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Cover story

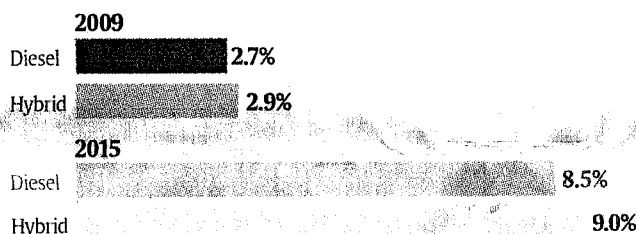
Germany's carmakers take the green road

Coming: Mercedes-Benz plans to roll out some gasoline-electric models.



Gasoline alternatives expected to grow

Hybrid and diesel sales as a percentage of U.S. new car and truck sales:



Number of hybrid models sold in the U.S.



Source: J.D. Power and Associates
By Jim Sargent USA TODAY

Luxury buyers can expect to see an array of choices

By James R. Healey
USA TODAY

After years of championing diesel power, high-end German automakers are rushing into hybrids. They aren't abandoning diesels — more are coming. And they know gasoline engines will dominate sales for the foreseeable future.

But they've decided hybrids are the best way to improve their green image, boost fuel economy to help meet tight 2016 U.S. standards that favor hybrids and target what looks to be a bigger market.

"The smart play is to hedge your bets by having

entries in both categories," diesel and hybrid, says Michael Omotoso, powertrain analyst at consultant J.D. Power and Associates. "There's still a lot of perception on the part of American consumers that diesels are dirty, so the strategy is to have hybrids for those who think diesels are dirty."

"We are taking a very broad approach. It's more than a statement. It's an opportunity for us to gain familiarity with (hybrids) for broader use," BMW spokesman David Buchko says. He points out that BMW also is developing hydrogen-fueled vehicles and its Mini brand has a demonstration fleet of plug-in electric Mini Coopers in the U.S.

The array of gasoline-electric models coming from Mercedes-Benz, BMW, Porsche and Audi, in addition to their diesel variants, will give luxury buyers a striking number of choices. But it means that choosing a drivetrain will amount to betting

on a specific technology.

And a bet on gas-electric hybrids, which might seem futuristic at the moment, could be a bet on what could soon be outmoded technology.

In fact, German makers are using their expertise in diesels, which can offer a 30% fuel mileage edge over gasoline, to combine the two alternatives in diesel-electric hybrids. Such a matchup would get far better mileage than gas-electric models, says David Champion, head of auto testing at *Consumer Reports* magazine. But, "You have the double whammy of the extra cost of a diesel and the extra cost of a hybrid powertrain."

Still, diesel-electric hybrids could be the only way to meet emissions standards envisioned in Europe that would be so tight they'd equate to a

Please see COVER STORY next page ►

Some small businesses still struggle to get credit

Nearly 40% of companies see pinched financing

By Laura Petrecca
USA TODAY

The big squeeze on small-business financing continues, despite the overall loosening of U.S. Small Business Administration-backed loans in re-



SBA loan slide

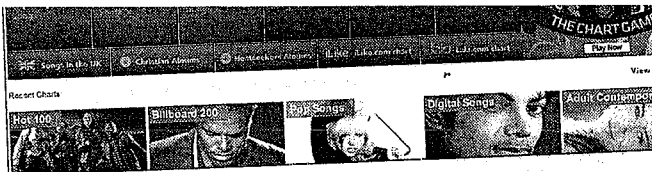
Many banks have dramatically cut back on 7(a) lending: (in millions)

First 7 months of FY 2009	Chg.
Wells Fargo ¹	\$353 1.9%
PNC	\$85 -18.2%
US Bank	\$181 -36.4%
Wachovia	\$95 -49.9%
JPMorgan Chase	\$43 -85.3%

Competition to create the digital world's leading destination for music fans intensifies as *Billboard* joins the fray today with a revamped website for pop music enthusiasts.

The effort pits the 115-year-old trade publication — owned by Nielsen — against rivals including AOL, Clear Channel, MySpace and Yahoo. *Billboard* says it has an edge because its site, for the first time, will allow all visitors, not just subscribers, to look at *Billboard*'s weekly sales lists from the past 51 years.

"We're taking our charts and putting them on steroids," says *Billboard* Publisher Howard Appelbaum. "You'll be able to use the chart to discover everything about the artists, their discography and every chart position



Free: For the first time all visitors, not just subscribers, will be able to check *Billboard*'s weekly sales charts from the last 51 years.

they've ever had. You just can't get that anywhere else."

There will be separate pages at www.billboard.com for every act that's made the charts. Visitors can read about their history, trade comments with other fans, hear songs, watch videos and buy recordings and concert tickets.

Most material will come from existing services. Lala.com provides the streamed music and handles sales of MP3 downloads. Ticketmaster processes concert ticket sales. AMG supplies infor-

mation about musicians.

That could pose a challenge as *Billboard* tries to attract attention. "Music content and information have become ubiquitous, so you have to have something unique about your offering in order for it to be sought out," Clear Channel's Evan Harrison says. *Billboard* hopes record companies will provide exclusive access to performances and videos.

It also will add a few technological twists to the site. Users can hear a song once for free, and

we'll show you all the charts and you'll be able to create a playlist."

Billboard will also make its services available outside of its website. "We have a couple of cool apps that we're developing for iPhone and Facebook applications," says Joshua Engroff, *Billboard*'s vice president for online.

Billboard has a strong incentive to evolve into a consumer brand as the music industry struggles to reverse years of declining sales. The print magazine's circulation fell 29%, to about 18,385 a week, from 2002 to 2008. Meanwhile, the company projects that ad sales at the website could jump 25% this year, following recent ad deals with large companies including AT&T and Visa.

If that continues, the consumer business, led by the Web, could account for 60% of *Billboard*'s revenue in 2010, vs. 55% this year.

"We expect over time as ourselves," he's
"The iPod ing apart fo half, but thi ple has ad Gene Muns Jaffray. "Th that can hi but it's no l the compar As with r ucts, there

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By Jon Sw
USA TODA

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Greener luxury cars come with high prices

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U.S. mileage requirement of 70 to 80 miles per gallon, says Roland Hwang, vehicle technology expert at the Natural Resources Defense Council, an environmental activist group.

If automakers invest to meet such tight standards in one market, they'll have to try to sell the vehicles in as many markets as possible to help cover their development costs.

"You might say, 'Ah, too expensive; never happen,' but how else do you get to low carbon dioxide emissions?" Hwang says. Carbon dioxide, or CO₂, is a greenhouse gas emitted by internal combustion engines; the more fuel they use, the more CO₂ they emit.

"Does it mean an average \$35,000 or \$45,000 for a vehicle instead of \$25,000? I think not. Innovation will drive down those costs," Hwang predicts.

The German move to add hybrids is not limited to the high-dollar brands. Mass-market Volkswagen plans one by 2011.

And dozens more hybrid models are coming from the likes of Ford Motor, General Motors, Honda, Toyota and others. J.D. Power forecasts more than 100 models from all makers on sale in 2015, up from 20 now.

But the shift by premium German automakers long identified with diesels, or simply performance gasoline engines, is more dramatic. It shows the pressure automakers are under to strive for the 35.5 mpg average set by the U.S. government for 2016.

Cover story

up for a tough battle. In the U.S., the best-selling hybrids are low- and midprice models. They will have to pull buyers into much higher-price hybrids at a time when, Omotoso says, "There's very little market for them."

Lexus is the only luxury brand selling hybrids. Its top model, the \$114,000 LS 600h L sedan, is barely moving — just 31 were sold last month, 157 the first half of this year, down 75.4% from a year ago in a mar-

ket off 35.1%, according to sales tracker Autodata. Its next-most-expensive hybrid, the \$57,000 GS 450h, had just 27 sales last month and 208 the first half, down 54.7%.

"Lexus is not immune to the soft sales ... across the auto industry," says Brian Bolain, Lexus' U.S. marketing manager. But no thoughts of bailing out, he says: "Lexus is committed to hybrid technology."

On the other hand, the German brands could profit by having less competition in the diesel market, at least temporarily.

Honda and Nissan have abandoned plans for diesel sedans in the U.S. by next year. Detroit makers have delayed plans for diesel cars and light-duty trucks, unable or unwilling to shoulder the development costs at a time

when Ford Motor is losing money and General Motors and Chrysler landed in bankruptcy court.

What if high-price hybrids from companies not known for them flop? Says Omotoso, "Even if they sell only a few hundred, they'll keep them here kind of as a test fleet. And for positive PR."

What's coming from Germany:

Mercedes-Benz

► S400 hybrid sedan goes on sale next month at \$88,825. It's a so-called mild hybrid that shuts off the engine at stoplights and gets rolling with the help of the electric motor but relies mostly on its 3.5-liter gasoline V-6. Highway forecast is 30 mpg.

► ML450 SUV rolls out in December at a price expected at about \$55,000. It uses a two-mode full-hybrid system jointly developed with GM, BMW and the old DaimlerChrysler. It runs on one or both electric motors as long as possible before the gas

engine kicks in. The mpg forecast is 21 city, 24 highway.

BMW

► X6, a two-mode full-hybrid SUV, is due in the fourth quarter. No pricing or mpg announced; expect \$65,000 or more.

► 7 Series large sedan with mild hybrid is due in early 2010. BMW predicts 15% better mpg: about 17 city, 20 highway. Power forecasts price of about \$90,000.

Porsche

► Cayenne S SUV hybrid due in 2010. Price, mpg unknown.

► Panamera four-door sedan hybrid is coming. Power forecasts 2011. The gasoline Panamera goes on sale in the U.S. this year, starting at about \$91,000.

Audi

► Q5 SUV full hybrid due in 2011. Price, mileage unknown.

Corrections & Clarifications

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And it will put a menu of gas-electric vehicles in showrooms with near-six-figure prices. The Germans are betting that won't matter to at least some buyers.

A buyer interested in the \$88,000-plus hybrid version of the big Mercedes-Benz S-Class sedan, for example, "is fairly affluent and an early adopter, someone looking for the newest technology out there," says Mercedes-Benz spokeswoman Donna Boland. A hybrid S-Class equipped with exotic lithium-ion battery technology "is going to have a lot of appeal within the S-Class buyer group."

"Owners want to be environmentally responsible, but they shouldn't have to make sacrifices—that should be up to us to figure out," Boland says. And offer choices: "Ultimately, it's not going to be one size fits all. There will be customers in different parts of the country whose needs point to different types of technology."

The Germans' move sets them

higher-price hybrids at a time when, Omotoso says, "There's very little market for them."

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