.9 billion purchase of Beringer Wine Estates in 2000.

New Foster's CEO Trevor O'Hoy said the main priority was to revive sales hit by a Californian wine glut, which created extreme-value wines that sold for as little as \$US2 (\$2.83) and changed the mindset of consumers.

Yesterday, Mr O'Hoy rejected suggestions that Foster's had been asleep at the wheel, preferring to say the company had been "a little bit slow to react to changes in the wine market".

The shake-up will see Walt Klentz, the head of Beringer Blass - and one of the original founders of Beringer, who's been with the company 31 years - make way next year for Jamie Odell, the former Asia Pacific wine chief who headed the review.

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Internet addresses surge

Correspondents in the United States June 9

The total number of registered internet addresses reached a new summit of 63 million after a record increase of 4.7 million in the first quarter, the main internet registrar said.



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customers one of two pricing options.

Many large wholesale customers told Australian IT that Telstra's decision to force them to choose only one of the options meant they would either be limited to competing with BigPond only on cheap, low-margin entry-level plans, or making a loss on cheaper-plan customers in order to maintain profits on more expensive plans.

Mr Akhurst said today that the "vast majority" of wholesale customers had signed up for one or other of the options with Telstra. However the ACCC is still investigating the matter and the competition notice remains in place.

Mr Akhurst said Telstra had enabled 1080 exchanges for ADSL, including 48 under its broadband demand register.

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Intel to be investigated

Jenny Davey The Times in London June 10

The European Commission has reopened a three-year-old investigation into Intel, the world's biggest computer chip maker, just weeks after the company's Japanese offices were raided by regulators on suspicion of anti-competitive practices.

The commission has dusted down its file on the US company, based in New Jersey, after Advanced Micro Devices, Intel's fiercest rival, renewed accusations that the group has abused its dominant position in the market.

A spokesman for AMD said it could not disclose its specific complaints but described Intel as a "quasi-monopoly standing in the way of free and fair competition".

"We are very happy the EU has reinvigorated its efforts and we are very confident that the probe will result in actions which ensure free competition across Europe," the spokesman said. The commission started investigating Intel in 2001 after complaints from AMD and from Via Technologies, a Taiwanese chip maker.

However, the case was virtually dropped after investigators said that there was not enough evidence to bring charges. The commission confirmed this week that AMD had renewed its complaints and had submitted fresh evidence of alleged market abuse, sparking a "fresh fact-finding mission".

The new investigation is being handled by the same team at the commission that investigated Microsoft, leading to a record E497 million (\$870 million) fine, which the software giant plans to appeal against this week.

A spokesman for Intel said it would continue to co-operate fully with the regulators.

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The Presentation Follow-Up

Anticipate the questions

Practice your answers

Survive dogfights

End on a social note

Don't forget the housekeeping chores



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Direct Marketing Awards – in its first two years.

What's truly remarkable though is that the team has built Story without any debt. An overdraft facility from HSBC was cleared after two months. So what's the secret of its success?

One reason is that Story set out as a UK agency, rather than focusing on the sometimes precarious local market. Clients include HSBC's First Direct, National Australia Bank (NAB), M&S Money, Velux windows, NTL Europe and Glenmorangie's Ardbeg Single Malt.

Another reason is Story's commitment to its clients. Dave says: "If we had a motto, then it is to never, ever be complacent about anything. That's probably the biggest reason for our success, and that's probably why we keep the advertising fresh."

Third comes the emphasis on creativity and, particularly, the old-fashioned craft of copywriting, a skill that many ad agencies have neglected as they focus on the visual, and on the latest media fads. Hence the choice of name, Story.

"It really is what we do – tell stories on behalf of clients about their products or their services," says Dave, who won a Graeme Robertson Trust creative scholarship in 1994.

Dave believes Story's work for Ardbeg encapsulates this. A recent ad uses double entendres regarding a whisky's characteristics and parts of the female anatomy. Showing a sultry young woman walking down an Islay street, the advert reads: "Loads of body, plenty of legs and a lovely mouthfeel." He jokes: "We've had lots of complaints about that – I can't imagine why."

The agency has also been aiming to give Ardbeg buyers and drinkers a sense of ownership through the creation of a mythical organisation called the Ardbeg Committee. The distillery lay dormant from 1981 to 1997, and one of the committee's goals is to drink enough of its whisky to ensure that it never ceases production again. It now has 25,000 members in more than 90 countries.

Soon after its formation, Story was invited to bid for the National Australia Bank account. It at first secured the Yorkshire and Clydesdale bank business, but a year later it also got its hands on NAB's other European brands – Dublin-based National Irish Bank and Belfast-based Northern Bank.

The agency has produced a television campaign for all four NAB European brands, which has been on air since February.

Sue says: "After extensive research it became clear, across all the regions, that people identified with those brands."

"Probably because of their size they were seen as very empathetic to the local community. They're known for being friendly and open and the ad was a direct result of that."

The ad – which shows the bank intervening at critical moments in people's personal and business lives – targets two main groups: customers and also NAB's own staff. Dave says: "The [other aim] was to remotivate staff and to demonstrate they are a big player again."

Story also recently extended its relationship with the cable television and telephony player NTL Europe. Explaining why Story was selected, Grant Law, NTL's marketing director for Scotland, says: "Story not only responded brilliantly to our challenging creative brief but placed this within a strategic context that can drive us forward. Its work shows enormous empathy with our customers."

But why did the quartet of friends become dissatisfied at the Oneagency, which they had restored to healthy profits and a turnover of £7m by the time they left?

Sue says: "You can imagine that if you have turned a business around, it's something you'd want to



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"I've found a lot of difficulty dealing with bureaucrats and public servants and lawyers -- they tend to have a sense of themselves of importance, and that they are above other people."

The Australian Chamber of Commerce and Industry said a recent survey of hundreds of employers had found eight key attributes companies are seeking in employees.

"They are communication, teamwork, problem solving, self management, planning and organising, technology, learning, and initiative and enterprise," said the chamber's employment and training director, Steve Balzary.

"We would really like to better align skills in those eight key areas to the graduate skills test.

"Increasingly, the challenge for higher education is how to better connect the academic learning with the workforce."

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Spam Hit All-Time High In May

Correspondents in New York June 9

Unwanted emails, or spam, surged to an all-time high in May representing as much as three-quarters of all email traffic, according to a survey.

The internet security firm MessageLabs said of some 909 million emails scanned at its customers, 691.5 million were intercepted as spam, or 76 per cent.

The firm said the percentage of virus-infected emails held steady at around 9.1 per cent.

"Email-borne viruses have plagued businesses for years, whereas spam has become the primary pain point only recently and now far surpasses the number of virus-infected emails," said Mark Sunner, chief technology officer at MessageLabs.

"In spite of a convergence of attack techniques, the growth patterns remain different. Spam levels follow a constant upwards curve while viral threats remain steady. The exception is when volumes spike during major outbreaks such as MyDoom or virus wars break out between the authors."

A separate report Monday by Nucleus Research found that the average cost of spam per year per employee more than doubled from the previous year to \$US1,934.

That report found the average employee receives nearly 7,500 spam messages per year, up from 3,500 in 2003.

It also found that companies using spam filters report that on average they are able to filter only 20 per cent of the incoming spam, down from 26 per cent in 2003.

"As spam continues to spiral out of control, so do the associated costs to organisations, and weak legislation has not had a strong impact on reducing the amount of spam clogging inboxes every day," said Rebecca Wettemann, Nucleus Research's vice president for research.

"Filtering technologies are doing their best to lessen the impact ... but the exponential growth of spam limits their effectiveness."

Agence France-Presse

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Toshiba puts Napster on laptops

Correspondents in California June 9

Toshiba Digital Products Division began shipping Satellite laptop computers pre-installed with Napster's online music service.

Napster, a unit of recording software provider Roxio, said it will give a one-month free trial of its subscription music service to all new Toshiba notebook buyers. The Napster service costs \$US9.95 a month.

The companies did not disclose financial terms of the deal.

The Napster service will appear as a desktop icon on all Satellite-brand notebook computers, the companies said.

Toshiba said it chose the Napster service because it allows users to download an unlimited amount of music and because the songs can be played while online or offline.

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Optus Opts For Indian Centres

Michael Sainsbury June 8

Optus has joined the ranks of Australian telecommunications companies using cheap labour in India for some of its call centre operations.

Melissa Favero, freshly appointed corporate affairs manager for the Singapore government-controlled company, confirmed last night that Optus used at least two companies with Indian call centre facilities.

Optus mobile subsidiary SIMplus - formerly RSLCom Mobile - had been using Perth-based Intelcom's Indian call centre to market mobile phone plans to customers of rivals such as Telstra.

Ms Favero revealed that Brisbane call centre company Avoncore used its Indian facility to book in installation and maintenance appointments for Optus residential services. "Optus will always maintain a call centre presence in Australia and has about 4000 such staff here," Ms Favero said.

It is unclear how many Australian jobs may be affected.

Last September, Optus's biggest market rival Telstra, which is 50.9 per cent owned by the Government, revealed that software development activities for the company by one of its contracted software partners IBM would be conducted in India.

Since then Telstra has handed out contracts to Indian information technology companies Infosys and Satyam. There have been rumours that Telstra's contractors, which together perform the bulk of the telco's software development and a range of other tasks worth more than \$500 million each year, will send more work to India this year. But Telstra spokesman Rod Bruem would only say that "Telstra has no offshore call centres and has no plans for any".

The mobile phone market's newest player, Hutchison Telecommunications, also uses Indian call centres for customer service.

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The original version of Google's search kit is being used by "several hundred" customers, Girouard said. Google is hoping to drum up more demand by offering a more powerful product and making it even simpler to run - the company says the kit can be installed in about 30 minutes. The market for intranet search products remains relatively small. The industry leaders, Verity and Autonomy, combined to generate slightly less than \$US200 million last year.

Google, meanwhile, posted 2003 revenue of \$US962 million.

Online advertising accounted for all but 4 per cent of Google's first-quarter revenue - a heavy concentration that has raised mild concerns among some industry analysts as the company prepares for a highly anticipated initial public offering of stock. The IPO is still several months away.

Although online advertising is expected to remain its financial foundation, Google is trying to diversify. The company reportedly is working on a product, code named "Puffin", that would search information stored on the hard drives on individual computer users - an initiative that would intensify Google's rivalry with software giant Microsoft. Google so far has declined to discuss the Puffin project.

Microsoft's next operating system, expected to be released in 2006 or 2007, is supposed to include a search feature that sorts through the content stored on computer desktops and the internet. Other recent Google projects have included a free email system - still available only to a select group - and an online social networking site called Orkut.

Google's success searching publicly accessible websites doesn't necessarily mean the company will be able to transfer its prowess to privately guarded intranets, said industry analyst Stephen Jue of RBC Capital Markets. Both Yahoo! and Inktomi - now owned by Yahoo - have previously pursued largely disappointing expansions into corporate search, Jue said.

The Associated Press

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Some Ducks Quacker Than Others

From correspondents in London June 4

TO the untutored ear it might just sound like a load of quacking, but British researchers have discovered that the country's ducks, much like its people, have distinct regional accents. Ducks from London make a rougher sound which resembles shouting so that fellow birds can hear them above the hubbub of city life, whereas their country cousins make a softer sound, the study found.

The differences were uncovered after academics at London's Middlesex University recorded the calls of ducks at a city farm in the capital and at a tranquil location in Cornwall, southwest England, the Guardian reported.

There was a clear difference in sound, English language lecturer Victoria de Rijke told the paper, with the London ducks "much louder and (more) vocally excitable".

"The Cornish ducks made longer and more relaxed sounds, much more chilled out. The cockney (London) quack is like a shout and a laugh, whereas the Cornish ducks sound more like they are giggling," she said.

"London ducks have the stress of city life and a lot of noise to compete with, like sirens, horns, planes



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Many of the Taiwanese on the list are beneficiaries of the worldwide boom in flat-panel displays. As PC users junk their clunky old cathode-ray-tube monitors and replace them with sleek thin screens, the Taiwanese companies that make thin-film transistor liquid-crystal displays (TFT-LCDs) have enjoyed impressive results. That's behind the rise of AU Optronics, No. 17, which is one of the world's largest producers of TFT-LCDs.

These aren't the only Taiwan tech companies that have gotten a boost. LCD components makers have, too. Take Novatek Microelectronics, No. 20. It's a "fabless" company, a chip-design house without a semiconductor manufacturing plant of its own. Novatek farms out its production to foundries, chipmakers that produce for others. It was among the top 10 most profitable companies, largely due to its focus on designing chips used in making LCDs.

Nonetheless, some of the Taiwanese are by now regulars to the list. Quanta Computer, the island's biggest producer of notebook PCs is No. 3 this year, following up on its No. 2 rank in 2002. (For 2003, Quanta managed just a No. 34 ranking.) Its revenue soared last year, and a 108.9% increase gave it the second-best sales growth of any IT 100 company. Quanta is tops in original design manufacturing (ODM).

Quanta doesn't just produce notebook PCs for Dell (DELL), Hewlett-Packard (HPQ), Acer, and just about any other name you can think of. It also does much of the design work. Now that margins in the notebook PC business have shrunk so much that it makes little sense to produce the machines in Taiwan, Quanta has been pushing aggressively to develop its production base in China, with a huge facility in the Shanghai area.

Quanta is hardly giving up on Taiwan, though. Across from corporate headquarters in a technology park close to Taipei, construction is now under way on a large new research and development center.

INDIAN CHALLENGE.

When it comes to IT 100 consistency, even more impressive is Hon Hai Precision Industry, which is a top 10 perennial. No. 4 Hon Hai is the outsourcer of choice for companies looking for a low-cost manufacturer of PCs, game consoles, cell phones, and other electronic gear. It improved on its 8th-place ranking last year and almost matched its No. 3 spot in 2002. Hon Hai is the leading Asian player in the ultracompetitive world of what's known in the industry as electronic manufacturing services. In EMS, a company like Sony does the design work for the PlayStation game console and then hires Hon Hai to manufacture it.

As the world's electronics industry has gravitated to China, Hon Hai, with its vast production base in the mainland, has an edge over North American rivals like Celestica (CLS) and Solectron (SLR). Indeed, Hon Hai is now closing in on Flextronics (FLEX) as the world's EMS leader after paying \$1 billion in stock last fall for a Taiwanese telecom equipment maker. Last week, Hon Hai approved a plan to spin off a division that makes cellular phones, probably in Hong Kong.

One potential challenge for Hon Hai: India, which seems to be emerging as a new battleground for the EMS industry. While Flextronics has an edge in manufacturing in the West and Hon Hai is ahead in China, neither has a leader in India. The country has lagged behind China as an electronics market and as a manufacturing destination. But now that India has the world's fastest-growing cell-phone population, manufacturers are starting to think again about whether they can ignore the country.

Flextronics early this month announced that it was buying a controlling stake in Hughes Software Systems for \$226 million. Hon Hai's ability to match Flextronics in markets where it doesn't have a natural advantage will go a long way in determining whether the Taiwanese company can make it to



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been spent resurrecting the country more quickly -- and helped push Japan into troublesome deflation. Even today the nation continues to experience major structural problems: a still-fragile banking system, a central-government debt burden equal to 160% of gross domestic product, and a sovereign credit rating more suited to a banana republic than to the world's second-biggest economy. Nonetheless, Japan clearly is moving forward. Here's why:

Japan was written off as hopeless as recently as 18 months ago, but the numbers are finally looking good. What's going on?

To understand the answer, you have to remember Japan in its heyday: Ever-higher exports to the U.S. built up the strength of the keiretsu, those vast networks of corporations that supported all members, no matter how weak. Meanwhile, high prices at home propped up domestic industries and robbed the Japanese consumer of buying power. The system worked -- until the keiretsu banks fueled a huge property bubble and gigantic overcapacity in the manufacturing sector. The banks refused to cut off deadbeat borrowers, and recession set in. Not even continued U.S. demand for Japanese products could end the downturn that started in 1993 and staggered on for nearly a decade.

Today, though, Japan is a beneficiary of global trends that did not exist when it slid into trouble. First, there's the rise of intra-Asian trade. A half-decade ago few understood how much Japan would gain from China's boom. Chinese manufacturers and consumers have been eager buyers of the machine tools, chipmaking equipment, cars, and consumer products that Japan excels at making. Last year two-way trade with China shot up 30.4%, to \$132.4 billion, for the first time eclipsing import and export volumes with the U.S. And it's not just China: Southeast Asia has also bounced back from the Asian financial crisis of 1997-98. Last year, Japanese exports to Southeast Asia rose 10%, to \$60 billion.

Japan is also raking in money from the growing global demand for must-have gadgets such as digital cameras, flat-screen televisions, and DVD recorders -- products where it still has an edge. Fujitsu Hitachi Plasma Display Ltd. and Matsushita Electric Industrial Co. (MI) together control 42% of the global market for plasma-display screens and are spending nearly \$1 billion each to build new factories in Japan. Meanwhile, Sony, Canon, and Olympus have a lock on half the global market for digital cameras. The digital-appliance boom has in turn created business for Japanese machine-tool companies that make specialized machinery needed to crank out microchips used in these products. Machine-tool orders surged 25% in 2003, to \$8.3 billion, government data show. Sure, Japan faces competition from Korea, Taiwan, and China, but it leads in key technologies such as tiny hard drives and specialized chips used in digital gizmos.

Tech isn't Japan's sole salvation. Something else happened, too, with little help from the government of Prime Minister Junichiro Koizumi or any other politician: The mighty keiretsu started to lose their iron grip on the economy. Constant deflation, heavy debt loads, and stagnant demand at home chipped away at corporate profits, forcing the weakest into bankruptcy. The tight relationships among banks and borrowers, manufacturers and suppliers started to fray. To survive, the strongest companies went offshore to produce their goods and ship them back to Japan at ever-lower prices.

At the same time, Japan's consumer psychology started to change, and deflation, ruinous as it was, proved to have a hidden payoff. Shoppers demanded lower prices and got them -- from entirely new retail categories such as "100 yen" shops, discount grocers, and warehouse-style department stores offering more and cheaper imported goods. So Japan's hard-pressed consumers finally could stretch their spending power, even on scantier wages. With employment picking up and strong economic growth, many now have the best of both worlds: steady incomes and still-decent prices.

Global investors are starting to amplify these trends. Until the mid-1990s about half of equities in Japan were held by banks, a legacy of the keiretsu cross-shareholding networks. That figure is now



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about 25%, according to fund manager Sparx Asset Management. The banks sold off their shares in 2001 and 2002 to meet new capital requirements imposed by regulators. Those sales sent the Nikkei 225 stock index to 20-year lows 13 months ago. But the sell-off sparked interest in Japanese stocks among foreign investors, who poured \$77 billion into Japanese equities last year and now control 30% of the shares traded on the Tokyo bourse.

Those foreign shareholders are demanding better corporate governance, profitability, and transparency. In December, for instance, private equity fund Steel Partners Japan Strategies LP launched a hostile takeover of Yushiro Chemical Industry Co. Why? Steel Partners, which owned 8.9% of the cash-rich machine-oil maker, was tired of the company's low stock price and paltry dividend. Yushiro fended off the attack, but not before a panicked management agreed to raise its dividend fourteen-fold. Meanwhile, dealmaker Wilbur L. Ross Jr. has established a \$200 million fund with the California Public Employees' Retirement System pension fund that will buy Japanese shares and agitate for better governance. American private equity players are at work, too. Carlyle Group and Lone Star are on the prowl for turnaround opportunities after seeing the success Ripplewood Holdings had with its investments in Japan Telecom and the near-bankrupt long term credit bank, now called Shinsei.

Isn't too much of Japan's recovery linked to the volatile, overheated China trade?

That's a legitimate worry. "Japan's deflation is just the mirror image of China's investment cycle overshooting," says Hong Kong-based Morgan Stanley (MWD) economist Andy Xie. Regarded as a China bear, Xie thinks the good times will be short-lived. The bubble in China has sparked a capital-expenditure turnaround in Japan, he says, and that has fed into the rebound in consumer spending. Once China collapses, Xie says, Japan's economy will suffer heavy collateral damage.

The argument, though, may be overblown. Few think the long-term outlook for China is anything but rosy, and there are some signs that the country is headed for a soft landing. Unless the U.S. were to crash at the same time, it's hard to imagine Japan falling back into recession. Moreover, such reasoning ignores the fact that, while Japanese companies have rushed to build up Chinese plant capacity to sell goods to consumers there, they're also using China as a cheap production base to sell products back home and around the world. Imports from China shot up 21.9%, to \$75 billion, in 2003. About 15% of that, says the Japan External Trade Organization, was "reverse imports" -- subsidiaries of Japanese companies sending Chinese-made PCs, printers, and DVD players back home. China may see boom-and-bust periods that crimp Japanese export growth, but Corporate Japan still benefits from having a vast production base on the mainland.

It's also hard to argue that China has much to do with the rapacious domestic demand for digital appliances. The boom started inside Japan about two years ago; today roughly half of all Japanese households have digital cameras, and one-third own DVD players. If you have ever visited a space-starved Japanese home, you can quickly grasp why sleek flat-screen TVs are all the rage. In March, Japanese consumers bought 216,000 of them, up 72% year-on-year. Now that these products have been successfully marketed at home, companies are boosting capacity to sell more overseas. Matsushita just announced plans for a new factory to crank out 3 million plasma-display panels a year. When it comes to digital TVs, says Fumio Ohtsubo, a senior managing director with Matsushita, "we can't be beaten."

Has Japan Inc. really restructured enough to regain its global stature?

It depends on which part of Japan Inc. you're talking about. There has been a true revival in the competitiveness of the biggest multinationals, particularly in electronics, steel, and autos. Nissan Motor Co. (NSANY), for instance, had a near-death experience but was revived by foreign capital and world-class managers such as CEO Carlos Ghosn. Today, Nissan is enjoying record profits. Ghosn sees enormous potential in Japan given its educated and diligent workforce, engineering smarts, and manufacturing prowess. "Every problem has a solution," he says. "The key is getting people thrilled

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about what's going on in the company."

Other Japanese outfits have relied on homegrown managerial talent to pull out of the rut. At Matsushita, CEO Kunio Nakamura has closed or streamlined dozens of plants, cut the workforce by 20% since 2000, and last year poured some \$5.5 billion into research and development on products such as camera phones and flat-screen TVs. Even Old-Economy mainstays are getting into the act. Toray Industries Inc., a manufacturer of synthetic fibers, now produces materials needed for making LCD panels. And steelmaker JFE Holdings Inc. has stormed back to profitability with decisive downsizing and a shift to higher-margin products such as sheet metal for carmakers. All in all, the average return on equity of Japan's 400 top nonfinancial companies has jumped fourfold, to 7%, since 1998. Goldman, Sachs & Co. (GS) thinks it could hit 10% by 2006. Another new trend is part-time employment, which adds to companies' operating flexibility. Last year the number of temps soared 21.8%, to 2.13 million workers -- 2 1/2 times as many as five years ago, or 3.5% of the workforce.

That said, there are still plenty of backward-looking companies. While labor productivity increased about 2% overall in 2003, the biggest gains came from giants such as Toyota and Canon. Companies in services, retail, construction, and food processing -- which represent some 60% of total employment -- lag far behind, says Nikko Citigroup Ltd. (C) economist Jeffrey Young. "In some cases, productivity is falling outright," he points out. That lack of productivity translates to scarce profits. In the past fiscal year the five most profitable enterprises represented some 25% of the pretax earnings of Japan's 300 biggest companies, Young says. So while Japan has made progress, its restructuring drive still needs to go deeper.

The banking sector seems to be bouncing back. Will that make much of a difference?

This is one area where Koizumi deserves credit for getting the job done. His appointment of Heizo Takenaka as Japan's economics czar and top bank regulator was smart. Takenaka and his staff at the Financial Services Agency have forced Japanese bankers to reclassify marginal loans as the duds that they really are and made them drop accounting gimmicks that hide problems. For instance, in March, FSA auditors discovered that banking group UFJ Holdings Inc. had underreported loans by some \$9.1 billion and needed to shore up reserves by \$8.4 billion. UFJ reported a \$3.6 billion loss last year -- a shock, but a refreshing change after years of book-doctoring with tacit government permission.

The other side of the bank problem is that many companies that were going to go under have already gone bankrupt, while borderline cases have returned to health as the economy improved. Last year, the number of corporate bankruptcies fell by 16.6%. The banks have written off much of the debt owed by those companies or sold it to a government loan-workout corporation. So the level of nonperforming loans at major Japanese banks has dropped by about half over the past two years, to \$124 billion, or about 5% of their loan books. This development could prove a tremendous boost for the economy. With the banking sector in a funk, total outstanding loans have been declining for the past six years, hobbling the ability of enterprises to raise capital for expansion. True, the rebound in the Nikkei has reopened a key source of financing, and the best-run companies have no problem raising money in global markets. Still, Japan needs a vibrant banking sector to fund new ideas.

What are the challenges for Japan now?

Japan still suffers from deflation, which took root in 1998. Consumer prices have been dropping at about 1% annually, and land prices have fallen since 1992. Most economists, though, think prices are hitting bottom and will start rising modestly late next year.

The government also faces a Godzilla-sized debt problem. Its national pension scheme is such a mess that most workers -- and even some politicians -- don't even bother to pay into it. These troubles are fixable provided Japan keeps growing and Koizumi can push through higher pension premiums and rein in government spending. But it will take years, if not decades.

