Applications in Basic Marketing

Clippings from the Popular Business Press

1994-1995 Edition

McCarthy • Perreault

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Preface

This is the fifth 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 reading and assignments for the course. For example, they might be used in combination with assignments from *Basic Marketing,* exercises from the *Learning Aid to Accompany 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 **P**rofessional **L**earning **U**nits **S**ystems (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.

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

Acknowledgments

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 inputs 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, Inc., our publisher, who have helped turn this idea into a reality. We are grateful for their commitment to making these materials widely available.

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

Applications in Basic Marketing

Clippings from the Popular Business Press

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FREIGHTED WITH DIFFICULTIES

Bandits, traffic and tariffs are just a few of the things that make moving goods around China so problematic

By JESSE WONG

CUSTOMERS WHO order a Volkswagen from VW's joint-venture plant in Shanghai can expect delivery within six to eight weeks. What they shouldn't count on is a shiny new car with no scratches, no dents and hardly any mileage on the odometer.

For in China, where product distribution can be a nightmare, the only way to get the VW to the customer is to drive it there. In one case, that entailed a trip of some 2,000 miles—over mountains, across deserts and down many dirt roads.

"This isn't like Europe, where you have purpose-built carriers to transport cars by truck or by railway," explains Peter Loew, deputy managing director of Shanghai Volkswagen Automotive Co., the assembly plant owned by **Volkswagen** AG and three Chinese partners. "In China, the customer either picks up the car himself or has it driven to him."

Tough Tariffs

Selected tariffs on consumer goods in China, as of August

PRODUCT	IMPORT TARIFF RATE
Beer	120%
Chocolate	15
Cigarettes	150
Coffee	20
Cosmetics	120
Jewelry	90
Record and cassette players	100
Refrigerators	100
Telephones	20
Facsimile machines	12
Color television sets	100
Video games	100

Sources: Import and Export Tariff Schedule of the People's Republic of China; Hong Kong Trade Development Council

Standing Out

Few countries have as many obstacles to the movement of goods—internally or across the border—as China has. And for the foreign investor, that can mean higher costs and potentially smaller markets.

Throughout the country, urban roadways are usually clogged. Ports and railway depots often lack basic equipment, such as forklists, to move cargo. For those who take to the highways, there are bandits in some areas and roadblocks in others, where village chiefs demand a toll in exchange for passage. What's more, tariffs higher than 200% on some products stop many goods from even getting into China in the first place.

Finding a way around the barriers requires a bit of imagination. **AB Astra** of Sweden, for example, faced potential trouble when it started exporting drugs to China on a large scale, in 1989. Chinese authorities insisted on testing each shipment, but only antiquated equipment was available. Astra could see trouble looming: drugs languishing on the dock, expiration dates passing--and profits evaporating.

So Astra donated testing equipment to China's Health Ministry and even trained its technicians to use it. The upshot: Sales of Losec, Astra's treatment for gastrointestinal disorders, are now soaring in China. "We couldn't sell in a lifetime in Hong Kong what we sell with one delivery in China," says Raymond Ho, the head of Astra's Hong Kong office. He speaks rhapsodically of China's many millions of ulcers.

A Three-Wheel Answer

For **Coca-Cola** Co., the problem was traffic laws in Shanghai. The city bans delivery trucks from its center during the daytime. So Coke turned, in part, to delivering by tricycle.

But Shanghai considers tricycles a traffic nuisance as well, and severely restricts the number of permits for the vehicles. To get around this, Coke struck a bargain: It would hire some of Shanghai's unemployed as peddlers if the bureaucrats loosened up on permits. Shanghai bought the deal, and now Coke has rights to a 500-tricycle fleet.

In his Hong Kong office, Steve Chan, China-region manager of Coca-Cola

China Ltd., flips through a corporate brochure that shows Coke being delivered by pushcart in Beijing and by mule in the hills near Tianjin. "To make things work in China," he says, "you have to be innovative."

"Innovative," though, is an understatement when it comes to moving anything across the border. The Chinese bureaucracy doesn't make it easy on importers. Every ministry has a thumb in the soup—and a welter of paperwork waiting for foreign firms.

China's freight system also leaves a lot to be desired. Estimates indicate that China is meeting only a fraction of its general-aviation demand. Rail traffic is unpredictable, and the rolling stock outmoded. Of all the coal that was dug out of the country's mines last year, 30% still sits where it was found, waiting for the trains to arrive.

A Hong Kong garment maker recalls once booking cargo space on a flight out of Shanghai. After watching his freight get loaded he left, confident that it was on its way. No such luck. The ground crew, in need of the space, hauled his garments off the plane to make way for some government goods. "Anywhere else," says the businessman, "you would think that if you had seen it loaded with your own eyes, then it must be OK. Not China."

The situation only gets worse away from the coastal cities. In Wuhan, in central China, the state assigns three trucks to haul containers to and from the rail station. But with transport tight, the trucks sometimes sneak off to another city where hauling rates are higher. As a result, greasing palms has become standard operating procedure in some parts. A manager with one U.S. trading company says her rail-freight agent estimates that about 10% of her freight costs are for "gift giving."

A growing number of private trucking companies are taking to the roads, but the highways pose their own hazards. Along one stretch in southern China, villagers have occasionally tossed a dead body into the path of an oncoming truck at night. The shocked driver who stops to investigate is accused of running over a pedestrian and made to pay compensation. That patch of Guangdong province is known among Hong Kong truckers as the "home of the midnight flying corpse."

For those companies lucky enough to get their products to the right warehouse, the next test is getting them *out* of the warehouse to the consumer. Here, the rule of "first in, first out" doesn't apply.

So it is that **Inchcape Pacific** Ltd., a British company, distributes Cadbury and Ferrero chocolates chiefly during the cold season. The reason: There's no guarantee that the warehouse and retailer will keep the air-conditioning turned on during the summer months. Shipping during the winter beats watching the inventory melt. ■

MR. WONG IS A STAFF REPORTER IN THE WALL STREET JOURNAL'S HONG KONG BUREAU.

Trading Up

Firms Far and Wide Are Looking to GATT For Competitive Edge

But It Would Create Losers As Well as Gainers, and It Wouldn't Help East Bloc

'Mother of All Tariff Cuts'

By LAWRENCE INGRASSIA
And ASRA Q. NOMANI
Staff Reporters of THE WALL STREET JOURNAL

In Stoke-on-Trent, England, the world capital of tableware, workers at Dudson Group's factory are busy molding and firing clay into fine China for customers the world over. Stacked high are fruit bowls for a Canadian restaurant, soup dishes for roadside stops on Italy's *autostrada*, teacups for the Belgian railway, dinner plates for a Singapore hotel.

Some are headed for the U.S. – but not nearly as many as managing director Ian Dudson would like, because the U.S. slaps a stiff 36% tariff on tableware for restaurants and hotels. "We lose contracts [in America] at the moment because we are 5% or 10% too expensive," he notes.

That soon may change, if politicians negotiating a new world-trade pact finally end seven years of bickering and reach an agreement. Tariffs on tableware imported into the U.S. could drop by about one-third. And that is only one of the thousands of products on which duties could be cut by the 115 member countries of the General Agreement on Tariffs and Trade.

Many Affected

Often lost in the jargon, the maneuvering and the endless stream of statistics emanating from the GATT talks in Geneva, is the fact that a great many real people have a lot at stake in the negotiations.

In fact, the scope of a GATT accord would dwarf that of the North American Free Trade Agreement, assuming the negotiators can overcome the latest snags they have hit in the long, long bargaining (see article on page A3). Businesses around the globe are anxiously awaiting the outcome – multinational mining companies in Australia, tiny textile producers in India and Pakistan, shoemakers in Italy, electronics manufacturers in Malaysia, cartoon producers in Japan, furniture makers and breweries and chemical companies in the U.S.

Indeed, some small businesses have even more riding on the talks than multinationals, which sometimes can dodge barriers by setting up units abroad. "There's a great misimpression that it's only the big guys interested in a world market. That's baloney," says Joe Richardson II, head of a furniture and wood-products company in Sheboygan Falls, Wis., that hopes to expand its Japanese and Korean sales and begin to sell in France and Germany. "In 20 years, doing business in the world economy for us will be as accepted as doing business in St. Louis and San Francisco, if we can eliminate the tariffs."

What It Could Do

Given the complexities of international trade, it is impossible to measure the precise benefits of a GATT agreement–or, on the downside, failure – by the Dec. 15 negotiating deadline. But various groups have estimated an accord could add $200 billion to $270 billion to the world's annual economic output a decade from now. Even some companies in France, which has often objected to proposed GATT deals, have said a pact would be good for them and for France overall.

Not that a GATT agreement would be a trade panacea. The pact would be narrower than what many had once hoped for. Drug companies wouldn't get strong patent protections for at least a decade to keep developing countries from copying their products. Western banks wouldn't gain the leeway they had hoped for to enter developing countries. And those developing nations may get smaller cuts than sought in U.S. tariffs on textiles.

Moreover, the accord would do little if anything to help countries in the former Soviet bloc because they aren't members of GATT. They still face many barriers to trade with the West. Massachusetts Institute of Technology economist Lester Thurow contends that "GATT is debating basically trivial things back and forth" while ignoring the huge issue of "how [to] bring Eastern Europe into the world economic system."

Some Will Lose

And there will be losers as well winners, a matter that negotiators prefer to play down. For every company that prospers because it can increase exports, a business in the country that cut tariffs is likely to suffer. As a result, it is a matter of debate whether a GATT accord would result in a net increase in jobs.

However, by redistributing jobs among the most efficient producers of all goods, GATT would generate higher-skilled and higher-paying jobs, some analysts say. "Jobs supported by exports pay 17% more in the U.S. than other jobs, so the decision to protect industries [through high tariffs] amounts to protecting low-skill jobs at the expense of high-skill jobs," argues Richard Blackhurst, a GATT official.

Many companies don't need a lesson in economics to tell them that GATT would be good for them.

For Dudson Group, a family-owned firm founded by Ian Dudson's forebears in 1800, low tariffs are critical to future growth. Because of Britain's size, Dudson has long looked abroad. It now exports about 55% of its goods, which are made to withstand runs through commercial dishwashers with heavy detergents.

But the U.S., by far the largest buyer of commercial tableware, is only the third-largest customer for its Duraline unit's products. Until about decade ago, when the American tariff was close to 50%, Dudson sold little in the U.S. As that tariff has slowly declined to the current 36%, Dudson's exports to America have risen; they now account for about $3 million of its $27 million in total sales.

"I think we could potentially increase that by 50%," says Mr. Dudson, sitting in a showroom surrounded by saucers, bowls, pots and gravy boats in many shapes and colors. "It wouldn't happen overnight, but we could target a larger part of the market, where at the moment we can't get near [some U.S. makers] on price."

And if Duraline's sales rose, Dudson could add to its work force of 650 in this depressed area in the Midlands, where many jobs have been lost as coal mines have closed.

Calzaturificio Fratelli Rossetti SpA, a shoemaker in Parabiago, Italy, is hoping for a reduction in tariffs in Japan (with a duty of 27%), Australia (37%) and South Africa (45%, including a special levy). "The import duties are so high they really make exporting almost impossible," says Diego Rossetti, executive vice president.

Fratelli Rossetti's shoes are expensive. Its men's shoes retail for about $350 and its women's shoes for $250 in the U.S., which accounts for about 10% of its overall sales of 70 billion lire (about $40 million). But its prices are competitive in the high-end market, thanks to the U.S.'s relatively low duties of 8½% to 10%. "Even if tariffs were reduced to 20% [in other markets], that would be reasonable," Mr. Rossetti notes. If that happened, he figures, the shoemaker would be able to lift its exports to 65% of sales from the current 50%.

In Wisconsin, Mr. Richardson charts his furniture company's global growth in an office not far from the strip of the Mullet

River that his great-great-grandfather diverted in 1848 to start a sawmill. "It would be so neat to go into a restaurant [in Europe] and see Richardson furniture," he says. "It's exciting enough to see our stuff in a bar in Boston." GATT would reduce European furniture tariffs in most categories.

Since the late 1980s, Richardson Brothers Co., which has 500 employees, has sold some furniture to Korea and Japan, where it has a sales representative. But Richardson Brothers is looking for tariff cuts from Scandinavian nations and the European Community.

After the U.S. free-trade agreement with Canada took effect, the company's furniture sales to Canada tripled, notes Mr. Richardson. Canada's 15% tariff on furniture from the U.S. was phased out in January. The company expects similar increases as Mexico's 20% tariffs are reduced under Nafta.

"Boy, I tell you, we'll be able to compete really well if they get rid" of the tariffs, Mr. Richardson says. "It just amazes me how wild people are for American products."

Jeff Ware's dream is to build a *birreria* – a beer restaurant – in Italy and Switzerland. But Dock Street Brewing Co.'s only foray to Europe so far has flopped. In 1988 and 1989, the Philadelphia brewer sold 1,300 cases of beer to a Parisian businessman in a store he had opened pitching U.S. goods to the French.

The problem: a 24% tariff in Europe. "There was a good public response, but the prices were too high," says Mr. Ware, president of Dock Street, whose amber beer has won two gold medals for taste from a Belgium organization, Monde Selection, over the past two years. "It was real disheartening." He says the U.S. exports to all countries only slightly more beer than it imports from the Netherlands, in part because the U.S. imposes a duty of only 13½ cents a case, or well under 2%, on European imports.

But Mr. Ware will test the waters again if Europe's tariffs are reduced, as proposed in the trade talks. He and his Sicilian-born wife, Rosemarie Certo, the brewing company's marketing director, toured the Italian ski resort of Cortina d'Ampezzo last spring to scout the market.

Big companies stand to benefit as well. M.I.M. Holdings Ltd., a mining and metal company based in Melbourne, Australia, faces tariffs and other barriers in both industrialized and developing countries. The tariffs – often around 10% to 12% for copper, aluminum, zinc and other metals – may sound reasonable, but they are difficult to overcome in the tight-margin, price-competitive commodity business. Moreover, tariffs are higher the more refined the product. "Importing countries have tariffs or barriers that are proportionate to the extent of added value," grumbles M.I.M. spokesman Colin Myers. For example, the EC imposes a 10% duty on imported copper rods, but virtually no duty on raw copper. The Australians figure that some inefficient producers would be forced out of business if tariffs and subsidies were reduced, opening markets for them.

Likewise, Nalco Chemical Co., Naperville, Ill., figures GATT could be "a shot in the arm" by cutting tariffs on water-treatment products, says Larry Gess, director of world trade. The company particularly hopes for reductions in fast-growing countries such as India, Japan, South Korea, Indonesia and Thailand. Indonesia's tariffs are about 60% and India's are as high as 150%; those could be reduced to 40% or 20% in India and 6.5% in Indonesia. "They stand to be very good customers as we get rid of the limitations," notes Mr. Gess, who will be lobbying in Geneva this week and next. "If we have an agreement it's a tremendous step for us."

For one thing, the company says it would most likely avoid having to open new production facilities in India, duplicating existing production in the U.S. and Italy, if it could sell certain products to India without steep tariffs. If they stay in place, Mr. Gess says the company will probably expand its small plant outside Calcutta to meet demand.

"Do we do the same thing in India that we're doing in the U.S. and Italy?" he asks. "We can just ship from here. We'd like to do that, but duties almost force you to set up shop there."

Japan's electronics companies are among those hoping to gain from tariff cuts in Europe, Canada and the U.S. Japan also looks to gain from the U.S. campaign to limit Europe's curbs on foreign films. It exports a lot of cartoons, which are affected by the European limits.

Even some multinationals that don't have a direct stake in the outcome have a care because they are affected indirectly. Sweden's Ericsson doesn't face high tariffs on its telecommunications products, and Sweden imposes only a 2½% to 5% duty on semiconductors that Ericsson imports. But the company is hoping that the EC agrees to cut its current duty of 14% on imported semiconductors. The reason: Sweden may someday join the EC, and if it does, it would have to abide by EC tariffs.

"It is very important to have lower import costs [for semiconductors] . . . because a higher duty would affect the price of the product we sell around the world," explains Nils Lundin, an Ericsson spokesman. The higher duty could cost Ericsson several hundred million dollars a year, he estimates.

Bill Lane, Washington manager for international issues for Caterpillar Inc., calls GATT "the equivalent of 14 Naftas." The Peoria, Ill., manufacturer faces tariffs on its tractors, bulldozers and excavators of 4% to 11% in the EC, 4% in Japan and about 15% in developing countries. Under plans now being discussed, these would be eliminated over five years, in a yet-to-be-determined number of countries.

Selling overseas since 1925, Caterpillar last year had exports of $3.3 billion, out of total sales of about $10 billion. When it comes to tariffs, GATT "is the mother of all cuts," says Mr. Lane. "The opportunity here is to use the GATT to eliminate this tax which is used to hinder exports. . . . By eliminating the tariff, you eliminate the home-field advantage."

–Jacob M. Schlesinger in Tokyo contributed to this article.

Profits? No, Please! A Russian Concern Finds Success a Bear

* * *

Watchmaker Makes Money But Ticks Off Its Workers; Overtime for the Shrinks

By Anita Raghavan
Staff Reporter of The Wall Street Journal

PETRODVORETS, Russia – Soon after the Petrodvorets Watch Co. went private in 1990, a terrible thing happened: It started making money.

While the notion is central to capitalism, it was so new and strange that workers and managers at this former state-owned watch factory started coming unwound. Squabbles broke out over how to use the profits – and over how much profit was actually necessary.

Managers who managed for profits were accused of profiting from the misery of workers. Miffed, some lifetime employees ran off into the free market to jobs elsewhere. This drove managers crazy.

Price of Success

Larisa Almiz, Petrodvorets's chief doctor, noticed a disturbing trend: Hundreds of employees were flocking to the factory clinic complaining of sleeplessness. Scores were so distraught they suffered nervous breakdowns. Profit-making was mandating a whole new way of thinking, requiring sudden and radical change. "People were scared," Dr. Almiz says.

People still are, though they are getting used to profits and the change they bring. They have to: Petrodvorets seems destined for success.

Much has been written about how tough it is to do business in the chaos and anarchy of Russia's emerging free market. But the experience at Petrodvorets, a watchmaker carved from a company founded by Peter the Great, shows success can be a white-knuckle ride as well.

A creation of Stalinist planners in the 1950s, Petrodvorets, just southwest of St. Petersburg, went private in 1990 when the Soviet government gave employees a two-thirds stake. A year later, the plant's workers paid the equivalent of about $18.8 million to acquire the government's remaining one-third interest.

Impeccable Timing

Despite aging equipment and balky parts-suppliers, the company seemed to have an uncanny sense of niche marketing for its cheap but reliable men's watches. It launched a nautical watch with a display allowing sailors to quickly tell when their shifts end; it remains a bestseller. Also popular has been a model that marks time in 24-hour periods; the feature is helpful in telling day from night in the long, dark Siberian winter.

But by far its greatest marketing coup has been its "perestroika watches," which continue to fetch as much as $75 in some European markets. The oversized watch with a black-and-white face began life as a dud: Designed originally for those with poor sight, its face features a large zero in place of a 12. Nobody was buying the watches, however, until Petrodvorets marketers convinced European and Asian wholesalers that the zero represented perestroika's "new beginning." Orders came pouring in and production soared to more than one million annually.

While those sales have peaked, the company this year will still export about a million of its watches or mechanisms to Europe and Asia, bringing in some $4 million to $4.5 million in hard currency. The factory also will sell an estimated 3.7 million watches to Russians.

But with success has come a host of problems – the knottiest being what to do with the company's profits. Petrodvorets finished 1992 with a profit of 209.4 million rubles (about $505,000 at 1992 exchange rates), five times 1991's profit level. The Council of Shareholders, elected by employees, is constantly pressing to funnel more money toward wages and fatter dividends on the stock. Since employees also are the stockholders, dividends amount to supplementary wage boosts.

Given the workers' long grounding in socialism, it isn't surprising to hear the head of Petrodvorets's trade union extolling the virtues of profits – but not at the expense of workers. "My biggest concern is to prevent big reductions in the work force and to see that the incomes of the workers increase," Galina Glazkova says.

But the management board, approved by the shareholders' council, would rather spend money upgrading machinery and equipment. Profit and efficiency – even if they mean cutting benefits – are the new bywords. "People have gotten used to the good things, and now when they are faced with new problems, they are dissatisfied," says Irina Samoylova, the company's finance director.

Fear of Firing

So far, the workers seem to have an edge in this tug of war. Though wage increases aren't keeping pace with inflation, the company has declared quarterly dividends since the middle of 1991. The profit issue also reflects a more deep-seated labor-management problem: Each side is terrified of the other.

"Under socialism, I could write a special letter with my complaints to any manager," 56-year-old Vladimir Kirillov, a lifetime Petrodvorets employee, says. "But now it's impossible because every manager can fire you."

This is clearly a capitalist dilemma. While some employees have jumped to other jobs, managers lament that they tend to be the more talented ones. Yet Ms. Samoylova argues that Petrodvorets should shed scads of less worthy workers to reduce costs. (Even as shareholders, workers can be fired, though they retain shares in the company unless they choose to sell them.)

But she says managers have heard stories about laid-off employees in the U.S. returning to their former factories and shooting the managers.

"We as managers are afraid of laying off people because we don't know what the consequences will be," she confesses as the cashier in the company cafeteria, using an abacus, adds up her bill for a bowl of thin cabbage soup, fish and coffee.

Ms. Samoylova has seen factory life from both sides. Several years ago, as head of the factory's trade union, she fought for the expansion of workers' benefits and helped win numerous amenities: a kindergarten, an athletic stadium and medical clinic among them.

Predictable Resistance

"In the old days, it was a goal for a factory to have a big social-service sector," she says. But now, as a manager struggling to increase profits, she notes that about 25% of the factory's profits go to support such services. Already, management has decided that workers will have to contribute toward housing, which the company once provided free. And management wants to get rid of the stadium and kindergarten – or at least make them self-financing – to free up more funds for factory modernization.

Not surprisingly, employees are resisting. The union claims it is working to persuade local government to take over the operation of the kindergarten and stadium, but Ms. Samoylova thinks that is just a gambit to stall a decision. Local governments are even more strapped for cash than the factory.

Management blames many of its problems on the state's decision to award factory ownership equally to all workers, regardless of rank. "It was a grave mistake," says Simonyants Rafik, Petrodvorets's commercial director. Indeed, the company is mulling a program to buy the shares of retiring workers. "Until management has a majority stake, we are very limited in the changes we can make," Mr. Rafik adds.

Still, most managers concede that life is better now than under central planning. Back then, stodgy bureaucrats, and not the market, often dictated what kinds of watches got made. One result was the disastrous disaster watch.

In the 1960s, Petrodvorets started churning out watches that combined time-telling with a radiation-monitoring device. They remained piled upon the shelves for years before bureaucrats got around to asking why they weren't selling. The answer, a manager says, was simple: "The feeling of our consumers was that it was better to die without knowing the radiation levels."

Service Economy Seems Rather Creaky In Britain Just Now

* * *

Nobody Wants to Be a Servant Or Be Confused for One; Rudeness Makes the Point

By DANA MILBANK
Staff Reporter of THE WALL STREET JOURNAL

LONDON – Alan Watkins, on a trip through Britain, wasn't looking for much: just a breakfast of tea and toast with jam and butter. The three hotels where he stopped had other ideas.

Instead of tea and toast, room service brought him coffee and rolls. Instead of the jam he wanted – and butter – he got marmalade and margarine. One morning, the hotel got the tea and jam right but brought him croissants. Another day, the desired toast appeared, but with honey, not jam. Some days he got an assortment of breads; other breakfasts brought him an embarrassment of marmalade, jam and honey. But not once in three weeks did he get exactly what he had ordered.

Hotels act as if one is "lucky to get anything," says Mr. Watkins, a London political columnist. One of Mr. Watkins's hotels, the Queens Hotel in Brighton, says it knocked $1.50 off his bill, thanks to his complaint.

House Specialty

His experience sounds like an episode of "Fawlty Towers," the old British TV series about a disaster-prone inn where bad service was the *specialite de la maison*.

Stop in at Ye Grapes pub in London, where the bartender announces closing time by saying, "Move it out. Do you speak English? That means get out of the bar." A waiter in an expensive restaurant tells a large party to "hurry up." An electronics store won't demonstrate its computer printers. Chinese restaurants won't deliver, grocery checkout clerks won't bag groceries, shoe-repair shops won't shine shoes.

Obviously, other countries have their service problems, too. And some British businesses, such as British Airways, the Royal Mail and London taxis, have standards that would please the most persnickety American. But Garry Topping, an Alabama travel agent with Australian roots, says he prefers sending tourists to the Continent, which has a "pretty good grip" on service. In London, he says, he feels an urge "to slap rather than thank" the hotel doorman.

Even in the American service economy, where "the customer is king," or "always right," or something like that, everybody has tales to tell about bad treatment.

Reluctant Naysayer

But British bad service is "genetic," says David Burnham, a computer consultant from Hampshire. Though he travels often in Europe and the U.S., he says, "I can't think of another country where the service is quite as bad as it is over here–and I'm patriotic."

Part of the blame appears to fall on the remnants of the British class system, under which only servants served. Waiters, busboys and salesmen like to remind customers that they are *not* servants. A little rudeness proves the point.

Bad service often is tolerated by the British themselves because of another evident national quirk–a disinclination to make a fuss. "We're held back by this cultural reserve," says Keith Richards of Britain's Consumer Association. "We don't have the Italian temperament or the American view that if something is wrong it should be fixed."

So things don't get fixed. The Consumer Association, in a study this month, found that banks, to nobody's surprise, generally "provide a shoddy service to many customers," botching direct debits or standing orders for one in five people in the past year. Its study of garages rated only two of 36 as good. And, says researcher Liam McCormack, "we certainly haven't seen much evidence of improvement."

Wanting but Not Giving

The Consumer Association's Personal Service hot line uncovers all sorts of outrages, and some fed-up Britons are shedding their reserve. Michael Winner, a London film producer, started a restaurant column in the Sunday Times this year devoted largely to criticizing poor service. "The British are particularly bad at giving service," he says. "They want to have it for themselves but not give it to anybody else."

Even when Mr. Winner visits a restaurant for a review, pad in hand, he says the service is often "slow, snooty or wrong." One of Mr. Winner's readers wrote him about a manager of Le Gavroche, an expensive restaurant, whom she called after a bad meal to see if the place had simply had an off night. According to her letter, the manager responded: "Madam, *you* were our off night."

After the letter was published, Albert Roux, who owns Le Gavroche, invited the woman back to dine with him. "In my restaurants the customer is always king, providing the customer is polite," he says. But Mr. Roux, who is French, says that's not the case elsewhere: "In Britain, the customer has never been right." A recent study by the British automobile association found that 60% of restaurants feel customers are bad-mannered.

Phone Manners

Hoping to put a friendlier face on things, the English Tourist Board has just launched a "Welcome Host" program. The daylong, $70 seminar includes advice on "making conversation" and "giving directions." It introduces such concepts as "answering a telephone on or before a third ring" instead of the usual dozen or two. Obviously a good idea, no? "To be honest, we get considerable debate over this," says trainer Angelina Boden.

Prime Minister John Major's government, meanwhile, introduced a "Citizens Charter" to bring public services up to snuff. The British Standards Institute created a new certification for service companies. Also sprouting are American-style consulting groups such as B.E.M. Ltd., which tries to reform the service industry by sending 2,000 mystery customers to check up on retail and food outlets.

The findings aren't encouraging. When one of the spies ordered 96 bottles of champagne from a large liquor-store chain, the manager laughed, called him "stupid" and said the order required a week's notice. Another B.E.M. worker fell ill after dining at a restaurant, which responded to the news: "What do you expect if you have a prawn sandwich on a hot afternoon?"

Today, mystery customer Neil Callaghan is making his rounds in London's West End. He tries to buy biking shoes at a sporting-goods store, but the clerk ignores him. He then visits upscale Austin Reed for a dress shirt. The salesman looks at Mr. Callaghan's backpack and the bomber jacket he is wearing and smirks. At an electronics shop, Mr. Callaghan seeks advice about a laser-disk player, but the clerk, legs crossed and hands in pockets, doesn't leave his perch at the other end of the room.

"This is bloody awful," Mr. Callaghan says.

Going Too Far

The British don't necessarily aspire to the excesses of American service, which is "overdone," in the opinion of Derham O'Neill, a London lawyer. He recalls a visit to a Chicago restaurant where the waiter declared: "I'm Mark, and I'm your table