



# **Applications in Basic Marketing**

*Clippings from the Popular Business Press*

1995-1996 Edition

**Perreault ☉ McCarthy**

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## **Clippings from the Popular Business Press**

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1995-1996 Edition

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and

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# Preface

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This is the sixth annual edition of *Applications in Basic Marketing*. We developed this set of marketing "clippings" from popular business publications to accompany our texts—*Basic Marketing* and *Essentials of Marketing*. All of these clippings report interesting case studies and current issues that relate to topics covered in our texts and in the first marketing course. We will continue to publish a new edition of this book every year. That means that we can include the most current and interesting clippings. Each new copy of our texts will come shrink-wrapped with a free copy of the newest (annual) edition of this book. However, it can also be ordered from the publisher separately for use in other courses or with other texts.

Our objective is for this book to provide a flexible and helpful set of teaching and learning materials. We have included clippings (articles) on a wide variety of topics. The clippings deal with consumer products and business products, goods and services, new developments in marketing as well as traditional issues, and large well-known companies as well as new, small ones. They cover important issues related to marketing strategy planning for both domestic and global markets. The readings can be used for independent study, as a basis for class assignments, or as a focus of in-class discussions. Some instructors might want to assign all of the clippings, but we have provided an ample selection so that it is easy to focus on a subset which are especially relevant to specific learning/teaching objectives. A separate set of teaching notes discusses points related to each article. We have put special emphasis on selecting short, highly readable articles—ones which can be read and understood in 10 or 15 minutes—so that they can be used in combination with other readings and assignments for the course. For example, they might be used in combination with assignments from *Basic Marketing*, exercises from the *Learning Aid for use with Basic Marketing*, or *The Marketing Game!* micro-computer strategy simulation.

All of the articles are reproduced here in basically the same style and format as they originally appeared. This gives the reader a better sense of the popular business publications from which they are drawn, and stimulates an interest in ongoing learning beyond the time frame for a specific course.

We have added this component to our complete set of Professional Learning Units Systems (our P.L.U.S.) to provide even more alternatives for effective teaching and learning in the first marketing course. It has been an interesting job to research and select the readings for this new book, and we hope that readers find it of true value in developing a better understanding of the opportunities and challenges of marketing in our contemporary society.

*William D. Perreault, Jr. and E. Jerome McCarthy*

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# Acknowledgments

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We would like to thank all of the publications that have granted us permission to reprint the articles in this book. Similarly, we value and appreciate the work and skill of the many writers who prepared the original materials.

Linda G. Davis played an important role in this project. She helped us research thousands of different publications to sort down to the final set, and she also contributed many fine ideas on how best to organize the selections that appear here.

The ideas for this book evolve from and build on previous editions of *Readings and Cases in Basic Marketing*. John F. Grashof and Andrew A. Brogowicz were coauthors of that book. We gratefully recognize the expertise and creativity that they shared over the years on that project. Their fine ideas carry forward here and have had a profound effect on our thinking in selecting articles that will meet the needs of marketing instructors and students alike.

We would also like to thank the many marketing professors and students whose input have helped shape the concept of this book. Their ideas—shared in personal conversations, in focus group interviews, and in responses to marketing research surveys—helped us to clearly define the needs that this book should meet.

Finally, we would like to thank the people at Richard D. Irwin, our publisher, who have helped turn this idea into a reality. We are grateful for their commitment to making these materials widely available.

**W.D.P. and E.J.M.**

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# **Marketing's Role in the Global Economy and in the Firm**

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# HOW TO GET CLOSER TO YOUR CUSTOMERS



*Often, you  
don't need  
huge budgets for  
effective marketing*

BY CHRISTOPHER POWER

They were two of marketing's greatest entrepreneurs. In 1916, Clarence Saunders of Memphis opened a small grocery store—the forerunner of today's Piggly Wiggly—where shoppers, not clerks, picked up items themselves and took them to the cash register. In 1930, Michael Cullen of Long Island added a twist: He turned a parking garage into a spacious supermarket that offered unprecedented variety. To spur demand, Cullen took out big newspaper advertisements to promote name brands such as Ivory soap and Maxwell House coffee. The mass-marketing revolution in America was born—and retailers and brand-name manufacturers were to profit immensely.

Skip forward six decades. Retailers of every stripe are under intense pressure. Merchants and developers have doubled the amount of store space in the U.S. over the past 12 years, even as Americans' real income has barely grown. Giant chains such as Wal-Mart Stores Inc. dominate this glutted market and push their own store brands. Increasingly, established marketers such as Procter & Gamble Co. and Philip Morris Cos. vie for consumers who have often concluded that the only difference between brands is price. Private-label and discount cigarettes, for example, now account for 37% of industry sales, up from almost zero 12 years ago.

If classic mass-marketing no longer packs the same punch, what's a company to do? Marketers are starting to answer that question the way Karl A. Steigerwald does: "We have to go back to being small shopkeepers," says the marketing director of Spiegel Inc. Steigerwald obviously doesn't mean tearing down supermarkets. In some ways, the task is more daunting than that: Steigerwald thinks marketers should travel the painful road back to developing relationships with customers who are now grossly overloaded with product choices.

That means thinking small and acting entrepreneurial—whether you're a giant such as Spiegel, PepsiCo, or 3M, or an up-and-comer such as Manco, a duct-tape maker, or Health Valley Foods, a New Age food marketer. It also means stepping back from the old tactics of 30-second commercials, product line extensions, and massive promotions, and thinking instead of new ways to appeal to consumers. Companies both big and small can accomplish this through technology that uses vast new data bases to plumb people's buying habits. Or they may devise promotional strategies that make a marketing campaign especially memorable—and create a tighter bond with the consumers. The idea, whether big or small, is to recapture the drive and originality of Saunders and Cullen.

If those marketers were alive today, they might already have latched onto data-base marketing. That's what Pizza Hut, PepsiCo Inc.'s \$3.6 billion fast-food unit, has been doing. This year it is spending an estimated \$20 million on this strategy, which involves creating electronic profiles of some 9 million customers who have gotten deliveries of its pizza. Built from phone orders since the company began home delivery in 1984,

the data base can track pizza-gobbling habits across the country. As a result, says marketing chief Robert Perkins, "you can target the relevant message to the right consumer." As a direct marketer for the Republican Party in the 1980s, he pioneered data-base methods that reaped millions in contributions. Now, his goal at Pizza Hut is "returning marketing to the 19th century," a time when merchants knew their customers by name.

He can't do that exactly. But in promotions this summer, his office sent out coupons that matched the tastes of the addressees: Lovers of Neapolitan-style pizza got offers for those, not for thick-crust pizza. Consumers who had been willing to try new foods got a mailing for Bigfoot, a giant-pizza innovation. Customers who had not ordered in a while got deeper discounts than others. Very precise—and very successful: Analysts expect third-quarter Pizza Hut earnings to rise 25%.

At Spiegel, Karl Steigerwald is thinking 19th century, too. In fact, catalog-merchandise buyers at the \$2.2 billion marketer are now nicknamed "shopkeepers." That title reflects the changes Spiegel made in order to rebuild its earnings, which declined 77% between 1989 and 1991. Spiegel executives decided that the company's big catalog had to act like a small, customer-friendly one. To achieve that, Steigerwald told buyers for his book to assume they were creating their own specialty catalogs. Their offerings would then be displayed more distinctly inside the old catalog, somewhat like boutiques in a mall.

Liberated, the buyers surveyed customers to devise "shops" for women who wanted romantic apparel, or for customers who wanted cheaper prices. They also set up a system to track sales

(cont.)

by item to make sure the new catalogs-inside-the-catalog reached their intended customers. The result: some 20 catalogs folded inside the big book, and a 12% sales gain last year, as well as a 32% jump in operating income.

Spiegel and Pizza Hut are both giants that have used their ample finances to get closer to customers. But small marketers need not despair. They can use sophisticated technology too. And they can use nimbler marketing strategies to outwit bigger rivals.

Jack Kahl knows about taking on giants. The chief executive of Manco Inc. in Westlake, Ohio, has transformed his maker of duct tape and packaging from a \$4 million company in 1977 to an \$85 million enterprise this year. In giant chains such as Wal-Mart and Kmart, Manco now leads the market for tape with about a 40% share, up from almost zero in 1979.

His secret: Ignore the conventional wisdom, which says you can't do much with a ho-hum commodity product, especially when you're facing big, well-entrenched competitors. Kahl noticed that customers often called duct tape "duck tape." Why not create a duck mascot and inject some humor in the marketing? "I said: 'If I can make this work, we'll have a brand name,'" recalls Kahl. Soon, a goofy yellow duck was festooning Manco's packaging and in-store displays. Consumer recognition—and sales—took off.

Manco would probably be just a flash in the pan, though, if Kahl had not followed the fun and games with serious legwork. He courted Wal-Mart, offering special computer-based inventory control that dramatically raises efficiency. He also competes with 3M and others on price, cutting costs to retailers by up to 20%. Lacking funds for massive ad campaigns, Kahl sends out 32,000 greeting cards four times a year to buyers and managers at stores he supplies. Retailers also get his newsletter, which prints insights from everyone from Socrates to Thomas Edison. The store managers clearly remember him—and back his products against mighty competitors.

Kahl created a new identity for a tired product. Likewise, W. L. Gore & Associates, the maker of Gore-Tex fabrics, created a new product in a tired category, dental floss. Then, instead of advertising massively, Gore used niche marketing and data-base technology to create customer enthusiasm.

The company's technicians applied their lessons in creating strong fibers to make a superslick floss. The product, called Glide, doesn't snap, slash gums,

## NARROWING THE GAP

### HOW BIG MARKETERS CAN ACT AS DEFTLY AS SMALL COMPANIES...

<b>TAP THE DATA BASE</b>	Use purchase data to customize incentives and direct-mail based on demographics, location, product preference, and price.
<b>HIRE FROM SMALLER RIVALS</b>	They excel at "guerrilla marketing"—using local promotions to get close to customers and break through advertising clutter.
<b>HELP YOUR RETAILER</b>	Creating store-specific marketing programs—as Dannon does for retailers selling its yogurt—will win retailer loyalty, differentiate your product, and build local sales.

### ...AND SMALL MARKETERS CAN OUTWIT THE GIANTS

<b>FIND THE MISSED OPPORTUNITIES</b>	Small marketers can often focus on a relatively neglected product—such as duct tape or dental floss—and take share from a bigger player or increase sales in a tired category.
<b>APPLY THE PERSONAL TOUCH</b>	Smaller marketers can get a big payoff when top executives pay personal attention to customers' letters, retailers' queries, and sales staff's suggestions.
<b>EMBRACE TECHNOLOGY</b>	The cost of data base technology is dropping, making direct-mail marketing a viable tactic for small marketers with tight budgets.

or shred between the teeth. Well and good, but how to take on floss giants Johnson & Johnson and Gillette Co.'s Oral-B division? John Spencer, the Gore manager responsible for Glide, went for word of mouth in his launch last year. Six months before he hit drugstores, he sent samples to dentists for them to hand out free to patients. "The response was incredible," Spencer says.

Because patients liked the floss, many dentists started buying it. To capture customer names for future product launches, Gore at first sold Glide to the public only through an 800 number. In some instances, enthusiasts ordered cases by phone. As a result, Glide had a wide reputation and a core of dedicated users before it hit the stores.

Health Valley Foods, an Irwindale (Calif.) maker of health cereals, soups, and snacks, has been as clever as Gore at outflanking big companies by using technology and niche marketing. Started back in 1970, the company at first sold just to health-food stores. It ignored supermarkets but even so was able to build an unusually loyal following.

It developed a bond with consumers in several ways: The founder, George Mateljan, often answered letters of

complaint and inquiry himself, and consumers were able to get friendly advice on healthy eating by calling an 800 number. The names all went on a mailing list for special promotions on Health Valley's growing roster of products. Soon, Health Valley had enough customer loyalty to move into supermarkets, a remarkable achievement for an independent operating in a mass-consumption category such as cereal. Since 1989, its sales have doubled, to more than \$100 million.

Glide and Health Valley Foods are both rising brands breaking into the crowded marketplace. Dannon, an established brand, is trying something else. By sharing research with retailers and tailoring marketing to individual chains, it increased sales 9% through late August vs. 7% for yogurt overall.

But it's possible, even without deep pockets, to revive a brand that has lost out. Take Soho Beverages Inc., which Tom Cox, a former manager at PepsiCo, bought with a partner from liquor marketer Seagram Co. after Seagram had acquired Soho and failed to make it thrive. The tiny brand, once a healthy niche product in New York and a few other places up and down the

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(cont.)

East Coast, languished inside Seagram because its sales force was unused to selling to delis.

By contrast, Cox has managed to boost sales 50%--from a small base--in the first eight months of 1993. Furthermore, he has done this on a shoestring budget that doesn't allow for such strategies as national data-base marketing. "We collect our data by hand," he says. He hired Korean- and Arabic-speaking college students and

had his people walk into practically every delicatessen in Manhattan in order to acquaint owners with the brand, spot consumption trends, and take orders. To create a new connection with consumers, he sponsored local designated-driver programs--and offered motorists free Soho Soda in the bargain. "It's guerrilla marketing," says Cox.

It's also a lesson in not giving up. The U.S. may not be virgin territory for marketers now, as it was back in the days

of Clarence Saunders and Michael Cullen. Many consumers, however, still thirst for the new. Even more, they like to feel that they're being listened to. That may be a yearning the shopkeepers of old satisfied best--and one that still holds the secret for marketing success.

*With Zachary Schiller in Cleveland*

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# Capitalism Going Through Growing Pains

by James Cox  
USA TODAY

BUDAPEST, Hungary--After all the talk about initiative, empowerment and customer service, the final frontier for employees at the Budapest Marriott is, strangely, fun. They don't seem to be having any. And that bothers General Manager Michael Keskin, an American. He says he's resigned to it for now. "They've learned so much, but they can't seem to learn how to have fun on the job."

Keskin's predicament--if it even amounts to one--could have been astonishing five years ago. Western experts, given their first look at the wreckage left by the collapse of communism, issued bleak assessments of eastern European workers. It would be at least a generation, they said, before a western-style work ethic flowered and the countries developed true market economies. Fun would have to wait.

The experts, it turns out, were both wrong and right. Since the fall of the Berlin Wall--five years ago Wednesday--eastern Europe is a place of rapid-fire change and maddening intransigence. Former East bloc countries--Poland, the Czech Republic, Hungary, Slovakia, Romania and Bulgaria--are lurching forward in fits and starts, experiencing quiet successes and spectacular failures.

From Poland to Romania, entrepreneurship is flourishing, yet thousands of huge, inefficient companies remain in government hands. Stock exchanges and mutual funds are blooming, but many business basics--such as phones and banking services--are in short supply. The newly homeless beg outside modern offices housing new millionaires. Younger workers get raves from western employers, but their parents have been written off as undesirables whose bad work habits are too deeply ingrained.

## WHERE THEY STAND

*Economic slides appear to be over*

For most of the northern countries--Poland, the Czech Republic and Hungary--the economic growth appear over. Poland's economy pulled out of its downward spiral in 1992. Last year, it enjoyed the most robust growth in Europe--4%. Polish growth is expected to leap 4.3% this year and near 5% in 1995.

"Poland is ready to bust loose and really become a booming economy," says Stephen

O'Connor, co-publisher of the *Budapest Business Journal*.

The Czech Republic experienced a 1% decline in gross domestic product last year; it expects 2% to 3% growth this year. Hungary's GDP fell 2% last year; it should rise 1% this year -- the first increase since 1989.

Slovakia and the southern countries of Romania and Bulgaria have been laggards. But even in troubled Romania, there are signs of life. Exports -- mainly metal products, minerals and textiles -- are up 46% this year.

Regionwide, the private sector accounts for more than half of economic output, ranging from highs of 65% in the Czech Republic and 55% in Poland and Hungary to a low of 35% in Romania.

Economic reform efforts have produced five years of high inflation and high unemployment, but both seem to have stabilized, if not declined.

## SERVICE VS. INDUSTRY

*Small business is overshadowed*

Outsiders looking at the privatization of state-run enterprises have focused on big manufacturing operations. But the engine of growth across eastern Europe has been the service sector.

Retailers and other service businesses were first to be privatized because they employed fewer workers and had minimal capital needs.

In Romania, for instance, 60% of the retail sector is in private hands, vs. only 2% of the industrial sector.

Thousands of small eastern European entrepreneurs are working for themselves for the first time in their lives. They've transformed the streets of their cities and towns by opening clothing stores, restaurants, bars, gas stations, hotels, hair salons, taxi companies, newsstands, butcher shops, consumer-electronics stores, produce stands, galleries, pharmacies, coin-operated laundries, travel agencies and auto-repair garages.

Still, troubles at big industrial companies have overshadowed small-business successes.

Czech newspapers, for example, have doggedly followed the failure of a U.S.-led management team to reverse the fortunes of Tatra, a giant Czech truck manufacturer.

Yet they've paid scant attention to the country's vibrant tourism industry, which brought in \$1.4 billion last year -- 4.5% of Czech GDP.

Small businesses are working miracles, says Poland's Zbigniew Niemczycki (nem-CHIT-skee) -- who has witnessed the dramatic changes since starting one of Poland's largest conglomerates in the early 1980s -- one of his country's wealthiest individuals.

"The biggest change in this country is that if you drive around, you'll see every gas sta-

tion with a small cafe-bar, you go to a store and you can buy anything you'd get in the West, you go to a restaurant and people are smiling and serving. It's all become part of normal life," he says.

## LIVING STANDARDS

*Inflation still rages*

Statistics paint a grim picture. Persistent double-digit inflation, only now being tamed, has eaten away at buying power. Real wages have fallen throughout the region. In Bulgaria, for instance, though real wages grew 7% in 1992, they fell 25% in 1991 and 11% in 1993; Slovakian real wages skidded 25% in 1991 and nearly 8% in the last year, says PlanEcon, a research firm specializing in eastern Europe.

The United Nations Children's Fund recently blamed the economic changes under way since 1989 for triggering "a deterioration of unparalleled proportions in human welfare" throughout most of the region. UNICEF cited rising malnutrition, alcoholism, disease, stress and crime.

But not all the news is bad. For one thing, the statistics on wages and buying power ignore the region's vast and booming gray market economy: Millions of eastern Europeans haul in unreported income from construction jobs, fixing cars, peddling cigarettes, driving unregistered cabs or translating for western business people.

More importantly, there is strong evidence the free market is helping create a vibrant middle class hungry for consumer goods. There are 770,000 households on the waiting list for telephones in Hungary -- incredible in a country of only 10.3 million people. Satellite dishes cling to apartment balconies and farmhouse roofs. Executives carry cellular phones in their briefcases. And flimsy Trabants, Skodas, Ladas and Yugos are now outnumbered by Fiats, Volkswagens, Opels, Fords and Mercedes on many eastern European roads and boulevards.

Niemczycki, whose company wants to build houses and duplexes in American-style subdivisions, predicts an explosion in housing construction.

"Poland has a housing shortage of at least two million units," he says. "People are stacked on top of one another -- children, parents and grandparents living in small apartments together."

The importance of the emerging middle class goes beyond consumerism, says Keith Crane, research director at PlanEcon. "There's a huge group of talented people who had been knocked down, pushed around and beat up by the old system," Crane says.

"They're the ones who are creating new companies, pushing a rapid turnaround in

(cont.)

## Economies are still recovering

How Eastern European economies have fared under capitalism and democracy five years after the fall of the Berlin Wall:

### East Germany

#### GDP

'89 ██████ \$160 billion

'93 ██████ \$113 billion

#### Per capita income

'89 ██████ \$9,679

'93 ██████ \$6,300

Inflation rate ('93): 8.9%<sup>1</sup>

Unemployment rate ('93): 15.4%

### Czech Republic

#### GDP

'89 ██████ \$91 billion

'94 ██████ \$76 billion

#### Per capita income

'89 ██████ \$8,580

'94 ██████ \$7,250

Inflation rate ('94): 9%

Unemployment rate ('94): 4.2%

### Hungary

#### GDP

'89 ██████ \$68 billion

'94 ██████ \$58 billion

#### Per capita income

'89 ██████ \$6,508

'94 ██████ \$5,583

Inflation rate ('94): 16%

Unemployment rate ('94): 11.1%

### Slovakia

#### GDP

'89 ██████ \$34.7 billion

'94 ██████ \$28.1 billion

#### Per capita income

'89 ██████ \$6,579

'94 ██████ \$5,201

Inflation rate ('94): 14%

Unemployment rate ('94): 15.6%

### Romania

#### GDP

'89 ██████ \$82.6 billion

'94 ██████ \$58.1 billion

#### Per capita income

'89 ██████ \$3,568

'94 ██████ \$2,543

Inflation rate ('94): 140%

Unemployment rate ('94): 14.3%

### Serbia and Montenegro

#### GDP

'89 N/A

'93 ██████ \$10 billion<sup>1</sup>

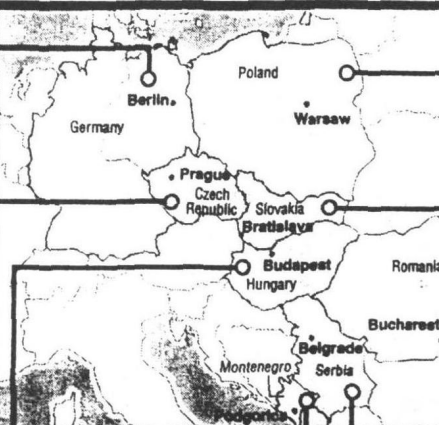
#### Per capita income

'89 (Yugoslavia) ██████ \$2,490

'93 ██████ \$1,000<sup>1</sup>

Inflation rate ('93)<sup>2</sup>

Unemployment rate ('93): More than 60%<sup>1</sup>



1 - estimate 2 - hyperinflation; currency virtually worthless

Source: PlanEcon, 1994 CIA World Fact Book, The World Almanac, Information Please Almanac, USA TODAY research

By Julie Stacey, USA TODAY

these economies and leading the drive to re-join Europe. It's not a small group — in some cases 35% to 40% of the population. These are the people making the transition a success."

## ON BUSINESS CONDITIONS

### Desperate for foreign investment

Bankruptcy laws and contract enforcement remain almost non-existent five years since the fall of communism. Businesses find it an ordeal to get title to the buildings and land they buy.

Taxes on individuals and businesses, which change frequently and with little notice, can be confiscatory. Romania, for instance, has a tax rate of 64% on income above \$400 a month.

It can still take hours to get an international telephone line in the Czech Republic. Hungarian telephone directories are at least 20 years out of date. Mail delivery is dicey everywhere.

In most places, businesses still can't write or accept checks because banks don't offer checking or electronic banking services.

Western-style ethics have been slow to sink in. Parliamentary politicians and key bureaucrats sit on boards of the state companies they are supposed to be privatizing. In Romania, where it is common for managers to solicit bribes

before signing contracts, the leading business school has no plans to offer a course in ethics.

Eastern European politicians and businesses have had their fill of western consultants and advisers. But everywhere except Hungary, they remain desperate to attract more foreign investment. Hungary has snared \$5.6 billion of the \$12.6 billion in outside investment lured by the region since 1989.

In five years, the six countries have taken in just 60% of the foreign investment drawn by China last year alone.

Some western employers still complain about many eastern European workers, who they think are lazy, indifferent and unwilling to make decisions. Absenteeism and drinking on the job are not uncommon, the employers say.

"People are afraid to make decisions right up to the highest level," says John Anderson, an Ameritech executive in Hungary.

But attitudes are changing, largely because the workforce is drawing younger workers, who are more ambitious and adaptable. "Our people were uncomfortable with how important they were to us. They were used to showing up, keeping their heads down and not doing anything unless the boss told them to," says Peter Kraft, head of the American Express office in Budapest. "We demand more, and now they give it to us."

Says Gherghie Florice, furloughed from his job as a gear maker at a state-run Romanian

locomotive plant: "We are not afraid of work. I would work 10 or 12 hours a day as long as I could get paid."

Adds William Szentagotay, another American phone-company executive in Hungary: "These people are not lazy."

## YOUNG VS. OLD

### English speakers have an edge

An increasing number of eastern Europeans in the 40-to-55 age range, are members of what Hungarians call "the lost generation." It consists of workers too young to retire and too old, in the eyes of their bosses, to learn new ways. "They cannot change," Niemczycki says, his feelings echoing those of many other executives.

Workers who speak English, regardless of their age, usually can find work. But English speakers are rare because many of the Communist regimes discouraged students from learning English until the 1980s. In many cases, people who learned English were blacklisted and had both job promotions and travel restricted.

"We are experiencing only the dark side of capitalism," says Erno Keleti, 46, who managed Hungary's largest bookstore until it went private. He has been out of work since spring. "The younger generation gets all the opportunity."

(cont.)

## WHAT'S AHEAD

### *Fears of social unrest*

By late 1995, the Czech Republic will have moved all but a few state-controlled enterprises into the hands of management-led buyout groups, foreign investors and public shareholders.

But the Czechs are far ahead of their neighbors. In every other country, there are hundreds of large industrial companies still soaking up state subsidies. Most have bloated payrolls, outdated technology and no export markets for products they used to sell within the Soviet bloc.

When they are eventually privatized, they will dump tens of thousands more workers onto the unemployment rolls, possibly triggering social unrest.

Another worry is the growing resentment

of the region's have-nots. They tend to suspect anyone prospering of having ties to mafia or old communist insiders.

"Growing disparities in income and wealth are inevitable," says Czech Prime Minister Vaclav Klaus. "We have to defend the idea that they're inevitable."

In fact, many of the most successful businesses in the region are run by former party insiders. To have excluded former party members from buying state companies "would have thrown the process into chaos," says Jiri Skalicky, Czech privatization minister. "We had two million party members. To get good work at that time meant joining the party or making some kind of compromise. The people who are able to be entrepreneurs, who have the education and means, they had to have made some compromises in the past."

## NO GOING BACK

### *'Central Europeans' now*

Despite widespread nostalgia for the security offered by the old system, few people say they're eager for a return to communism and the isolation and authoritarianism that came with it.

Eastern Europeans are looking and acting more and more like western Europeans. Increasingly, in fact, they are turning their backs on Russia and the East, insisting on being called central Europeans.

"The old system collapsed, it's history," says Aleksandr Kwasniewski, a leading Polish socialist who was sports minister in Poland's last communist government. "No serious person or party is interested in seeing it come back."

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## Making Inroads

### Japan's Imports Rise, And U.S. Companies Are Gaining New Sales

#### The Strong Yen and a Surge In Competitiveness Pry Open the Market a Bit Bargain Beer and Cheap PCs

TOKYO — It's April, and, as Japanese have done for centuries, Masahiro Nakajima is viewing cherry blossoms near the Imperial Palace. And guzzling a cold Budweiser.

An American beer? "I never noticed," says the city planner, looking at the red,

*By Wall Street Journal staff reporters Michael Williams, Jennifer Cody and David P. Hamilton.*

white and blue can. Bud, he says, "is very popular here."

Surprising as it might seem, Japan these days is sucking in imports, and some U.S. suppliers are among the big winners. Companies ranging from General Motors Corp. to Sun Microsystems Inc. to Tower Records Inc. are gaining market share on Japan Inc.'s home turf.

Exporting to this notoriously tough market still is fraught with difficulties, of course, and Japan's trade surplus against the U.S. remains vast. But in important areas, the U.S. is gaining momentum, selling to Japan products ranging from household goods to giant power generators. Those increased sales may portend a shifting economic relationship between the countries.

After dipping slightly in 1992 along with the Japanese economy, the unit volume of U.S. exports to Japan began rising last spring and has accelerated since then. It is running about 60% greater than in the mid-1980s, according to data from Japan's Economic Planning Agency. In February it was up 10% from a year earlier. And the trend shows no signs of abating. In dollar terms, Japan says, its U.S. imports rose 5.7% last year to \$55.2 billion — second only to Canada among U.S. customers.

U.S. government pressure is helping, by getting Japan to lower barriers to such U.S. goods as beef and cellular phones and

by prodding Japanese multinationals like Toyota Motor Corp. to buy American. The market-opening push has intensified with the Clinton administration; in fact, its tough line may have hastened the fall of Prime Minister Morihiro Hosokawa.

But many Japanese economists, businessmen and consumers attribute the changes mainly to economics rather than politics. They cite the increased competitiveness of U.S. industry and the help from a strong yen, which makes American products cheaper in economically sluggish and newly price-conscious Japan. "The Clinton administration's punch in the mouth to Hosokawa came too late," argues Paul Summerville, Asian research director at Lehman Brothers in Tokyo. "The markets have already taken over."

#### Widening Trade Surplus

To be sure, Japan's trade surplus with the U.S., measured in dollars, is still rising; it totaled \$59 billion last year, by America's count. The main reason: The same strong yen that helps U.S. exports to Japan also inflates the dollar value of Japan's surplus. In addition, it discourages direct investment in Japan, which eventually could narrow the gap.

Moreover, Japan still maintains many trade barriers, such as regulations and informal cartels that frustrate foreign companies. By one estimate, removing all of the barriers could increase U.S. goods exports to Japan by \$9 billion to \$18 billion annually. "If the issue is whether Japan is buying more from the world and the U.S., certainly the answer is yes," says a U.S. embassy official in Tokyo. "There has been modest progress in making markets more open. But there's still a long way to go."

Even so, many observers contend that the U.S. may have a sizable trade deficit with Japan for the indefinite future because of the two nations' differing savings rates and industrial structures. The imbalance, in fact, may largely reflect U.S. dependence on Japanese capital to finance its investments and government deficits.

#### Tantalizing Prospect

However, the increase in U.S. exports, even at a time when Japan's economy is weak, offers the tantalizing prospect of denting the deficit. Japan's Nomura Research Institute expects the bilateral merchandise-trade gap to contract 5% in the Japanese fiscal year ending next March.

Sensing opportunity, U.S. companies large and small are attacking the Japanese market with new gusto. "We don't see any barriers to allowing us to sell," says Vincent Naimoli, chairman of Harvard Industries Inc., a Farmington Hills, Mich., company that exports sophisticated magnesium engine parts to Toyota. He expects

"significant growth" for his business in Japan in coming years.

Two-thirds of the bilateral gap is in autos and auto parts. Last year, the U.S. Big Three sold just 19,335 vehicles in Japan, while Japanese car and light-truck exports to the U.S. totaled 1.72 million. Total imports of autos made in the U.S. rose 38% last year but still amounted to a relatively modest \$1.1 billion.

Chrysler Corp. has begun racking up triple-digit sales increases for its lower-priced Jeep Cherokee, albeit from a tiny base; it sold 4,000 in Japan last year. It expects its sales of Cherokees and other Jeeps to about double this year to 10,000.

Such sales are pacing an increase in market share here for cars made in the U.S. by both Japanese and American manufacturers. In addition, GM has begun exporting Delco radios to the land of the transistor; the radios are installed on some Toyotas aimed at the U.S. market.

In sophisticated items such as airliners, which Japan doesn't make, and chemicals, where the U.S. is much more competitive, the U.S. has long run large surpluses. However, in areas such as heavy power equipment and semiconductors, evidence that the U.S. is beginning to close the notorious "manufacturing gap" is increasing. And in services such as travel and patent royalties, which don't show up in merchandise-trade numbers, Japan reports a \$19 billion bilateral deficit.

The staunchest allies of American exporters are the pressures reshaping Japan's domestic economy. Slow growth and high costs are pushing consumers and companies to hunt for cheaper products and are opening up new distribution routes for imports. The strong yen, too, has made many U.S. goods an irresistible bargain. Economists say U.S. gains would continue, though more slowly, even if the yen weakened 20%.

But American businesses are also employing tactics learned from Japan's success in the U.S. American personal-computer makers, for example, have flooded the market with cut-rate PCs, demonstrating that foreigners can make inroads against entrenched competitors even in markets considered strategic by the Japanese—and without help from Uncle Sam.

#### Warnings in the Press

Now, the Japanese press is warning of an American import invasion. In last week's Nikkei Business magazine, a bird's-eye photo of Tokyo is doctored to show a green "Iron Triangle" around the Imperial Palace. The corners are three areas studded with offices of U.S. multinationals: "Little Detroit," "Silicon Town" and "International Finance Center."

American software powerhouses such as Microsoft Corp., Lotus Development



Corp. and Borland International Inc. have seized more than 50% of Japan's PC-software market. Without a trace of irony, some Japanese companies now howl about unfair competition. "Major U.S. software makers give more importance to gaining market share than profits," complains Takashi Inagaki, a spokesman for Justsystem Corp., Japan's largest PC-software supplier.

The pressure is increasing even in such Japanese bastions as auto parts. In a squeaky-clean garage outside Tokyo, Philip Austin, GM Japan's auto-parts vice president, shows off Toyota vehicles that his mechanics have equipped with GM parts: a car with GM seat covers, a sports truck retrofitted with GM wire.

These "demo cars," headed for Toyota headquarters, are the Trojan horses in Mr. Austin's campaign to breach Japan's tight-knit supplier networks. GM recently joined a Toyota supplier association and named a full-time Toyota "customer manager" whose job includes playing golf with Toyota engineers.

#### A Serious Effort

GM's tactics suggest that many U.S. companies are becoming serious about selling in Japan — and partly rebut Japanese criticism that the Americans don't try hard enough. Last year, GM exported \$250 million of such parts as shock absorbers and radiators to Japan, up 25% from 1992. By 1998, GM hopes to sell \$2 billion of parts to Japanese assemblers world-wide, including \$450 million in Japan. It has been a long slog, though: Mr. Austin set up GM's parts operation here 11 years ago. U.S. parts still have just an estimated 1% share.

Helping him is Tadayoshi Iimura, who spearheaded the Delco sale to Toyota. A former Toyota engineer, Mr. Iimura knew the Japanese auto maker is obsessed with its standing in the J.D. Power & Associates quality ratings. He also knew that GM's Delco radios outscored Toyota's in those surveys — and used that to win orders. "There is and there will be a shift of procurement to GM parts," says Koichiro Noguchi, Toyota's general manager for international purchasing.

Certain U.S. makers of consumer products hear cash registers ringing, too. Detroit-based Stroh Brewery Co. says it shipped one million cases of beer to Japan in the year ended March 31, up from 350,000 cases a year earlier and virtually none three years ago. It expects its Japan sales to rise 50% to 100% this fiscal year.

Some in the beer industry say foreign brewers could eventually grab a 10% share of Japan's beer market, up from less than 2% today. David Jensen, a Smith Barney Shearson analyst, estimates that U.S. brewers ship beer to Japan priced as low as

19 cents per 12-ounce can vs. the 71 cents charged by Japanese makers. He believes that the Americans could undercut the Japanese even if the dollar strengthened to 200 yen from about 103 yen today.

#### Price Is the Lure

Some Japanese are buying American because it's cheap, not chic. In his tiny Tokyo liquor shop, Norio Suzuki sells such Stroh brands as Schlitz and Old Milwaukee for \$9.32 a six-pack — 28% less than domestic beer. He gets his cut-price suds from Shigematsu & Co., an Osaka importer that opened Japan for Stroh in a guerrilla marketing campaign. In turn, the importer's managing director, Keisaburo Shigematsu, chops out layers of middlemen by faxing fliers directly to retailers and by selling in lots of 50 cases, turning down costly single-case orders.

Some consumers are cutting out the go-betweens altogether. In her cramped Tokyo apartment, Noriko Takahashi pores over a catalog from Oregon-based Hanna Andersson Corp. while her two-year-old daughter naps in the next room.

"This page has been very popular with my friends," she says, pointing to a photo of blond babies nattily decked out in purple and gold outfits. "You can't find these styles and colors in Japan."

Gün Denhart, Hanna Andersson's chief executive, says her company shipped more than \$1 million of clothing to Japan last year and expects to double that this year. "One customer wrote to tell me, 'They say Japanese companies are invading the U.S. market, but I say Hanna is invading my wardrobe,'" she says with a laugh.

Those closets are getting crowded: Patagonia, Eddie Bauer and Lands' End are beefing up operations here. L.L. Bean had \$27 million in Japanese mail-order sales in 1992 and plans to open a third store here this fall. "All of our [U.S.] competitors are right on our tails," says Richard Leslie, Bean's international director. Overall U.S. exports of clothing and accessories to Japan, the Ministry of Finance says, rose 52% last year to \$860 million.

Canny American retailers such as Tower Records, of Sacramento, Calif., are selling the Japanese not only U.S. goods but also a whole new shopping culture. The closely held company's three-story store in Tokyo's trendy Shibuya district is blowing away the notion that success here requires copying Japanese habits and tastes.

Tower's American-made compact disks are more popular than many Japanese imprints of the same albums. The imports are 20% cheaper, a bargain that more than makes up for the absence of Japanese-language cover notes and packaging. Tower displays albums face-out, in contrast to smaller stores that cram in disks like books on a shelf. Enthusiastic staff help by answering questions.

Such details please Rie Ishida, an 18-year-old who buys up to four CDs a month at Tower. "The feeling is good here," she shouts over a throbbing dance tune.

Keith Cahoon, Tower's Far East managing director, says his main rivals are two British outfits, Virgin Megastores and HMV. Tower's Japan stores posted sales of \$122.5 million last year, up 15% from 1992.

Other U.S. companies have parlayed their technological strength into big sales. In the early 1980s, for instance, General Electric Co. finally won an order for advanced generators from Tokyo Electric Power Co., one of the world's largest utilities. Now GE is the largest supplier of such generators in Japan — beating out companies such as Toshiba Corp. and Hitachi Ltd. Tepco is its biggest customer.

"Japanese companies just can't make those generators," says Akira Arai, a Tepco executive general manager. GE has a very Japanese-style competitive advantage, leveraging skills honed in its jet-engine operations and applying them to power turbines — much like a Japanese *keiretsu* industrial group.

The going wasn't always smooth. Once, Mr. Arai recalls, a GE generator broke down, and a standoff developed when GE engineers wanted to take only the defective part back to the factory for repair instead of removing the entire machine for tests, as is customary here. But after days of talks, GE agreed to take back the entire generator. "We now understand one another," Mr. Arai says.

#### Importing Ideas

As significant as imports of products are imports of American ideas. Japan's major consumer-electronics and semiconductor makers have staked their best hopes for future hit products on U.S. designs and technology. So pervasive is Japanese dependence on U.S. ideas — ranging from microprocessor designs to Apple Computer Inc.'s Newton pocket computer — that some Japanese executives are warning that their companies risk becoming "subcontractors" to U.S. rivals.

In the past, widespread licensing of U.S. technology has tended to build up Japanese competitors — and eliminate the U.S. technological lead. These days, however, most U.S. companies are keeping a much tighter grip on their ideas — making it harder for the Japanese to catch up by copying. U.S.-based biotech companies, for example, have retained rights to the bestselling biotech drugs in Japan.

Others, such as Sun Microsystems, have licensed their technology widely — and still reap huge rewards. Sun brought its computer workstations in the mid-1980s to Japan and signed up Fujitsu Ltd. as a key partner. Fujitsu not only made chips



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(cont.)

for the computers but also slapped its brand on Sun machines and distributed them as its own — a tactic used by American companies in the 1970s during the Japanese electronics onslaught.

Yet Sun has emerged triumphant and is unworried by Fujitsu's recent introduction of its own Sun clones. In 1993, Sun captured a 27% share of the roughly \$5 billion workstation market in Japan, up from 24% the year before, according to International Data Corp. Fujitsu's share, meanwhile,

slipped to 14% from 15%.

What probably ensures that the U.S. export growth will continue is that plenty of Japanese are getting rich by riding it. Furniture merchant Katsuhisa Otsuka is one of them.

At a recent induction ceremony for new employees of Otsuka Kagu Ltd., he welcomed three ruddy-faced Americans, representatives of the furniture makers that he chose to help him supply Japan's largest furniture store. A U.S. diplomat praised

Mr. Otsuka for importing chairs and tables from North Carolina. "Please import more," he said.

Mr. Otsuka aims to please. "Japanese consumers want foreign products," he says. "This is a company of the future."

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