DOLLARS and $ENSE
BARUCH COLLEGE BUSINESS REVIEW

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Dollars and Sense is a publication of the Baruch College Business Journalism Program. Our purpose: to provide the Baruch community with a business magazine written, designed, and edited by Baruch students.
Once upon a time, the illustrated characters in newspapers and books were just that—two-dimensional figures who disappeared when the page was turned. Nowadays, however, a stroll down the aisle of any department store or gift shop will show this to be no longer true.

Whether it is an old favorite like Mickey Mouse or a newcomer like Jim Davis' cynical Garfield, character licensing and merchandising has become big business. According to Licensing Letter, a trade publication in the field, customers, mostly adults, spent $26.7 billion on an endless array of licensed items such as tote bags, T-shirts, posters, and greeting cards in 1983, a 30% jump over 1982, and a 400% jump over the $6.5 billion in sales reported in 1978. Arnold Borka, publisher of Licensing Letter, predicts that retail sales of licensed products will hit $75 billion by the end of the 1980s.

Licensing can account for from 10% to 40% of a manufacturer's business in the United States and as much as 50% of its international sales. In fact, the take can be even more. "I would say that our licenses bring in at least 70% of our total profits," says Joanne Cella, assistant marketing coordinator at King Features, owners of the rights to Popeye and Beetle Bailey. The bubble isn't expected to burst in the near future either. "It (licensing) is like any other business; it goes up and down with the economy. So far, we've done pretty good," says Tracy Lawrence, manager of Muppet Stuff.

Coonskin

Actually, licensing is not a new practice. In 1955, when the Walt Disney movie based on the adventures of Davey Crockett was released, $1 million worth of coonskin caps were sold. It took 20 years, however, for character merchandising to be recognized as really big business and for more expertly managed properties to appear in the market place.

Presold

The real question is: what makes licensed merchandise the hottest ticket since the invention of penicillin? Perhaps the most important advantage of licensed products on the wholesale and retail level is that they are, in a sense, 'presold.' Consumer demand for a particular product is practically guaranteed. While the product itself is important, it is the licensed character on the item which truly sells it. "The characters sell the product. Some people are such Muppet fans that they will buy something just to add to their collection," says Lawrence. Another nice thing about licensed merchandise, particularly for the retailer, is that it
wearing a belt, you don’t see Superman wearing a belt, and you don’t see the Return of the Jedi wearing a belt,” Lieber-farb says.

Character licensing also can be quite unpredictable. Banking on another Star Wars phenomenon, licensees and licensors invested heavily in Star Trek and E.T. merchandise. Neither movie fared as well on the store shelf as it did at the box office.

Glut

Another problem increasingly becoming prevalent is the growing backlash among retailers toward the glut of character merchandise in the market place. The owner of Jenny B. Goode in Manhattan says, “We try to keep away from commercial licensing type of ideas and stay with our own ideas. Most of our gifts are imported so when it comes to Norman Rockwell plates or all that Snoopy and Star Wars stuff, it’s just not our look and it is not for our customer.” The owner of this gift and greeting card shop sums it up by saying: “It’s just too mass for me. Everybody does Garfield, Miss Piggy, Ziggy, and Snoopy. I’d rather be more novel.”

If past years are any indication of future sales, character licensing will continue growing at a healthy rate. One new trend already apparent in the industry is in the area of video games. Video games based on Popeye and the Muppets are out on the market and inevitably others will follow suit.

As for the next big character “fad” who can say what will succeed? One 11-year old boy wisely comments: “I’m not absolutely sure what next year’s best seller will be—but cute pets always sell well.”
Million Dollar Swaps

by Jacqueline M. Rainford

"If I had my life to live over again, I would elect to be a trader of goods rather than a student of science. I think barter is a noble thing."

Albert Einstein

As a child, the practice of exchanging things with friends was commonplace; you would swap a water pistol for a pack of baseball cards—marbles for a bar of candy. You rarely needed money. Imagine then conducting business where the exchanging of commodities is commonplace: exchanging steel for rolls of carpeting, TV air time for tennis rackets, and where cash deals would be made as a last resort. Can't be done? Barter, the oldest form of trading one commodity for another, is still being practiced all over the world, and in cities like New York, Chicago and Paris, it is big business.

The Barter Baron

Atwood Richards Inc., one of the oldest and largest barter companies in the U.S., based in New York City, was founded in 1958, and is now presided over by Moreton Binn, "the Barter Baron." Binn, who from childhood memories was always in some form of barter or another, bought into Atwood Richards (AR) in 1974, when it was offered by its parent company, Cooper Laboratories. Binn has since bought out his associates and now owns 100% of the stock.

When one visits the offices of Atwood Richards, one is in for a real surprise. Occupying the entire 15th floor of an office building at 99 Park Avenue, their corporate headquarters is not your modern, modular office environment. Instead, inside one finds a large macaw and an assortment of brightly colored finches which inhabit two cages in the reception area and two motorcycles abandoned on either side of the receptionist. There is a long glass case along the hallway, filled with a melange of goods: tennis rackets, baseballs, and a portable TV set. Indeed, the list seems endless. In the work area, ornate baroque chairs stand side by side with rattan and carved redwood chairs. The patchwork environment seems fitting. "Most, in fact nearly all, of the furniture you see here has been the result of a barter deal," says Robert Foth, senior vice president of operations at AR.

An Adjunct to Business

It was in the 1950s when barter was a new concept to American business that AR made its debut on the business scene. "Our aim then was to make businesses aware of the idea behind bartering by operating on a local level, New York as opposed to international operations. As the message of corporate barter spread and, of course, influenced by the downturn in the economy, more and more corporations became interested [and still are] interested in barter as an adjunct to their business," says Foth.

Lois Dale, president of Barter Advantage, a Chicago firm, estimates that bartering now accounts for about 1% of all U.S. sales volumes, and that by 1990 it will have expanded to 10%. However, obtaining exact figures is nearly impossible in this area: a Stanford University study estimates close to $500 billion done in barter transactions, while another researcher at the University of Wisconsin sees the figure at $700 million, close to 27% of the GNP.

function on an international level, these countries pay their vendors in local produce rather than currency. Also called “countertrade,” this practice is thought of as protectionism, according to New York Times writer Lindsey Gruson. Fortune writer John W. Dizard puts the figure for countertrade at around 20% of world trade.

"We recently traded for the Eiffel Tower Restaurant"

Of the many forms of bartering being conducted, the most secretive of them involves the private arrangements made between the purchasing departments of two companies. The goods are simply exchanged and no record of the transaction is made. By those who practice it, this method is often not acknowledged in public.

For a fee, some companies join barter clubs. They vary in size and leverage. An example of such a club is Barter Exchange Inc., a small, four-year-old company based in New York. Headed by Darrell Michaels, the company anticipates $360,000 worth of barter sales in 1984. "We trade anything from travel to socks," says Garey Reid, assistant trader at the company. Another branch of the company will be opening in New Jersey early in 1984.

Credits and Respectability

Companies who trade their slow moving inventory at AR, and don't immediately find anything they want on AR's laundry list of inventories, can hold credits until something comes along. One credit is worth one dollar. "We gained our respectability not because we are an old company, but based on our performance. Providing you have tremendous diversity in the amount of areas to trade, and clients can freely exercise their credits, you will always be in business," says Foth.

The Barter Process

As a way of moving excess or slow-moving inventory, barter presents itself as a logical medium for many businesses. "I don't know of any company operating at 100% capacity, even in good times. The average production level is at about 69.4% capacity. This is where AR comes in. We will help expand your market by moving slow-moving inventory," says Foth. A typical AR barter transaction as described by Foth goes as follows: "Rayovac, the battery manufacturer, was unable to sell backwards.
one of the drug chains on the west coast. AR bought the batteries and approached the chain, remarketing the batteries at a lower price. We received part payment in cash and the rest in excess inventory from the optical division of the company; thus, opening up a new channel of distribution and increasing our leverage."

Not only does the company barter for products, but also for time. "At this moment one of the carpet manufacturers owes us about 100 hours in production time," adds Foth. "We like to deal with manufacturers rather than with the middlemen. Middlemen are not interested in barter; there is less leverage in the transaction for them. For example, how much more can they increase the price of a product they bought from a manufacturer, then sell it to us and make a profit? Not much," says Foth. "Most of our clients are Fortune 500 companies who operate on an international level. We also have to have that capability. The bigger we are in business, the more people we are able to talk to," Foth explains. Besides the domestic office in New York, AR has correspondence offices in Toronto and Paris.

The Eiffel Tower Restaurant is in New Orleans

"The fun part of the game is you never know where you're going to trade next. One of our trades took us to Jamaica to barter for guano (bird droppings used for fertilizer). We recently traded for the Eiffel Tower restaurant—they were removing some of the stores out of the tower, because the tower was becoming too heavy. For the restaurant, we traded safety nets (to catch falling debris from the site) and marketing expertise with the owners," says Foth. Eleven thousand parts of the restaurant have been in New York City since November of 1982. They have now found a home in New Orleans and the restaurant is awaiting rebuilding.

"'We trade anything from travel to socks'"

The Underground Economy

Of course, some experts argue that barter's chief role is in the underground economy. Economist Peter Gutmann (Baruch College, CUNY), in his 1981 article, "The Subterranean Economy Five Years Later," says that "once we include subterranean activities carried on by check as well as barter, the total becomes around 14% or about $420 billion U.S. subterranean GNP." A recent update of Gutmann's estimate, calculated by economist Shlomo Maital, puts the subterranean GNP at $470-504 billion for fiscal 1983.

There have been efforts to decrease the underground GNP. The Internal Revenue Service, some years back, ruled that trades must be declared as income at "fair market value." Unfortunately, that ruling is and has been frequently ignored. Still the IRS often audits what it calls its special projects—which include barter, tax shelters, and tax havens according to Caryl Conner, former speech writer for the Carter administration.

Mark Thorne, public relations officer for the IRS office based in Manhattan, estimates that unreported income is now over $100 billion. By 1985, he believes this figure will rise to $120 billion. "We arrive at these figures by a number of ways," says Thorne. "One is to take a sampling of the universe of any occupational group to determine if there is, or to what degree there is, compliance or noncompliance with the law." Unreported income falls into two categories: that which is derived from legal sources, and that which comes from illegal sources such as prostitution, drugs and other criminal offenses. "The auditing of barter companies," says Thorne, "follows the same procedure as that of any other company engaged in business."

The future prospects of barter are enormous. Hard-pressed parents in several midwestern states have already bartered such commodities as cattle and office equipment for the price of their children's college tuition. If this trend does succeed in moving east, one may find New York City parents offering up their goods and services—which it be a working knowledge of Hellenic archaeology, a mini-course in EDP auditing, or some expert carpentry—in exchange for the price of their children's education.

With continuing inflation and a tight job market, the future of modern business may soon come to rest on an updated biblical barter: an eye for a book and a tooth for a Sony Walkman.
Eyeing Deregulation

by Samir Toprani

A large bold-faced sign hangs from a Sterling Optical store window, reading Bausch & Lomb Soflens contact lenses—$88, including eye examination. Another sign in the window of an American Vision Center store reads Soflens contact lenses—$66. Signs such as these are emerging at optical chains all over the United States.

Ever since Bausch & Lomb introduced the Soflens in 1971, the contact lens industry has been growing by leaps and bounds. According to an industry analysis released in January 1983 by Salomon Brothers Incorporated, the contact lens industry has grown into a $285 million market, composed of 75% soft lenses, 15% hard lenses, and 10% gas permeable lenses.

Of 138 million Americans requiring vision correction in 1982, 8.3 million to 10 million wore soft lenses, 7.1 million wore hard lenses, and .9 million wore gas permeable lenses.

An area under much current controversy is the deregulation of the contact lens industry. Since 1976, contact lenses have been regulated by the Food and Drug Administration as transition devices under the Medical Devices Amendment; previously, they were treated as new drugs under the Food, Drug, and Cosmetics Act. But, due to a 1981 petition from the Contact Lens Manufacturers’ Association, increased pressure resulted in a recent proposal by the FDA to shift soft and gas permeable daily wear, spherical lenses from Class III medical devices to Class I.

“The issue is not to deregulate the industry but to reclassify the lenses from Class III medical devices, requiring critical regulation and premarket approval—which may take anywhere from 18 months to 2 years to obtain—to Class II medical devices, requiring less stringent regulations, or to Class I medical devices, which are only required to conform to ‘good manufacturing practice,’ ” explains S. Michael Sharp, vice-president of Vision Laboratories, and previously manager of clinical research services at Syntex Ophthalmic, the leading manufacturer of gas permeable lenses.

Making the Scene

The contact lens industry is changing so rapidly that bringing it into focus is not easy. Innovation has yielded several new types of contact lenses on the market, such as gas permeable, extended wear, toric (for the correction of astigmatism), tinted, and bifocal lenses in addition to the traditional hard (PMMA) and soft (HEMA) lenses.

All contact lenses, however, generally fall into two categories: rigid and soft. Soft lenses are mostly hydrogels made of hydrophilic (water loving) plastics and now account for 75% of all contact lens sales. Their success is the result of soft lenses’ greater comfort over hard lenses, and decreased prices due to market competition.

Many people are considering soft lenses for cosmetic purposes in order to replace eyeglasses. The key reason for this change is comfort. Soft lenses are hydrogels which absorb water. The more water they absorb, the greater their flexibility. They are much more comfortable than hard lenses because they are thinner, flexible, and can stay in the eyes for longer periods of time. However, this is achieved at the expense of the visual acuity that hard lenses provide. But a 1982 U.S. market share ratio of 5:1, and a predicted 1987 ratio of 13:1 of soft lenses to hard lenses, show that consumers are apparently willing to make a trade-off of perfect visual correction for comfort even though they may only be settling for near-perfect vision.

The market proliferates

The contact lens business has boomed since 1978, when
the Federal Trade Commission passed a ruling allowing for the advertising of optical goods, which was previously banned.

Companies have wasted no time in taking full advantage of this ruling. Pamphlets, television commercials, and certain other advertisements are the heavy artillery in the arsenal of advertising gimmicks used by leading contact lens manufacturers. In an effort to grab new customers, Bausch & Lomb has televised commercials for its Soflens, while other companies have published eye catching full color booklets describing their lenses: Cooper Laboratories for its Permalens, and Barnes-Hind/Hydrocurve, a subsidiary of Revlon’s Continuous Curve, for its Hydrocurve II extended wear soft lenses. With these attention grabbing advertising campaigns, manufacturers are hoping for increased sales to distributors.

Opticians, optometrists, and ophthalmologists—the three O’s of the industry—are the distributors of contact lenses. While fittings by optometrists have dropped from 67% in 1978 to 40% in 1982, fittings by ophthalmologists have risen from 15% to 25%. The biggest gain, however, has been with optical chains. Since the 1978 FTC ruling, distribution of contact lenses by optical chains has nearly doubled, from 18% in 1978 to 35% by the end of 1982.

Advertising deregulation and increased market competition have been of greatest benefit to consumers, since prices for contact lenses have dropped from over $300 a pair to less than $90 a pair at optical chains, such as Sterling Optical, which also includes an eye examination and a year’s follow up checkups at no extra charge. The other two O’s of distribution—the ophthalmologists and the optometrists—however, charge much more than optical chains. For the consumer, “the majority of the cost for contact lenses is the professional time and services involved,” says Dr. Maurice Poster, co-chairman of the soft contact lenses committee of the American Standards Institute (ANSI).

“Optical chains tend not to deal with difficult cases,” says Sharp. According to Sharp, these optical chains can charge much less because they try to deal with simple cases which don’t require much professional care and attention. They can sell lenses more cheaply because they buy them at wholesale prices from manufacturers. They cut costs by generally employing fixed-salary workers and by generating large volumes in advertising and merchandising activities, which provide for economies of scale. The major factor in the drop in contact lens prices is the reduced costs of lenses resulting from increased market competition, which has forced major firms to mass produce. Since 1973, Bausch & Lomb estimates its wholesale prices to have fallen 68%, but its manufacturing costs have also fallen 62% during this same period.

Declining production costs

Bausch & Lomb cornered the market in soft lenses by acquiring the license to a Czechoslovakian lens production process. This “spin-casting” process has enabled it to produce contact lenses cheaply and more efficiently than its competitors, the majority of whom use the conventional “lathe cutting” method which brings costs in the range of $6-$7 per lens.

“Competitors are still finding it difficult to compete with Bausch & Lomb, the dinosaur of the contact lens industry”

According to Arun D. Merchant, director of special projects in research and development, Ciba-Geigy, and formerly employed by Bausch & Lamb, the lens-making procedure of the spin-casting method “is simply accomplished by placing a small quantity of lens material on a curved bowl that can be spun. During spin-casting, the material moves towards the periphery and assumes the necessary configuration for an optical lens. The material is cast in this shape by chemical reactions and a catalytic agent.”

With the spin-casting method B & L is undercutting its competitors’ wholesale prices, as its production costs run between $1.50-$2.00 per lens. This is possible because spin-casting is a highly reproducible process that is not labor intensive and has low manufacturing costs.

Ciba Geigy, a large international conglomerate, is currently using lathe-cutting. “Conventional lathe-cut lenses,” says Merchant, “are produced by lathing and polishing of front and back surfaces of lenses produced from a button of plastic lens material. Although this process provides the ease of producing a wider variety of lens designs to fit a larger populace, it has higher manufacturing costs, is very labor intensive, and is not highly repeatable.”

But manufacturers haven’t given up hope. With its molding method, Coopervision, one of the two leading
makers of extended wear soft lenses, holding 8% of the soft lens market, is aiming for a 1983 goal of a $4 cost per lens and a long term goal of $2-$3 per lens. Another cast molder, American Hydron, also with an 8% share of the soft lens market in the U.S., has overall production costs in the $3.00-$3.50 per lens price range.

Not all dinosaurs are extinct

Once Bausch & Lomb received the Food and Drug Administration’s approval to market the first soft contact lenses, it seized control of the industry for nearly three years. But, in 1974, by being the first to receive FDA approval for a cosmetic soft lens, Continuous Curve, along with a number of other competitors to follow, threatened to hamper B & L’s position as the industrial giant. According to Salomon Brothers’ industry analysis, an attractive 80% gross margin of many of these companies invited larger companies, such as Revlon, Johnson & Johnson, Syntex, Dow Corning, Shering Plough, and others, to enter the market by acquiring smaller firms.

Competitors are still finding it difficult to compete with Bausch & Lomb, the dinosaur of the contact lens industry, who monopolized it in its early years with almost a 100% market share and has remained at the top, still holding almost 50% of the soft contact lens market.

Interpreting Reclassification

Although soft lenses are the bulk of the contact lens market, the fastest growing sections of the industry are extended wear lenses and gas permeable lenses. Extended wear lenses, hydrophilic in nature, can be worn for periods of up to two weeks and account for 18% of the soft lens market. At the current rate, they could well jump to 30%-40% of all soft lens sales. Gas permeable lens sales are expected to shift from 10% of the U.S. contact lens market to 20%-30%, taking away from hard lens sales, which are expected to fall from 15%-5% within the next four years.

The reclassification proposal, if put into effect, would govern over soft and gas permeable lenses. “All you are talking about is spherical daily wear. Extended wear were specifically exempted from the change in classification,” says Franklin Jepson, director of corporate communications, Bausch & Lomb.

The specialty lenses, which include tinted lenses, toric lenses, and bifocal lenses, “are the backbone and the bread and butter for small manufacturers,” and would be unaffected by the proposal for reclassification, says Dr. Poster.

Also unaffected by this reclassification would be hard lenses. “Hard (PMMA) lenses are already under Class I. The other lens that would be changed is the hard gas permeable,” says Jepson. Moving gas permeables into Class I “could have the effect of increasing competition,” adds Jepson.

“There are already over 30 companies approved by the FDA to market soft lenses in the U.S. It is a very, very competitive marketplace with most companies losing money, so the fact that a regulatory barrier has dropped does not mean, necessarily, that a lot of new competition can come in into a market where prices are declining, and where only one person is generally reported as making any money,” says Jepson.

“Distribution of contact lenses by optical chains has nearly doubled”

At present, large companies are investing huge amounts of capital in research and development and in getting premarket approval for their lenses. After reclassification as Class I medical devices, soft lenses and gas permeable lenses will not require premarket approval to be marketed.

Pursuant to FDA regulation, prior to receiving premarket approval, all contact lenses, both daily wear and extended wear, must presently “go through cytotoxicity testing and microbiological evaluation, otherwise known as GMP,” says Merchant. Based on Clinical Guidelines, May 1980, prior to premarket approval contact lenses must also go through a clinical evaluation of 400 patients followed for six months for daily wear lenses and followed for two years for extended wear lenses.

For new firms, premarket approval represents “a barrier to entry into the market,” says Sharp. He believes that the net results of deregulation will be that reclassification will make it easier for smaller manufacturers to get approval for new lenses, since premarket approval would not be required for contact lenses under Class I.

Entry barriers and lack of capital for innovation are still making it difficult for new firms to cut in on a piece of the pie already enjoyed by existing companies. “Just to come into the industry being the 33rd or 34th company in the market with a daily wear lens won’t do you a whole hell of a lot,” says Jepson.
“Current GMP standards are appropriate and good. We have, however, communicated our concern to the FDA that if they do change the regulation, that they have the ability to police any manufacturer that might come into the market and make sure that they do manufacture to GMP standards. You shouldn’t conclude that a lot of small companies are people operating in their garages, hoping to get into the business,” says Jepson. “There is a regulatory barrier which has fallen, but it remains a very substantial investment for manufacturers to meet GMP standards,” he adds.

According to Sharp, the proposal for reclassification would not have much effect upon soft lens manufacturers because of the low rate of innovation. Instead, this proposal has the greatest impact upon manufacturers of gas permeable lenses, such as Dow Corning and Syntex who, according to Saloman Brothers, have “the lion’s share of the market.” These firms argue that reclassification will inhibit innovation.

“A lot of small companies object to the fact that under the proposed guidelines they would have to prove substantial equivalency to existing approved materials in order to come in under Class I,” says Jepson.

“No one is going to make it in the marketplace over the long term by simply sliding into the market with a lens which is a me-too lens,” says Jepson. “The long term survivors of this marketplace,” he believes, “will have to be able to invest capital in research development for innovation.”

“The proposal as it stands now doesn’t help the small manufacturer,” says Dr. Poster. Although he believes that deregulation is needed, he feels that reclassifying contact lenses to Class I will not be of benefit to anyone. One reason is that large manufacturers will suffer from decreased profits due to greater market competition from smaller firms, which doesn’t guarantee a decline in prices for consumers. Another reason is that new manufacturers could run into court battles with existing firms over patent infringement for the development of me-too lenses—imitatives of current lenses which already have acquired premarket approval. Finally, lens safety will decrease, since Class I means lenses will only have to conform to GMP. “The equivalent of Class I is somebody making crutches” says Poster.

Poster believes that soft lenses and gas permeable lenses will not fall under Class I but will probably fall under Class II, which does require some degree of difficult performance testing.

The outlook without the proposal, he adds, “is somewhat bleak for smaller, local manufacturers, the two or three, or four or five person operations.” At present, large manufacturers “can clobber the heck out of smaller firms,” says Poster. He believes that deregulation is necessary, but all issues have to be gone over first. How reclassification is done is the key.

Whether or not this reclassification proposal does come into effect, the competition in the contact lens industry will no doubt continue, especially with the favorable outlook for extended wear lenses. According to Dr. Poster, the percentage of problems of extended wear patients has been equal to or less than those of daily wear patients.

After obtaining FDA approval in mid-1982, by marketing its “O” Series extended wear lenses, Bausch & Lomb has brought the battle into a new arena, a market only currently enjoyed by Coopervision and Hydrocurve.

With less than 15% of the market saturated for those needing vision correction, Sterling Optical’s advertising slogan “Take off your glasses America, see how good you look,” still holds potential.  

DOLLARS and SENSE, May, 1984
Penny Stocks

by Mark Ganchrow

On April 15, 1983, a company by the name of Business Computers, International, Inc. sold 300,000 shares of stock to the public at fifty cents per share. A day later, those shares were trading at $1.25—a gain of over 150%.

Consider these recent stock prices, as reported by the Wall Street Journal in the over-the-counter listing of stocks: (All quotes are in dollars and fractions thereof.)

Blue Sky Oilgs 13/16
Chefs Intl Inc. 1 1/8
Conti Steel Cp. 1 9/16

Those last two quotes translate to roughly $1.13 and $1.50 a share, respectively. Stocks such as these, usually referred to as “Penny Stocks,” are sometimes considered to be a major profit opportunity for the small investor. “For the little guy who’s willing to take some risks, penny stocks offer a great opportunity,” says Kevin Herron of Merrill Lynch. Before buying these issues, however, there is much to be learned about the company, the stock, and even the issuing brokerage house.

The penny stock market is a non-organized exchange centralized in Denver, Colorado. Many brokerage houses in Denver specialize in selling these issues to the public, and some even stake their livelihood on them.

These stocks are especially popular during times of rising prices in the stock market as a whole. Brokers are able to make use of increased public awareness of stocks; the low prices at which these shares are offered give more incentive to the inexperienced trader, or even to the practiced speculator looking to turn a fast buck. Take, for example, the case of Scott Instruments, issued in 1980 by the firm of Rooney, Pace in New York. At the time of issue, the stock was priced at $2 a share. Within two months, the price per share was $8, and many investors had made some quick money. What most people don’t know is that three weeks after that, the stock was trading at less than $2. Though not, strictly speaking, a penny stock, the case of Scott Instruments dramatically illustrates the profit opportunities as well as the risks inherent in an investment in penny stocks.

Another case in point is the dramatic rise of Excoa Energy, issued for ten cents a share. Shortly thereafter, the stock traded as high as a dollar per share, an increase of 1000%.

As a general rule, most penny stocks, especially those based in Denver, are energy stocks—companies dealing with oil and natural gas exploration. For these companies, the penny stock market represents an opportunity to raise small amounts of capital that are necessary for short term investment, with no dividends to pay, no interest or principal to worry about repaying, and no loss of control of management. The drawbacks to these issues, most of which are legitimate companies, come during energy gluts, such as the one experienced in 1980-82. Then, not only does the price of these energy stocks fall out of sight, but the rest of the penny stock market tends to suffer as well. In June of 1981, the Composite Index of Penny Stocks, a yardstick used by many Denver firms to measure performance of the penny market as a whole, plunged 91 points in one week—a 10% drop.

A major problem with penny stocks, one that is being corrected to some degree, is the stock’s inability to trade on its own merits. The brokerage firm that issues the stock has to “make a market” in the firm’s shares; that is, for any investor wanting to buy or sell that company’s stock, the brokerage house will assume the other side of the transaction (at a cost, of course). If anything should happen to the brokerage firm, any stock that it has issued is likely to fall in price as a result of a lack of a market for the shares.

Early in 1982, the Securities and Exchange Commission (SEC) which regulates stocks, and the National Association of Securities Dealers (NASD), which oversees brokers and small stock issues, began a crackdown on Denver brokerage houses. Previously, there had been little regulation of these issues, and even less enforcement of existing regulations, due largely to the silence of the investment community. As a result of this crackdown, many Denver based brokerages closed down, at least temporarily. Two New York firms, John Muir and M.S. Wein, were also closed. Blinder, Robinson, and Co., a Denver house, was investigated for conflict of interest and securities fraud stemming from the stock offering of American Leisure Corp., a gambling stock. The prospects for the company read as follows:

“These are speculative securities, and should only be purchased by investors who can afford to lose their entire investment. Investors should be aware that the company’s cash flow is insufficient to meet present obligations.
Later, the prospectus went on to say:

"The company presently owns 1.72 acres of land in the Marina area of Atlantic City. The Marina Development plan would require that the plot be used for parking facilities. In any event, the company may never successfully enter the casino hotel business."

"I certainly wouldn't recommend this stock to anyone. There's just too much risk involved with a company like this," Kevin Herron says. Yet, the underwriter was able to sell 10 million shares to the public. Why would anyone put their hard-earned money into such an investment? There are several reasons. The first is ignorance of the facts. Many people who invest in penny stocks know only of past cases of profit; they aren't told of the 4 to 1 ratio of failures to successes, and they haven't been warned to read the prospectus, from which all the above information and more is readily available. In addition, even for those who know the risks involved, greed, along with the desire to "make a killing in the market," is a strong motivator. When one considers the fact that the average price rise in a share of stock underwritten by OTC Net, Inc., was 93%, one can appreciate the willingness to invest in a stock of that nature—the risks are great, but for some, the profit opportunity is adequate to offset the risks. And yet, in the words of George Handjinicolou, professor of finance at Baruch, "There's no such thing as a free lunch. Most people are greedy and unaware of the risks involved. For every penny stock that goes up in price, four disappear from sight."

Given the history of penny stocks and the obvious opportunities for fraud, why doesn't the SEC keep a closer eye on these companies and the underwriters? There are several reasons, not the least of which is practicality. According to Regulation A, set forth by the SEC, any company issuing less than $300,000 worth of stock is not required to file a registration statement or prospectus with the SEC. This law was initially intended to permit companies attempting to
raise cash quickly to do so, but it can easily be exploited by a small company whose survival depends on one project, much the way a small oil and gas exploration company's would.

A second problem in regulating the penny stock market lies in the very nature of the market. "The problem is that the exchange is a non-organized one," according to Professor Handjinicolou. This leads to difficulty in tracing records, as well as in locating the source of any particular trade. It is this last feature that makes the penny market so attractive to would-be stock manipulators. "What these individuals do is one of several things: They either buy up a large amount of stock of a particular company, creating a demand and higher price for the stock, at which point they sell at a profit, or they buy several shares at an inflated price, get others to buy at the same price, and then sell the stock short" says Kevin Herron.

"Customers, even those who get stuck with the bad apples, don't complain"

The lack of organization of the market leads to a second problem in regulation — records of companies and personnel are hard to trace and research. For example, the prospectus for Scott Instruments, in reference to an injunction filed by the SEC against one of its directors reads: "The injunction bars the director from future violations of antifraud, reporting proxy and tender offer provisions of the Securities Act of 1934." The prospectus noted that in consenting to this injunction, the director neither admitted nor denied the allegations against him. It is, however, this type of information that is not readily available when researching smaller companies.

A major factor in the law's ineffectiveness is that penny stock participants apparently do not want regulations implemented. According to the SEC, a major problem with enforcing regulations is that customers, even those who get stuck with the bad apples in the bunch, don't complain. "You cannot regulate people's choices," according to Handjinicolou. "As long as you know what you are doing, the choice is totally up to you."

A possible solution to the problem of watching the companies lies in the method of selling these stocks. Since brokers' livelihoods depend on the sales of these issues, there is a tendency among the salesmen to go for the hard sell. Salesmen underplay the risk involved in order to encourage the potential client. Because an investor who is aware of all the facts can make an intelligent, well-thought out decision, it should be the responsibility of the underwriter to make sure this information is readily available to investors.

Some of the risks inherent in penny stocks are associated with the size of the company, which makes for an interesting Catch-22. An investor is wary of putting his money into a small, unproven company with little financial strength, while the company is selling the shares in order to raise funds to grow and establish financial legitimacy. "Most of the companies that go public in the penny stock market are very small — a few hundred thousand a year in cash flow, with net worth of under a million dollars," says Professor Handjinicolou.

Because the company is so small, the assets of the firm are very risky, especially since the nature of the companies is frequently oil and natural gas exploration. Since the cost of even a single venture is in the hundreds of thousands of dollars, a single failure endangers the financial health of the company and any investment in the company. In addition, since the price of the stock is so low, brokers take a large piece of the pie for themselves in the form of commission.

Over-the-counter stocks are traded on a bid-ask basis—that is, the "bid" price is the one at which the shares can be sold, and the "ask" is the price charged by the broker to his client. The difference between the two prices is the "spread," and that is what goes to pay the broker's commission. For example, a recent price quote for AMEnergy: Bid—3/8 (37.5 cents), ask—½ (50 cents). The spread is 1/8—33%. That's how much the stock would have to rise before an investor first broke even. In addition, because of the limited size of the issue, there is no guarantee that another investor will be willing to buy the stock when one wants to sell. If there is no other investor willing to buy, the seller is at the mercy of the market maker, and must take whatever price he is offered.

In view of all these risks, how should an investor play the penny stock market? According to some investment advisors, one should avoid penny stocks altogether. For those who can't resist the temptation to try to make a fast buck, Professor Handjinicolou has this advice. "Diversify—spread your investment out among 10 to 15 different penny stocks. That way, even if half go under, the other half still can make money."
Direct mail order, once understood only as "junk-mail," has now metamorphosed into nearly a $40 billion industry. Currently representing 12% of the $1 trillion in sales by retailers, mail-order sales have been growing steadily over the last five years. If the present pace continues, direct mail-order will account for one-third of all general merchandise sold by the year 2000.

Much of the success of direct mail-order buying is the result of the recent emergence of the two-income family. With more disposable income available, but with less time to spend it, women, who do most of the family's shopping, have found that shopping by mail, or even better, by phone, makes life a lot easier. In addition, home-based shopping seems to make comparison shopping simpler and some would argue that it also acts as an effective deterrent to impulse buying.

"Most mail-order buyers are smart shoppers," according to John M. Cavanaugh, Director of Ethical Practices and Consumer Affairs of the Direct Marketing Association, an international trade organization. "Since more and more people have chosen to shop by mail and telephone, they've been forced to read the catalogs and decipher what is necessary to fill out order forms."

Basically, companies who expend the effort to mail out fifty-page, full-color catalogs mean to do an honest day's work and try to keep their customers happy. However, the Direct Marketing Association gets as many as 20,000 complaints per year, the Better Business Bureau of New York gets about 12,000 and the Postal Inspector gets over 50,000. Most of these complaints are concerned with late delivery or misleading advertisements that make the product look bigger and better than it actually is. Many people are duped by ridiculously low-priced offers, miraculous weight reduction pills or equipment, pills and creams for hair renewal, work-at-home schemes, get-rich-quick schemes, etc. The list goes on and on. "Ads will state that the consumer must wait four months for delivery, they must send money orders as payment to P.O. boxes and so on," says Pesia Derin, manager of the mail-order department at New York City's Better Business Bureau. "It is very difficult for me to get results for a consumer when a situation like this arises, which is quite frequently. I can find out who rented the P.O. box and then write to them, but frequently I don't get answers. They've usually picked up and gone by that time. That's when I refer the case to the Postal Inspector."
Role of Postal Inspector

The Postal Inspector is a law enforcement agent who has the legal power to go after people whom he feels are defrauding the public. He has three methods of handling complaints. First, his office will send a letter to the company along with a copy to the consumer saying that they want the company to take care of the complaint by either refunding the consumer's money or sending the item(s). This method resolved 43,397 or 86% of the complaints received last year. The Postal Inspector will then ask consumers to notify him if they haven't received the goods within 45 days. If they still haven't gotten their merchandise by then, the Inspector will open up an investigation. If he already has reason to believe that the company is fraudulent, he won't even bother to send a letter; he will just go ahead with the investigation.

The second method the Inspector might select is to go to the Chief Postal Inspector in Washington and apply for an administrative order under Title 39 USC Section 3005. This provides the Inspector with a temporary restraining order which allows him to hold the company's mail. Then, he will get a permanent restraining order allowing him to seize the mail and return it to the senders. A letter is subsequently sent to the company informing them that they have 30 days to appeal the action. A restraining order can be prepared in conjunction with or in lieu of criminal action, depending on the severity of the violation. "Most are legitimate companies who have gone over their heads. They've either advertised too much, don't have enough inventory, or they're just late in shipping," says Ray Bonney, a New York City Postal Inspector for nearly 13 years.

The decision to take out an administrative order or proceed with criminal action can be a frustrating one for the investigating Inspector. He might not want to take the time to get an administrative order because it might not do him any good. "If the Postal Inspector became aware of a scheme late in the operation and the fraud has already bilked a million people, what's the use of stopping the mail then?" asks Bonney. If the Inspector feels that a company violated the law intentionally, he will take the case to the U.S. Attorney's office. Then, it will be up to the attorney to decide whether to prosecute. If the scheme is very involved, it can take up to a year in court. The attorney has to bring in witnesses and material evidence. It is very hard to prove guilt and it is very easy for the jury to get confused, so most violators feel that their best bet is to try to beat the rap in court. The attorney realizes that he will be involved in a case for a long time and he won't be able to get a quick plea of guilty or a chance to plea bargain. Rather than take the violator to court, he might be satisfied with an administrative order or an injunctive relief to stop the company's activities and gain restitution for the consumer. "Building of cases is somewhat burdensome. There is a large volume of them and we must sift through them all. We don't have a lot of paralegals or assistants to help us, so we must develop priorities for cases," says Alfredo F. Mendez, Assistant Attorney General.

"Last year the US Attorney obtained 966 convictions out of 2,867 investigations"

This type of situation is exactly what the perpetrator of the fraud hopes for. Most often he is a businessman with a lot at stake. He might have a multi-million dollar business going he won't want to give it up. "In a place like Little Rock, Arkansas they would go ahead and prosecute the guy, but in a big jurisdiction like New York, unfortunately, sometimes people get away with crimes because the US Attorneys just don't have the time. They don't have enough manpower and there are too many other crimes going on," says Bonney. Only in a case where there has been a loss of at least $5,000 to the public will an attorney prosecute. When that determination has been made, the Postal Inspector presents all the facts in the case to him and in turn the attorney presents them to the grand jury. The charge is Mail Fraud Statute with a penalty of five years imprisonment for each piece of mail involved in the scheme.

In addition, the False Advertising Statute GBL Sec 350 allows the court to assess penalties of up to $5,000 per false advertisement. Under the Executive Law, the court may grant an award of $2,000 to the Attorney General for the cost of the investigation.

Last year, the US Attorney obtained 966 convictions out of 2,867 investigations, imposed $1,685,519 in fines and won $15,647,917 in restitution for consumers. "The small amount of convictions is due to the fact that judges would rather fine the guys or put them on probation because they are usually first-timers and straighten out after that. And if you don't have a criminal record today, you won't go to jail for just about any crime," says Bonney. Knowing that, the attorney and violator may enter into a consent agreement,
a legal document signed by the violator, agreeing that he
has done wrong and promising to return all money. This is
a common practice and usually is enough of a deterrent for
the violator.

Mr. Mendez would like to see the Attorney General’s of-
office gain more power to prosecute companies criminally.
“At this time, it's up to the County DA. Since we handle
more consumer frauds, we should have more power. We
can put a dent in them by shutting them down, but in many
cases it’s not enough. There should be stronger penalties.
The threat of criminal prosecution would be more
effective.” With the existing power that the Attorney
General’s office has, their 13 lawyers and 10 consumer
representatives (who attempt to mediate complaints before
handing them over to the lawyers) resolve 80% of the cases
that come into their office. The other 20% may be com-
mercial or contractual disputes and may be better handled by
other agencies.

Schemes

The fraud perpetrator is often an intelligent businessman
who has never been in trouble with the law. “They go for
their million and figure it’s now or never and then quit if
they get caught,” says Bonney. On the other hand, there
are the ones who keep coming back. “They won’t stop
because they get inordinate pleasure out of being devious.
They enjoy knowing they’re glooming money off people,
says Cavanaugh. “They’re very gutsy individuals. In a way,
very charming, very attractive. You have to give them
credit, but yet thousands of disappointed souls fall by the
wayside just because of them.”

Felipe La France is one such a company. The company
advertised a 29-piece cookware set for $29.95 which turned
out to be a 4-piece set of children’s cookware. They entered into a consent agreement and promised to refund
all monies. Within a short time, they reopened as Ashley
China.

Certain schemes are unique to particular areas of the
country. In N.Y., counterfeiting designer clothes seems to
be popular. One such operation was run by two partners,
Bob Harris and Jack Greenberg. The two men operated
under three different names: Bob Harris and Jack
Greenberg Associates, Canada Fashions, and Bob Harris
Associates. Based in the heart of the garment center, they
sewed Evan Picone and other designer labels into clothes
(mainly women’s suits) and sold approximately 10,000 of
these garments at a price range of $40-$55 to retailers in
Philadelphia, Alexandria, Va. and Los Angeles. For their ef-
forts, they received payments in excess of $700,000. The in-
vestigation of this particular scheme went on for six months
and inspectors succeeded in recovering $100,000 worth of
merchandise. The principal of the scheme, Bob Harris, was
arrested and pleaded guilty to mail fraud charges in U.S.
District Court, for using the U.S. mail to bill his customers.

Another scheme which surfaced in New York involved
phony career counselors who promised non-existent jobs
for executives and managers. Fortunately, the Attorney
General’s office brought these counselors under investiga-
tion and succeeded in putting most of them out of business.

Business Victims

Frauds aren’t directed at individual consumers alone.
They can also be directed at businesses. Thousands of long
distance phone calls are made daily from Los Angeles, Las
Vegas and Florida by fast-talking salesmen. These salesmen
promise small business owners valuable prizes or gifts if
they agree to purchase COD, sight unseen, a small promo-
tional box of pens, key rings, etc., with the company name
and address imprinted on them. Hundreds of millions of
dollars are spent yearly on CODs by these unsuspecting
companies. The solicitors commonly induce a sale by offer-
ing “free gifts” or by guaranteeing your winning a valuable
prize—this is known as “selling the sizzle.” They push such
items as pens, key rings, and ice scrapers, which are usually
of inferior quality and are sold at 7-10 times their actual
value. Once a businessperson pays for the COD parcel at
the post office, the Postal Service is obligated to remit the
money immediately to the ad specialty business. Unfortu-
nately, when the package is opened, there is often
nothing in it.

“‘There should be stronger
penalties’”

In order for business owners to protect their firms from
these schemes, they should follow these guidelines offered
by Howard Tokheim, Phoenix, Arizona’s Postal Inspector-
in-charge:
1. Beware of advertising specialty companies who will only
ship an order via U.S. Mail COD.
2. Make purchases of pens, key rings, or other advertising
items from reputable firms or businesses known to the con-
sumer.

DOLLARS and $ENSE, May, 1984

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3. Buy only from firms who will send a catalog with a price list and order form.
4. Ask for a free sample of the product before agreeing to buy it.
5. Don't be enticed to buy based on promises that you have won a fabulous prize.
6. Don't be intimidated or fast-talked by titles such as promotion directors, people in shipping, or alleged customer service directors.
7. Investigate the company soliciting your purchase through The Better Business Bureau.

Fraud schemes are as diverse and imaginative as their creators and there will always be suckers to fall for them. Government and non-government backed agencies across the country work diligently to stop the schemes, but inevitably schemes keep on cropping up. "I think there are a series of little, annoying activities that will always be with us. Millions of dollars are spent on diet pills, bust developers, hair growers and none work, yet people believe that maybe this time they will. There will always be dreamers and I just don't know how to protect them," says Cavanaugh.

Can fraud ever be truly controlled? Some would argue that with the combined help of publishers, broadcasters and increased consumer education programs, fraud can be virtually wiped out.

The New York State consumer protection agency has a new program in the works for mail-order buyers called the National Association of Consumer Agencies (NACA). NACA will provide an 800 number for consumers who want to check out the reputation of a company. This service will be a boon for consumers because it will save them the trouble of writing. It will also save money in toll calls to local Better Business Bureaus.

**How Agencies Combat Fraud**

The DMA attempts to combat mail fraud directly with the application of peer pressure on companies that have been causing problems and indirectly by publishing guidelines for the acceptance of broadcast advertising and print advertising for publishers and broadcasters. These guidelines basically offer procedures for checking copy and products, and advice in dealing with consumer complaints. They also publish guidelines for marketers who may be new to the industry and unaware of proper practices and principles of conduct.

Once a month from September to June, John Cavanaugh meets with the Media Acceptance Group, consisting of individuals in direct response marketing who are concerned with keeping up the standards of advertising. They offer each other suggestions and share their experiences. They "spread the news around about suspect advertisers," says Cavanaugh. But apparently many publishers aren't too concerned with being ethical. "Some are so greedy. Their salespeople have quotas to meet and if they haven't met it for a particular day and unless they're from a couple of really good operations they're not going to question the ad too much. If they were more responsible and not so greedy, they wouldn't accept a lot of these ads," he adds.

Aside from providing guidelines for the industry, the DMA, as well as the US Postal Service, provide guides for consumers to help them shop by mail. The DMA's guide gives tips on ordering, returning and recording for direct mail-order purchases. Some suggestions:
1. Before ordering, check the company's return policy; be sure to fill out the form carefully.
2. If you return merchandise to a company, get a return receipt from the shipper.
3. Keep a record of your order, including the company's name, address and phone number; identifying information about the item you purchased; your cancelled check or a copy of your money order; and the date you mailed the order.
4. Never send cash through the mail. Send a check or money order. Some companies also accept credit cards, but then remember, special credit rules apply.
5. If merchandise is damaged, contact the mail-order company immediately. If you're asked to return it, get a receipt from the shipper.
6. If you don't receive your order and your package is lost in transit, the mail-order company will probably take responsibility for tracing it.
7. If your prepaid order doesn't arrive when promised, you may cancel the order and get a full refund. If the company didn't give you a delivery date in its solicitation, the company must ship your order within 30 days of receiving it.
8. If you cancel a mail-order purchase charged on your credit card, the seller must credit your account within one billing cycle following receipt of your request.
9. When you buy records, books, collectibles, etc., buy through membership in a negative option club or plan. The FTC's Negative Option Rule gives a minimum of 10 days in which to decide if you want to receive the selection. If not, you must notify the seller.
10. If you ever get something in the mail that you didn't order, and you are not a member of a negative option club
or plan, you can keep it without paying for it. It's your legal right.

The US Postal Service also plays an active role in consumer education. They publish an interesting, easy-to-read booklet narrated by McGruff, the crime prevention dog. The booklet is full of tips and ideas on how to discourage mail thieves and how to help put mail fraud con artists out of business. It covers medical fraud, work-at-home schemes, charity fraud, land fraud, insurance fraud, chain letters, investment fraud, home improvement fraud, distributorship/franchise fraud, phony job opportunities, and unsolicited merchandise. Besides the published material, Postal Inspectors speak to consumer groups, senior citizen centers and business groups about mail fraud and mail theft. They are particularly interested in speaking with senior citizens and the disabled, two groups which are particularly vulnerable because they are often confined to the home. The Post Office holds open house for the public and informs all of the 8,000 community organizations in NYC of their availability for lecturing. In addition to public appearances, the Postal Service airs ongoing TV and radio commercials.

All of these agencies are out there working tirelessly to protect the consumer against mail fraud. But the job is an endless one. As long as there is one person who is determined to get rich quick through some new way to cheat the public—whether it be the ultimate diet or a one quarter inch giant redwood tree—the threat of mail fraud remains, dormant, but lurking, perhaps, in your next letter.

How to Protect Yourself

If you know your legal rights before you order anything, it will save you a lot of trouble in the long run. Your local Better Business Bureau (BBB) has reports on a variety of mail order firms. The Bureau suggests that you call them before entering into any transaction with a mail-order firm about whom you have insufficient information. If the company cannot fill your order within 30 days, they must offer you the option of cancelling the order and getting a full, prompt refund, or consent to a delay. The notice must provide you with a self-addressed, postage-paid envelope by which you may indicate your choice. If you do not return the envelope, your order will be considered cancelled and a refund must be forwarded to you within 35 days from when the seller sent the notice. The seller can also send you substitute merchandise that is similar to what your ordered or of superior quality. You may still return the substituted merchandise if you choose and receive a refund including the postage you paid. If you want to order anything from a company that provides a P.O. box for an address, make sure their complete name and address are included in the advertisement and on the order blank.

If you think you have been a victim of criminal mail fraud, contact the nearest office of the Postal Inspection Service. Give them the full name and address of the subject individual or firm, copies of advertisements relating to the order, copies of any correspondence between yourself and the firm including copies of envelopes, if possible, method of payment, including a copy of the receipt, cancelled check, or money order.

For those who want to take an active part in the resolution of their problem, there is the arbitration program sponsored by the BBB of Metropolitan NY. This is a legal, binding method for redress and is quicker than going through the courts. The only requirement for arbitration is that your claim must be at least $100. Decisions are final and no appeals can be entered.

If you do wish to go through the court system, General Business Law (GBL) section 349 entitles you to Private Right of Action in the State Supreme Court in the county where the transaction took place or where the company is located. This law encompasses all types of frauds. If you or your lawyer, (if you choose to retain one) prove that the merchant knowingly deceived you, you can receive punitive damages three times the amount of actual damages, up to $1,000. In addition, you can also be awarded attorney's fees. If you don't receive punitive damages, you can still receive $50 or whatever your loss was, whichever is greater.
Software Piracy

For the burgeoning microcomputer software industry, there is a storm cloud on the horizon, and it looks as if it may be raining for a long time to come. The problem is the illicit copying of commercially marketed software programs.

Commercial software programs such as VisiCalc, dBASEII, and Lotus 1-2-3, for example, are sold publicly on floppy discs or magnetic media upon which information can be recorded. The problem is that once these programs are purchased, there is nothing stopping the buyer from making an unlimited number of copies and distributing them to friends, or selling them. This is raising much concern in the software industry because increasingly competitive software companies are losing considerable amounts of revenue when the programs are copied and distributed illegally. “Lost revenue equals at least 10% to 15% of sales,” says Bob Novick, sales manager at Micro Masters, a New York retailing concern, “and the lost revenue limits companies in their abilities to develop new products.”

Software products consist of the program, which is stored in binary code on the disc, and the disc itself, which costs about $3 to $5 blank in a store. Programs cost from $30 up for game software, to $200-$500 for general business programs, to thousands of dollars for highly specialized business applications. It is clearly the information content of the programs that is valued in the pricing, and the information content is precisely what is being copied.

When software is purchased, it usually comes with documentation on usage in the form of a user’s manual and/or tutorial discs, a disc with the program on it, and a licensing agreement, or end user’s agreement. Licensing agreements state that the purchaser is actually leasing the program and that program use is limited solely to one microcomputer.

The user’s agreement also usually gives the user the right to copy the program onto another disc for the purpose of creating a ‘back-up,’ or reserve copy, in case the original program diskette is accidently erased or damaged. The ability to produce back-ups creates an opportunity for the user to abuse the agreement, and opens the door for rampant copying.

The fact that software sales are expected to increase to $27.5 billion by 1987 from $5.5 billion in 1982, according to Kidder, Peabody & Company’s Software and Data Industry Report, indicates the size of the market and the amount of lost revenue. 10% to 15% is a conservative amount, according to Dr. Eric A. Jaffe, president of the New York Personal Computer User’s Group. Dr. Jaffe says, “An estimate of 30% of sales being lost to piracy would not be too far off the mark.”

Methods of Protection

With this enormous potential for lost revenue, companies have to make an effort to protect their software products. The most widespread method of protection is a copyright, which is an exclusive legal right to reproduce, publish, and sell a literary work, lasting until 50 years after the author’s death. “A copyright protects a specific sequence of instructions, not an idea,” according to Edward Gersheny, a patent attorney for IBM, “and is really only as good as its enforceability.”

Unfortunately for software developers, the enforcement of copyright laws is not practical. Surveillance of product purchasers would be a tremendous task: “The cost of policing is prohibitive,” says Gersheny, “and it is not worth it for a company to sue individuals, unless they could prosecute a few successfully and scare the others.” To date, prosecution has not yet occurred, and the industry is looking to other methods to try to cut its losses.

One method is marketing programs in a ‘protected’ manner, meaning that the producer builds into the program a device that will prohibit the program’s transferability to an empty disc. These protective techniques, however, are soon decoded by scrappy entrepreneurs who develop and then market programs with the ability to copy the ‘protected’ programs. To this date, nobody has developed a standardized method which guarantees that a program can’t be copied. However, efforts persist: Ashton-Tate, who markets dBASEII, recently purchased 20% of the Vault Corporation for $500,000. The Vault Corporation is developing a program named Prolock, which upon completion will hopefully be able to protect dBASEII from piracy. “The person who develops a real method to prevent piracy will become a millionaire overnight,” says Novick.

A different method to cut down on piracy is the marketing of ‘bundled’ software. Bundling is a marketing technique whereby the prospective purchaser is offered
compatible software with the purchase of the hardware. If you buy the hardware, you get the software, and some deals offer software packages that retail for a higher price than the hardware. Apple, Radio Shack, NCR and Kaypro all offer bundled software, and software producers encourage it because it enlarges their base of customers, and it improves distribution and name recognition. Since the purchaser already has the software, he has no need to copy it from somebody else. But it does not prevent him from circulating it among friends.

"An estimate of 30% of sales being lost to piracy would not be too far off the mark"

Users Groups

It is acknowledged that most copying is done on a small scale between friends, who for example, might swap favorite programs. "There is more copying in the home environment than in business," says Novick, and it makes sense. Where a business would have money to expend for expensive software programs, many individual users may not. A seventeen year-old computer enthusiast who does not have $700 dollars to lay out for a data base program will not think twice about copying it. He knows that he won't be caught.

To some extent, this is where user's groups come in. User's groups are groups of users who assemble to circulate new information, stimulate ideas, teach and learn. There is no doubt that a lot of copying occurs among members of user's groups. In a recent edition of PC World, there was a listing of over 60 different user's groups of various sizes. The New York Personal Computer User's Group has over 1,500 members, and needs a college auditorium for its meetings. NYPUG has developed splinter groups that specialize in different areas, and it sponsors classes for a moderate price on popular application packages.

"We have a policy of being against piracy," explains Dr. Jaffe, "because in the long run it works against everybody's interests. Our members want legitimate ownership so that they will be entitled to product updates and proper documentation." Many of the programs that exchange hands in user's groups are public domain, or community property. These programs circulate freely, and are not copyrighted; nor is someone denied profit when they are copied. The BASIC language is public domain, as is 'Pc Talk,' a communications program for the IBM PC, and so are versions of some games such as Space Invaders, for example.

"Another method of circulation is called 'free ware,'" according to Dr. Jaffe. The program, PC Talk, actually falls into this category. The program can be copied by anyone, but if you send the author $45, he will put you on his mailing list, and provide you with updates, which will help you keep pace with the state of the art. The program is of commercial quality, and could have been marketed profitably if a serious attempt had been made.

Yet most people are not so altruistic, and the basic reason that authors of programs, whether corporations or individuals, are anti-piracy, is the loss of revenue, and more specifically profit. Companies have extensive software development costs, as is evidenced by Lotus Development Corp.'s spending $600,000 in the first six months of 1983. That is not an awful amount of money, but what if your product turns out to be a dud? "It takes a lot of time and work to bring an idea to fruition," says Gershuny. "How do you encourage companies to invest time and money to develop and market software, if some one can copy it for $5?"

Future

The trouble is that since the industry changes so fast, protective methods that work today are obsolete tomorrow. New ideas for protective techniques such as firmware, the encoding of programs onto silicon chips and embedding them in the body of the computer, evolve, but limit the ability for the user to update and grow in capability as time goes on. New challenges also abound. There are advertisements from concerns that rent out software. These are clearly violations of end user's agreements, unless they rent the whole setup of hardware and software, which would be innovative and most likely acceptable. But this opens up another loophole: the renters can make copies when they have the software in their possession.

While companies would love to be able to eliminate software piracy, they have little or no choice but to live with it. "Manufacturers accept that they are going to have losses," says Gershuny, "just like stores have shoplifters."
Higher Fidelity

by Richard Silverberg

From the beating rhythms of early man, to the monophonic chants of the middle ages, to the hyper-amplified guitars of today, music has always been a basic form of communication reflecting society's attitudes and values. It was not until the late 19th century, a relatively recent period in man's history, that music was actually preserved for audible reproduction.

Since the embryonic days of recorded musical reproduction, man's changing technology has attempted to create systems of recording and recording playback, such as stereophonic sound and the 33 1/3 rpm record, that come as close as possible to bringing a musician's original performance into the home of a music lover. Hence, the term high fidelity, signifying the greatest possible faithfulness to the original musical signal.

In the 1970s the search for high fidelity reached a supposed milestone with the creation of the digital recording process. In this process, sound waves are photoelectrically converted into a numerical code, which is stored on a tape or in a computer. This code guides the cutting of the basic disc in making phonograph records. And now in 1984 recordings made from the digital process have taken the form of the Compact Digital Audio Disc, (CD) the newest, and according to some experts, possibly the best innovation in audio high fidelity.

The audio disc is the result of years of research by two corporate giants: the Philips Company of The Netherlands, the owner of PolyGram records and the maker of Norelco products, and Sony of Japan, the company which introduced the personal stereo. In 1980, Philips and Sony decided to pool their information and patents concerning digital audio production into a joint venture. By April 1981, they were able to produce a prototype for public demonstration. In October 1982, the yield from this venture, the Compact Disc and Compact Disc Player, was test-marketed in Japan. And, since March 1983, the Compact Disc and Player have made their way to the shores of The United States amidst controversy involving their relative advantages over the time-tested and well-established vinyl LP and turntable.

According to a Warner-Atlantic-Elektra record company sales employee Gary Rautenberg, "The main selling points of the CD are its convenience and durability over the conventional record." A quick glance at a Compact Disc will allow a person to judge why it's convenient. Although the CD is only 4.75 inches in diameter, it holds as much musical information as the 33 1/3 rpm record, making it much more suitable for storage than the conventional 12-inch diameter record.

As far as the durability of the CD, is concerned, High Fidelity magazine writes: "the discs are not harmed by dust or small scratches; do not wear out and have no surface noise." But Michael Riggs, the technical editor of High Fidelity, cautions potential CD buyers about the discs' physical attributes. "They are not indestructible—just more indestructible than albums. It is possible to mess up a CD, but basic care will keep the CD in excellent condition."

To enjoy the advantages of the Compact Disc, "the latest gimmick to save the music business" as one record company marketing executive amusingly describes it, takes considerable money: between $600-$1,500 for a Compact Disc Player and between $16-$25 for each CD. There are presently 31 different models of CD Players (CDP) on the market from 25 companies including Sony, Magnavox (Philips), Technics, and Dual. One CDP is being sold under the Sears Roebuck label with a $589 list price. Reportedly, this player is manufactured by Sanyo, a company which
also has a model out under its own name.

While the machines vary in convenience features, they all use the same approach to playing the CD. This is due to an industry-wide agreement among audio manufacturers to license the machines' basic technology from Sony and Philips. Consequently, according to Michael Riggs, "musical reproduction will vary little from machine to machine."

A licensing agreement was designed to mitigate the effects of intensive competition. According to Matt Carnecilli, a marketing assistant at PolyGram Classics, "An agreement was necessary among the manufacturers to avoid the confusion that developed in the '70s when several different competing systems for quadrophonic sound led to its failure in the market place." Carnecilli characterizes this type of unity in the recording and audio business as very rare.

How They Operate

CD machines use a laser light source to play millions of microscopic pits on the CD. This laser light source, or laser beam, converts 1.4 million bits of musical information per second into musical signals. Each bit is stored according to the principles of the computer binary system and is encoded on the back side of the CD underneath protective layers of plastic and aluminum. These layers insure immunity from dust, fingerprints and other factors that cause conventional systems to mistrack.

The CDP's tracking system, unlike the turntable, requires no critical setup. Thus, the owner will not have to worry about tone arm balance, tracking force, stylus angle and the ability of the phono-cartridge to respond freely to the undulations of a record groove. To set up the Compact Disc Player, the consumer merely has to plug it into the auxiliary input of an amplifier.

All this should result in "technically perfect sound quality," says Michael Riggs. He adds, "The laser diode will last about 5,000 hours—five times longer than a diamond phonograph stylus." Riggs estimates that if you use the player an average of three hours a day, seven days a week, the player's laser system will have a five year life expectancy. Industry estimates to repair the laser component range from $100-$150.

Steps have been taken by Sony to help guarantee repairs of the machines. "Repair manuals were sent to our authorized service centers a month before the Compact Disc Player came out," says Joe Menduni, a Sony sales representative for the eastern region. So far, he knows of no problems with the machines.

All of the machines come with various manufacturers' warranties. For example, Sony offers a three year "limited" warranty on parts and labor for their CDP701ES model.

Promotion

The record and audio equipment industries have taken to advertising to publicize the machines and discs. Print advertising, which is the traditional advertising medium for audio equipment, has appeared in Time Magazine, Billboard Magazine, The New York Times, and, of course, in specialized periodicals like High Fidelity.

A Sony ad in Time Magazine featured Carnegie Hall. Ads placed in The New York Times, which were part of a special Sunday supplement promoting an electronics exhibition at the New York Coliseum, featured lengthy descriptions of the new technology.

"I don't think the prices will drop as fast as pocket calculators"

Some of the advertising which appeared in Billboard was in conjunction with a special 36-page report on the products initiated by the magazine for its November 5, 1983 issue. Among the companies advertising were: W-E-A Records, Capitol Records, RCA Records, CBS Records, PolyGram and its associate labels, Philips, and Sony. An ad from PolyGram was featured in the magazine's centerspread with the headline, "I Have Seen The Future And It Works."

A Philips' ad was devoted to selling knowledge concerning Compact Disc mastering. For $2 million, Philips offered to supply a company with everything needed, including personnel training and system installation, for Compact Disc mastering. Billboard's special supplement also included several ads from companies manufacturing Compact Disc packaging material and retail displays.

There has been spot broadcast advertising too. Television commercials are being run by Hitachi and Fischer. The Fischer spot features an elegantly clad couple dancing to Ravel's Bolero.

Some of this advertising suggests that people will need "Digital-Ready" audio components for optimal CD source...
reproduction. "There's no magic in making components for playing back CDs," says Michael Riggs. "Digital-Ready is a phrase without meaning—everything has been digital ready for years." Riggs believes that Compact Disc Players will be compatible with present sound systems.

Public demonstrations of the Compact Disc Players are another strategy for introducing CD technology. During the Fall of 1983, Warner-Elektra-Atlantic Records, PolyGram, Sony, and High Fidelity collaborated on the first major Compact Disc promotion. In 17 key markets, including New York and Los Angeles, the group sponsored evening listening parties at local club environments where consumers could see, hear, and touch CD hardware and software. Local promotion for each of the CD events was keyed to the slogan, "You've got a Date With Digital," and was spearheaded by a rock or classical radio station which ran advertising and furnished an air personality to be the master of ceremonies. All who attended these events had chances to win prizes ranging from complete digital audio systems, free subscriptions to High Fidelity, gift certificates and T-shirts. In New York City, the promotion was held at the Ritz Nightclub, spearheaded by WNEW-FM, a rock music station. Even radio stations like New York's classically-oriented WQXR are now broadcasting special CD-related programs.

Technics, whose parent company Matsushita Electric has a $450 CDP for sale in Japan, sponsored another type of CDP demonstration. During the 1983 Miller (Beer) Time concert series in N.Y.C., Technics demonstrated its player on stage before some shows. Of course, CDP demos are also available at electronic and audio shows and at local audio retailers.

A Compact Disc trade association has been formed to promote the new technology. Known as The Compact Disc Group (CDG), the association currently has 29 members including most major record companies. The group intends to launch an extensive consumer education campaign. A spokesperson for the group estimates "about 250,000 Compact Disc players will be sold (in the U.S.) by the end of 1984."

Promotion of the machines, as in the case of other high tech products, is initially aimed at innovative consumers, people who are likely to adopt new products. These individuals are frequently opinion leaders who are being relied upon by the music industry to help convey information concerning the CDPs to the mass market.

"Most of the machines and software are now being bought by people who are well-educated and who have incomes of $25,000 or more," says PolyGram's Matt Carneccilli. He believes, "Mass acceptance of the machines will happen when their prices come down." Michael Riggs sees the machines selling for less than $300 in the next couple of years, but "does not think the prices will drop as fast as pocket calculators."

Mass market acceptance of the new technology also depends on the breadth of Compact Disc title selection and the number of CDs being produced. Presently, fewer than 1,000 CD titles are available in the U.S. This tiny selection, which represents less than 5% of all titles on LPs, is about equally divided between classics and pop. Some of the pop material out on CDs includes albums by The Rolling Stones, The Who, Kenny Rogers and George Benson. Naturally, Beethoven's Symphony No. 5, Bach's Brandenburg Concertos, Tchaikovsky's 1812 Overture and the rest of the greatest classics are available on Compact Discs.

Matt Carneccilli reports, "Seventy-five percent of PolyGram's sales have been classics." He adds, "People who listen to classics are more concerned with sound than the average pop listener." He sees sales of classical CDs continuing to be strong despite the fact that expenditures on classics is only 6% of the total dollars spent on all recordings. PolyGram is charging retailers $11.75 for pop products and $12.75 for classics. No retail list price is suggested.

To date, there are only three plants producing Compact Discs. Consequently, the number of CDs in the market is relatively small as compared to LPs. One plant, owned by Philips, is located in Hanover, Germany; two other plants are located in Japan. Three more plants are scheduled to begin production by the end of 1984. One of these new plants, owned by CBS/Sony, will be in Terre Haute, Indiana.

Will the Compact Disc Players and Compact Discs actually make recorded music sound better? Michael Riggs has written that "the Compact Disc system can't turn a sow's ear into a silk purse, because a poorly made recording will still sound bad. But a good recording will retain the quality of the original master tape and therefore sound better than a regular record made from the same source."

At present, no one is certain whether CDs are just another expensive gimmick or whether they truly represent the sound wave of the future.
Saturday nights are hectic at Marvin's candy store. Additional workers are needed to handle the crowds. It isn't that Marvin is running a special sale or giving away free goods—not quite. No, this crowd is rushing in to meet the 8:00 p.m. deadline for submitting their Lotto tickets.

"They really pile in here," says Marvin. "I've seen them lay out $50.00 at a time. They all want to get rich the easy way."

The scene at Marvin's is not unique and it was not always this way. Indeed, the lottery craze is a relatively recent phenomenon. According to marketing officials, the advertising and promotion of the New York State Lottery (NYSL) has transformed the lottery into a symbol of "The American Dream."

The Statistics
The New York State Lottery was not always considered a "ticket to a dream." The original lottery, which ran from June 1967 until October 1975, sold over $684 million worth of tickets (over $82 million per year). After being discontinued for a one-year interval, the New York State Lottery resumed sales in September 1976. From September 1976, when the lottery system was restructured, until April 1983, the New York State Lottery boasted more that $2 billion worth of ticket sales (over $295 million per year) with profits in excess of $900 million (over $128 million per year). This extraordinary boom in lottery sales has been attributed by many to highly sophisticated marketing techniques on the part of a new breed of lottery officials.

"The market for lottery tickets was always out there; it was just a matter of reaching them," says Ezra Helfand, account supervisor at Rumrill Hoyt, an independent ad agency working for the New York State Lottery.

Helfand is part of the lottery team—an internal commit-
tee organized by NYSL Lottery Director John Quinn, who was formerly Deputy Director of the Michigan State Lottery. Also on board Quinn's team are Sherry Harrington, Advertising Director for the State, Scientific Games, producer of the instant tickets, and Control Data Corporation, supplier of the computer terminals for numbers and Lotto.

These people meet once a month to discuss the prize structure for the games, decide top prizes, and devise a generic theme, "something that is easy to play, and attractive enough for people to buy," according to Helfand. Their recommendations are submitted to Quinn for approval. Once approved, Scientific Games does the computer work necessary to accomplish the game's design.

**Ethnic Flavor**

In marketing the lottery, like any new product, it is vital to understand and identify who buys lottery tickets. According to Ezra Helfand, "Most of the players have a distinct ethnic flavor. There is a higher proportion of Blacks and Hispanics playing the lottery than Whites." The high concentration of these ethnic groups living in New York State probably accounts for their large share in the lottery market.

"We lose $2-$3 million weekly to illegal numbers games"

Tom Pospislil, assistant regional director of the New York State Lottery, cites another reason for the lottery's popularity with ethnic groups. "The Hispanics play Lotto because it is also played in their native countries and they are familiar with it," Pospislil explains. Lotto has been available in Spanish-speaking countries like Mexico since the early 1900s. For this reason, Lotto has a distinct appeal to the large Spanish population in New York City.

**The Old Lottery**

The first New York State Lottery lasted for eight years and closed shop in 1975, allegedly due to poor marketing strategies. When it began in 1967, former Governor Carey was unclear as to how the lottery should be run. Several Republican appointees were hired to direct the lottery, a business they knew little about. Members of the New York State Racing and Wagering Board were later appointed to run the lottery. Finally, in 1974, Jerry Bruno, one of President Kennedy's advancement, became the New York State Lottery Director. "The lottery needed someone who knew how to market its product and Mr. Bruno didn't know enough about marketing," says Sherry Harrington, Advertising Director for the New York State Lottery.

Evidently, the State Lottery could not be treated as just another gambling institution. "The lottery is a business and our products are the tickets," says Ezra Helfand. The old lottery's "product" was the "weekly numbers," a prenumbered game which deprived the player of choice. The game failed to give players the fun and excitement expected from gambling. It also lacked a strong advertising campaign.

"The advertisements for the weekly games were bland," says Tom Pospislil. "They had black and white posters and decals which didn't help sales at all." As a result of falling sales, the lottery was forced to close temporarily in October 1975. The eight years of sales totalled approximately $110 million, with $80 million in profits. Although the numbers sound good, "That's a long way off from fiscal '83-'84 projections which foresee $700 million in total sales," says Ezra Helfand.

"Today, we have a much clearer idea about our market," says Tom Pospislil, who is in charge of claims at the regional office in New York City. "When the big winners come here to collect their money, they have to fill out claim forms which ask for demographic and geographical information." The New York State Lottery also hires research firms to conduct personal interviews. These spontaneous interviews are held right on the city streets and pedestrians are asked if and why they buy lottery tickets.

In 1982, Scientific Games, Inc., the manufacturer of the instant ticket, conducted a major study. The object was to find out the extent to which demographic and psychological factors affect the consumer's decision to purchase a lottery ticket. One method used was to record a statistical and demographic analysis of every large prize winner.

Another method was to divide up the state by zip code and locate the parts of the state with the most and least lottery participation. Surprisingly, the study found that most of the lottery sales were concentrated in high income areas. In January '82, Dr. John R. Koza, chairman and co-founder of Scientific Games Inc., wrote in Public Gaming that "The assertion that the poor disproportionately buy state lottery tickets is only a myth."

**Numbers and Win 4**

Who does buy lottery tickets? Tom Pospislil says that in
New York City “the average numbers player is a blue collar worker whose income is under $20,000 and who is significantly less educated and younger than the players of the other games.” Daily numbers and Win 4 are run through on-line selling terminals supplied by Control Data, Inc. which accepts bets and validates them for same day payoffs to winners.

“We don’t advertise directly for Black and Hispanic bettors, but we know they’re going to go with the numbers and Win 4 because of the fast money,” says Pospisil. Thus, a $1.00 straight bet can win up to $500 while the same $1.00 wager in the Win 4 game can bring in $5,000. The only real difference between betting the daily numbers and Win 4 is one number. “Believe it or not,” says Helfand, “it makes a difference because people are more familiar with chunks of three numbers than with chunks of four.”

“Of course, Black and Hispanic bettors are not the only market for the numbers and Win 4 games,” observes Helfand. “Many other ethnic groups play these games too.” One reason for their ethnic appeal may be traced to the popularity of the illegal number games which were prominent in the urban melting pot of the 1930s.

Both games were designed to compete against illegal games says Sherry Harrington. “According to our statistics, we lose $2-3 million weekly to illegal numbers games.” In view of this significant loss, three years ago Gov. Carey passed a law (April 1980) allowing the numbers game to reduce their state contribution from 45% (the original percentage passed in 1976) to 35% of earnings. By contributing less money to the state’s till, lottery officials hoped that prize amounts could be upped, making the legal games more attractive than those run by organized crime.

Lotto

Unlike the numbers and Win 4 player who is looking for the quick win, the Lotto player fantasizes about the dream prize. Sherry Harrington says that “there is a direct relationship between the amount of the cash prize and the volume of sales.” Sales always increase when the cash prize increases.

It seems that the size of the ante really does matter. “A $3 million prize is garbage,” says Pospisil. “We needed the jackpots to reach $8 million. For $8 million, they play. People want the big prizes and Lotto gives the biggest prizes.” Although Pospisil’s words seem hard to believe, apparently bettors crave big money. By January 1983, Lotto officials saw a need to resuscitate interest in the game largely because Lotto sales began to plummet. Lotto marketers believed that the players’ growing disinterest in the jackpot prizes was a significant factor contributing to the decline in sales. “We had prizes of $250,000 and people just couldn’t care less about $250,000. The higher the top prize, the better the sales. Even though people know that they’re not going to get it, they still take the chance.”

Then, too, Lotto players, who were slightly older than the average game player (35 years) with average incomes of $20,000, were a restless crew. “After a certain period of time, every game reaches its saturation point. We saw that $3 million didn’t mean a thing to these people. They wanted bigger prizes,” says Sherry Harrington.

In order to stop the trend toward escalating cash prizes, Lotto officials decided to change their strategy. The weekly Lotto game became a bi-weekly game, with drawings to be held on Wednesdays and Saturdays. The 40 numbers game was changed to 44 in order to decrease the odds of winning. Both of these changes, it was hoped, would increase jackpots since there would be fewer big winners. Within a short while there was a real turn around. Lotto sales doubled from $6.5 million to $12 million.

“A $3 million prize is garbage”

**Instant Games**

Of course, some bettors are too impatient to play Lotto. They cannot stand the suspense of waiting for the good or bad news. To meet their psychic needs, lottery officials devised the instant game. The instant ticket was the first game to appear in the new lottery. With the instant ticket, purchased for $1.00, players knew immediately (upon rubbing off the covered squares) whether they were actually winners. Instant game players, according to Helfand, reflected a very different market segment. “The Instant Lottery player is more up-scale,” Helfand explains. Studies showed that instant players were 35 years old, largely from white collar backgrounds, with incomes of $23,000 or more. In fact, since more women seemed to play this game, instant games were made available in grocery stores and supermarkets. Today, there are over 11,000 agents selling instant games tickets as compared to a mere 2,300 who sell all games.

The instant tickets run on a theme, each lasting for no more than eight weeks. “The object of this game is to keep it colorful and simple,” says Pospisil. “Simplicity is vital.
because people don’t like too many complications in a game. That’s why we use simple number games; everyone can count.” Another factor is the bettor’s fickleness. The same type of game cannot be used too long because people become bored easily. After a few unsuccessful weeks of playing, the average player becomes convinced that he will not win. As soon as a new theme is introduced, he once again believes that he has a chance to win.

**If At First You Don’t Succeed**

The real difficulty in marketing the lottery according to Ken Murison, executive vice-president and partner of Illinois based, Lee King & Partners Advertising Agency, stems from the concept of negative gratification. Murison has written that “The inescapable fact of probability tells us that the great majority of lottery ticket consumers will experience failure after failure. Psychologists know that constant failure will lead to behavior which is calling ‘leaving the field.’ That means not buying lottery tickets.”

“Rumors abound of an impending sports lottery”

Mr. Murison believes that marketing a lottery is unique—unlike the marketing of any other product. A product or service has a predictable benefit to the consumer. Thus, after receiving some form of gratification, the consumer will buy the product again. Advertising simply reminds the consumer through various means of the possible benefits of the product. The lottery, however, suffers from negative gratification. That is, a losing ticket has no value. Expectations are high, while the possibilities of winning are low. The constant exposure of the lottery ticket serves to remind the player that he has lost before, leaving a negative impression. It is important, in marketing the lottery, to constantly revive hope. As Murison says, “Yesterday’s failures must be replaced with tomorrow’s possibilities.”

Murison stresses the fun of playing and the fantasy of winning big. The player must be convinced that the cash payoff could entirely change his/her lifestyle. “The names of lottery games and the look of lottery tickets should be changed regularly to foster anew hope in the mind of the purchaser,” says Murison.

Sherry Harrington holds a different opinion. She does not see negative gratification as a major factor in the lottery marketing campaign. “We must market the tickets as fun games,” she says. Tom Pospisil believes that marketing the lottery involves more than fun. “People are motivated by greed,” Pospisil says. “They don’t care what the ticket looks like or who the money goes to. They just want the money and it better be big.”

**Distribution of Funds**

Where does Lottery revenue actually wind up? According to Lottery officials, each dollar you spend on a game gets divided up in the following ways:

- 40¢ goes back into the jackpot
- 45¢ goes towards local education
- 2¢ goes to Control Data Corporation
- 6¢ goes to the agents (store owners)
- 7¢ goes to advertising budget

There has been some controversy over the slice of the pie which goes toward education. Some educators argue that to date the educational benefits of the New York State Lottery are still a myth. Prof. Thomas Killoran (Marketing Dept, Baruch College, CUNY) believes that the lottery’s link to education reflects America’s puritanical approach to a state-run lottery. “The United States takes a puritanical approach towards a state-run lottery. Instead of using it to build business as they do in Japan, we feel more comfortable giving it for a better education.”

**Future Outlook**

Early in 1984, the lottery will introduce a Spanish Lotto game to counter the effects of the illegal Hispanic numbers games. The New York State Lottery will also be broadcasting a 30-second humorous commercial that will feature a construction worker buying a ticket. “We have decided to do commercials again because we found we really needed them,” says Sherry Harrington. Plans are also afoot to invade the networks. Later in 1984, a live audience will watch the Lotto drawings at 10:00 p.m. on Channel Five on Wednesdays and Saturdays.

Whatever the future of the New York State Lottery—rumors abound of an impending sports lottery and there has even been a suggestion of an American version of the Irish Sweepstakes by 1985—advertising will inevitably continue to play a crucial role in the marketing of a dream.
More Than a Bunny’s Share of the Profits

by Esmond Scott

When Hugh Hefner pasted up the first issue of Playboy on a card table in his kitchen in 1953, little did he know that he was creating a goldmine. Playboy was the first men’s magazine to capitalize on provocative female pinups and throughout the next decade Hefner revelled in the glory of his brainchild.

Not only was Hefner to become a skin magazine monopolist, but he was also to become known as a magnate of casinos, bingo parlors, and resort hotels—the sole possessor of the prestigious rabbit’s head symbol.

Today, however, Playboy is facing increasing odds. Over the years, it has had to bear the financial losses of some of Playboy Enterprises’ Inc. (PEI) ventures as well as to stave off stiff rivalry from other magazine competitors, especially Penthouse. To prevent a bigger split in its harelip, PEI has diversified, not only its magazine but its entire corporation, in an effort to refute the belief that the wage of skin is debt.

During the magazine’s early years, even until the beginning of the 1970s, Playboy enjoyed increasing profits. These were transformed into nightclubs, hotels and, indeed, the Playboy Mansion in Los Angeles.

Between 1964 and 1969, the magazine’s circulation soared from a mere 2.78 million to 5.68 million copies per month. By 1972, Playboy had a circulation high of 6.9 million copies. Net sales and revenue and net earnings for the ’64-’69 period moved from $30.41 million and $2.31 million, respectively, to a whopping $108.48 million and $7.59 million, respectively.

Seething Seventies

Unlike the profitable ’60s, the ’70s were far from rosy for Hefner. Playboy’s net sales and revenue and net earnings shrunk from $204.7 million and $5.95 million in 1974 to $1.09 million and $2.06 million in 1976.

In addition, Robert Guccione’s Penthouse, which was introduced to America in 1969, posed a threat to Hefner’s magazine. Described, among other things, as a “pink shot” magazine, it introduced a sexual explicitness which tamed Playboy’s more sedate and conservative editorial and pictorial mix. Between 1973 and 1975, Playboy changed its pictorial mix. According to Len Stein, Playboy’s east coast public relations manager, “Playboy competed pictorially with Penthouse and its more explicit photography of women. Toward the latter part of 1975, we realized that that was not us. We stopped competing and got more upbeat.”

Some years before, in 1971, Playboy Enterprises Inc. had introduced Oui magazine. Stein explains that “Oui was created to compete with the new wave of men’s magazines, particularly Penthouse, Hustler and Chic.” The goals of obtaining that ‘raunchy’ share of the men’s market and especially capturing the younger readers were not realized. The magazine was marginal in its returns and was not a solid financial success. In fact, Oui went up and down like a yo-yo and it soon became apparent that it was competing with Playboy’s potential sales. After much deliberation, PEI said “non” to Oui and it was sold in April 1982.

But Playboy was not only suffering at the hands of other competitors. Other PEI ventures were struggling too. In
fact, many investors were disillusioned when the Playboy empire became public in 1971.

Circulation for the magazine around this period fell from its '72 high of 6.9 to 5.7 million. PEI's earnings, which had been 11.3 million in 1973, fell by 92% to 1.1 million in 1975. Its stock fell from a high of 25 1/8 to an embarrassing 2 1/4. PEI's resort hotels at Great Gorge and Lake Geneva were suffering and the Atlantic City Casino seemed headed for a downfall. Its book publishing business which sold fiction and nonfiction for males, as well as political, sports and betting books, occupied only a small market. In addition, its 14 monthly paperbacks were not making good returns. Movies, like the box office disaster Macbeth, and television productions lost some $11.5 million in 1975 and 1976.

Heffner Hires President

It did not take long before Heffner was criticized for the slipping profit margins and for allowing the tortoise, Penthouse's symbol, to be so close on the heels of the rabbit.

Trying to burrow his way out of a precarious position, Heffner hired Derick Daniels to lead his empire out of its adversity. Daniels immediately began to slash corporate overhead upon arrival in 1976—but with limited success.

The hare-raising force with which he entered the Chicago office soon waned, leaving Playboy Enterprises Inc. in a slightly more favorable but still awkward financial position.

Some major changes were in the offing. After the New York Playboy Club, the two resort hotels and the book publishing firm were sold, Derick Daniels was replaced. It was said that while Daniels had taken care of PEI's casino gambling failures in London and Atlantic City, he had not tended to other losses.

Playboy and The Men's Market

But the 1980s are not the 1970s. Placed against the background of a lame economy, the men's magazine industry is facing increasing odds. "There is, unfortunately, definitely a decline," laments Len Stein. Today, consumers are swamped with girlie magazines. Ken Jones, a researcher at Folio Magazine, the magazine for magazine management, says "There are approximately 45 girlie magazines on the market." Added to the vast number of magazines competing for the male market are adult theaters and video cassettes and discs offering more hard-core features, all clamoring for a greater market share.

In addition, Stein feels that not only has the aging baby boom generation caused a drop off in sales, but that with current economic trends, "people are beginning to think about putting out that $3 [for a magazine]."

Having a rate base, the number of readers promised advertisers, of 5 million in October, 1982, Playboy lowered it to 4.1 million in 1983. Advertising pages in the first quarter of 1983 were down relative to that period in 1982. "We are going to stabilize our circulation," Stein says. "Unless something drastically wonderful happens, we will not go back up."

Rabbit Leads The Pack

With Playboy's circulation reduced to 4.1 million, there have been speculations that it is indeed failing. Playboy's decreasing ad pages and circulation numbers are not absolute telltale signs of Playboy's weakness, losses or failure. Stein assures that, "We are not hanging on; we are strongly in first position." What Playboy has done according to Stein is to print at a level which is truly representative of its rate base and actual purchases.

As a competitor, Penthouse boasts one solid victory over Playboy. 94% of monthly issues are sold on newsstands. "By not selling at subscription rates, Penthouse has gotten full cover prices for their issues," says Bill Marleib of Tily Marleib Advertising Inc. Playboy only sells 52% of its issues on newsstands.

This policy, Stein says, has guaranteed Playboy's readers that their ads will be read by 2.16 million subscribers who have a monthly commitment to the magazine.

Playboy presently leads in five of six categories devised by Folio Magazine: in total revenue, advertising revenue, advertising pages, average circulation and subscription revenue.

Despite this lead, Playboy's 1983 financial figures continued to show losses. PEI reported a $17.5 million pre-tax loss and Playboy Magazine's revenue fell 12.7%.

PEI stock has fluctuated too. Following the sale of the casinos, PEI stock was down to 6 and at times 6 1/4. However, in the last couple of months, it has bounced back. In the fourth quarter of 1983, the stock rallied to a high of 14 1/8.

President Christie Heffner

When Heffner's only daughter was made president in 1981, the magazine took on a new format.

Convinced that times had changed, Ms. Heffner launched a smut-free Playboy, and she altered the editorial mix. Presently, the magazine has a "Diversion" section which concentrates on video games, home computers and video cassettes. In May 1982, Tony Schwartz of the New York Times was hired to do a column about television criticism.
"We try to keep on top of the trends," Stein adds.

**Electronic Playboy**

A Summa Cum Laude graduate of Brandeis University (1974), Ms. Hefner believes that despite PEI's ill-luck at gambling, another big gamble will have to be made if the corporation and, indeed, the magazine is to maintain its prestige and chalk up huge profits.

Her "electronic buff" father has introduced *Playboy Channel*. It can be described as the reincarnation of *Playboy Penthouse*, and *Playboy After Dark* which were aired in 1958 and 1969, respectively. Each of these syndicated shows ran for only one season. The channel, according to its president Paul Klein, a former NBC official, is "creating quite a lot of original programming that is sophisticated, reverent and adult." Designed to complement *Playboy* magazine, the cable channel can already be seen via satellite in suburbs of Long Island, New Jersey, Connecticut, and California. After being launched in November of 1982, subscriptions soared to 670,000. Viewers pay between $6 and $9 per month for the service.

This cable T.V. move beckons *Playboy* magazine's readers with the slogan—"We take the staples out of the centerfold." The channel maintains a mix of nude soap operas, news, comedians and host talk shows. During the first week of March (1983), the Recording Industry Association of America informed the channel that their first *Playboy* cassette had netted over $1 million in rentals and sales and had in effect struck gold.

Despite this seeming success, *Playboy Channel* is competing with other celebrated channels like HBO, Cinemax and Showtime. While HBO and Showtime are at *Playboy's* right, Eros and Private Screenings, on its left, tame the channel's mix with their much more explicit sexual content. Klein says that "what the magazine was to the '50s, video could be to the '80s."

Not only is the channel presently fifth among cable rankings, but it faces competition from more hardcore adult materials. And, PEI could very well find its venture challenged by the tortoise, Robert Guccione, who Marlied describes as "highly innovative." Penthouse is presently planning the introduction of a Pet Network. So far, however, the channel's subscription rate has grown tremendously. Although the channel is only carried by some 300 of the 5,000 U.S. cable systems, optimism is great for the venture. In October, 1983 PEI formed Playboy Video Corporation, a new subsidiary, which will produce and market video programming and feature films.

**Games People Play**

Another bright PEI venture is *Games*. Aware of America's preoccupation with games—Hugh Hefner spends hours playing Donkey Kong—PEI acquired the magazine *Games* in 1978. Since the acquisition, single-copy sales have risen by some 500% and the audience has grown to 2.5 million. *Games* has attracted leading advertisers including Chivas Regal and Toyota and ad sales jumped from $893,000 in 1982 to $2.4 million in 1983.

**Playboy Means Business**

The scenario is clear for PEI. Realizing that its magazine which has been its mainstay is part of an industry which is gradually declining, and that its casinos, resorts, and book publishing business were providing losses for Hefner's estimated $250 million empire, PEI has reorganized. After two years in the red, *Playboy* has finally reported a profit—$2.2 million for the second quarter of its 1984 fiscal year.

Management is optimistic that the constant slashing of corporate overhead—even eliminating its private limousine service—and its movement in new directions, *Playboy Channel* and *Games*, will enable PEI to earn more than a bunny's share of the profits. 

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Mommy, Daddy is reading National Geographic again...
Robots of the World, Unite!
Robotics

by Mary Pietromonaco

Does your job include spot welding, arc welding, paint spraying, assembly, or other exciting tasks? Well, if it does, don’t call in sick, ask for a raise or complain about headaches, boredom, fatigue, and poor working conditions. If you don’t “get on the ball,” your manager might decide to replace you with someone who can do your job without any physical or emotional strain; someone who works quietly and efficiently for little pay. Your replacement: a robot.

According to the Robot Institute of America, a robot is a “reprogrammable, multifunction manipulator designed to move materials, parts, tools or specialized devices through variable programmed motions for the performance of a variety of tasks.” Czech dramatist, Karel Capek, was the first to put the Czech word “robot” to practical use. The word itself means to do hard, tiresome, and distasteful work. In his 1921 play, R.U.R., short for Rossum’s Universal Robots, the robot was a mechanical man. Thereafter, the word has become associated with everything that resembles and seems to act like a mechanical person.

But don’t worry—a huge, strong, silver, mechanical monster is not going to walk in with a fiendish grin, step on you, and casually take over where you left off. “The misconception of walking, talking machines with two arms, two legs, and something that looks like a head is not uncommon,” says George Klein, professor of mechanical engineering at Columbia University. “Nobody is working on mechanical friends,” he continues. It is evident that people have been spoiled by science fiction. Since a robot’s job is to do human-type tasks, it makes sense for a science-fiction writer to put them in a quasi-unit form,” says Dr. Michael J. Gallagher, a state licensed psychologist and chairman of the social science department at New York City Technical College.

Despite the scientific reality, however, most people still expect R2D2 to step out of Star Wars and step into their lives. “The public and the media will never tire of seeing robots as mechanical people,” said James A. Baker, executive vice president of General Electric, in a recent presentation. But, he continued, “it must be kept in perspective.”

“Robots aren’t magic; they’re just a tool, like a computer or a hammer, and should be viewed as such,” says Dr. E. Kafriessen, director of the robotics laboratory at New York Institute of Technology, and former chairman of Robotics International. “Some people say it’ll take over the world,” he continues, “and some people say it’s much ado about nothing.” But Kafriessen believes both views are wrong. “The reason there is much hubbub,” he says, “is because it’s the first machine that can be made to look like a person, vaguely. So, there is a one-to-one correspondence in people’s brain of a robot replacing a worker.”

Mechanical Workers

The robots that are being used today consist of “either electric or hydraulic motors which have some sort of metal frame that lets them take the figurative shape of a human arm, which is why they are called manipulator arms,” says George Klein. “It’s kind of a mechanical variation of the human arm, only it tends to be stronger and faster,” he continues. They are one-armed or two-armed programmed machines mainly doing such tasks as loading, unloading, painting, welding, inspection, and assembly. “During the 1990s, robots will be doing construction work, such as carrying materials, lifting and positioning panels, cutting boards to size and laying bricks,” predicts James Albus, head of the robot division of the National Bureau of Standards.

In 1972, American manufacturers were using fewer than 1,000 robots, 40% of which were in the automotive industry. By 1982, over 6,300 robots were in use and Predicasts Inc. predicted, in a 1983 issue of Production Engineering, that by 1985 that number will increase to over 30,000. By 1995, Predicasts expects over 300,000 robots to be in use in the U.S.

Sales by U.S.-based robot vendors rose to $190 million in 1982 from $155 million in 1981. But sales figures do not tell the whole story. Despite optimistic predictions, the U.S.-based robot industry has yet to turn a profit and an extensive industry-wide study conducted by the United States International Trade Commission found that in 1983 industry losses were 49% or $83 million on sales of $169 million.

Unimation Inc. in Danbury, Conn., the first robot manufacturer in America, produced their first industrial robot in 1961. Acquired by Westinghouse in 1982, Unimation now produces approximately 41% of the country’s robots, with annual sales of $50 million. But companies such as IBM, Texas Instruments, General Motors, and

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DOLLARS and $ENSE, May, 1984
General Electric have joined the competition and the most recent trend seems to be for joint ventures with Japanese robot producers. GM now has about 1,000 robots in use or on order, in comparison to 300 in 1980. In March 1982, GM and Fujitsu Fanuc Inc. of Japan agreed to a joint venture (GMF Robots), which will be stationed in the U.S., where they will design, produce, and sell robots. By 1990, GM expects to be using approximately 14,000 robots. The Automation Systems Department in General Electric offers 11 models of industrial robots for various tasks. Pre-purchase training, consulting, and applications engineering are also given by this department. General Electric predicts that they will have 20% of the robot market by 1986, and 30% by 1990. General Electric now sells Hitachi Robots while another competitor IBM has signed an agreement importing robots from the Sanko Seiki Manufacturing System.

The Unemployment Issue

Most experts believe that robots will be taking away some jobs, but that they will be producing a greater number of jobs in the long-run. William Blesser, professor of bioengineering at Polytechnic Institute of N.Y., compares robotics to the Industrial Revolution. "The Industrial Revolution displaced a lot of workers, but I don't think people would have had it any other way. The Industrial Revolution sure put a heck of a lot of people to work, and I think the same will be true for robotics," he says.

"By 1995 over 300,000 robots will be in use in the U.S."

Nevertheless, many workers are worried about what will happen to them if and when they get displaced by robots. Some workers believe that companies will not retrain them and that they will be left stranded with no skills other than those used on their present job. Until robots become commonplace in American factories and their position in industry and society is well established, people will inevitably fear termination and unemployment. "There is an economic malfunction that causes unemployment," John McCarthy, director of Stanford University's Artificial Intelligence Laboratory, said in an Omni interview. "But it seems to me that this malfunction has little, if anything, to do with technology. What seems clear is that nobody knows how to deal with unemployment," he concluded.

When Japanese companies first utilized robotics, they transferred their displaced workers within factories. But now that the field is developing quickly in Japan, workers are being relocated to different factories, and in some cases, to different cities. However, according to Industrial Robots a Delphi Forecast of Markets and Technology, the robot revolution in the U.S. will be more sensitive to the issue of job displacement than most people tend to believe.

It is forecast that workers transferred without training in 1980-90 and 1990-95 will be 25%, while 50% of the workers will be retrained for a new plant position in 1980-90. An additional 5% of workers will be retrained by 1990-95. Some 6% of the workers displaced by robots will be terminated during 1980-90, whereas only 2% will be terminated during 1990-95.

Professor Andrei Cernasov, instructor of electrical engineering at Manhattan College, believes businesses will find themselves with a shortage of people capable of working with these robots. "So, they'll go back to the same worker they fired and offer a serious, solid training program." Both Cernasov and Kafriussen feel that a robot should be programmed and supervised by the person who was previously doing the job.

Market Volatility

There are many benefits for a company installing a robotic system, but first management must decide whether or not the system fits their particular need and, if so, when and how they should go about instituting it. Obviously, a company must weigh the advantages and disadvantages in order to determine if the substantial investment will prove to be profitable for them. Perhaps a statement which appeared in a 1972 issue of The Economist can be of some help: "Technology is like exploration. The first question explorers ask themselves is: How far can we go? Then the wiser of them ask: Is it worth going so far?"

If a company is thinking about buying a robot, Klein suggests not to buy one "until you really investigate the market, look at the applications, and look at previous histories." A company should also be fully aware of the total price of keeping as well as buying a robot. "A rule of thumb which has been developed in the industry," Kafriussen says, "is that the total cost of a robotic system will be three times the robot's cost. It may be less, but that's a conservative figure." At present, prices for robots range from $10,000 to $150,000 for sophisticated units. Kafriussen believes that robot prices, including the price of used robots, will come down within the next few years. In fact,
price cutting born of intense competition has already taken effect: the price of a spot welding robot dropped from $94,000 in 1981 to $78,000 in 1982. “The beauty of a robot today, unlike the hard automation we’ve been using in the past, is that you can have it doing one job, and if that job isn’t needed anymore, you can use it for another job. This is why I predict they’ll bring a high resale value,” Kafriessen says. He suggests that a company have in mind more than just one job for the robot. “After all, you don’t want the robot sitting around doing nothing. It’s costing you money.”

“For every person displaced by a robot, five more jobs will be created.”

Once a company decides to install a robot system, it must carefully consider safety design possibilities. Since a robot is like any other industrial machine, workers should be aware of the danger that could occur as the result of improper devices or because of negligence. Safety measures—such as a physical barrier or sensors to stop the robot in case of an encounter with a human—are to be taken seriously. So far, the only human-robot collision occurred in Japan when a robot crushed a worker who ignored the barricade.

Another decision management must face is whether to buy a service contract and have manufacturers service the robots, or allow their workers to be trained by the manufacturers in order to do their own maintenance. Both Cernasov and Klein believe that servicing a robot today is definitely a problem. “To reprogram your robot requires the help of the manufacturer. The market for robot manufacturers is extremely volatile,” says Cernasov. “Companies appear and disappear all the time. So you might end up with a weird kind of obsolescence,” he continues. Cernasov explains that a company might not have the technical people to reprogram that particular robot, and that they will suffer a loss if the manufacturing firm goes out of business. This is why he says that “until the market is consolidated, the best bet would be for companies to buy from major manufacturers who are unlikely to go down, such as Unimation.” This should not be considered a trivial matter. “Most people know how to fix or replace an electric motor,” says Cernasov citing a commonplace example, “but if a company decides to buy a hydraulic robot, then they’ll have difficulty.”

Training courses being offered by the manufacturer may not provide sufficient training for the worker. Cernasov says that about 95% of the computers sold in this country are under-utilized because people cannot use their full capacities, and that the same thing will happen with insufficient training in robotics. “A course that lasts a week in how to use a particular robot is bound to severely under-utilize the capacity of the robot,” he says.

Japanese Leadership

Although it seems that American industries and schools are getting increasingly involved with robotics, Japan is way ahead of America in manufacturing and accepting them. According to the Robot Institute of America, 65% of all operating robots in the world are made and used in Japan. In fact, one Japanese factory even has robots making robots.

Psychological and social factors contribute to Japan’s quick advancement in robotics. “The Japanese don’t ask their workers what they think,” says Cernasov. “They have no say in the matter. The Japanese economic and social structure is a form of 20th century dictatorship. However, Japanese culture was always open to the outside world and to innovation.” American businesspeople tend to be a bit more conservative when it comes to trying something new. “Japan is much more willing to take the kind of risk necessary and that’s all there is to it. Americans want it proved to them that it’ll work before they invest in it,” Klein says. Gallagher sees the Japanese as having a long-term view of things, while Americans have a short-term view: “The Japanese recognize that it’s a long-term profit, but Americans want to know how robotics will affect them today.”

Many Americans also feel personally threatened because of robotics. “Being a blue-collar worker in Japan is an accepted condition. It’s not the happiest thing you could be but you know that the company and management will take care of you anyway. Whereas in America,” Cernasov explains, “you know that management would not have second thoughts about replacing you with a robot, if they could get away with it legally.” Cernasov suggests a way of eliminating this threat. Workers could buy the robot that will replace them in order to have a share in the profits. The worker would be investing in the robot that is doing his former job. This will prove satisfactory for both the company and the worker. “The worker will be selling the labor
robots with visual capability in all industry in the U.S. was 1% in 1980 and is expected to increase to 10% by 1985 and to 25% by 1990. In the aerospace and electronics industries, 15% will have at least some vision by 1985, as will 10% of robots in the automotive industry, according to the Robot Institute of America. By 1990, that figure is expected to increase to 25%.

The percentage of robots with tactile sensors used in all industry in the U.S. was 2% in 1980 and is expected to reach 10% by 1985, and 20% by 1990 according to projections of Delphi Forecast. "The mechanical hand of the future will be able to roll a screw between its fingers and sense, by touch, which end is which," inventor Danny Hillis of the Artificial Intelligence Laboratory at Massachusetts Institute of Technology told Iron Age. This invention, proposed as "part of a tendon-actuated mechanical finger," is about the same size as a human index finger. "It has 256 tactile sensors and fits on the tip of a finger. It is rugged, flexible and has a skin-like texture," according to Iron Age. It would be helpful to industries if all robots had "fingers," but at least for now, they'll have to settle for metal clamps.

Visual and tactile sensors will certainly multiply and improve the tasks performed by robots. A few companies have robots with slight vision capabilities today, but robots which can "touch" and "see" will someday become commonplace. Predicasts Inc. projects arc welding, inspection, and assembly robots to have an annual growth rate of over 40% because of visual and tactile sensors, and Artificial Intelligence.

The Intelligence Controversy

There is a lot of controversy about the meaning and use of Artificial Intelligence. Kafriessen believes AI is the capability of a machine to make decisions. "But the word that is causing so much confusion is 'intelligence.' " What is intelligence when applied to a machine?

"Definitions of intelligence are so widespread that it's really hard to decide whether a person is intelligent," says Blesser. "If we can't decide whether a person is intelligent, how are we going to decide whether a machine is intelligent?" Cernasov believes artificially intelligent robots "are a folly. You cannot build a machine that thinks as long as we don't know how this process takes place in us." He believes that we would understand "part of intelligence" if we were to know how an animal thinks and were able to predict its behavior. "So, it's a name that's being slapped over a certain mathematical field. It's a form of higher
mathematics which really does not exist," says Cernasov. "There is no machine which is truly a highly, intelligent machine that can make independent decisions," he continues.

"Intelligence is adaptability," says Kafrissen. He says that artificial intelligence refers to "a machine that can look at the circumstances and draw inferences. The world's backgammon champion is a computer. It uses strategy, another form of artificial intelligence," says Kafrissen.

Servicing Robots

Whether "intelligence" becomes part of robots or not, robots will advance and touch some part of our lives. "In the next few years, the robot will be mainly applied to the electronics industries," says Klein, who sees robots assembling television sets, toasters, and other products of that size. Blesser says robots will expand to the medical field, and be used extensively to rehabilitate disabled people.

"The future of jobs is in servicing machines and robots," says Prof. Robert Cermele, chairman of Developmental Skills at New York City Technical College. Cermele says that all service jobs will be plentiful. "People-to-people kind of jobs, where you don't produce anything material," he continues. Kafrissen says that robots will expand to the marketing field in particular. "I would strongly recommend that a young person think about becoming a sales representative for one of the robot companies. That's where the future is," he says, "and it certainly does not require a technical background." Kafrissen also believes that robotics will have some application in industrial management. "Industrial managers should be trained not in the robots themselves, but in robot systems and how you integrate them."

Man vs. Machine

American industries will soon recognize the significant advantages of robotics. There may be greater productivity, better quality merchandise, fewer demeaning jobs, reduced energy costs, lower consumer costs, and safer, cleaner, and less strenuous work. In general, robotics may result in a real improvement in the worker's quality of life. Ultimately, robotics may mean higher wages, shorter work weeks, and even more leisure time.

But even though most people would be thrilled at the idea of "extra" leisure time, Blesser says that some workers would not know what to do with it. What would former workaholics do who felt worthwhile because they worked a 60-hour week, who did not have any extracurricular activities or interests, who never had any time for any friends, and who have not had a "free day" in over five years? Gallagher, a state-licensed psychologist, believes there might be more drinking problems and a higher suicide rate. "This will happen in the short-run," Gallagher explains, "until people are encouraged either by friends or institutional programs to use up their leisure time with something that's self-satisfying and enjoyable." He also says that more social-work type groups will develop as a result. "Most people, though," he says, "will create work even though it won't be in any logical, systematic way, if there is no work." Blesser believes that "society should wake up and start accommodating to such a problem."

"Industry should move carefully because people are going to be replaced and there is going to be a labor problem," says Blesser. "But I don't think it's too hard to overcome if industry, management, and labor realize that it's inevitable, and can possibly accommodate the transition," he continues. Cernasov believes that the market should "be left alone and adjust itself in the robotics revolution. Academics should fill in the gaps with education. People don't know what robotics is; teach them robotics, and fill in the gaps with educational tools," says Cernasov. One such educational exhibit is presently on display at the American Craft Museum. Entitled "The Robot Exhibit: History, Fantasy and Reality," the show will run through May 12, 1984.

The Future

"The choice is very simple," Gallagher says. "We either continue to pay our workers 50% more than foreign workers get for the same work, and watch nobody buy our products, or we make some kind of adjustment in the workplace to make products better and cheaper."

The robotics revolution would have taken off sooner, says Kafrissen, "but the recession skewed the results. The last thing you do is buy a productivity tool when you can't even sell what you have," he continues.

What of the future? Unless solutions are derived for the problems of productivity, sociologists predict that generations of Americans will be worse off than their parents. Ultimately, whether Americans like it or not, robotics may be the only way to conquer inefficiencies and improve productivity. "Whoever is trying to fight the robot is going to lose," says Gallagher. "We have the technology and ultimately the technology will be used, simply because it is there."
Psychologists once said, "It signifies lack of restraint, freedom, and a fun attitude toward life. It may also be considered a sex symbol."

What the good doctors were referring to was the American convertible, a classic transportation form whose return to the roads after a six year hiatus is being met with enthusiasm from the public and creating profits for automobile makers.

When the last American convertible rolled off the assembly line, many felt that an era had ended. In 1976, when only one automobile maker produced a convertible, a wave of panic-buying from diehard ragtop fans and shrewd investors engulfed the last Cadillac Eldorados made, raising their value from a $11,000 list price to, in a few rare cases, over $100,000 a car. Obviously, a lot of people thought they'd never see another convertible made in the states again.

Not everyone was upset, however. Customizers and coach builders across the country began slicing the roofs off hardtop cars and charging fancy prices for vehicles which in some cases were not properly reinforced. Owners of factory-built ragtops could now name their own prices, many putting their cars up on blocks and dreaming of the thousands of dollars they'd one day make.

Crossed Fingers at Chrysler

Chrysler surprised the car buying public when it introduced a convertible based on the new and successful front-wheel drive K-Car body in 1982. Chrysler's convertible production in 1965 consisted of 42,000 units, dwindling down to 3,128 in 1971. Chrysler's decision to bring back a soft-top vehicle grew out of the company's awareness of the increase in after-market conversions being done by customizers and coach builders. According to Tom
Houston of Dodge Public Relations, "In 1981 we introduced a prototype Plymouth Reliant convertible at an auto show and the reaction made us believe we had an opportunity." He added that, "Chrysler's being in the third position of the industry's Big Three had made them more successful with niche marketing—products with appeal to smaller segments." The climate in Detroit at the time also seemed conducive to the ragtop's return. "The basic thing going on then was the American automobile industry spending billions to meet federal fuel, emission, and safety standards—in other words, building cars for the government. Once we got over the hump we could put money into other research and development" says Houston who refers to the convertible as "something more interesting for people." Of course, there were crossed fingers at Chrysler amidst the anticipation. Houston recalls, "We expected to sell only 4,000 in the first year." In that first year, Chrysler sold 20,302 convertibles.

It did not take long for other automobile manufacturers to catch ragtop fever. Shortly after the debut of the Chrysler, Buick introduced a Riviera convertible, Chevrolet brought out a soft-top version of its Cavalier, and the Pontiac J-2000 followed close behind. Ford then introduced a convertible Mustang. But the real news, and perhaps the ultimate confirmation of the health of the new breed of ragtops came in September 1983, when none other than Cadillac, who had hung in until the bitter end, brought out the 1984 Eldorado convertible.

"The convertible was the whipped cream on the apple pie"

For many people growing up in the fifties and sixties, the convertible was the whipped cream on the apple pie—it signified part of the American Dream. Convertible production in 1951 was 140,000. By 1957 it was up to 266,000, and in the convertible's best year in history, 1965, it was a record 507,000. 1965 represented an amazing year for the auto industry in general. While every car seemed to be getting longer, heavier, and more costly, Lee Iacocca, then President of Ford (now Chrysler), introduced what has become one of the biggest success stories in automotive history—the Mustang. Small, sporty, and priced within the reach of the masses ($2500), Ford sold a record 420,000 Mustangs within its first six months of production and almost half of these were convertibles. In their book The Last American Convertibles (Macmillan), Jay Hirsch and Warren Weith wrote that: "Mustang gave convertibles a hype that probably kept them in production three or four years longer than most product planners had allowed for."

But even the seemingly indestructible Mustang would soon succumb to fate. In that first year, 101,945 Mustang ragtops were sold. In 1966, it was 72,119. By 1967, the figure sunk to 44,808 and by 1968 it was 25,376. In 1971, the Mustang convertible was already headed for the last roundup, selling only 14,746 soft-top versions. Ford did manage to keep the convertible alive until 1973.

A Shift in Gears

Many factors contributed to the death or hibernation of the American convertible. A soft fabric top has always been easy for a thief to cut through. A soft top offers no rollover protection. Air became increasingly dirtier over the years, air conditioning became commonplace, and sunroofs took their appearance, all helping the ragtop seem less and less appealing. Safety advocates such as Ralph Nader launched attacks on the auto industry, and the convertible was one of his targets. But more important than all this was...
the tremendous shift in consumer attitude which began revving up in the fuel-conscious seventies. To understand the marketing strategy prevalent in Detroit in 1965 (the ragtops' best year), one only has to be aware of what the motoring public wanted in those days of high speed limits and low gas prices. The attitude was "make it bigger, faster, more luxurious!" An amusing story from Hirsch and Weith that perhaps best illustrates Motor City's madness of 1965 is the "mink test" attributed to either Cadillac or Lincoln. In this test, "Mink coats worn during prototype testing by giggling secretaries—were tested for the coat's compatibility with upcoming car upholstery. Did it snag? Did it bruise the mink?"

It is clear why 1965 marked the convertible's strongest year in sales—impracticality had reached an all time high. What is more difficult to understand is that in the gas and economy-crazed eighties a new "let's put the top down, turn up the radio, and have some fun driving again" attitude is back.

The most dramatic difference between the convertibles of former years and the current crop is reflected in the price difference between the Eldorado coupes and soft tops of 1976 and 1984. In its final year of production, a 1976 Eldorado convertible listed for only $15,049 as opposed to the $10,586 hardtop. Today, however, the difference will raise eyebrows faster than it will raise tops. The 1984 Eldorado convertible lists for $31,342. This difference can be attributed to the fact that Cadillac (along with Buick), does not actually manufacture its own convertibles. This is done by American Sunroof, Inc. Chrysler, in their first year of production, had half of all LeBarons and Dodge 400's converted by Cars & Concepts, while the remaining vehicles were made toplees at Chrysler's St. Louis plant. Currently, all Chrysler ragtops are produced in St. Louis. A Cadillac spokesman believed that Cadillac would not be doing "in-house" conversions and that the Eldorado would remain an "out-house" production.

Most automobile customizers and coach builders such as American Sunroof have not been so adversely affected by the new trend in factory built convertibles, but one converter, STEAS Industries, recently went out of business. Others simply never got involved. Marsha Tortora, vice president of Empire Custom Coachworks in Brooklyn, explains: "To do the conversion properly and reinforce the car would cost me about $10,000 in labor and parts alone. I'd wind up retailing the car for over $40,000." She added that few coach builders in the New York area had been doing conversions, citing the example of STEAS. Ms. Tortora added that, "as long as there was a strong market for the foreign-made convertibles, the American ones would one day return."

Rain, Rattles and Risk

Of course, those car buyers concerned with economy will be passing the ragtops by on any showroom floor. Prices of 1984 Convertibles range from $10,395 (Dodge 600) to $25,460 (Buick Riviera) with the hardtop versions ranging from $8,376 for the Dodge to $15,738 for the Buick. No conclusive studies are available yet but if the past is an accurate gauge, these new convertible owners will no doubt be spending money on new tops and rain-damaged upholstery, contending with premature rattles and risking theft more likely than their hardtopped counterparts. But over 21,000 car buyers in 1983 decided to ignore all this, and there is every indication that more will follow in their tracks. At this time, sales figures for the most recent ragtop entries have not been computed, but dealers such as Joel Goldsmith of Goldsmith Cadillac in Jamaica, New York seem optimistic "The Eldorado convertible is being very well received—there's much interest," Goldsmith says.

"The 1984 Eldorado convertible lists for $31,342"

It may be too soon to say what the future has in store for the American convertible, but it seems as if Chrysler's crystal ball was on the money.

Weith and Hirsch wrote, passionately, "Americans grew up in the convertible. Some were born in them, and many, many others were conceived in them. Too many others died in them—from that wild kid down the block whom everybody in the neighborhood liked to a president the whole world loved. It's too much to expect that if we bring back the car type, we can bring back the people like them. Let it, and them slip further and further back in memory, where every afternoon is sun-filled, where every girl pretty, every gas tank full and every top waterproof. It's the best country in which to drive an open car. We're only sorry that our children can't visit it, and will have to be content to live it all second-hand."

Evidently, Hirsch & Weith's poetic death knell was premature. At least for the present, the convertible is alive and well.
"Y ou come home at night, and you find your bath-
room flooded or your door lock broken and you
want to call a plumber or a locksmith. You pick up a
regular yellow pages directory and dial a number. You
have no guarantee that anyone will turn up at that time of
night in a Hispanic neighborhood." This was a frequent
answer given by Hispanics to questions asked by Lee
Slutzberg Research Inc., a firm employed by the New York
Telephone Company (NYT) seven years ago to do a study
on the Hispanic market.

"When you pick up the Spanish Yellow Pages," respon-
dents continued, "you know that those people who adver-
tise in that book know who is going to call them. You know
that you are going to get a plumber or a locksmith."

The question of preference versus the question of need
was an important issue in the decision to publish a Spanish
Yellow Pages. It was argued that Hispanics who actually
needed a Yellow Pages in Spanish were very few. They
included newcomers who were not familiar with the English
language, elderly people who had been here for a long
while but who had not been able to catch up with English,
and those Hispanics who lived and worked in predomin-
antly Hispanic neighborhoods. Since most Hispanics had
used the traditional Yellow Pages before, NYT seemed re-
luctant to launch the venture and took a very long time an-
alyzing the feasibility of the Spanish Yellow Pages.

History

The idea of the Spanish Yellow Pages was one that NYT
considered for seven years. It was an idea that was a "battle
all the way," says NYT spokesman Keith Danss. "People
have their biases; they have their prejudices. You do, I do,
we all do, and anything that's different from the norm, we
tend to be cautious about. The fact is that Spanish is not the
main language here and you know that there is also strong
feeling against bilingualism in the schools," Danss says.

Another reason for the battle was that, at that time, the
number of Hispanics was still relatively small and their
socioeconomic status was not exactly attractive to the ag-
gressive businessperson.

Today, however, things are quite different. Hispanics
now make up roughly 20% of the population; by the
end of the decade, they are predicted to become the major
minority group. Their socioeconomic status has also im-
proved and their median income now ranges from
$12,500-$16,500. Research shows that Hispanics are very
viable consumers. These factors were all crucial in over-
coming the objections of NYT management.

At the same time, NYT looked southward to the ex-
perience of the Miami Spanish Yellow Pages which ap-
peared in 1980 and was an immediate success. The success
of the Miami Spanish Yellow Pages motivated the NYT
company to go ahead with their Spanish Yellow Pages
Project.

One of the persons who had a major impact on the suc-
cess of the Spanish Yellow Pages in New York City was
Manuel A. Bustelo, president of El Diario La Prensa, a daily
Spanish newspaper in New York City. When he was first
approached by Lee Slutzberg Research Inc., Bustelo was
then president of the National Puerto Rican Forum and he
was not yet part of the media business. "We had several
meetings and I think that I was successful in changing the
perspective under which they were operating. They felt
that the Hispanic people in the city were such a significant
number that by providing a Hispanic Yellow Pages, they
would succeed in getting enough advertising from the
Hispanics to make this a success. I felt that this focus was
wrong; they should not only attract Hispanic businesses to
advertise but also attract Anglo businesses. I suggested that
they refocus the entire idea," Mr. Bustelo says.

Success

Despite initial resistance, the Spanish Yellow Pages has
proven to be very successful. Estimated sales were initially
projected to be about $750,000 but actual sales have
doubled that figure. The estimates were totally dependent
on comparisons drawn with the Miami market. Researchers
looked at the quality and size of the market of New York Ci-
ty, the quality of the Southern belt market, and the revenue
of the Southern belt book, and simply drew a correlation.
Keith Danss explains this process: "Given that the
Southern belt market is X, and given that our market is X
plus, then, if the Southern belt market made Y, considering
the quality of our market and the effectiveness of our sales
efforts, we ought to make Y plus. It was a nice, smooth cor-
relation.”

Although NYT management will not reveal the cost of the
Spanish Yellow Pages, they insist that revenues derived
from the Spanish Yellow Pages have substantially overcome
all costs.

**Competition**

Competition was a major issue debated at the launching
of the Spanish Yellow Pages in the Spanish Room of the El
Diario La Prensa Building. New York Telephone was con-
cerned whether the Spanish Yellow Pages would compete
with *El Diario La Prensa* in terms of advertising dollars. The
answer given was no.

“Absolutely no, because this is a publication that comes
out once a year. And it helps our sales people to see who is
interested in the Hispanic market and who would like to
advertise on a daily basis in a daily newspaper,” Bustelo
says.

One product which does compete with the NYT Spanish
Yellow Pages is the Spanish Telephone Directory, an 8½”
by 10” directory, published by Hola Publishing Company
in Long Island City. Begun in 1977, Hola publishes
Brooklyn, Queens, and Manhattan editions. Hola’s posi-
tion is to attract primarily Hispanic advertisers.

"Research shows that Hispanics are very viable consumers"

While one can place an ad in the NYT Spanish Yellow
Pages for as little as $3.50 a month (for a semi-bold listing),
it costs a minimum of $165 to put an ad in the Hola Spanish
Yellow Pages. The price differential and the difference in
geographical distribution (the NYT Spanish Yellow Pages is
distributed throughout New York City) distinguish these
two competitors. “The appearance of the NYT Spanish
Yellow Pages has actually helped our business,” says Mr.
Fernando Solano, general manager of Hola Publishing Co.
“It has made people more aware of the Hispanic market.”

**Benefits**

The NYT Spanish Yellow Pages offers socioeconomic
benefits to the Hispanic Community. The Spanish Yellow
Pages facilitates ease of use for Hispanics who are not fami-
lar with the English language. Another major advantage is
for business, since the Spanish Yellow Pages “lists those
businesses who are willing, able and anxious to attract the
patronage of Hispanics,” says Mr. Danis. Finally, “the new
directory will help stimulate the major growth of the
Hispanic market in our city,” predicts Dr. Rafael Esparras,
the Mayor’s special assistant on Hispanic Affairs, in a letter
written to Joseph A. Silvestri, NYT marketing manager.

Mr. Bustelo believes that the Spanish Yellow Pages’ chief
benefit is “recognition of the fact that there is a significant
Spanish segment in this community, significant enough to
merit something of this nature.” Bustelo feels that the
market in terms of dollars is so strong that it is good
business to become involved with the Hispanic communi-
ty. “I think Hispanics have gone beyond the stage of simply
affirmative action programs, to the point where it is good
business to deal with Hispanics. And that is the point where
everyone wants to get to.”

**Comparison with the Regular Yellow Pages**

Although the Spanish Yellow Pages and regular Yellow
Pages are produced by the same company, they differ in
numerous aspects including size, geographical scope and
effectiveness. The Spanish Yellow Pages is not as big as the
regular Yellow Pages. It is the only directory distributed to
households throughout the City of New York as opposed to
the regular Yellow Pages which is delivered according to
the borough’s editions (Bronx edition, Manhattan edition,
Brooklyn edition, etc.). About 300,000 copies of the Spanish
directory were sent to customers with Spanish surnames in
all boroughs except Staten Island. Copies were also mailed
to Westchester and Rockland Counties, and Long Island.
Directories were distributed in Harlem, more than half of
the Bronx, and in Elmhurst, Queens. Approximately 2% of
these directories were returned because the people with
the Spanish surnames no longer lived at those addresses.

The Spanish Yellow Pages is attracting other groups in ad-
tion to Hispanics. There have been requests from non-
Hispanics for the product. In fact, several schools are in-
terested in the Spanish Yellow Pages for purposes of educa-
tional instruction. In addition, there have been numerous
requests from non-Hispanics who speak Spanish and from
businesses that exist in Hispanic neighborhoods. To obtain
a copy of the directory, call NYT. To place an ad in the
directory, advertisers should contact NYT sales represen-
tative Reuben H. Donnelly.

Given the success of the Spanish Yellow Pages, can the
Chinese or Italian Yellow Pages be far behind?

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DOLLARS and SENSE, May, 1984
International Business: Exploring the Third World

by Cynthia Franklin

Bill King, owner of the Harlem based WestKing Construction Company, has been in the business for over 20 years. During this time, his projects were limited to the New York metropolitan area and Pennsylvania. A year ago that all changed when he was awarded a $10 million subcontract by the African Republic of Guinea.

The $10 million was part of a larger $112 million telecommunications project entered into by Guinea with the Electronics International Corporation (EIC), a communications firm based in Cherry Hill, New Jersey. Guinea awarded EIC the contract stipulating that $10 million go to a minority contractor. Bill King was that lucky contractor.

King's good fortune resulted from the intervention of the Harlem Third World Trade Institute (HTWTI), an organization developed to foster trade between American minorities and nations in the Third World.

"We found out (through a communique from the Guinea embassy in Washington, D.C.) that EIC was going to update their telecommunications equipment," recounts Baloozi M. Harvey, executive director of the HTWTI. "We then proceeded to intervene with Guinea and asked them, before they signed the contract, to ask the primary contractor to make sure that minorities would be involved. And they did this."

Both EIC and the Guinea government were receptive to the idea. As a result, King will be responsible for the construction of buildings to house the communications equipment, offices, and classrooms.

Investment and employment opportunities available in African countries are increasingly becoming the focus of the Black business community. Plagued with joblessness and underemployment, Blacks are exploring Africa as an alternative to working and trading solely in domestic markets.

"I think we have no option (but to go into these markets). Our dependency on the U.S. market for our future should be limited," says Albert E. White, founder and president of AWI Trading Company and Consultants, Inc. of Manhattan. "Obviously, if we can't find work here we need to go somewhere else where we can find work and can import our experiences. We have to extend our borders. Just look at the unemployment rate. The domestic market is not sustaining any sort of growth for us."

U.S. Foreign Trade: Its Impact on Black Economics

There are three major ways increases in African trade, and all foreign exports in general, influence Black employment in America. First, these markets serve as an additional source of employment opportunities for those Blacks presently without jobs or underemployed. A fact often overlooked is that many of the individual skills of the Black community are highly marketable in African nations.

"Small skills here get magnified when you go to Third World countries. For instance, they may not have the ability to repair their own typewriters," says Harvey, whose organization operates a job skills bank which serves as matchmaker between minority job applicants and foreign governments. "One of the things people (in the Third World) are looking for is auto mechanics. An auto mechanic can make it anywhere in the Third World. While we think that it is a very low skill job here in the U.S., it is a very technical and high skill job in Third World countries."

WANTED: MASS TRANSIT ENGINEER

To supervise the construction of the mass transit system of a major city. Salary $85,000 a year. We offer a 5 yr. contract and liberal benefits including a spacious home, 3 stewards, and a car. Must be willing to relocate Lagos, Nigeria.

Nigeria is just one of the African nations courting American Blacks by registering such employment opportunities with the HTWTI job skills bank. Blacks, in turn, willing to work overseas, submit their resumes to the "bank" where they are kept on file. Skills in demand range from engineer to doctor to basketball coach.

Also in high demand in Africa are teachers. Education is of particular importance as these nations strive for economic independence. Emphasis is placed on training their people to become efficient and effective managers of their nation's resources.

Perhaps, the most pressing problem in Africa is the inability of some countries to meet the nutritional needs of their citizens. "Most of the Third World is in the agricultural state; none of them are really highly industrialized because one of the things they have to do in order to be successful, is to feed their people," says Harvey. "A lot of these countries need information and expertise in the field of
agriculture. Well, some of the better agricultural schools in the U.S. are the Black schools in the South."

A second way foreign trade activity influences Black employment is by stimulating the domestic job market and reducing unemployment. A recent report, "Domestic Employment Generated by U.S. Exports," issued by the International Trade Administration's (ITA) Office of Trade and Investment Analysis, revealed one in eight manufacturing jobs were generated by exports in 1982. Exports affect employment directly, involving those workers who produce and transport the goods to be exported, and indirectly, involving those workers who work in firms that supply materials and services to the export producing companies.

Declines in U.S. exports have a multiplier effect on U.S. employment. The 20% drop in export-related jobs during the recessionary period of 1980-1982, accounted for 40% of the rise in total unemployment in that period. These numbers have particular significance for Blacks when related to the fact that, historically, they have made up a disproportionate number of the unemployed.

The ITA report stated that for every $1 billion of total U.S. exports in 1982, an estimated 25,500 jobs were generated. With exports to Sub-Saharan Africa totalling $3.19 billion in the first nine months of 1983, approximately 81,515 jobs were generated by trading in these markets alone.

Finally, African markets, as do all foreign markets, provide the Black entrepreneur with additional areas in which to expand and develop his business. Many nations such as Guinea, Nigeria, Sierra Leone, Tanzania, and Zimbabwe actively encourage Black businessmen to participate in their development and seek to strengthen economic, political and cultural bonds with them.

"Many Nigerians are willing to do business with American businessmen because they can provide what they (Nigerians) need. There are many markets open in Nigeria and (Nigerian) businessmen would welcome dealing with Blacks, in particular, if they came over as do the Whites," explained a high level official of the Nigerian Commercial Consul.

Accepting the Challenge

Dubbed by government trade officials as "a new frontier for U.S. business," Africa yields 96% of the "free world's" diamonds, 60% of the gold, 42% of the cobalt, 23% of the uranium, and 17% of the copper. With its enormous amount of untapped resources, Africa has challenged American business to explore and develop these frontiers. Instead, U.S. exports to this region plunged 25% during the first nine months of 1983 as compared to a year ago, and 51% as compared to exports in 1981. Before Blacks can accept this challenge, however, it is essential that they examine the foreign trade policies of the U.S. and understand the dynamics of the international marketplace.

"Currently, the U.S. export market is about the worst it's been in the last 20 years," says White, a former international banker and trade finance specialist with Morgan Guaranty Trust Company and Bankers Trust Company. "The one drag on the U.S. economy is exports. Even in light of the fact that oil prices went down, there was a record trade deficit of close to $60-70 billion in 1983. In 1984 and 1985, it is estimated that our trade deficit will be close to $100 billion. We are really facing a disastrous problem as it relates to U.S. exports." (As it relates to the Sub-Saharan African nations, the U.S. trade deficit for the first nine months of 1983 totaled $4.76 billion.)

White attributes the rising trade deficit to three major factors: 1—the price of the dollar in relation to other currencies, 2—the foreign debt crisis in developing countries and 3—the lack of financing for U.S. exports.

The inflated value of the dollar, the highest in nearly 10 years as compared to major European currencies, has reduced the ability of U.S. exports to be competitively priced in international markets. The ITA faults higher real interest rates in the U.S. and political uncertainty abroad for the increase in the strength of the dollar.

External debt, due to the inability to meet loan obligations, has crippled the economies of Third World countries. The African nations, in total, owe $60 billion in foreign debt. Struggling to make their rescheduled and renegotiated debt payments, these countries can barely maintain, and will not be in a position to increase, their present level of imports.

Poorly devised government programs, White feels, contribute to the lack of financing for U.S. exports. "The government programs to assist minority firms, I think, are still overly secured and overly structured compared to Japan, where you can get financing for less than 1% of capital," White says. "What the U.S. financial system tries to do is traditional financing programs and those just don't work when you compete internationally. That (traditional financing) has to change."

Harvey agrees with White and adds, "One of the problems that we have with government programs is that I'm not really sure in all instances the government really understands the whole avenue of trade as it relates to other countries in the world. If they did, then we wouldn't be in
the lower portion of success rates as compared to Japan, Britain, France and other countries out trading the U.S."

Both men advocate a move away from traditional financing toward more creative methods such as barter or countertrade (CT) to stimulate growth in trade. CT, the exchange of one commodity for another rather than for money, is common in the Third World and parts of Europe.

Meeting the Challenge

Making a successful break into exporting is no easy task. Because of the economic variables (international debt, inflation), comparatively high overhead costs (travel, telephone and telex time), and the various cultural and market differences, entry into the export trade requires planning, patience, and determination. "International trade is not the 100 yard dash; it's more the marathon. It takes a lot of staying power and a lot of money," Harvey cautions. "You may not see any rewards for any one of your initiatives for years."

Minority Export Development Centers

Established by the Minority Business Development Agency (MBDA), an organization under the U.S. Department of Commerce, Minority Export Development Centers (MEDCs) receive funding to assist minority businessmen entering foreign markets. AWI (pronounced Ah-wee) and the HTWTI are 2 of 15 MEDCs nationwide and are the only ones serving the N.Y.-N.J. region. AWI, a business started in 1979, is a trading and consulting firm; HTWTI, a government program founded in 1980, is a trade institute.

AWI, whose clients have included Percy Sutton Intercontinental, the City of Miami, and the Congressional Black Caucus, offers assistance in foreign market development, export promotion, and financial consulting along with other services. Goods exported by clients range from chemicals to textiles, and from food grinders to cosmetics. For most, success has been limited and "start-ups" (new entries into the marketplace) are being discouraged.

"We don't feel that this is the best time for start ups," says White, "We feel that if you want to get experience in this area, you need to associate yourself with or be employed by a firm that is already in the business and has the track record. We don't want people spending money in this particular area at this time when their return is going to be a very slight one or even none for the next 18 months to 2 years."

The ITA does not expect any growth in U.S. exports within the immediate future and, instead, foresees the foreign trade deficit widening in 1984 because of prevailing factors.

"You have to match everything with the timing. It's like a great hitter," Harvey points out. "If his timing is good on a particular day, then he hits a home run. If his timing is not good, then he strikes out. That wouldn't mean he's not a great player—just like this doesn't mean this is not a great business to go into. The timing has a lot to do with it. Right now is a bad time."

Preparing for the Move into Exporting

Though it is presently a bad time to enter foreign markets, many experts believe that it is an ideal time for Blacks to ready themselves for accepting the challenge, in anticipation of an eventual upturn in exporting.

Complete and proper information on exporting and about foreign trade is essential. The international arena is far too complex and much too risky to enter less than totally knowledgeable. Many organizations hold workshops, seminars and classes on international trade. For instance, programs offered by the HTWTI, as outlined in a leaflet entitled, "An Exponent in International Trade," are: "conferences on international trade which draw on the knowledge and insights of professionals in business, government, academia and diplomatic circles; educational programs for minority and small business on the potential complexities and possible pitfalls of international trade; and a research center (where the) flow of business data and research on foreign and local markets provides firms with technical and professional assistance."

Financial preparation, a major obstacle confronting would be exporters, is a particular problem for Blacks.

"The thing with minority firms is that we don't have the institutions (Black-owned banks) that are willing to accept that kind of risk," White explains. "That puts us at a great disadvantage. The majority of banks are not going to go out of their way to assist minority firms in international areas."

White estimates a minimum of $30,000 is required to make a stab at exporting. "You're talking about a trip to West Africa costing $2,500, telex and telephone time costing $600-700 a month, and about lay time, the time before you actually receive any income, of maybe 18 months to 2 years," he warns.

Consultants at AWI urge their clients to maintain a good full time job when entering foreign markets. They do not recommend that their clients rely 100% upon exports for their livelihood. The importance of having a well thought
A major priority when doing business in any foreign country, is taking the time to learn the culture and the language. In an effort to reduce cultural barriers between these nations and their clients, the HTWTI has established a "language laboratory." For a small fee, businessmen and applicants in their job skills bank will have an opportunity to learn French, English, Russian, Chinese, and/or Spanish. "The area where minorities really play a critical role," says White, "and where they really are more suited for international trade is the cultural aspect of it. Most minorities come from some sort of cultural background which is similar in some ways to cultures in Africa, Latin America, and the Caribbean. There could be a shortening of time in developing (relationships in) the business."

An official at the Nigerian Commercial Consul feels a big step toward understanding African culture is to dispel stereotyped images Americans have about Africans. "Blacks read about Africans in books," he explains. "And believe that they live in trees and are savages. They must realize that there are many Africans who are well-educated and productive."

Choosing the goods or services to export is a crucial decision. Harvey suggests that the product to be exported be chosen before any market research is done. "This way would save you a lot of time. You may not be the person who can supply what is needed most," he says. "For instance, suppose they need tractors and you are a poor minority business person here. You may not be in the tractor business but you may be in the T-shirt business. I would say drop the buckets where you are. Whatever you can do, find a market for that."
The Alien-Aided Work Force

by Dawn Rodriguez

The United States is a nation of immigrants. Every year half a million people abandon their original homeland, in exchange for a new life in unfamiliar territory. The United States welcomes these immigrants with open arms—open that is, until the arms become too full.

Once the annual quota for immigrant visas has been filled, 20,000 per independent country and 600 per dependent country, permission to enter the United States is temporarily halted. This bureaucratic detail does not stop a particular group of immigrants—the illegal aliens.

An illegal alien is anyone emigrating from one country to another without the permission of the respective countries. In the United States, it is nearly impossible to obtain an accurate census concerning the number of illegal aliens who enter the country. Since it is not generally the custom for an illegal alien to announce his arrival, all figures are only educated estimates. The most recent data, from the Immigration and Naturalization Service (INS), reports that there are somewhere between two and six million illegal aliens in the country today, approximately 2% of the American population. It is also estimated that there will be an average increase of 500,000 illegal aliens per year.

Depending on where the research is conducted, studies by leading authorities in the field of recording migration statistics have shown a wide range of emigration patterns. According to Census Bureau demographers, almost half of the illegal aliens in America are Mexicans. While this fact may or may not be true, it seems reasonable since the border connecting the United States and Mexico is a very open one. If Mexicans constitute half of the illegal population, who makes up the remaining 50%?

According to Mr. Lawrence Leonard, a Manhattan attorney, half of whose practice involves immigration law, "There seems to be a big influx of immigrants coming from the Caribbean Islands, such as Haiti, Trinidad, Tobago and Jamaica." In New York City there are many Caribbean aliens—especially in the factories concentrated in lower Manhattan.

The reasons why people choose to come to the United States illegally are as diverse as the illegal residents themselves. Everyone has a story to tell and depending on where they come from, political, economic, and even religious pressure all play important roles.

In the case of Rafik J., an illegal alien from Guyana, South America, his decision to flee his country in 1979 stemmed from political and economic reasons. "I was 20 years old when I left home. There was nothing for me there—no jobs, no money, nothing except working in the rice fields and barely having enough to eat." With eight brothers and sisters to worry about, Rafik decided to take a chance and come to America illegally, with the intention of getting a job and being able to send money to his family back home.

Some illegal residents come to the U.S. with the sincere intentions of returning home one day. This is the case with Gustavo V., a native of Costa Rica, Central America. Since 1978, Gustavo has been traveling to and from Costa Rica illegally. He makes an annual visit to his homeland in order to bring back money he has earned as a photographer in order to help his parents and family build and expand their 10-acre farm. "Although my country is economically poor right now, we have other benefits which make Costa Rica a beautiful place to live. We are the most stable country in Central America. We are not at war with anyone and we have a democratic form of government. I want very much to make enough money over here so that I can go back to my country and live comfortably."

According to James C. Farris, Chief of the General Investigations Bureau of the INS, "Most illegal aliens want to make money and stay here. If they go back where they came from, they're still in a country with basically the same problems." Mr. Farris estimates that 60% of the illegals come to the U.S. with the intention of staying. Attorney Lawrence Leonard agrees with this estimate and adds "Almost none of the illegals want to go back home. Their countries are usually economically oppressed with little chance for improvement in the near future."

How Do They Get Here?

One could hardly imagine going from New York to Paris without a valid passport or visitor's visa to verify one's status as an American citizen. It is therefore extremely difficult to imagine how a foreigner from a country more than 5,000 miles away can manage to slip into the U.S. unnoticed and remain here for the rest of his or her life.

"There are 1,000 ways to come into the United States legally, and there are 1,000 ways to come here illegally," says James Farris of the INS. As Chief of Investigations for the past 14 years, Mr. Farris has seen it all. He has been in-
volved with the INS for 22 years. First serving as part of the Border Patrol in El Paso, Texas for five years, then moving to the position of Airport Judication where he would screen for illegals arriving on the airplanes, Mr. Farris has been in charge of the General Investigations unit for the New York district since 1969. Mr. Farris' present job involves "catching the most common basic illegal alien, your run-of-the-mill factory worker."

There are basically three ways to enter the United States illegally. The first is by crossing one of the numerous borders along the north, south, east, and west coasts of the country. The most common points of entry are through New York via Canada or through the U.S./Mexican border of the southwest. It costs anywhere from $1,500 to $4,000 per person to enter the U.S. illegally. Depending on where you are from and who you know, the trip can be an adventure or a nightmare.

Baram D. of Guyana, South America remembers crossing the Canadian border in December of 1976 as both "exciting and dangerous." "There were about seven of us in a van. We were driving for several hours, then told to get out and walk about one or two miles through four feet of snow till we reached the United States side of the border. No one was prepared for this. There were a few ladies who were dressed in high heel shoes, a dress, and a light jacket. There were two men dressed in snow shoes and heavy coats who transported us from Canada to the U.S. Once we reached the other side of the border, there was another car waiting to take us on an eight hour ride to New York City."

Once the illegal alien has reached his destination, he is left on his own, usually in the middle of Times Square or some other crowded area of the city where he will melt into the crowd and become another statistic.

If crossing the border sounds too dangerous to handle, another way of entering the United States illegally is to overstay a visitor's visa. A visitor's visa may be granted to someone who receives a letter of invitation from someone in the U.S. The letter must state that while in the U.S. the host will support the guest for a certain amount of time. Once that time expires, the guest must return to his native country. The letter of invitation would be accompanied by the bank statement of the host and then shown to the embassy for approval.

Once the visitor's visa has been granted, the guest may legally enter the U.S. for a given period of time. What usually happens, however, is the person who has entered with the visitor's visa will overstay his or her time limit and disappear. Rafik J. received his invitation in 1979 from a cousin living in Canada. "I was given permission to visit Canada for three months. When it was time to go back home, I didn't leave. I had scraped together enough money by working and borrowing from relatives to travel illegally to the United States. I was only 20 years old at the time and I only knew one person in New York when I got here. If it weren't for the visitor's visa, I don't know how I would have done it."

The third way to enter the U.S. is by obtaining a student visa which allows a person to receive education in a United States certified school. Eligibility is established by academic standing in the home country and financial support. If a school in the U.S. is willing to admit a student from another country, and the student can prove financial support from his family, permission may be granted to enter the U.S. and remain until completion of the student's educational goals have been met. However, a student is not allowed to work in the U.S. while on a student visa. He is here for the sole purpose of receiving an American education.

The problem of illegality emerges when a student enters with a false intention of going to school. While he may register and attend classes for a short period of time, his real desire is to work and remain in the U.S. as an illegal alien.

Yassif has been in the U.S. since 1970. He applied for and was granted a student visa from his home in Berbice, Guyana. At the age of 19, Yassif was a high school teacher who had aspirations of furthering his career by gaining an American education so that he could one day return home and teach at the University of Guyana. "Not everyone comes here with honorable intentions," said Yassif. "I know many people who register at a school and never show up again. I came here with the intention of staying for four years, enough to get a bachelor's degree, then go back home and get a better position at the University. When I was ready to go back, my parents wrote to me and told me that things were extremely bad back home and I would probably not be able to find work. So I did the only logical thing. I continued my education here hoping that one day I would be able to return home. As you can see, such was not the case. I've been attending school here for the past thirteen years."

Five schools, one associates, one bachelors, and one masters degree later, Yassif is presently one year away from obtaining his Ph.D. at Columbia University. Although his status as a student remains valid, Yassif had to wait until he was able to apply for permanent residency because he had no family here until 1982. "My parents have just recently come to the United States on an immigrant visa. Now that
they have resident status, they will be able to file my papers for me. Many people have asked me why I didn't apply for my resident card years ago. I really don't have an answer. I suppose I could have gotten someone else to sponsor me, but I guess I secretly hoped that I would be able to go back home one day and carry out my original plan."

During his thirteen-year educational stay, odd jobs were Yassif's second home away from home. "I remember going to a social security office with one of the guys I was rooming with about the first week in New York. I was very scared because I didn't know if I belonged anywhere near this building. Since students were not allowed to work, I knew I shouldn't be trying to get a social security card. But since it became obvious that $100 a month wasn't going to get me very far I had to take the chance." After successfully gaining access to a social security number, Yassif was able to get two jobs so that his parents would not be overburdened with his financial support. "It turned out to be relatively easy to get the social security number. All I had to do was show my passport. In those days there were no questions asked. They handed it to me right on the spot." With his social security number in hand, Yassif began working first in a factory in lower Manhattan and then as a waiter in a restaurant. For two years Yassif juggled two jobs, in addition to attending school full time. In 1972 he abandoned these two posts for a better position as an orderly in a nursing home where he has since been working for the last 11 years.

Survival

Deciding how to enter the United States illegally is only half of the problem. Once the illegal alien has arrived, he must figure out how to survive. His survival depends on three basic elements: confidence, connections, and cash.

"The first thing an illegal alien will do is buy himself some phony identification; without it he's not going to get very far," said Nalini D., a former illegal alien. "A phony ID is not so hard to get. If you have the right connections and enough money, you can get almost anything you need." The present going rate for an illegal social security number is approximately $200-$300. The number being bought may be a new number which has never been used or a number picked at random which presently belongs to someone else. "I got my number from a lawyer whose son works in the social security office. He charged me $200 for the card plus a new name. Since it came from the office itself, it is considered a legal number so I doubt whether I will ever get caught," says Baram P.

Finding a place to live is also a problem. Upon arrival, an illegal may or may not have someone waiting to pick him up and take him home. If he does, he is lucky. If he does not, he is on his own. "I was pretty lucky when I arrived here on my student visa. I had a cousin who had a small studio apartment on West 88th Street. He let me stay with him and four other guys who were also illegal aliens. Together we were six guys in one and a half rooms. There were three beds so we had no choice but to double up. It was very cramped but there wasn't much else we could do," says Yassif.

Once living quarters have been established and an identity has been adopted, the next step is finding a job. "The main type of work for illegals," says Mr. Farris of INS, "can be found in unskilled labor—factories, manual labor, assembly line jobs or restaurant work. Illegal aliens do not come over here to go on welfare. Their intention is to work and make as much money as they can. They'll work 12 hours a day if they have to."

"Contrary to public belief, I don't think illegal aliens take away that many jobs from American citizens," says Octavio S., an illegal migrant from Venezuela. "I work at the stables in Aqueduct racetrack cleaning the horses and taking care of the grounds. I've seen guys, Americans, who have taken jobs like mine but just couldn't hack it. They think they're too good for that kind of work; they don't want to get their hands dirty. I say, if they need the job bad enough, they wouldn't complain."

Illegal aliens constitute about 7%-10% of New York City's job market today, according to Mr. Farris. "If you could wave a magic wand and get rid of all illegals, New York City would not function," says Farris.

Mr. H.M. is the owner and operator of a packing firm in downtown Brooklyn. His factory employs 35 workers of whom 23 are illegal aliens from the West Indies. "I don't care what anyone says," he adds, "these people work hard and deserve a chance to work. They know what it's like to be without. They appreciate the money they make." At $3.35 an hour, the employees of the Brooklyn-based factory have no union, no benefits, and little reward for their eight to ten hour work days.

According to the immigration law, it is considered a felony to transport or harbor an illegal migrant; however, employing one is specifically excluded from the category of acts subject to prosecution. This exception is referred to as the Texas Proviso. Due to this exception, it is against the law for an illegal migrant to take a job but it is legal for his employer to hire him. Baram P., who works at a hat factory
on Broadway, says his boss has no idea that 11 of his 25 workers are illegal aliens. "I've been working for him for five years now. He thinks I'm a naturalized citizen. We get paid $4.40 an hour plus overtime." Despite the Texas Proviso, Baram is apprehensive, "I don't know what would happen if he found out."

The illegal job market is not only limited to unskilled laborers. Shereen S. of Dutch Guyana was an elementary school teacher for three years before she decided to come to America. At the age of 27, Shereen is resigned to working in a sewing factory in Manhattan. "As soon as my papers come through I'm going back to school to try to get a teaching degree so I can work here in the states as a teacher." Ramesh D. awaits permission to become a permanent resident of the U.S. while he works full time at a midtown accounting firm. "I came here with accounting skills so I made sure I got a job as an accountant. Although I'm working under a false name and number, till I get my papers, at least I'm doing something worthwhile and respectable."

Illegal aliens who work under an assumed name and number will usually get paid by check. Taxes are taken out each week just as if they were taxpaying American citizens. However, when it comes time to file at the end of each year, the illegal alien is unable to take part in this American tradition. "We get no benefits from the federal government other than the benefits we make for ourselves." says Baram P. "We really give more to the government than we take. We can't get loans, Medicaid or welfare even if we wanted to. All we can do is pay taxes, never collect."

Getting Caught

Out of the two to six million illegal migrants in the U.S. today, there are approximately 10,000-12,000 who are actually captured each year in the New York area. Catching illegal aliens is not an easy job. "We can't go up to anyone on the street and arrest them because we think they look suspicious," says Mr. Farris. "Illegals have quite a few rights. If they don't want to admit that they are illegal, there's really nothing we can do to them."

The investigations unit of the INS relies heavily on tips from the outside. "We might get a call one day from Mr. X saying he knows where we can find some illegals. We ask him a few questions over the phone to make sure it's legitimate; then, if we think we may be on to something, we'll get four to six men together and check it out," says Mr. Farris.

The INS is not permitted to enter a private place of business or residence without permission. "If an employer has something to hide, he may give us a hard time. If he doesn't, he might say 'come right in and have a look around.' Once we walk into the place of business, we might ask a few questions of people we feel may be illegal," says Farris.

According to Mr. Farris, "It's a psychological thing with illegal aliens. They feel out of place to begin with and when they see us they get scared and admit to everything. Once they tell us that they are illegal, they have to tell us their real name and how they got here." Despite the illegal aliens' anxieties, Attorney Lawrence Leonard says that "The immigration laws are fairly liberal. Even people who work illegally and overstay visas or enter illegally can still get their green card."

A typical raid may include up to 12 investigators covering a factory which employs 100 people. Of the 100 employees, anywhere between 5 and 30 may be illegal aliens. "You get a lot of trouble for little success" says Mr. Farris. "When an illegal gets deported, he can easily be back in 20 days. Our borders are too easily penetrable."

Immigration laws have remained virtually unchanged for the past 32 years since the enactment of the 1952 McCarran-Walter Act. In 1981, under the Reagan administration, Congress began to take a serious look at the nation's outdated immigration laws. During the 97th Congress, proposed legislation included hiring more border guards, imposing sanctions against employers who hire illegal aliens, and granting amnesty to some of the estimated two to six million illegal aliens already in the country. None of the immigration reforms has yet been approved by Congress largely because of opposition from various interest groups. The most vociferous opponents are Hispanics who contend that the employer sanction provisions would encourage existing job discrimination. Black leaders have also voiced concern over strict asylum and exclusion provisions which they fear would discriminate against Haitians seeking refuge in the United States.

In the meantime, the nation awaits approval of a revised immigration law that would satisfy the country's growing need for the curtailing of illegal migration. "The best immigration control we have is the economy," says Mr. Farris. "During the depression more people left the country than came. We are a nation of immigrants and we better get used to it."

$4
Willing to Relocate
by Gayle Mac Dougal

The first step was to gain access to management positions in corporations across America. During the early 1970s—aided by affirmative action policies and armed with newly minted MBAs—women began to enter corporations in significant numbers.

The second step was just as hard or harder: moving up the corporate ladder once they were in the door. To accomplish this, women had to be willing to do the same work as men. They had to put in the same long hours and, if necessary, agree to relocation.

Although the number of women who are relocated is still relatively small in comparison to the total, the percentages have escalated sharply in the past decade. “Look at the small number of women relocated in the early ‘70s; then, by 1979, it was 5% and now it’s 8%, possibly 10%,” says Arlene Johnson, manager of developing programs at Catalyst, a non-profit organization devoted to advancing women’s career opportunities.

Since there are between 300,000 and 500,000 relocations per year, there may be as many as 30,000 women now being relocated annually.

A recent study conducted by the American Management Association has revealed some fairly startling statistics. Of the women surveyed, 60% said that their career gave them the most satisfaction out of life, while 47% of the men responded that home life gave them the most satisfaction.

Even more startling were respondents’ answers regarding relocation. Male and female managers were asked “Would you move your family to a new location for a higher paying and/or more responsible job?” Surprisingly, 59% of females answered yes as compared to 48% of the males.

The fact is that most corporate relocatees hold middle management positions. Since the number of female managers has increased by a phenomenal 96% in the past decade, women are now in relocatable positions—whether they like it or not.

Louanne Gonzalez has moved twice. Relocated from Indiana to work in the New York headquarters of ITT, she was subsequently transferred to Connecticut. “I’ve been relocated any number of times, for various reasons,” says Gonzalez. “In order to grow, I have made some tradeoffs in lifestyles.” Gonzalez seems to be putting more emphasis on the long term effects of her moves rather than on short term difficulties. “I don’t have to believe that each move has to be a promotion. What I have tried to do is look at the total picture.”

Successful Candidates

What is most surprising to many is that women may be more successful transferees than men. “When a woman decides to relocate, there’s a very high probability that it’s going to be a successful transfer,” says R. Darlene Firestone, vice-president of Merrill Lynch Relocation Management Inc. “When transferring, people go through a process of asking themselves what they want and of making a commitment; women will go through that process beforehand,” says Firestone.

Another reason for a woman’s successful transfer is support from a spouse. “Her spouse has a job as well. So it’s a shared thing. They both decide to go and do this and make it work,” Firestone says. There seems to be more mutual support when women are the relocatees.

Still, single women who lack the support of a family unit also have a good chance of transferring successfully. “Once they get there it becomes more of an ego thing or determination—‘I might not like this but I’m going to put up with it,’” says Firestone.

Relocation is a costly management tool. According to a recent Merrill Lynch Relocation Management Survey, the average cost of relocating an employee is $46,800. And, relocation costs have increased 300% since 1979, according to Catalyst’s Human Factors in Relocation: Practices and Attitudes from the Corporate and Employee Points of View.*

Over the years, the stereotype of the typical relocatee and his family has undergone a number of transformations, particularly with the arrival of women on the corporate scene. In fact, says Arlene Johnson, “the stereotype is now invalid.”

For a long time, the stereotypical relocatee was a “male breadwinner and his wife who follows along and packs up the kids and they all move to San Francisco or wherever.” This is now inaccurate because “less then 20% of American families fit that stereotype,” says Johnson.

To begin with, there are fewer full-time homemakers to follow the male breadwinner from city to city. In 1980, the American work force was almost 42% female and the number continues to rise. Apparently, the tasks previously

DOLLARS and $ENSE, May, 1984
performed by the full-time homemaker throughout the relocation process must now be taken care of by other means.

The escalating number of women relocating is inevitably modifying the stereotype. "Half of the relocated women are married," says Johnson. "A married relocated woman is almost certain to have a career spouse." It is predicted that the number of relocated women will rise parallel to the rise in dual career families.

Traditionally, relocation policy was geared to the typical transferee. "Where I think you'll see a change, as more women start to relocate, is companies will be more involved in spouse employment assistance," says R. Darlene Firestone. "Right now, for the most part, they refuse to look at this."

"The average cost of relocating an employee is $46,800."

Companies will have to deal with dual career families. Atlas Van Lines' annual survey of corporate moving practices sheds some light on this. In 1977, 12.6% of the companies surveyed said that they were frequently affected by the spouse's employment status. In 1982, that figure had risen to 20%.

Spouse employment assistance for dual career families can take various forms. These include informal use of company contacts to set up interviews, arranging interviews with local employment agencies, paying a consulting firm to assist the spouse, circulating the spouse's resume in the area, and placing the spouse within the company. Some companies offer no assistance at all.

"Over 50% of the companies we surveyed offer some kind of assistance under some conditions," says Arlene Johnson. "If you count only the companies that have a written policy, and it's across-the-board applying to all relocations and available to all spouses, then it's under 20%," Johnson adds. Between these two extremes, there are various combinations.

Companies are beginning to feel that reluctance to interfere with spouses' careers will become a very significant issue in future relocation decisions. In Corporate Relocation Practices: A Report on a Nationwide Survey (Catalyst), "70% of the companies surveyed responded that reluctance to interfere with spouses' careers would definitely play a 'larger role' in the future," producing a direct increase in the number of relocation refusals. Companies also agreed that costs of relocation would rise because of added incentives which would have to be furnished in dual career situations; that there would be increased difficulty in placing employees where they are really needed; and, finally, that there would be substantial difficulty in making relocation decisions.

Despite these concerns, little has been done to handle dual career situations. "Relocation services are already estimating that 30%-40% of their relocations now involve two-career couples," according to Catalyst. Yet, corporate policy lags behind. Catalyst says that "while companies envision increased difficulty, complications, and added costs," there will be "little change in company policy or practice."

The relocation of women has resulted in several new lifestyle trends. Among these are the husband following the wife, couples commuting on weekends, and parents leaving children behind.

As more women relocate, there will be an increase in trailing husbands. "12,500 spouses are following relocated women or working out some other kind of arrangement," says Johnson. A Fortune 1500 company located in Fairfield County, Connecticut "last year had 13 cases where they offered spouse employment assistance," says Johnson. "Fifty percent of them were men."

Another alternative to the typical relocation is for couples to commute. Some couples have "set up two households and have a weekend kind of marriage," says Johnson. "I know of one company that is contemplating building into its relocation policy reimbursements for weekend trips because they figure that's about the same as relocating somebody."

Louanne Gonzalez is a parent who made a choice to leave her children behind. She was going to move them but decided against it because "they wanted to stay where they were." Her decision is not a unique one. Many parents are now making arrangements for teenage children to finish high school without disruption.

Women are successfully relocating in increasing numbers. This has drastically altered the profile of the typical transferee and resulted in a greater need for spouse employment assistance programs and life-style accommodations. The need is already there; whether companies will actually meet it is another question. 

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Opening night. Blood pressure elevates, pupils dilate, adrenaline begins to flow. Critics, friends, reputation, money—so much is at stake. The umbilical cord has been cut. "Break a leg!"

This nerve-racking scenario takes place everywhere—from 42nd to 56th Streets, from the Shubert Theater to the Winter Garden, in Lincoln Center, in Carnegie Hall, and in the many off-Broadway theater houses that pepper New York.

Unlike the famous performing arts institutions, however, off-Broadway theater houses are small. With seating capacities of 100 to 499, most can offer an evening of theatrical intimacy. But their smallness can also be a liability. Most suffer from the financial restrictions that inevitably accompany being the little guy.

In addition, about half of all off-Broadway theaters are not-for-profit institutions, which typically run from September through June. The other half are commercially run, independent theater houses. Although there is no one formula for financing the theaters, non-profit off-Broadway must depend heavily on contributions, and they must continually find new ways of generating income.

Built-in deficits

One of these off-Broadway theaters is Playwrights Horizons, which celebrated its thirteenth anniversary this year. Their 1981-82 season opened to an extraordinary amount of critical acclaim with premier productions of Sister Mary Ignatius Explains It All For You, The Dining Room, and Genius. Although Playwrights was touted as the hot off-Broadway theater of the 1981-82 season, financial success was not forthcoming. Playwrights has a total seating capacity of 221 seats in two theaters. Since their audience size is so limited, even a sold-out production must be restricted to an allotted four week run. According to Kathi Levitan, marketing director for Playwrights Horizons, "all basic runs have a built in deficit." Performances can only be continued if production costs are low enough for the theater to break even on an extended run.

Dual Roles

In order to capitalize on their popularity, Playwrights Horizons now plays an unusual dual role: they are a non-profit theater which also acts as a commercial producer by booking its shows into other off-Broadway theater houses.
During its 1982-83 season, it had three productions running in this arrangement. "The money from productions, all income from shows (barring royalties) belongs to Playwrights," says Kathi Levitan. Playwrights Horizons puts this money into a cash reserve for the theater's future which doesn't affect their yearly budget.

Playwrights appears successful; however, artistic success in a small, non-profit theater does not necessarily result in financial independence. Over 70% of Playwrights Horizons' income is derived from 'support income,' which includes grants, contributions, and endowment funds. This type of reliance on unearned income is not uncommon. Manhattan Theater Club, which is the second most heavily state-funded theater in New York, attributes 54% of its income to support income.

Sold Out

Higher ticket prices is one of the reasons Manhattan Theater Club (MTC) relies less on support income than Playwrights Horizons. MTC charges a top ticket price of $22.00 as compared with a $14.00 top at Playwrights. MTC was founded in 1970 in a theater space on the upper east side of N.Y.C. Since that time, they have established a supportive subscribers community. Seventy-five percent of the seats in MTC's two theaters are sold by subscription, and they have a renewal rate of 75%-85%. "As of our 1980-81 season, we hit a ceiling on ticket sales," says Barbara Benisch, director of development at MTC. They are essentially a sold out theater. In the same predicament as Playwrights Horizons, MTC seats a total of 225 in two theaters.

"Off-Broadway theaters must look to sources other than ticket sales for their earned income."

A $15 Million Reserve Fund

Since earned income potential is limited, non-profit off-Broadway must look to unearned sources for support. The New York Shakespeare Festival is a financially strong off-Broadway institution. They have been very successful at producing their off-Broadway hits on Broadway. A Chorus Line has been the most lucrative of these productions (includving Plenty, The Pirates of Penzance, For Colored Girls..., and Two Gentlemen of Verona), generating over $2.25 million in net income during 1982-83. Some of these profits have been pooled into a board-designated reserve fund which presently exceeds $15 million. Despite this added revenue, the New York Shakespeare Festival still relied on over $2.8 million in support income during their 1982-83 season, and they foresee greater fund raising efforts for government grants and private, corporate, and foundation support.

"Almost all major regional theaters have signed with cable."

A theater's reputation can be a major determinant in deciding who contributes and how much. City Stage Co. (CSC), a theater which is renown for innovative productions of classical works, has found that "a healthy percentage of our funding comes from overseas," says their artistic director, Christopher Martin. Naturally, critical successes have profound influence over contributors. As Playwrights Horizons has risen to artistic acclaim, their experience with corporate funding has been that "their total contributions are decreasing in general, but increasing at Playwrights," says Kathi Levitan, adding that corporations are much more influenced by a theater's reputation.

Over Budget

Even those theaters which have proved themselves as critical successes struggle. From 1977 to 1980 Manhattan Theater Club started to move ahead of the game. A few of their productions went on to Broadway and they were able to set up, for the first time, a board-designated cash reserve with the royalties they received. However, by their 1982-83 season, their working budget was experiencing a deficit of $138,000. MTC is not isolated in its experience. Twenty-two non-profit theaters surveyed by the Theatre Communications Group showed a collective budget deficit in 1982, the first since 1978. During 1982-83, 32 non-profit theaters (a different sampling) showed a collective budget deficit.

Economic Realities

Non-profit off-Broadway doesn't always have hits to commercialize or cash reserves to fall back on. "The
reap the benefits of their labors. For each of these productions, MTC received 1½%-2½% of the gross. "The more of a relationship that we have with the show, the more money is made," says Barbara Benisch. Royalty payments can greatly increase earnings, but they cannot be counted on.

One consistent source of earned income can come in the form of educational programs set up by the theaters. City Stage Co. has set up a year-round school to supplement their budget. "Classes are a larger and larger income source for the theater," says Christopher Martin. The Theatre Communications Group study found that, overall, in-house training programs are expanding, producing a 25% increase in income from tuition and fees in 1982-83.

**Profit or loss?**

Off-Broadway is viewed quite differently when seen from a profit-making angle. A commercial production to an inexperienced producer can appear deceptively cheap to mount, especially when compared to the exorbitant costs of a Broadway production. However, "it's not simply the cost of mounting the play and putting it on, and that's what most neophyte producers don't understand," says producer/director Sidney Eden. Producers must be prepared to finance the show well after opening night. An independent off-Broadway producer must count on raising a minimum of $350,000 for a musical and approximately $150,000 for a play. Investors are cautioned that most shows would have to run an average of 35 weeks to a full-capacity house in order to return their initial investment. A typical investor's offering circular warns that "while no accurate industry statistics are available, it has been claimed that of the plays produced for the stage in New York City in 1979-80, a vast majority resulted in loss to the investors." Even so, "it is conceivable to run a show for $3,000 or $4,000 a week, with a small cast," says Sidney Eden adding that "if it's the kind of play which doesn't have a big overhead, your margin of profit could be larger than Broadway."

**Speculations**

At present, cable T.V. appears to be looming in the future of off-Broadway theater. While it is too early to make accurate predictions, cable seems to offer a significant financial boost for off-Broadway. "With cable there's great potential," says Sidney Eden. Currently, "almost all major regional theaters have signed with cable. It will be a very positive development when it comes fully into being."

DOLLARS and $ENSE, May, 1984

For most of us merely attaining the age of ninety-four is a miracle. How remarkable then is a life that spans the years between the post-Civil and the mid-Viet Nam wars, a life that witnessed astonishing political issues and extraordinary industrial and technological advances. How incredulous for one person to be successful, even influential, in such a turbulent period. No ordinary man, however. Indeed, as author James Grant points out, this is the life of the wizard of Wall Street.

In his biography, Bernard Baruch, The Adventures of a Wall Street Legend, Mr. Grant, a former columnist for Barron’s, chronicles the life of the Street’s most famous speculator. A son of the south, ten-year-old Baruch came north during the winter of 1881 and settled with his family near the northernmost populous fringe of Manhattan. The future site of the Plaza Hotel, at Fifth Avenue and 59th Street, was occupied by a squatter and a mean little dog. There was a blacksmith nearby whom Baruch envied for his muscles. Except for the village of Yorkville, at 86th Street, the Upper East Side was sparsely settled. In 1884, a new apartment building at Central Park West and 72nd Street was called the Dakota, for its inaccessibility. Harlem was known as Goatville, for a still common quadruped. The Bronx was exurba; the Brooklyn Bridge had opened just the year before.”

Entering college at the age of fourteen, Baruch’s forte was language, the classics most notably. He graduated in 1889 with what proved to be his most valuable assets: “budding good looks, amiability, a calculating intelligence, and a sharp memory for faces and names.” His first job on Wall Street was a clerk’s position at $3 a week for a friend of the family, Julius A. Kohn. Quickly bored, Baruch headed for Colorado at 19. There he met James Keene, a speculator for whom Baruch would later work. Lifting rocks by day and gambling—with the house—at night, Baruch’s adventures in the wild west were short-lived. In 1891 he went back to the Street, employed by A.A. Housman, a broker with a seat on the New York Stock Exchange. Office boy by day and student by night, Baruch learned all he could about industry and railroads, and at the age of 25 was named a junior partner in Housman’s firm.

Keene, Housman and Kohn were all bullish confreres in speculation and were all impressed with young Baruch. A retail customer of Housman’s, Middleton Schoolbred Burrill, took a special liking to Baruch, and it was from Burrill that Baruch received a patriotic zeal that would last a lifetime. “Of Burrill, Baruch said: ‘He had the most tremendous belief in the future of America and in the ability of his fellowmen to function and conquer anything, and I got that from him also. I learned to feel that there were no ills from which humans suffered that could not be overcome by human ingenuity.’”

With some of the weightiest names on Wall Street behind him—and a gambler’s propensity within him—Baruch began to invest in the stocks he knew best: mining and railroads. Margin requirements were only 10% of the price of the stock, providing a great deal of leverage to the trader. While he was very conservative with the firm’s money, Baruch would take tremendous risks with his own, often
resulting in losses that would wipe out his gains. His first trading profit came in 1897 after investigating and anticipating the outcome of a Senate bill to lower the duty on imported sugar. Baruch decided to invest in American sugar in a big way. The payoff was fantastic. Big dollars were soon to be intrinsic to Baruch's life.

Dollars, however, were not the end-all for Baruch. As James Grant tells the story, the Wall Street wizard was a devoted Democrat, a loyal American, and above all, a humanitarian. His political involvements began with supporting the candidacy of New York City Mayor William Gaynor. Gaynor showed his appreciation by appointing Baruch a trustee of City College in 1910. His presidential alliances began with the Woodrow Wilson campaign. "Insofar as one virile man can be said to fall in love with another, Baruch fell for Wilson. He was smitten by his bearing; by the beam of his gray eyes and by the fact of his southern birth."

He served the Wilson administration as chairman of the raw materials and minerals committee of the Advisory Commission of the Council of National Defense. Baruch believed that in wartime prices should be controlled in order to "reduce civilian hardship and to deprive businessmen of an undeserved profit." In fact, profiting from war was so abhorrent to Baruch that he continued to fight against it from within government agencies during the First World War and through publications after the war. As chairman of the War Industries Board, Baruch utilized his knowledge, charisma, and lofty business alliances to keep material costs down.

Baruch's diplomatic career began as an economic advisor to Wilson during the peace negotiations after World War I. He served on numerous committees, but always had a spot behind Wilson's ear. Baruch, however, was constantly jockeying for position with Herbert Hoover, who had primary access to Wilson's other ear. Bureaucratic process was never the preferred way of doing business for Baruch; the peace negotiations proved to be a frustrating time for the no-nonsense, action thinker.

Although Baruch continued to advise presidents on economic matters through the Second World War, he also found time to negotiate business deals and advise stock trading moves for his close friends. Baruch was a bull from the start. His belief in strong industrial markets and free trade kept him active in the markets even during the dark years of the crash and its aftermath. Grant, who amassed volumes of material to build this detailed biography, feels "The weight of the evidence supports the conclusion that he didn't sell out in time. A thoroughgoing industrial-renaissance optimist, he underestimated the gravity of the situation for months following the Crash and sold stocks only belatedly (so belatedly that his 1929 tax return showed a stock-trading profit: he hadn't taken his losses yet). On the other hand, he also managed to stay out of 'The Cleaners.' He was not overextended on margin, and he resisted the temptation to buy stocks heavily before the liquidation had run its course. Before the devaluation of the dollar he had the presence of mind to buy gold and gold-mining shares. He was not the Bernard Baruch of legend, but that was the only standard by which he can be said to have failed."

Grant is clearly bullish on Baruch, and with good reason. He continually points to evidence of Baruch's philanthropic nature, patriotic zeal, and trading savvy. At points, the biography reads like historical fiction, but there is always an anecdote or a quote from a Baruch letter or diary to bring a factual orientation back to the reader. Grant weaves together strands from Baruch's personal, political, and trading life and he does so with an insider's understanding of Wall Street. (Grant now publishes Grant's Interest Rate Observer.) This biography is fast, enjoyable reading for any market fan.
Bandage Wars

by Jacki Cohan

Question: What U.S. industry is bigger than defense, growing faster than computers, yields services like hotels, franchises as rapidly as the fast-food giants, and whose existence is vital to the people it serves?

Answer: The second largest industry in the U.S.—healthcare.

The Reagan Administration’s decision to promote a free market environment, one of deregulation and competition, has created tremendous controversy in the healthcare industry. In opposing camps are free market advocates and those who believe that healthcare does not belong in business. The fracs has resulted in bandage wars, pitting hospital against hospital, physicians against hospitals, and hospital against other health-related facilities.

In a free-enterprise economy, like that of the United States, the success or failure of a given industry is usually determined by the marketplace, competition, consumers, and the basic laws of supply and demand. But the healthcare industry, traditionally constrained as a not-for-profit or for human interest sector, has been insulated since birth from competition by governmental regulations and ethical considerations. Until recently, it remained a private preserve, outside the world of marketing and consumer sovereignty. The concept of employing marketing, advertising or other business tactics to make profits in healthcare was considered both unsavory and demeaning.

Charles Mathias, president of the HealthCom Division of Lewis, Gilman and Kynett in New York told Advertising Age that “Traditionally, hospitals were considered social or charitable services, often supported by religious groups; business was secondary. To make a profit off some one’s illness sounds terrible to people. Probably, the only image worse in the average person’s mind is the undertaker who sells a $7,500 casket to the grieving widow.” A public relations director of a large non-profit New York hospital says, “People don’t go to hospitals because they want to. Why market or advertise a service people try to avoid?” Business-like activities were considered taboo in healthcare, an industry known for serving others.

A Changing Environment,

If perchance, a business executive were to point out that there were institutions that engulfed annually $1,365 for every person in the United States, swallowed up 10.5% of the total gross national product (GNP), that one in seven would more than likely be closed by the end of the 1980s due to financial difficulties, and whose existence is vital to the people they served, would it seem logical that strategies should be employed to try and save these ailing institutions? These institutions are our nation’s hospitals and the statistics are real. The absence of modern managerial strategies, formal marketing programs, and competition, are all major factors contributing to the industry’s failing health.

Les J. Hauser, manager of community relations and development for The Michigan Hospital Association, told The Public Relations Journal, “Hospitals today are faced with a battery of business dynamics unmatched by those of most other professions.” Healthcare was thought by other businesses to be recession-proof. Statistics, however, prove them wrong:

1. Costs are rising at astronomical rates. Healthcare cost Americans $322.4 billion in 1982 and spending grew three times faster than the GNP. The nation’s hospital bill is up 14.9% to $136 billion; that’s 12% of all healthcare expenses. One east coast hospital president predicts, “the basic per diem rate for a bed at his institution will be $1,000 by 1990.”

To keep costs down, new legislation effective October 1, 1983, substituted price-based reimbursement for cost-based payments. Mark Harju, market research specialist of Hospitals Magazine says, “In the past, hospitals would use ‘carte blanche’ to get something. Now, they must put a clamp on this.” With the new legislation, the emphasis is on cost containment. The government set up 100 groups called diagnosis related groups (DRGs), for all hospital activities. A set price has been established within each group. Harju says, “The new legislation will force hospitals to be more competitive, more diversified and fight for larger pieces of the pie (market share).”

Also affected by the price-based reimbursement legislation are the multi-hospital groups, such as Humana and Health West. Multi-hospital groups are hospitals banding together as one business to gain financial and marketing advantages. Thirty-three percent of all U.S. community hospitals are currently involved. Mr. Harju says, “These multi-hospitals systems are promoting quality care and low costs, just as consumer companies like Johnson and Johnson do.”

2. The consumer is playing an important role in the selection of healthcare providers. Nationwide studies show individuals choosing hospitals over physicians in from 20%-30% of the cases. A director from DTW Market Research and Consulting firm in New Jersey says, “Consumers are more educated, more intelligent and more aware than ever before. The consumer is someone who will definitely have more input into medical decisions. Even with the rising costs, they are demanding more, not less health services, in terms of convenience and quality. Consumers don’t care if a hospital is for profit or not-profit; they just want to stay out of expensive hospitals.”

New types of consumers are springing up. Dr. S. Steiber and Dr. J. Boscarno, specialists in healthcare marketing in Chicago, defined three new types of consumers: 1) the convenience consumer, whose share of the market is now at 20%-30%, 2) the image consumer, who relies on media heavily, comprising 20%-30% of the market, and, 3) the high technology consumer, one who is young and educated, taking 5%-15% of the
market share and growing rapidly. As
hospitals specialize, Steiber and Boscarno
predict that the high-technology consumer
will become more important.

3. Healthcare technology has nearly
oustripped the average person's ability to
comprehend the changes. More than 90% of
all drugs used today have been
discovered since the early 1950s. Nearly
40% of the surgical procedures performed
today can be done on an outpatient basis.

4. Many hospitals' facilities soon will be
out-of-date. It is estimated that 85% of the
nation's hospital capacity will reach the
end of its useful life during the 1980s.
Replacement of the facilities is expected to
cost $130 billion nationwide, with an an-
ticipated capital shortfall of $56 billion.

5. The competition between health pro-
viders is heating up fast. A survey done by
Hospital Management Quarterly rated
competition on a scale from one (little
competition) to 10 (tough competition)
and came up with a figure of 6.7. Simone
Tseng, director of healthcare marketing for
the American Hospital Association (AHA)
says, "In the past, hospitals were more
internally focussed and relied on their
medical staff to decide what services they
would offer and how they would compete.
Now, hospitals are more aware of the
competition and have become externally
focussed by implementing formal
marketing plans."

An Elusive Definition

The meaning of the word marketing in
the healthcare industry has been mis-
appled and misinterpreted. Simone Tseng
says, "It means different things to different
people." All too often, marketing is
associated with advertising, price wars and
cash-money-hungry competitors. Although it is
true in a few cases, there are those who
stereotype it illogically to hold true for all
cases. Actually, there is neither a universal
nor a clear-cut definition of healthcare or
hospital marketing, as of yet.

A director of a major New York teaching
hospital says, "My definition of marketing
is researching community needs to find out
what the community wants. You have to
make sure they know what you are pro-
viding and meet their needs. Doing
research to best serve your customers is
the name of the game."

A director at DTW, a market research
and consulting firm in New Jersey says,
"The major issue is who is your customer.
Hospitals were traditionally focussed
toward their physicians. The whole field of
healthcare is shifting toward an emphasis on
the consumer, because they are
demanding more. Increasing the hospital's
visibility within the community is the essence of the marketing
function."

"Advertising wars are
strategies employed by
healthcare providers to
help combat the
competition"

Simone Tseng says, "Marketing is more
of an orientation than a function. The core
of marketing lies in the ideas of the four
P's: price, placement, promotion and prod-
duct. Unfortunately, the word marketing
has a bad connotation. Sales and advertis-
ing are the last tactics to be dealt with, if at
all. Hospitals are becoming more aware of
what people want. If their customers want
more convenience, hospitals will offer
more convenience. Marketing also in-
volves a sense of what other hospitals are
doing, striving to improve their image and
services, and segmenting their markets.
Hospitals are asking themselves, 'why
would someone come to our hospital and
not the hospital down the street?' What
marketing isn't saying is 'we're the best,
we're the most modern or we're the most
friendly.' These things are already ex-
pected in a unique industry such as this.''

Strangely enough, there are marketing
specialists in healthcare, who come from
some of America's corporate giants such as
Proctor & Gamble and Eastern Airlines.
They believe marketing should be stricken
from the record. They fear that if the
marketing of healthcare is not comparable
to the marketing of consumer goods.

Hospital Marketing

Although hospital marketing has been
around for 10-15 years, it is still in its in-
fanacy. The concept has not been grasped by
all administrators nor has the marketing
reality fully surfaced. Hospital marketers
can be classified as "abusers," "refusers,"
and "successful users."
The abusers are those hospital execu-
tives who believe marketing can solve
all of their problems. Positive results are
expected within three to six months, since
they are in desperate need of a quick-fix.
A minute amount of funds are spent on the
project—approximately one to three per-
cent of their gross income, yet miraculous
results are anticipated. In essence, these
hospitals try to make marketing specialists
out of their planning and public relations
directors, who have little or no experience
in the field. Carol Collins, associate direc-
tor of The Health Strategy Group Inc., a
New York based marketing research and
consulting firm says, "Many times we are
faced with the situation where a client
wants to market a service but is not willing
to invest the time or amount of dollars
necessary to make the research a success.
The research studies fail, and the hospital's
positive attitude toward doing a market
research study becomes negative almost
overnight."
The refusers are hospital administra-
tors who still believe in a traditionally-oriented
approach and use the past as an estimator
of the future. The focus here is on the
internal operations of the hospital. Marketing,
an externally focussed concept, is still as
puzzling to them now as it was 10 years
ago. The refusers will turn their backs on
marketing until they can no longer afford
to avoid it. Robert Lehner, Director of
Ambulatory Care for Mount Sinai Hospital
says, "To the traditionally-oriented
hospital, marketing implies competition. It
implies that there are other people out
there. These hospitals never had to com-
pete before and they fear change.
Marketing carries around a lot of sensi-
tivity."

New York hospitals most commonly
fit this description.
The successful users realize that
marketing is not a cure-all. The multi-
hospital systems, such as The Hospital Cor-
poration of America, who own and
manage hospitals throughout the country,
realize that marketing is an on-going pro-
cess that must be continuously monitored, and that means long-range planning. A considerable amount of time (a matter of years) and money (ranging from $250,000-$500,000 per year) is allocated toward the implementation of formal marketing programs. Strategy is one of the most important factors in the marketing process. Marketing specialists are hired internally. Often, outside agencies are used if a wide range of services, outside the realm of the hospitals’ capabilities, are needed.

**Competition**

The competition in the healthcare industry is heating up fast. Hospital chains are swallowing up the individual community institutions. Health-related services, including emergency, surgical and ambulatory centers are springing up everywhere throughout the country, especially in densely populated areas. Indeed, the increased competition in healthcare has resulted in diverse marketing techniques on the part of hospitals and centers.

A once “dying” non-profit hospital, Wing Memorial in Palmer, Massachusetts, was threatened by nearby multi-institutional chains, freestanding surgical and emergency centers, Blue Cross cuts, and “mall medicine” retail outlets in local shopping centers. Wing realized that in order to survive as a free standing institution, it would have to carve out its niche in the market. This life-threatened hospital revitalized by becoming the parent of three newborn satellite health centers and recaptured a nice portion of the market.

Times and finances have induced many hospitals and health centers across the nation to participate in health care ad wars, raising the inevitable question of good taste: Will the designated watchdog, the Federal Trade Commission, be able to regulate misleading or incorrect medical advertising?

**The Big Apple is a Small Marketer**

Strangely enough, the New York experience is the opposite of the national norm. Simone Tseng says, “This is due to the proliferation of government in the health services. New York is the most tightly regulated state in the country. Therefore, competitive ventures are limited.” The hospitals in New York almost have a “monopoly” on health services, since freemarket competition and the interaction of traditional economic laws are not entirely possible.

Stephanie Steele, director of public relations of The Greater New York Hospitals says, “The number of people and density of the population is what makes us different from the rest. The hospitals in New York are operating at or near 100% capacity. There are even waiting lists for people trying to get into the hospitals!”

Hospital marketing in New York is almost non-existent. Marketing, in the forms of public relations, promotion, and media usage as a non-paid form of communications does exist, however. Simone Tseng says, “Everyone defines marketing differently. There is certainly great confusion over the word in New York. Many administrators and directors in these institutions perform market research, planning and typical public relations functions. They’re just not calling it marketing.” Not one New York hospital has a marketing department or marketing specialists. Only one or two percent use an outside agency. Most, however, do have public relations departments.

AnneWarner, director of public relations at Lenox Hill Hospital says, “We do not need to market our hospital services to obtain more patients, or physicians on staff as we are already operating very close to 100% capacity in both areas.” Frank Lopez, assistant director of public relations at New York University Medical Center says, “If given a choice of whether or not to implement a formal marketing program, everyone would opt not to.”

A director at DTW says, “These hospitals are not ignorant; they are just very traditional in their thinking. There’s really nothing wrong with that.” Simone Tseng disagrees. “Just because these hospitals don’t have to fight to stay afloat, doesn’t mean they don’t need marketing programs. Marketing is not necessarily necessitated by competition. You have to think of the needs of your customers as well.”

New York hospitals are offering more and more programs to their communities and physician staffs everyday. Mount Sinai Hospital has just begun a marketing program. They sent out a questionnaire to the attending dental staff on enhancement of their existing program. The results of this study will be utilized to upgrade the program. Robert Lehner says, “We have not clearly defined our plan of action yet. What we are doing now is a marketing audit of our services to discover our strengths, weaknesses, and to see what’s going on in other hospitals.” Future marketing studies will include personal interviews with former, current, and potential patients and staff. Changes are taking place at Mount Sinai. Mr. Lehner says, “In the beginning, we were driven by the need to evaluate our programs and institutions as a whole. We recently got a new president who is very sensitive to the changing environment.”

At New York University Medical Center, a program has been developed to generate awareness and provide information to the people who use the facilities. Frank Lopez says, “We are constantly being sought after by the media.”

The director of a major New York teaching hospital says, “I feel that my hospital and others like mine should be doing more in the way of marketing; not as cutthroat as some notorious Florida hospitals who emblazon t-shirts with their name, ad and logo to attract customers, or a large company like Johnson & Johnson, who do advertising and marketing studies on a regular basis.”

**Future Outlook and Predictions**

Healthcare is no longer the quiet and stable industry of years gone by. Today it is big business. Deregulation has made competition for healthcare dollars in the marketplace fierce. Institutions will have to shape up or fold in.

Arthur C. Sturm Jr., president of the Sturm Communications Group in Chicago predicts in an interview with Advertising Age that, “Competition among health franchise groups eventually will result in advertising similar to that of the fast-food giants, McDonald’s and Burger King. We’re going to see burger wars in health care.” Look out New York! It’s going to be survival of the fittest!