

THE WALL STREET JOURNAL.

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APPLICATIONS IN MARKETING

What's News—

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Berkowitz, Kerin, Hartley, Rudelius

Richard D. Irwin, Inc.

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THE WALL STREET JOURNAL
APPLICATIONS IN MARKETING

for use with

MARKETING

Fifth Edition

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1 2 3 4 5 6 7 8 9 0 P 3 2 1 0 9 8 7 6

CHAPTERS IN WHICH *WALL STREET JOURNAL* ARTICLES MIGHT BE USED

ARTICLE	PRIMARY CHAPTER	OTHER CHAPTERS
1. Marketing Muses Sell the Bard With Slogans, Stunts By Solange de Santis - February 8, 1996	1	3, 19
2. Diet Chicken? A Grower Bets Consumers Want Thinner Birds By Aaron Lucchetti - June 25, 1996	2	6, 9, 11
3. When a TV Joins a PC, Will Anybody be Watching? By G. Christian Hill and Jeffrey A. Trachtenberg - April 3, 1996	3	11, 14
4. New GM Rules Curb Wining and Dining By Gabriella Stern and Joann S. Lublin - June 5, 1996	4	3, 5
5. Major U.S. Companies Expand Efforts to Sell to Consumers Abroad By G. Pascal Zachery - June 13, 1996	5	6, 9
6. Trips Down the Aisle Turn Into Vacations as More Couples Marry Far From Home By J. Zeleny - June 20, 1996	6	1, 9, 13
7. Phone Fight Over Big Blue Turns Nasty By John J. Keeler- April 4, 1996	7	4
8. An Unofficial Guide to What Americans Want to Eat, Wear and Use- And Why By Christina Duff- April 15, 1996	8	6, 18
9. Population of Rural America is Swelling By Scott Kilman and Robert L. Rose - June 21, 1996	9	6
10. High-Tech Inventory System Coordinates Retailer's Clothes With Customer's Taste By Laura Bird - June 12, 1996	10	18
11. Ken Lang Thinks Prudence Will Pay in Marketing on Net By Thomas Petzinger, Jr. - June 14, 1996	11	3
12. Pontiac's Grand Prix Returns to its Past to Build a New Image That's All Its Own By Rebecca Blumenstein - June 17, 1996	12	9
13. Unnatural Wonders: Simulated Tours Beat Real Thing By Susan Carey-May 3, 1996	13	3
14. Amid Brewpub Binge, Sobering Tales By Michael Selz- February 6, 1996	14	15, 18
15. Now PC Buyers Are Getting More For Even Less By Sewell Chan- June 18, 1996	15	12, 14
16. Merck's Marketing of an AIDS Drug Draws Fire By Elyse Tanouye and Michael Waldholz - May 7, 1996	16	4, 14
17. Studios Jockey For Just the Right Release Date By Eben Shapiro- May 31, 1996	17	2, 6
18. Brooks Brothers Gets a Boost From New Look By Tara Parker-Pope-May 22, 1996	18	9, 12
19. History Channel Blurs the Line With Sponsors By Sally Goll Beatty -June 3, 1996	19	20
20. Gap Ad Shows Perils of Using Pols in Pitches By Dana Milbank- April 4, 1996	20	6
21. Hal Becker Preaches the Virtue of Sales to Fellow Climbers By Thomas Petzinger, Jr. - March 8, 1996	21	8, 18
22. How Philips Flubbed its U.S. Introduction of Electronic Product By Jeffrey A. Trachtenberg - June 28, 1996	22	5, 11,15

Marketing Muses Sell the Bard With Slogans, Stunts

“Now, we don’t just go in and plead for money: we go in with a marketing plan”

By SOLANGE DE SANTIS

Staff Reporter of THE WALL STREET JOURNAL

To be or not to be -- and if to be, how? That's the question North America's 80 classical theaters must answer in the age of declining public arts funding and more electronic competition.

Today, Shakespearean theaters are working as hard at selling the Bard as they are at staging his plays. Last year, the Manitoba Theatre Centre in Winnipeg sold out the season by persuading heartthrob Keanu Reeves to play Hamlet. Lacking a big star, many classical theaters are turning to marketing gimmicks.

"Irreverence, youth, sex, passion and fun sell Shakespeare these days," says Jan Powell, artistic director of Tygres Heart Shakespeare Co. in Portland, Oregon. "No longer does Shakespeare survive as high culture."

At a recent Ontario gathering of the Shakespeare Theater Association of America, delegates from Canada and America tossed around ideas for raising funds and selling tickets.

The California Shakespeare Festival in Berkeley, for example, held a casting call, open to the community, for a dog to appear in "Two Gentlemen of Verona." Thirty people showed up with their dogs. "We got the TV cameras there and we used it for marketing," says Michael Addison, who just retired after eight years as the company's artistic director. "We picked a goofy-looking mutt. Come to think of it, he was a better actor than some of the actors."

Curt Tofeland, producing director of the Kentucky Shakespeare Festival in Louisville, says people are "so jaded now, with MTV, the Internet, 'been there, done that, ' that Shakespearean theater has to stop meekly extending its cup hoping people drop coins in it.

"Now, we don't just go in and plead for money, we go in with a marketing plan," Mr. Tofeland says. But there are limits: "Of course, if somebody says, 'Well, we want our logo on your set,' you have to say no."

Even Ontario's Stratford Festival -- the General Motors of summer theaters,

operating in the black with a C\$23 million (U.S. \$16.8 million) budget, less than 10% of it from government -- is constantly hunting for new sponsorship ideas. "We've found lots of ways to have sponsors associate their names, and it's not all untasteful, really," says Janice Price, Stratford's director of marketing.

But Stratford's sales manager, Laurel Armstrong, does regret allowing the company that supplies gelato to the concession stand to hang its sign in the middle of the lobby. "Patrons thought our season sponsor was gelato," she laments.

Utah Shakespeare Festival marketing director Wendy Bowers's special challenge is trying to attract audiences with very different sensibilities -- straight-laced Mormons from Salt Lake City and loose-laced citizens of Las Vegas.

Located in Cedar City in the southern part of Utah, the theater used "Let's Play!" as its marketing slogan. "The Las Vegas people thought it was aimed at casinos, and the Mormons said, 'Why, that sounds like a family event,'" Ms. Bowers says with satisfaction. "It never said too much about Shakespeare."

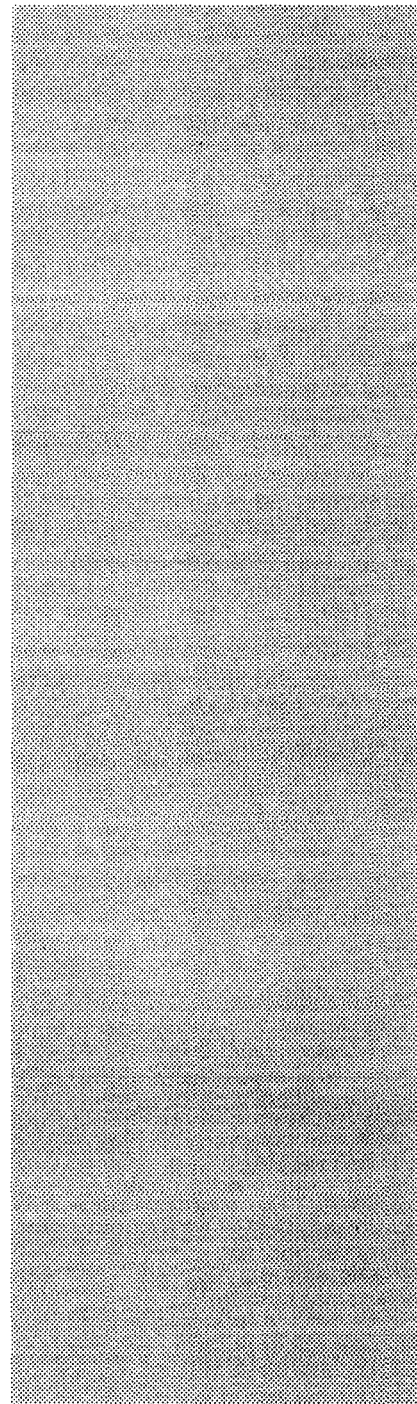
One marketing slogan that was suggested at Shakespeare Repertory in Chicago was, "If you don't have a head for Shakespeare, come to Shakespeare Repertory." Marketing manager Mary Alyce Buck explains why it didn't fly: "The artistic staff didn't like it. They said, 'It's not what we're all about. We are about Shakespeare.'"

Most theaters see clever marketing simply in terms of survival. Felicia Londre, literary adviser with the Heart of America Shakespeare Festival in Kansas City, Mo., says the festival teamed up with the Kansas City Star to run a comic strip of "The Tempest" while the play was performed in a city park.

Portland's Tygres Heart Shakespeare Co. is a new company that competes for attention with the venerable Oregon Shakespeare Festival some 200 miles to the south. It uses its actors to stage sword fights at benefit dinners, and staged a mock-Shakespeare play called "The King's High Stomach" for a restaurant opening.

What unites the Bard's boosters, who could make more money selling just about anything, is a passionate belief that the

greatest playwright in the English language has an eternal message. "Shakespeare's voice is so loud that you have to be deaf to ignore it," says Stratford's artistic director, Richard Monette. "His insight into the human condition is one of the glories of being alive."



Diet Chicken? A Grower Bets Consumers Want Thinner Birds

"If you call it low-fat, the customers will come..."

By AARON LUCCHETTI

Staff Reporter of THE WALL STREET JOURNAL

Will consumers pay more for chicken that may have less flavor? Chris Schmitt is betting that consumers will buy his low-fat chickens, even if some shoppers say they taste blander.

Mr. Schmitt, president of Frankenmuth Poultry Co., says he is raising a leaner bird on the farmyard equivalent of spa cuisine—feed with none of the growth stimulants or animal by-products that fatten up most chickens sold in the U.S. As a result, Mr. Schmitt says, his chickens have at least 50% less fat than the industry average.

But Mr. Schmitt's poultry also sells for as much as 50 cents a pound more than leading poultry brands, mainly because his birds grow slower without the stimulants. And some consumers complain that it cooks up drier and blander than other chickens. Mr. Schmitt says his chickens' "distinct" taste is better than that of most chickens. But that still leaves him with a problem that plague many small producers of health foods: figuring out where consumers will draw the line on taste and price.

As a niche operation, the Frankenmuth, Mich., concern has a loyal following among health-conscious customers in Michigan and surrounding states. But now the company is trying to expand, and that's where things get tough.

Mr. Schmitt, who also owns a tool-and-die manufacturing company, bought the chicken operation two years ago and has invested \$635,000 of his own money in it. Last year, he says, the company was producing 6,000 chickens week and selling in 120 stores from Michigan to Florida. Lately Frankenmuth has halted production to expand the plant, but sells frozen chickens to about 50 stores.

Mr. Schmitt expects to produce 20,000 to 28,000 chickens a week when the new plant opens later this year. He says that could boost sales to \$4.5 million next year—a sharp rise from last year's \$320,000 and the \$190,000 expected this year. Mr. Schmitt plans to open another plant next year and hopes to have nine plants in operation nationwide within five years. To increase the chances of success, Mr. Schmitt

plans to market his chicken to grocers and supermarkets in high-income areas of Atlanta, Chicago and other Midwestern cities, where consumers are most likely to pay extra for a low-fat product. He also has settled on a new name that he figures sounds pure and clean for the public company, Snowbird Farms Enterprises Corp.

Store owners selling the Frankenmuth product say it does well with a niche market of upscale, health-conscious consumers. "It sells quite well in my store; sales have increased since I started carrying it," says Ron Payter, owner of Andy's Farmer's Market in Southgate, Mich.

"If you call it low-fat, the customers will come," says Meri Grumbacher, a menu-planning consultant based in Newton, Mass.

The diet secret of the Frankenmuth chicken is a concoction based on corn, soybean and alfalfa that deliberately excludes growth stimulants, some fats and animal by-products. The feed was developed by Les Dale, the previous owner of the company, who holds a doctorate in poultry science.

The result, according to Mr. Schmitt, is that Frankenmuth poultry is lower in fat than average. A Frankenmuth boneless, skinless breast contains 0.5% fat compared with the industry average of 1.25%, he says. Even Frankenmuth leg quarters measure only 6% fat, compared with the industry average of 12%. (The U.S. Department of Agriculture confirms the figures.)

But it takes about eight weeks to produce a chicken at Frankenmuth, two weeks longer than at the giant chicken factories, where growth stimulants are used. Frankenmuth says its costs are about \$2.70 a bird, about double those of the large producers.

Furthermore, the lean fowl can easily become dry in cooking, some grocers say. Dorothy Lane Market in Dayton says it has dropped Frankenmuth chickens because customers complained that their taste was too bland. But not many in the multi-billion dollar poultry industry has expressed interest in his strict-diet approach. Industry officials note that breast meat is quite lean anyway, compared with most beef cuts. "There's already a lot of low-fat chicken on the market," says Edmund Nicholson, a spokesman for Tyson Foods Inc., the

nation's largest poultry producer. "The American consumer seems to be very happy."

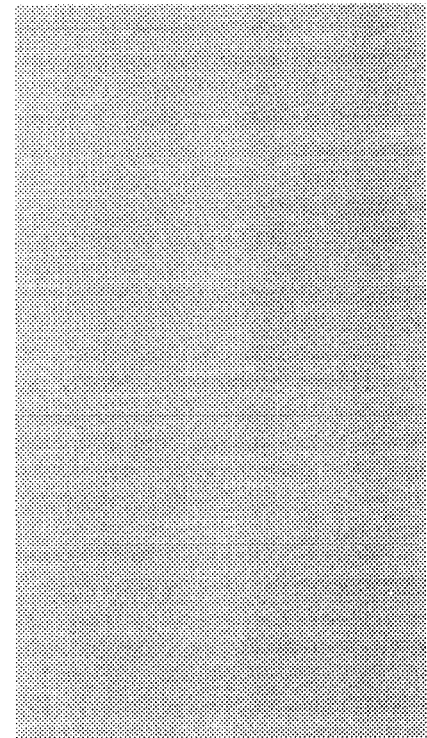
Indeed, health is the primary reason Americans choose chickens over other meats. Boneless, skinless chicken, including removing the "fat pad," an area of highly concentrated fat, from the chicken's abdominal region.

But the industry isn't dismissing the concept out of hand. David Thiel, corporate director of marketing for Pilgrim's Pride Corp., the fifth-largest poultry producer, says: "I think it's a little early in the game to commit to anything. But a number of us are watching to see how the product plays out in the market."

THE LOW FAT PITCH

Total Grams of Fat per 100 grams			
	Average	Low Fat	Whole
Chickens	15.06	7.89	
Breast (skinless)	1.24	0.49	
Chicken wings	15.97	5.35	
Leg quarters	12.12	6.05	

Sources: Frankenmuth Poultry, U.S. Department of Agriculture



When a TV Joins a PC, Will Anybody Be Watching?

"The strategy is the flip-side of the \$500 Internet computer advocated by software giant Oracle Corp. and others"

By G. CHRISTIAN HILL

and JEFFREY A. TRACHTENBERG

Staff Reporters of THE WALL STREET JOURNAL

Picture this: a family gathered around a personal computer watching television on a giant screen. Or this: a family turning on a big-screen TV to browse the World Wide Web together.

Manufacturers, big and small, see both images clearly. At a San Jose, Calif., gathering just two days ago, Microsoft Corp. Chairman Bill Gates demonstrated prototypes of future PCS that will connect to big-screen TVs and manage video-disk players, stereo equipment and other consumer devices.

Yesterday, Thomson Consumer Electronics, a unit of giant Paris-based Thomson SA, announced plans to build big-screen TV sets next year with circuitry providing connections to the Internet. Also yesterday, NetTV Inc., a start-up in San Rafael, Calif., unveiled a big-screen personal computer that receives TV transmissions -- similar to a system that Gateway 2000 Inc., the big mail-order PC company, will begin shipping this month.

"We've all been talking about a convergence between digital technology and personal technology," observes Tom Campbell, a director San Diego. "Now, with TV sets that provide Internet access, we're starting to see it happen."

Adds Ron Perkes, NetTV's president: "Every computer maker is looking for ways to improve sluggish sales. This is one avenue."

But skeptics have doubts about the success of the convergence concept, partly because of the cost. Gateway's fully loaded 120-megahertz Pentium system with a 31-inch digital screen starts at \$3,800; NetTV's 100-megahertz Pentium and 28-inch will be slightly less.

Moreover, there are still obstacles to the convergence between television and

computers. For one thing, the Web now offers mostly text.

And even if it were to provide a rich assortment of audio and video information and entertainment, the high-speed connections necessary to bring a flood of such fare from the Web into the home and onto a TV screen don't exist.

"To really enjoy video, sound or 3-D graphics, there is a need for a fatter pipe to bring information to the home more quickly and reliably," says Allen Weiner, an analyst at Dataquest Inc., a market-research firm. "And we don't expect that access to be widely available before the year 2000."

More fundamentally, critics aren't convinced PC users are inherently interested in a big screen and TV, or that couch potatoes are interested in cruising the Web. Apple Computer Inc. tried and failed to sell a Macintosh with a TV tuner. Duncan Davidson, managing pill be slow and look ugly."

Still, Thomson isn't the only company planning Web TV. Mitsubishi Electric Corp. is planning to introduce next year a set that can browse the World Wide Web. Sony Corp. is in the planning stages of TV-PC products. Web TV sets are expected to cost about \$500 more than regular TVs.

While cable modems that can pour video and animation into the home may be three to five years away, manufacturers note that interactive multimedia Web sal video disk player -- DVD for short -- which will be introduced this Christmas season. The new devices have enough storage capacity to put movies on PC screens and enhance game playing on TVs.

The TV makers firmly believe that many people find Internet access too difficult to contemplate. "So we're going to give them direct access by clicking one button," says Jack Osborn, president of Mitsubishi Consumer Electronics America, based in Atlanta.

The new Mitsubishi sets, expected to reach the stores next fall, will be available in 32-, 36- and 40-inch models. Users will navigate the Web using a hand-held remote control that will enable them to enter credit card numbers, or a wireless keyboard. In addition, a picture-in-picture feature will provide Internet access while the TV is playing, or vice versa.

"We expect that within a few years, large-screen sets without this capacity will disappear altogether," Mr. Osborn adds. "We feel that people are interested in very simple tasks and don't require e-mail or access to chat rooms that would require greater computing power."

The strategy is the flip side of the \$500 Internet computer advocated by software giant Oracle Corp. and others, which would provide a console and keyboard that could work with a TV.

Thomson Consumer Electronics sees Web TV as a way to bolster sales of so-called home-theater TVs with multiple speakers. Thomson, which markets TVs in the U.S. under the GE, ProScan and RCA brands, is expected to introduce a large-screen model next year that will incorporate a DVD player for viewing movies, a DVD-ROM player for multimedia titles and full access to the Internet.

Lou Lenzi, vice president of design at Thomson Consumer Electronics, says: "We don't envision these sets competing with computers, because they aren't task-oriented. This is a home-entertainment product that we think the entire family will share."

PC makers are also aiming at the family, even though computing has generally been a solitary pursuit. Tom Grueskin, product manager for Gateway's Destination line of big-screen PCS, says, "The market research we did shows that as multimedia applications have gotten more powerful, people have begun to try to use PCS together."

The group-usage concept runs counter to the much-observed cultural fragmentation within the American home, as family members, particularly teenagers, huddle with their stereos, TVs, video-game players and PCS in separate rooms. But a big digital screen, with twice the resolution of a TV screen and surrounded by powerful speakers, does lend a new dimension to Web cruising and CD-ROM fare.

"TV was the family disperser," says Christopher Williams, vice president of engineering for Harman Interactive, which provides the software for Gateway's big-screen PC. "This is the hearth. It brings the family together again."

Continued on page 25, See "Big"

New GM Rules Curb Wining and Dining

As part of its ethics-code overhaul, GM considered appointing a full-time ethics officer.

By GABRIELLA STERN
and JOANN S. LUBLIN

Staff Reporters of THE WALL STREET JOURNAL

Brian from the purchasing department and Tom from engineering are finalizing contract specifications for an anti-lock braking system for General Motors Corp. During a trip to the home office of a possible supplier in St. Louis, the two are invited to a stadium suite to view a Rams football game and mingle with the company's senior officers. Should they accept the invitation?

Definitely not, according to GM's new ethics policy, which includes this fictional scenario.

The auto maker's revised policy on "gifts, entertainment and other gratuities," which was quietly announced to employees last month, is among the toughest in corporate America. It puts an end to the stadium box seats, steak dinners and weekend golf outings that employees have long enjoyed at the expense of GM's suppliers and vendors. Taking gifts, except for the most nominal trinkets, is now forbidden.

Throughout corporate America, "a lot of companies are seriously rethinking their gift and entertainment policies," says W. Michael Hoffman, executive director of the Center for Business Ethics at Bentley College in Waltham, Mass.

At some companies like GM, internal troubles have led to the ethics-code overhaul. Last year, a number of executives at GM's Adam Opel AG unit in Europe were accused of accepting kickbacks. Retailer Kmart Corp. was beset by allegations of kickbacks in its real-estate department before it issued a revised ethics code in April. But Kmart rival Wal-Mart Stores Inc. has barred accepting anything with monetary value ever since it opened for business.

GM's new policy -- a 12-page document complete with instructional scenarios using fictional characters -- provides some wiggle room for GM employees outside the U.S. Workers in certain countries may accept

meals, gifts or outings to comply with local business practices and to avoid being put at a co limits. The most expensive restaurant in town is no longer appropriate for treating GM car dealers, and transporting them by limousine from dinner to the theater is also a no-no. The new policy also requires GM employees to avoid violating the customer's gift policy.

No more than 10% of the nation's biggest businesses have adopted ethics codes as strict and explicit as GM's, says Mr. Hoffman of the Center for Business Ethics. The GM move "is going to force a shake up the way business is transacted in Detroit, where the concentration of auto makers and suppliers has created a culture in which personal relationships often influence business deals. "We can't give them anything!" says a Detroit-based supplier, who says he doesn't know what to do with all the baseball tickets he had planned to offer his GM customers this summer.

The scandal at Opel wasn't the only ethical dilemma leading GM to scrap its more open-ended policy, hire an "ethics" consultant and officially adopt a revised policy last month. There was also the matter of GM employees on the parts-making side of the company, Delphi Automotive Systems, who routinely treated employees on the car side to golf outings. When the debate about the practice reached the top levels of the company, "management felt it didn't make sense for one GM employee to be entertaining another," says Tom Gottschalk, GM's general counsel. But Delphi employees insisted on a level playing field. If they couldn't treat car employees, the same rules should apply to outside suppliers.

As part of its ethics-code overhaul, GM considered appointing a full-time ethics officer. About a fifth of the biggest U.S. companies have such officers, and GM's Hughes Electronics unit has a vice president for ethics and business conduct, plus lower-level ethic administrators. But Mr. Gottschalk says he personally recommended against that because "compliance is everybody's job." Instead, he says, three managers -- from the finance, legal and personnel staffs -- will administer the new policy.

But GM may face a daunting task enforcing its sweeping new rules. In particular, GM worries about the perception

that top executives will continue accepting gifts while mid-level managers will be cut off. For that reason, Mr. Gottschalk says, executives have been told to be extra careful about appearances. "You don't want to be seen on TV at a basketball game sitting next to a supplier," he says. The change may be felt most acutely by GM's legal and finance staffs, Mr. Gottschalk says because they are accustomed to being entertained by outside attorneys and investment bankers after deals are successfully completed.

Even now, GM won't be policing possible payola as harshly as Wal-Mart. There, employees who accept anything of monetary value face immediate dismissal. Vendors and would-be vendors can't even buy Wal-Mart staffers a cup of coffee. Suppliers must conduct their business in glassed-in rooms off the main lobby of the company's Bentonville, Ark., headquarters, where wall posters proclaim Wal-Mart's ban on gifts and gratuities. "Any item received will be returned to sender at their expense," the signs declare.

Kmart, a neighbor of GM in Troy, Mich., has revised its ethics code to make it more explicit that employees shouldn't take "bribes, commissions, kickbacks, payments, loans, gratuities" or other solicitations from company suppliers. A former real-estate executive at the nation's No. 3 retailer pleaded guilty last month to taking more than \$750,000 in bribes to approve the sale of stores and leases. A Detroit lawyer and a Chicago real-estate broker have also agreed to plead guilty to participating in the scheme. Now, for the first time, Kmart requires outside suppliers to sign a pledge that they won't engage in such practices with Kmart employees.

After revamping its ethics code last fall, Nynex Corp. prepared a brochure for suppliers spelling out its restrictions. The company sent vendors the brochure in November along with its usual holiday-time reminder about not sending Nynex employees presents.

GM'S TOUGH STANCE

Guidelines for a specific scenario as set out in the GM Revised Policy on Gifts, Entertainment and Other Gratuities:

Continued on page 25, See "New"

Major U.S. Companies Expand Efforts to Sell To Consumers Abroad: Teaching Thais to Floss Teeth

"Bangkok is brimming with the latest U.S. brands. We have everything now."

By G. PASCAL ZACHERY

Staff Reporter of The WALL STREET JOURNAL
BANGKOK, Thailand -- Janjaree Thanma flips through a fat folder of market research, thinking about a prawn-flavored potato chip.

Ms. Thanma, who directs marketing for Frito-Lay chips here, has found that prawn is the favorite flavor of Thai focus groups. But that doesn't necessarily put it in the chips. The Thais said they thought an American snack with a native flavor such as tom yam, or prawn, is inappropriate-- much as Frito-Lay people in China, after similar tests, ruled out the most popular flavor, dog.

Thais may "perceive a good snack as a Western snack," Ms. Thanma says. After testing 500 flavors, her management team eschewed tom yam for now and stuck with American flavors such as barbecue.

Such painstaking research helps FritoLay's blitz of the market here. Last year, the PepsiCo Inc. unit bought out its Thai partner, taking over a production plant, hiring 1,500 farmers to grow potatoes according to its strict criteria and unleashing a marketing campaign featuring television ads and a brigade of "promoter girls" who greet shoppers in stores. Frito-Lay's sales in Thailand tripled in the first 12 months.

The new strategy is changing nations all around the world. Returning to work in Bangkok after a decade in Los Angeles, Sirabhorn Ti Muntarbhorn, an entertainment lawyer, was surprised by her native city.

"Bangkok is brimming with the latest U.S. brands," she says. "We have everything now."

And the multinationals themselves are changing as they become more global. There are many corporate success stories. Citicorp's, Gillette Co. used its recent purchase of an aging factory to bolster its position in the razor-blade market. In India last year, Motorola Inc. was able to quickly begin making pagers -- and sell them aggressively to Indians -- because it

managed the launch from Singapore, where it opened shop 10 years ago.

China is the hotbed: Anheuser-Busch Cos. bought the largest brewer in central China a year ago, then began selling its flagship Budweiser brew in major Chinese cities. American International Group Inc., the first foreign insurer to do business in China, has 5,000 door-to-door salespeople in the Shanghai area alone. Frito-Lay sold 100 million bags of Cheetos last year in a single Chinese province.

Fueled by a string of successes, U.S. multinationals' plunge into foreign investment has reached "its highest level in history," says David Hale, chief economist of Zurich Kemper Securities in Chicago.

American money has become the essential lubricant in the world economy. The United Nations estimates that world-wide foreign direct investment in plant, equipment and service operations hit \$325 billion last year, up 46% from 1994. American companies accounted for the biggest chunk of that investment, pouring a record \$95 billion into overseas affiliates, the Commerce Department says. That's three times the amount five years ago.

And last year, for the first time, private direct investment, largely American, outpaced all other sources of financing to developing countries, far exceeding loans and grants from governments and institutions such as the World Bank. The bank estimates private investment at \$90 billion, 39% of all financial flows to such nations.

The U.S. dominance of foreign direct investment is something new. As recently as 1990, Japanese companies were the world's leaders, with U.S. companies barely topping the Germans and British.

The spread abroad of American-financed consumption networks isn't widely understood in the U.S., perhaps because it directly benefits relatively few Americans. Instead, the U.S. export boom gets the attention. Yet annual sales of U.S.-owned foreign companies are double the exports of goods and services from U.S. soil. And only about 12% of the sales of such foreign affiliates goes to U.S. consumers --contradicting the general notion that American companies' foreign

investments mainly finance cheap imports into the U.S.

Not every U.S. multinational is finding the going easy overseas. In Thailand, for instance, Ford Motor Co. is spending \$500 million on a factory that will produce 130,000 vehicles a year, starting in 1998. In anticipation, Ford is building name recognition by sponsoring a car report on TV and lining up dealers. But so far, Ford doesn't enjoy the brand awareness of its Japanese rivals. At one Ford dealership in Bangkok, customers are scarce, and even the salespeople have yet to catch the fever. Asked why he drives a Honda, not a Ford, Wim Hirunpataya admits sheepishly, "My mother made me."

Moreover, some U.S. multinationals, especially those in extractive industries, run into heavy criticism in foreign countries. Freeport McMoRan Inc.'s huge mining operation in the Indonesian province of Irian Jaya sparked a riot by tribal peoples in March. Unocal Corp., which has a big oil project in Burma, has been accused of bolstering the country's military dictatorship. In India, Enron Corp.'s \$2.9 billion power project is ensnared by legal and political challenges, spawned by suspicions about the federal government's economic liberalization and by longstanding mistrust of multinationals.

Even proponents of foreign investment say it can aggravate disparities among various regions. In 1995, nearly 80% of all direct investment in the developing world went to just 12 countries, mainly in Asia. Africa starved for investment because of its chaotic governments and poor education. South America attracted more investment than in the past but mainly because of the sale of state-owned assets.

Foreign investment can create problems within countries, too. Air quality and traffic congestion are so bad in booming Bangkok that some locals are escaping to lower-paying jobs in cleaner, less-crowded cities. In Bangalore, in southern India, rising salaries for software programmers are inflating housing prices, to the dismay of some residents. In Ecuador, oil exploration fattens a petro-elite while despoiling traditional lands of indigenous people.

Such uneven outcomes are "absolutely

inevitable," says Henry Rowen, an economist at Stanford University's Hoover Institution. "Some sectors and regions are bound to do better than others."

Moreover, the American invasion has many people fearing cultural obliteration. Vietnam's government is tearing down "offensive" billboards, and the Communist Party in China's Guangzhou Province recently banned local companies from using Western-sounding names.

Nonetheless, few people in developed or emerging countries want to turn back the clock. Market-building strategies are gaining steam, reducing earlier fears that corporate giants were recolonizing poor nations. "Then, foreign investment meant vulnerability, dependence, being exploited," says Allan Mendelowitz, executive vice president of the U.S. Export-Import Bank. "Now, countries see it as how they raise their standard of living."

U.S. companies seem far ahead of rivals in market-building skills. Foreigners credit the American willingness to entrust locals with authority, train their workers and treat foreign hubs as staging grounds for penetrating nearby markets.

"U.S. companies are more open and more willing to show you what they're doing and how they're doing it," Mahathir Mohamad, Malaysia's prime minister and a frequent critic of industrialized nations, says in an interview. "By contrast, the Japanese are more secretive and less likely to appoint a [local] to run their firms. The Europeans are halfway between the two."

Frito-Lay's operation in Thailand is run entirely by Thais, many of whom were either trained in the U.S. or worked for other U.S. companies. Ms. Thanma holds an M.B.A. from Washington University in St. Louis and worked five years as a brand manager for Procter & Gamble Co. Her boss, Apirak Kosayodhin, became Frito-Lay's country manager last year after working for PepsiCo, the parent company, and two international ad agencies. After graduating from business school in Bangkok, he considered a safe civil-servant job, but, he says, "that seemed boring to me." Instead, he joined PepsiCo's Pizza Hut, then just starting out here, "even though I'd never even eaten a pizza before."

U.S. multinationals tend to succeed in emerging countries partly because they can hire the best and the brightest there. "With American companies, you have more freedom to express your ideas and opinions,"

says Jiangbo Liu, a Chinese-born engineer who works at California-based Zycon Corp.'s circuit-board plant in Kuching, Malaysia. Mr. Jiangbo, who has worked in France, says, "I'm considered an equal now. In Europe, you always feel you're something less than the others because you're different."

By hiring more and more foreign-born managers, U.S. companies are changing themselves as well as the countries where they operate. And by bringing "all kinds of stimulation" into these countries, the real impact of U.S. investment "is a lot bigger than the numbers," says Raymond Vernon, an international business expert at Harvard University.

U.S. multinationals expose local markets to global business techniques and act as a benchmark against which local rivals are judged. They spread new ideas and technologies. They encourage the return of talented locals from the U.S. and Europe. They even adopt environmental and consumer standards common in the U.S. but not yet required in emerging countries.

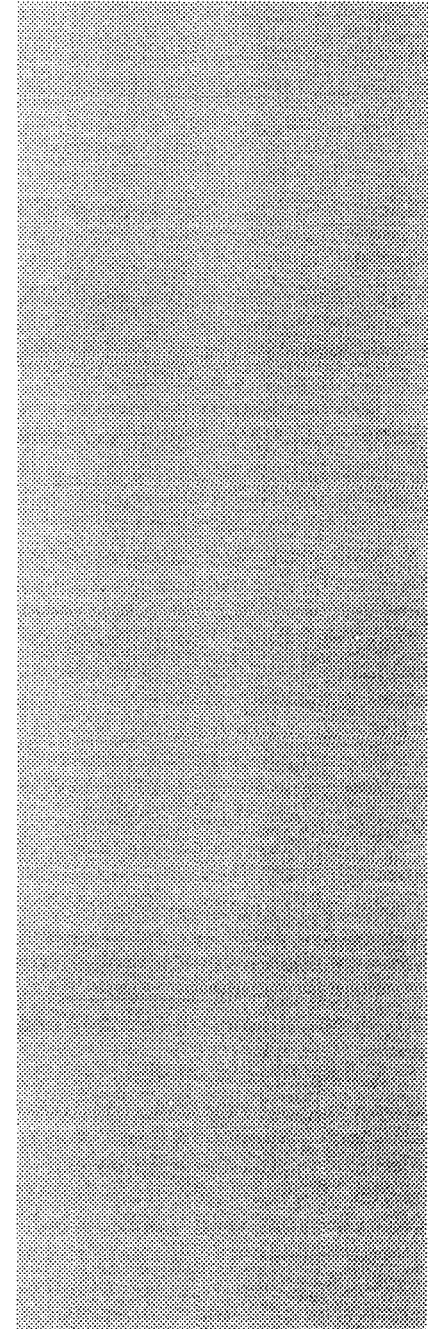
These wide-ranging effects can be seen in Thailand, where Frito-Lay is changing the food business. Potatoes weren't traditionally grown in Thailand, but Frito-Lay is giving its farmers special seeds and training them in soil monitoring and the use of equipment. Yields have risen sharply, and growers can apply the new techniques to other cash crops.

On the consumer end, Frito-Lay is the first chip company in Thailand to display "nutritional content" on its packages. It also is airing many TV commercials, an unusual step here for snack foods. One ad features a popular Thai star who-- you guessed it, can't eat only one chip.

The way a multinational can transform local practices is also illustrated by Tower Records, owned by closely held MTS Inc. of Sacramento, Calif. The U.S. music chain opened its first store nine months ago. The Bangkok store looks identical to Tower's U.S. outlets. Unlike local rivals, it is huge. Its shelves are filled not only with Thai-produced compact discs but obscure U.S. jazz recordings and thousands of rock albums simply unavailable elsewhere in Thailand. And Tower has hit a nerve with the youth culture here. "They made it a hip thing to buy a record," says Kamol Sukosol Clapp, chief of Bakery Music Co., a successful label here.

Even mundane consumer goods are

changing Thai habits. Gillette, which began directly selling products such as razors, shaving cream, toothbrushes and hair dryers here five years ago, now is pushing dental floss through local-government health programs. Though it sells the most popular floss here, most Thais don't floss. "The average is about 0.92 yard per person, way below the U.S.," says Supatra Poesriprasert, manager of Gillette's Oral-B line. "My goal is to raise floss usage."



Trips Down the Aisle Turn Into Vacations As More Couples Marry Far From Home

The Stowflake Inn in Stowe, Vt., offers a \$159 package that includes flowers, music, champagne, a justice of the peace and a marriage license.

By JEFF ZELENY

Staff Reporter of THE WALL STREET JOURNAL
Erica Foley and Sean Smith grew up in Chelmsford, Mass., and now resides in St. Petersburg, Fla. But they are getting married next year in Woodstock, Vt. "We want the New England wedding," Ms. Foley, 27 years old, says.

More couples are getting married on the road these days. And as the travel industry looks for new niches to exploit, some towns and travel promoters are finding that many brides and grooms -- and their families-- are willing to trade hometown nuptials for smaller weddings in faraway places.

"Society is more mobile, everyone [attending the wedding] will have to travel anyway," said Dodie Jacobi, a wedding consultant at Designs & Details in Overland Park, Kan. "Why not give them a destination where it feels like everyone is on vacation?"

Advertisements touting inns and resorts in North Carolina, Hawaii and Florida as wedding destinations have become standard fare in bridal magazines. In the spring, Vermont's state tourism board launched an ad campaign specifically pitching itself as a wedding destination. Already, some 30% of Vermont marriage licenses are issued to people who live out of state, up from 12% in 1980, the state says.

Another new hot spot for out-of-town weddings is Gatlinburg, Tenn., population 3,500. Last year, it hosted 11,000 weddings in 30 area chapels that have recently sprung up to take advantage of nearby honeymoon attractions such as the Great Smoky Mountain National Park and country singer Dolly Parton's theme park.

"We can have your photographs ready before you leave town," says Pat Morrison, a saleswoman at the Gatlinburg Wedding

Chapels, where honeymoon suites with heart-shaped Jacuzzis occupy the same grounds as the church.

The wedding business is becoming an increasingly important part of some local economies. Wedding-related tourists pump about \$10 million into the Gatlinburg area's economy, says Randy Fiveash, executive director of the Gatlinburg Convention and Visitors Bureau. Some of the money has been used to renovate the Sevier County Courthouse and other buildings in the area. "It's a real interesting business, and one that has meant a heck of a lot to the Gatlinburg economy," he says.

Linda Bonham of Cheyenne, Wyo., has built a business around out-of-town weddings. Her company, Bonham Western Weddings, arranges ceremonies on nearby ranches and sells wedding wear with a Western motif. "A lot of people from back East come out here," she says. To attract more wedding traffic, some states are taking a cue from Las Vegas, where wedding licenses are available 24 hours a day.

Tennessee and California are among several states that recently removed blood-testing requirements and pre-licensing waiting periods, allowing for same-day weddings.

Some towns in Vermont are hoping to attract couples who crave a quick and simple ceremony. The Stowflake Inn in Stowe, Vt., offers a \$159 package that includes flowers, music, champagne, a justice of the peace and a marriage license. "It's like you'd picture it, a beautiful inn and a white country church with a steeple," says Annemarie Duff, who coordinates weddings for the inn. Local businesses offer discounts to newlyweds, in the hopes that couples will return to Stowe for anniversaries and vacations.

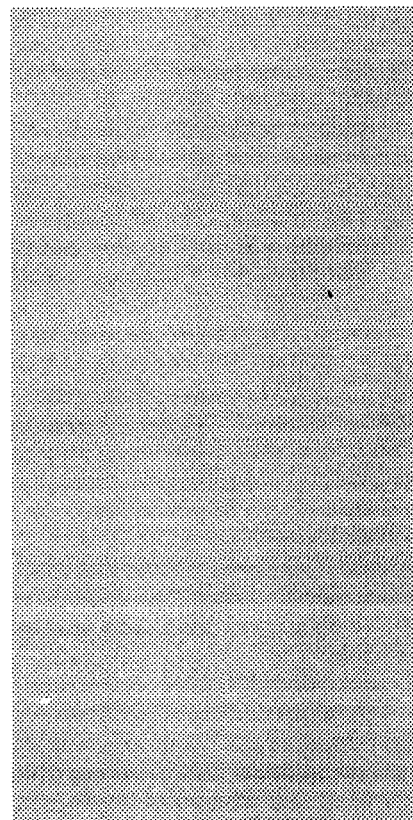
For more lavish weddings, a growing number of brides and grooms are heading to Hawaii. The Westin Maui hotel hosts some 200 weddings annually, many for couples with relatives traveling from the U.S. and Japan. Fun-loving types can be wed in a chapel at Disney World in Orlando. (For an additional \$450, a Disney character other than Mickey Mouse can make an appearance at the ceremony.)

For many couples, out-of-town weddings make good economic and

logistical sense. Often, people who have relocated don't really have towns they call home. And when couples and their parents live in different cities, choosing a neutral site is one way to avoid bickering over where the wedding should be held.

Furthermore, couples can keep guest lists lean by moving weddings to out-of-the-way locations. Christian and Kristen Johnson say they saved a lot of money by holding their wedding in Yosemite National Park in May. Instead of feeling obligated to invite extra people from their hometowns, the Johnsons had a relatively small affair with only friends and family members. The price tag? About \$15,000, including the bill for guest's rooms, which the Johnsons picked-up. The average wedding now costs about \$8,000.

Price wasn't the only consideration, however. "I never thought I would get married in a national park, but when I saw the chapel, that was it," Ms. Johnson says. "My church seemed really ugly compared to Yosemite."



Phone Fight Over Big Blue Turns Nasty

"IBM went nuts and called AT&T, saying MCI was cutting off service"

By JOHN J. KEELER

Staff Reporter of THE WALL STREET JOURNAL

The telecom battle doesn't get much nastier than this.

When International Business Machines Corp. notified MCI Communications Corp. that it had decided to go with AT&T Corp., the incumbent provider began cutting off service to IBM's global network --before the old contract had expired.

That move last week forced AT&T to scramble to keep Big Blue on line, according to people close to both companies. AT&T marshaled 1,000 employees over the weekend to provide IBM with service.

The battle over the \$3 billion contract to provide voice and data transmission services -- and MCI's retaliation -- underscores the accelerating telecom war. With a battery of newcomers ready to enter the newly deregulated market long dominated by AT&T, the fight to hold on to corporate accounts and win new ones will intensify.

For MCI, the latest counter punch could mar its record as a service provider and threaten to expose it to other losses of major corporate accounts. Currently, corporate communications accounts for more than \$2 billion of MCI's \$15.3 billion in annual revenue.

"Imagine [IBM Chairman] Lou Gerstner telling his other CEO buddies about how MCI almost shut his company down over the weekend because he wanted to switch to AT&T," says one industry executive who asked that his name not be used. "We're still in discussions with IBM," said Frank

Walter, an MCI spokesman. He wouldn't go further except to add, "We did not cut off service over the weekend." He wouldn't say whether his company issued a threat to cut off service.

AT&T and IBM would not comment.

As telecom customers go, IBM is one of the biggest targets in corporate America and wields enormous influence among other companies. The company uses numerous

carriers world-wide to transmit its communications traffic around the globe. With a work force nearing 250,000 people, and thousands of customers who rely on IBM's global network, the computer giant is a huge generator of voice and data traffic.

"It's the biggest if not one of the top five companies in the world to land as a customer," said one telecom executive. IBM was also said to be MCI's biggest customer, going back to the 1980s when IBM sold its satellite communications business to MCI and bought a 16% stake in the nation's second-largest long-distance company. IBM sold its stake a few years later.

IBM notified MCI last week of its decision to switch to AT&T. "That started a torrent of threats," recounts one executive familiar with the IBM-MCI talks. "It got pretty tense." IBM made it clear to MCI that the cutoff would disadvantage not only Big Blue but also thousands of customers who tap into the IBM Global Network daily. But over the weekend, MCI made good on its threat and "started to rip out IBM equipment from its facilities," another executive says. Alarmed, IBM turned to AT&T -- even though the two hadn't yet signed a formal contract -- to plead for help in taking things over.

"IBM went nuts and called AT&T, saying MCI was cutting off service," the executive notes. AT&T sent technicians to connect IBM lines to the AT&T system, transfer connections from its network to local Bell company facilities and reprogram switches and signaling systems to handle the mammoth traffic.

AT&T, struggling to keep the IBM network up, notified IBM that it wouldn't be able to complete the job over the weekend. IBM lawyers called MCI and threatened to seek an injunction, ordering the contractor to keep the lines up, according to people close with the situation. MCI relented and gave IBM an extra week before it completely cut off service.

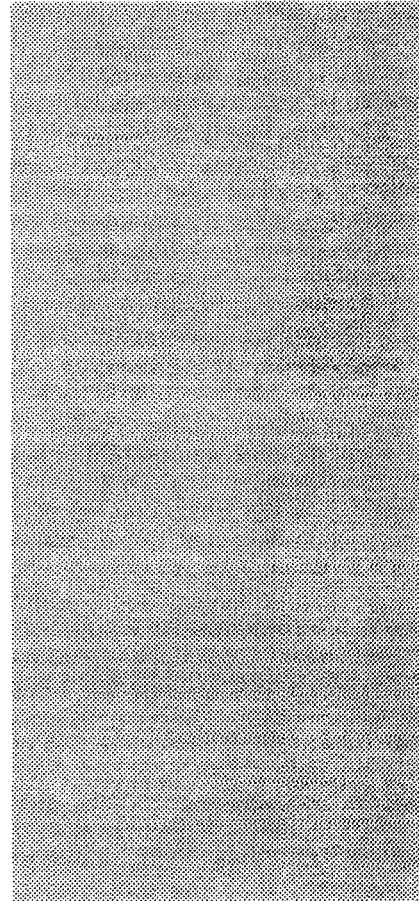
The spat raises significant possibilities about shifts in competitive alliances. For AT&T and MCI -- which are in talks to cooperate on building local phone networks to challenge the local monopolies of the Baby Bells -- the question is whether this brouhaha will chill their new relationship. For IBM and AT&T, the proposed contract

marks a new level of cooperation and interdependence between two titans.

Their relationship was dealt a setback last month when AT&T pulled the plug on a project to let users of IBM's Notes software use the AT&T network. AT&T tried to ease the snub by later saying it would pursue lesser efforts involving Notes.

The new telecom contract, which is to cover seven years, will have AT&T provide IBM's switching, transmission and signaling for handling millions of voice and data calls annually. Such pacts are especially coveted because they come up for renewal only once every few years and carry high profit margins and can lead to additional business down the road.

Normally the loser of such a contract bows out and works hard to get the business back. "You try to be as helpful and gracious as you can," said one telecom executive. "How you exit is very important, almost more important than how you went in, in the first place."



An Unofficial Guide to What Americans Want to Eat, Wear and Use -- and Why

A survey of best-selling items in categories from lipstick to tools, boxers to brassieres, produces an impressionist portrait of today's buyers.

By CHRISTINA DUFF

Staff Reporter of THE WALL STREET JOURNAL

Figuring out consumers may be as simple as peering into their shopping bags.

A survey of best-selling items in categories from lipstick to tools, boxers to brassieres, produces an impressionist portrait of today's buyers. Older, more anxious and more serious, they want simpler, less ostentatious pleasures, as this decidedly nongovernment, up-to-the-minute, shopping-cart version of economic indicators shows.

-- Most popular Florsheim's shoe: brown capped-toe lace-ups.

Men have pushed their wine-colored dress-up shoes to the back of the closet in favor of these milk-chocolate ones, says a spokesman for the Chicago shoe company. Wine went better with the cool-guy image and dark suits of the 1980s. But brown "came out of the aftermath of the whole environmental movement," says Leatrice Eiseman, an industry color consultant from Seabeck, Washington. "It conjures up images of nature, solidness."

-- Most popular Bruegger's bagel: plain.

"There's security in the plain bagel," says a spokeswoman for Bruegger's Corp., America's largest bagel chain. "Virtually no risk of any conflict with a topping."

Adds Wendy Liebmann, a New York retail consultant, "People are clearly saying, 'Let's make it simple. Let's get down to the fundamentals.'"

-- Most popular Burpee's seed: the sunflower.

Two years ago, only the avant-garde bought these yellow saucers. "This year the masses found them," says Joe Seals, director of product development at Burpee Seed Co. He says they're easy to plant, inexpensive, "slightly on the coarse side, to tell you the truth. They smack you right in the face."

The sunflower symbolizes hope and optimism and gives a brighter message than the former favorite, pink and purple impatiens, a flower that thrives in the shade. -- Most popular Playtex bra: the Eighteen Hour, with wide straps and full coverage, no lace.

"I would not say this is a pretty bra," says Bob Niddrie, vice president, merchandising, of Playtex Apparel, a unit of Sara Lee Corp. In the 1980s, underwear was liberated by the Europeans and transformed into "lingerie," with lace and style. But now, in more ways than one, the "older segment of the population is expanding," Mr. Niddrie says.

The Eighteen Hour "holds your breasts -- and that's it," says Ruth Rubinstein, sociologist at the Fashion Institute of Technology in New York. "We've moved away from sexiness back toward the earth, to basic stuff."

-- Most popular Revlon lipstick color: sienna.

The brick-colored sienna is "safe," says Ms. Eiseman, the color consultant. "You don't have to make a big decision before you buy it." Ms. Rubinstein, the sociologist, calls sienna a "sad color. Not the reds that suggest passion or the pinks that suggest spring."

-- Fastest-growing flavor of Starbucks coffee: mocha Valencia, a double shot of espresso with hints of chocolate and orange.

Most people still buy plain old java, but mocha Valencia is the current fad, says Scott Bedbury, senior vice president of marketing at

Starbucks Corp. Judith Langer, a New York consumer-research consultant, calls mocha Valencia an inexpensive luxury. "You're a little bit hip for \$2.50," she says. A strong coffee also "motivates you to action" in a world that often seems to be standing still, says Ms. Rubinstein. "It symbolizes movement and doing things."

-- Most popular Joe Boxer print: the smiley face.

More than shorts decorated with fish, pigs or bananas, guys are choosing the underwear with the big yellow smiley face on the front, says a spokeswoman for the San Francisco boxer maker. Mr. Doss, the fashion professor, says men have to "treat

ourselves" when times are uneasy.

And who can resist the universal sign of delight? "It's a nice, happy, non-threatening message," says Dan Feinstein, fashion director of the Fashion Association, a trade group. "It says, 'We come in peace.'"

-- Most popular Clairol hair color: cinnaberry.

The reddish-brown shade is a far cry from the most popular colors of the past, which were generally shades of blonde. "People feel squeezed.

There's more anxiety," says Jeanne Matson, vice president, marketing, for Clairol Inc. haircare. Hair coloring is an "easy way to get a lift.

You don't have to lose weight or anything."

Cinnaberry, says Ms. Langer, the consumer-research consultant, is "more natural -- not a look-at-me, attention-getting look."

-- Most popular Sears tool: cordless power drill.

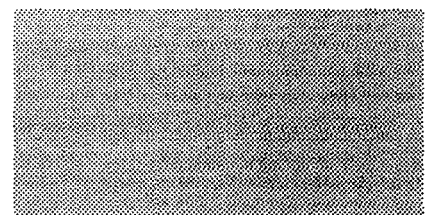
People are buying the drill, with features like a built-in compartment for extra bits, to renovate their homes says a Sears, Roebuck & Co. official. Instead of moving, people are fixing what they have.

Home-improvement projects are popular because, in these days when many people feel insecure about their jobs, it's something people can control. The drill also makes consumers feel "ready to move, to go places and do things," says Ms. Rubinstein, the sociologist.

-- Most popular T-shirt color at Target stores: light melon or pink.

Pastels, says Ms. Rubinstein, suggest more optimism than the previously popular beiges did, but people aren't yet ready for a burst of color.

Not to mention that paler T-shirts "double as underwear," says Mona Doyle, president of Consumer Network Inc. of Philadelphia.



Population of Rural America Is Swelling

In Iowa, hog odor is one of the hottest political issues, in part because farmers in many counties are now outnumbered by non-farming neighbors."

By SCOTT KILMAN
and ROBERT L. ROSE

Staff Reporters of THE WALL STREET JOURNAL

Pat Murphy is moving his family to Algona, Iowa, from Stockton, Calif., to escape crime, expensive car insurance and slumping home values. But he's also in search of something he can't find in the city. "In the doughnut shop, the customers are considerate enough to pour each other coffee," he says of life in northern Iowa. "You don't see that in California."

The 1990s, it turns out, are full of Pat Murphys trading in urban life for country living. At the same time, more people in rural areas are staying put. The result: Rural America is making a surprising comeback in population.

New research by two prominent rural demographers finds that most of the rural areas of the country are growing at their fastest rate in more than two decades. The demographers, Kenneth M. Johnson of Loyola University in Chicago and Calvin L. Beale of the U.S. Agriculture Department, found "wide-spread and substantial" gains in rural population between 1990 and 1995.

In all, some three-quarters of the 2,304 rural counties are growing, up from 45% in the 1980s. Rural areas, as defined by a federal-government formula, have seen a 5.1% population increase in the past five years, a sharp reversal from the 1980s, when tough times for farmers and rural manufacturers hurt many of the same areas.

"Some areas are growing so fast they couldn't turn it off if they wanted to," says Mr. Beale, who is credited with calling a previous rural population turnaround, when decades of migration out of rural areas were reversed in the 1970s.

Metropolitan areas, meanwhile, have had a 5.8% increase in population over the same period, still higher than the rural gain. But the gap has shrunk considerably from

the 1980s, when metropolitan areas were increasing four times faster than their rural cousins.

For their new study of rural America, Mr. Beale and Prof. Johnson combed through data from the Bureau of the Census. The two found the greatest growth in counties that are attracting retirees and others in search of recreation, such as those in the Western mountains, upper Great Lakes, Ozarks and parts of the South. But even places that are lagging, such as counties dependent on farming and mining, are faring far better than they did in the 1980s.

And -- while the population turnaround in rural areas flies in the face of conventional wisdom, it doesn't surprise the people who are witnessing the comeback.

Mt. Pleasant, Iowa, grew 5.2% between 1990 and 1994 to 8,374 people. The southeastern Iowa town is in the middle of a boom in homebuilding. Main Street landlords are renovating second floors to accommodate the demand for retail space.

"Life is a lot more peaceful here and homes are a lot cheaper," says Daniel Peterson, a local merchant and former pilot who once lived in Denver.

Others find they can enjoy rural life even while working for a big-city employer, through telecommuting or long-distance commutes. The demographers found that 90% of the counties with a large portion of commuters are growing.

Jobs also appear to be drawing some city dwellers to the country. According to an Agriculture Department report released earlier this month, employment is expanding faster in non-metro communities than in urban areas, which have been hit more directly by corporations laying off their white-collar workers.

After being hurt in the 1980s by overseas competition, manufacturers are again setting up new plants in rural areas. A maker of aircraft instruments in Wichita, Kan., is opening a plant 75 miles away in Granola, a town of only 230 people, because of what its owner calls an "anti-business climate" in the big city. And Briggs & Straighen Corp. is moving its engine assembly operations to new plants in Statesboro, Ga.; Rolla, Mo.; and Auburn, Ala.

Rural population growth doesn't make

life easier for everyone. Some residents in east central Michigan, which is growing because of a wave of retirees from Detroit, are fighting the expansion of a highway in their part of the state. In Iowa, hog odor is one of the hottest political issues, in part because farmers in many counties are now outnumbered by non-farming neighbors.

Prof. Johnson and Mr. Beale found that rural counties gained 16 million people through migration in the first half of the 1990s. In the 1980s, rural areas lost 1.4 million people the same way. Otsego County in northern Michigan is one of the big beneficiaries of the current flow. It tied as the fastest growing county in the state between 1990 and 1995, largely because it is attracting retirees from far-south Detroit and other urban areas.

The county census has jumped 15.6% to 20,762, drawing retailers such as Wal-Mart Stores Inc. and Kmart Corp. to the county's biggest town, Gaylord. The population spurt is also fueling a golf explosion. Three courses are under construction, adding to the 21 already in the area.

The retirees help the town field an army of volunteers to do everything from serving as ushers at school plays to supervising basketball tournaments.

But Mayor Ernie Grocock worries about growing too fast. The waste-water treatment plant -- built in 1987 to last 20 years -- is already approaching capacity. And the mayor is mulling whether to push an ordinance to prevent sexually oriented businesses from coming to town to exploit the economic boon. "It's hard to maintain that small-town atmosphere that got us where we are," he says.

Young people are also moving into the country. For Tricia Stirm and her husband, the birth of a daughter and a murder in their suburban Chicago neighborhood led them to move to tiny Wayland, Iowa, where she grew up. She landed a job as an X-ray technician at an area hospital. Her husband, an architect, is studying to become a golf pro.

"We didn't want to raise our daughter in Chicago," says Ms. Stirm, who is 27 years old. "The school here is much better."

Continued on page 25, See "Rural"

High-Tech Inventory System Coordinates Retailer's Clothes With Customers' Taste

The Matthiases' information system provides a picture of the entire inventory pipeline, down to single garments. Every day, the company knows what is selling, what isn't, what is in transit and how long it will take before it can make or order more.

By LAURA BIRD

Staff Reporter of THE WALL STREET JOURNAL
Specialty retailer Mothers Work Inc. figured out by early May something that most stores are discovering only now: Among this summer's bright-citrus fashions, lime green sells five times faster than orange.

That allowed the company's founder and president, Rebecca Matthias, and her husband, chairman and chief executive Dan Matthias, to start cranking out more lime-green clothes for their 450-plus maternity shops ahead of other retailers.

The Matthiases got their early start using an inventory management system Mr. Matthias devised. The system has helped the two to transform their company from a tiny mail-order company 14 years ago into the dominant specialty player in maternity clothes. Mothers Work posted a fiscal 1995 loss because of costs linked to recent acquisitions, but its five shopping-mall chains, including A Pea in the Pod, Mimi Maternity and Motherhood, are expected to be profitable this year and to post sales of nearly \$200 million.

The Matthiases' information system provides a picture of the entire inventory pipeline, down to single garments. Every day, the company knows what is selling, what isn't, what is in transit and how long it will take before it can make or order more.

Using the system, Mothers Work test markets fashion ideas in stores before committing itself to large production runs,

and replenishes inventory at stores daily. Acting on daily sales figures, it can produce more of a hot-selling style in less than two weeks and rush a new idea from the design stage to the store in less than a month. So while most specialty retailers live and die with styles selected six months in advance, Mothers Work doesn't have to place its bets so far ahead. "It's really planned procrastination," Mr. Matthias says. "By waiting until the last possible minute, you minimize your exposure to markdowns."

The Matthiases say they aren't embarrassed to rely mostly on numbers when deciding what to stock. That's because, they say, they have learned through hard experience how wrong anecdotal information and gut instincts can be in selecting merchandise. "Every merchant we hire wants to expand into colored blouses," Mrs. Matthias says. "But I know the most important thing our customer wants to buy is a white shirt."

The Matthiases will soon test whether their high-tech approach works in the more fickle world of regular-size ready-to-wear. Last month, Mothers Work bought 21 troubled U.S. stores from the upscale fashion chain Episode. The Matthiases plan to wire Episode into their system and hope to replicate the growth of their maternity-clothes business.

It won't be easy. Mothers Work, which went public three years ago, has close to \$95 million in debt, mostly high-yield bonds it issued to finance the purchase of the Motherhood and Pea in the Pod chains last year. For the year ended last Sept. 30, Mothers Work's interest payments totaled \$4.5 million, almost four times operating profit.

And with Episode the Matthiases are entering a crowded field, the "bridge" segment of women's apparel, which is priced between mass-market and designer lines. Established labels such as Donna Karan's DKNY and Calvin Klein's CK have made the segment a rare bright spot in women's apparel, but a second wave of names is about to flock in, including

Ralph Lauren's Lauren line and Oscar from Oscar de la Renta.

Yet analysts and suppliers are placing great faith in the Matthiases precisely

because they are such fish out of water in the flamboyant world of high-end fashion. "They are normal. They operate from logic instead of generally accepted wisdom," says Bud Konheim, chairman of Nicole Miller Ltd., which produces high-end maternity items for A Pea in the Pod.

Mr. Matthias, 52 years old, is an electrical engineer with a master's in business from Harvard. Mrs. Matthias, 42, has graduate degrees in architecture (Columbia) and civil engineering (Massachusetts Institute of Technology). Beyond Mrs. Matthias's teenage interest in sewing, the two have little fashion training. But 14 years ago, when Mrs. Matthias was pregnant, she discovered how small the selection of maternity clothes was and started a mail-order business.

The Matthiases tapped a vein of baby-boomer career women. Soon, the catalog became the Mothers Work specialty-store chain, which has since been renamed Maternity. Next the couple created Mimi Maternity to cater to a more affluent shopper. Then in 1995, Mothers Work bought two rivals, Motherhood, which does a big business in \$16 leggings and \$12 tank tops, and A Pea in the Pod, whose pants sets can cost \$350.

The Matthiases aren't moguls yet. Their combined compensation last year totaled just \$530,000. Their corporate headquarters is a former pharmaceutical factory, and they conduct their affairs at an Ikea table in the middle of a high-traffic lobby. They also bicker in front of employees and buy their lunches from vending machines in the basement.

But the Matthiases are sitting on a small fortune in Mothers Work stock. Together they are the company's largest shareholder, with a 20% stake, including options, that is valued at more than \$17 million.

Now, Mothers Work will try to make Episode a success. Part of an international chain owned by a Hong Kong manufacturer, the Episode stores in the U.S. couldn't continue to egenerate enough U.S. sales to cover the costs of occupying space in fancy malls. Profits slid, and in January the U.S. stores were placed in receivership in federal bankruptcy court.

Continued on page 25, See "Exclusive"

Ken Lang Thinks Prudence Will Pay In Marketing on Net

Although his product has been functional for months, he vows to release it only when it's fully cooked and he can scale up to any number of users, even in the millions. "We're very worried about first impressions," he says. "We don't want to disappoint anyone."

By THOMAS PETZINGER JR.

Staff Reporter for THE WALL STREET JOURNAL
PITTSBURGH -- I WON'T SWEAR that he's the next Mark Andreessen, the graduate student whose software helped build the \$5 billion Netscape fortune. But Ken Lang is the closest contender Pittsburgh is likely to produce for a while.

Mr. Lang, 29 years old, recently quit his Ph.D. studies to turn his thesis project into a commercial product: a personalized information-gathering service based on artificial-intelligence technology. Soon, venture capitalists were crawling all over his new company, Empirical Media Corp. Hundreds of would-be users were hacking into his computers, forcing him at one point to temporarily pull the plugs from the wall.

But Mr. Lang refuses to be rushed. Although his product has been functional for months, he vows to release it only when it's fully cooked and he can scale up to any number of users, even in the millions. "We're very worried about first impressions," he says. "We don't want to disappoint anyone."

There are billions of dollars chasing thousands of computer geeks in the Internet gold rush. But Ken Lang has a shot at making it because he understands a fundamental rule of the new network marketing: With so many products competing for attention -- and most of them schlock -- an early misstep is the kiss of death. In rolling out an on-line product, he says, "you only get one chance."

It's a mature mind-set for someone who

went into the computer business on his paper-route savings. Growing up in Philadelphia, he wrote his first program in the sixth grade, on his uncle's computer.

Soon he had saved enough for a used Radio Shack model. By the ninth grade he was writing programs professionally. Finally, after simultaneously earning four bachelor's degrees in science and math at Duke, he came to Carnegie-Mellon in 1989 for graduate work in artificial intelligence.

Though still largely an academic medium, the Internet by the early '90s was already beginning to jam up with worthless and self-indulgent verbiage. So for his thesis project Mr. Lang decided to create a software "agent" that could roam the Internet (or any other electronic medium) looking for articles and postings on any subject of interest chosen by an individual user.

As each selected item came to a screen, a user would click on a grading scale indicating the value of that piece to him. In time, the system would become more intelligent about the selections, a feature that distinguishes his product from similar agents. The individualized scoring system could be significantly refined by many other subscribers sifting material on the same topic. "Collaborative filtering," Mr. Lang called it.

Even better from a purely commercial point of view, he realized that a system so knowledgeable about the interests of its individual subscribers could shrewdly choose the advertisements that appear alongside the delivered texts. Says his thesis adviser, Tom Mitchell,

"He combines an amazing amount of creativity with a seat-of-the-pants realism about business."

Last summer, after getting a test system up and running on the CMU campus, Mr. Lang established Empirical Media with his new wife and a few friends. With no money -- these were grad students -- they attempted bootstrapping the business with a side venture, creating an Internet site for retailers in Pittsburgh's Squirrel Hill commercial district.

But nearly every potential customer sent them packing. They were about five seconds ahead of their time.

Just when Mr. Lang's plans might have expired for lack of capital, however, the frenzy hit. News-magazine covers, network

news, Netscape's gold-plated public offering -- Internet hysteria was everywhere.

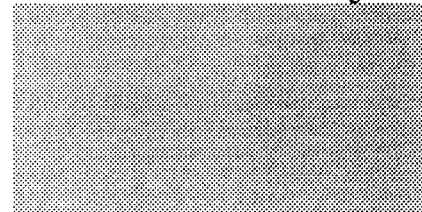
Visiting friends and family in Philadelphia last Christmas, he came away with \$100,000. Invited into tournament play in squash at Pittsburgh's Duquesne Club, he talked up his plans among the city's upper crust. After a Harvard M.B.A. came aboard, three venture-capital firms each independently valued Empirical Media at more than \$1 million. (Only one was actually invited to invest.) Pharmaceutical giant SmithKline Beecham inked an advertising deal.

Mr. Lang plans to offer the basic version of the service, which he will call WiseWire, free -- standard pricing for a new Internet product.

Then, he expects to begin charging a fee for a second service that sorts through "premium" information sources; contracts have already been signed with Reuters and AP as sources. He is hiring programmers as quickly as a contractor improves the space in the dilapidated building he has taken over. He now has 30 employees, most of them furiously writing code. Everyone, even the summer interns, has stock options.

But none of Mr. Lang's efforts will matter a whit if his product isn't nearly perfect and if its infrastructure can't scale up. Thus, in the interests of error-free code, each function is being created in two programming languages, a rough draft and a final draft. The flexibility to switch the entire system to a different medium (cable TV, say) is being built in at the beginning. He expects to roll out WiseWire in the third quarter, but refuses to lock himself into a date. I could never control my trigger finger like that -- not with overhead swelling and worries about being beaten to market by someone like Microsoft. I get sweaty palms just thinking about it. But Mr. Lang has the nerve to do things right from the get-go.

"There's a lot of flash-in-the-pan out there," he says. "We're trying to do things that make business sense for the long term."



Pontiac's Grand Prix Returns to Its Past To Build a New Image That's All Its Own

The new Grand Prix's radically different look and feel -- a deliberate throwback to the car's 1960s roots -- will be the first fruit of GM's new emphasis on brand management, or differentiating among muddled car images.

By REBECCA BLUMENSTEIN

Staff Reporter of THE WALL STREET JOURNAL

Remember when the Pontiac Grand Prix was a sleek, sexy, sports coupe? Three decades and several missteps later, Pontiac is trying to bring it back.

The new Grand Prix's radically different look and feel -- a deliberate throwback to the car's 1960s roots -- will be the first fruit of GM's new emphasis on brand management, or differentiating among muddled car images. The Grand Prix is one of four revamped midsize sedans due out this fall and early next year -- one each from Pontiac, Chevrolet, Buick and Oldsmobile -- that share a basic architecture and some mechanical parts but will look and drive differently.

"You will never see us do what we did in the '80s with cookie-cutter vehicles again," says Roy Roberts, the general manager of the now-combined Pontiac-GMC division. "What you see in this product is really the new General Motors."

But the GM effort is risky. The auto maker is introducing a slew of redesigned cars at a time when demand has never been hotter for trucks, particularly sport-utility vehicles and full-size pickups. Also, GM has shown little inclination to prune its large lineup of car brands, making it that much more difficult to create a clear image for each brand. GM has already seen its share of the light-vehicle market slip to a low because its brands have cannibalized from each other.

It also isn't clear that the brand images

GM has chosen for its new cars will be winners. At a time when many people are shunning showy souped-up vehicles in favor of rugged trucks like Jeeps or understated sedans like Saturns, how many will flock to a sporty over-the-top Grand Prix?

Still, Pontiac, borrowing an idea from Procter & Gamble Co., gave Grand Prix its own brand manager three years ago, making it the first GM car to get one. (Now at GM, one person coordinates the redesign, manufacturing and marketing of each GM car, instead of focusing on one phase of several cars' development.) And the Grand Prix's history shows how GM's past cost-cutting and dedication to manufacturing imperatives made some products lose touch with consumers.

When the Grand Prix was introduced in 1962, ads touted it as a personal luxury coupe that delivered "sporty elegance with a youthful flair." That worked until the mid-'70s, when GM decided to emphasize the car's gas mileage and lower its price. By the early '80s, what had been the sportiest, curviest sedan at Pontiac had become a boxy, downsized shadow of its former self as cash-strapped GM churned out millions of look-alike Pontiacs, Chevrolets and Buicks.

That's why no single GM midsize offering can compete for sales leadership with the Ford Taurus, the Honda Accord and the Toyota Camry. While GM's midsize cars combined still hold the lead in the midsize segment with 30%, that figure has been declining.

GM hopes to start to regain lost market share with its new crop of cars, aiming each one at a different customer niche. In addition to the Grand Prix, they include the Chevrolet Malibu, aimed at "hardworking people" seeking value and functionality; the Oldsmobile Intrigue, for "highly discriminating" import buyers seeking a "rewarding driving experience"; and the Buick Century, for buyers who are "sensible by nature and committed to domestic brands."

With its wide-track tires and sleek, low-to-the-ground look, the new Grand Prix looks more like a sports car than a family sedan. "We wanted a bold, in-your-face car that will look intimidating in your rear mirror," says Bill Heugh, brand manager for

the Grand Prix. "It's a no-excuses sedan for drivers who don't typically like sedans."

To set the Grand Prix apart from its sister cars, Pontiac engineers spent months designing features that they say are uniquely "Pontiac." To give it a sports-car feel, they started it out as a two-door coupe and then added the back two doors, giving the car an aggressive roof line. They also flared the fenders over the tires, to give it a muscular look.

The car's 195-horsepower, V-6 engine, named one of the 10 best engines of 1996 by Ward's Auto World, a trade publication, achieves maximum power between zero and 30 miles an hour. That means drivers get lots more juice starting out from a stop than owners of Honda Accords or Toyota Camrys, whose engines have much less torque at low speeds.

Pontiac's engineers also made sure drivers could feel the road, tuning the chassis to be stiffer but not to jar passengers. They even tested the sounds of different engines and exhausts, so that the car's throaty rumble could be distinguished in a crowded parking lot as coming from a Pontiac. Some imports try not to make a sound, particularly those with luxury pretensions.

"This shouldn't be a flight simulator so you feel like you're sitting model, which provides more torque. And inside, engineers have installed two features one would ordinarily expect to find on luxury models, a dashboard tire gauge and an electronic oil monitor that adjusts to the owner's driving style. The car also comes with a host of controls on the steering wheel and three electrical outlets for those who want to drive with cellular phones, fax machines and radar detectors all plugged in at once.

Whether the Grand Prix app is regaining in the '90s," says Lynn Myers, director for all of Pontiac's brands. "This car is for people who want to be noticed."

