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Writing Their Own Paychecks

by Mike Roland

On January 27, 1984, Grand Iron Works in the Bronx was shut down. The last of its kind in New York City and the producer since 1904 of fabricated metal for many of the city's most renowned structures, the privately owned plant finally idled its workforce of 150. Some time in 1986, the people who were that workforce plan to reopen the plant and operate it as their own.

A leveraged employee stock ownership trust, a federally sanctioned device for borrowing against workers' equity, will provide the vehicle for financing the buyout and necessary upgrading of the company. With a new name—New York Ironworkers—the company will have a completely new structure as well: 100 percent employee owned and controlled.

Employee Ownership Increasing

Employee-owned enterprises, a decade ago a tiny and unnoticed fragment of the economy, have lately sprung to the attention of government, the media, and the business community. "Employee ownership is one of the most rapidly growing innovations in American business," says the National Center for Employee Ownership (NCEO), an organization formed in 1980 "to encourage this development through research, outreach and information services." By the NCEO's count, approximately 1,000 firms are now more than 50 percent owned by their employees. Another 7,000 firms, employing over ten million people, are owned in smaller proportions by their workers. NCEO co-founder and director Corey Rosen predicts that in five years, if the economy remains stable, about 14,000 companies employing over 20 million workers will have employee ownership programs.

In explanation of this trend's phenomenal growth, the NCEO cites "the impressive record employee ownership has built." Indeed, studies for the Center have shown that publicly traded companies with at least 10 percent employee ownership outperformed 62 to 75 percent of their competitors, and that high-tech companies that offered equity to a majority of their employees grew more than twice as fast as comparable firms that did not. Another study, reported in the Journal of Corporate Law, found that companies with employee ownership plans had twice the annual productivity growth rate of conventional firms. Nevertheless, the primary stimulus for the rapid growth of employee ownership has almost certainly been provided by recent federal legislation promoting Employee Stock Ownership Plans (ESOPs).

ESOPs occupy a tiny niche in the corporate tax code and pension law written in by Congress beginning in 1974 at the behest of Senator Russell Long, who wished to effect a broader distribution of capital by fostering employee stock ownership. Over the past ten years, Congress has enhanced the original ESOP advantages, demonstrating the existence of a politically broad philosophical constituency for the program. In 1986, the federal expenditure for the program, in taxes forgone, will be $2.5 billion.

The ESOP idea is generally credited to San Francisco attorney Louis O. Kelso and what he calls his "theory of universal capitalism." For two decades before the present boom in ESOPs, Kelso proclaimed the benefits to society of a broader base of productive ownership. This could be accomplished, he said, by firms establishing trusts to hold employee-owned shares, through which funds could be borrowed. He even had some success in helping individual companies set up "Second Income Plan Trusts," precursors of ESOPs. But it was not until Sen. Long, then chairman of the powerful Finance Committee, became interested in the idea that Kelso's dream really took flight.

Jeff Gates, counsel to the Senate Finance Committee that developed ESOP legislation, traces its origin to a dinner shared by Long and Kelso in November, 1973. At that time, an employee equity plan was proposed for insertion into the Regional Rail Reorganization Act that created Conrail. The next year, Long's committee produced the Employee Retirement Income Security Act (ERISA), which first made the ESOP a stock bonus plan "qualified" under the Internal Revenue Code for tax-free employer contributions. ERISA also enabled ESOPs to borrow funds ("leveraged" ESOPs), and exempted them from certain restrictions placed on other deferred benefit plans.

Since that time, legislation in almost every year has enhanced and refined the program, perhaps most significantly the 1984 Deficit Reduction Act, which allowed commercial lenders to ESOPs to exclude 50 percent of interest payments from taxable income. Gates says more enhancements are in the hopper and that, although the 1984 provisions carried the names of 46 co-sponsoring senators, the program's development is viewed in the Senate as
"definitely Senator Long's turf."

An Old Concept

Prior to ESOP legislation, most employee ownership in the United States took a form called worker cooperatives. The best known examples are the two dozen plywood cooperatives of the Pacific Northwest, formed during the 1920's, 30's and 40's, whose combined productivity has consistently exceeded that of their conventionally-owned competitors. Although a few thousand worker cooperatives exist in the United States, only about 150 employ more than ten people. They are, by definition, employee-managed, with control divided equally among member employees.

Together with related concepts such as participatory management, workplace democracy and worker control, the idea of employee ownership has roots reaching back to the last century and variations the world around. Experiments which have advanced well beyond those in the United States include: the Mondragon network of industrial cooperatives in Spain's Basque region; the kibbutzim which predated the establishment of Israel and account for four to five percent of that nation's economic life; Yugoslavia's placement of production control within its plants' "workers' councils"; and Sweden's new Meidner Plan, which transfers a portion of the profits of major corporations to a national fund administered by workers' representatives.

American corporations of which employees own a significant share of equity include People Express, the fast-growing maverick of the airline industry (33 percent employee owned); International Group Plans, an insurance company employing 340 people (50 percent employee owned); and the dramatically successful Weirton Steel (100 percent employee owned).
owned), which has become the most profitable steel plant in the country since its purchase by its workforce in 1983.

For a corporation, the reasons for implementing an employee ownership plan vary from a desire to improve productivity and motivation to the pursuit of new capital resources with tax advantages; even to an occasional ESOP abuse in which management attempts to avoid a hostile takeover by getting shares into the "safe" hands of employees. Gates says of ESOPs, "There are no altruists doing this." Motivation can be measured in dollars: a study by researchers at the University of Michigan found employee-owned firms were 50 percent more profitable than comparable conventional firms and that profitability increased with the proportion of employee-owned stock.

Plants Closings

Although only a small portion of employee ownership plans result from a desire to avert plant closings, these cases attract the most attention. Pro-business critics charge that employee takeovers distort free enterprise. Labor lobbyists argue that employee ownership plans merely trick workers into contract concessions that go unrewarded. But to workers in communities hard-hit by de-industrialization, employee takeovers offer hope for economic stability.

Such was the case in 1983 at Grand Iron Works when the Alpern family, the company's owners for 80 years, warned they would close the plant by year's end if no buyer could be found. Accounts differ as to whether Grand's problems resulted from excessive labor costs or from management's failure to pursue new business and reinvest in new equipment; but the outcome was the same—no one but the workers themselves seemed interested in keeping the plant operating.

Well, almost no one. After conducting a "pre-feasibility study" to assess the worthiness of the investment, a nonprofit public interest organization called Interface formally proposed the employee buyout in August, 1983. Since then the group has been working with Iron Workers Union Local 455 to coordinate the buyout, and hopes to make the project a model for a new method of retaining industry and jobs in New York City. "We had been looking for a small, local industry without access to financial resources to demonstrate the viability of such a venture to city and state officials as well as private financial institutions," says Marilyn Ondrasik of Interface.

By the time the plant closed in January, 60 of its former employees had each contributed $300 to pay legal fees and finance further research needed to advance the project. In Spring of 1984, 40 of the 60 each put $4,000 in savings and severance pay into an escrow account to be used for equity.

When extensive studies by various consultants were completed in the summer of 1984, the plan was put together as an offering to the workers. In November, 35 of them chose to commit their escrow savings, and the New York Ironworkers was incorporated. Interface produced a business plan in June, 1985.

Since then, Interface, Local 455, and 35 ironworkers have been busily searching for financing, a company president, new equipment and, in the likely event that they cannot come to terms with the Alperns, a new location in the Bronx. Most of the package has now been assembled, with financing coming from public as well as private sources. "Substantial interest and support has come from state, local and federal economic development agencies," says Ondrasik. When the last piece falls into place, New York Ironworkers will become an operating company; the initial worker-owners hope that their numbers will increase to a projected 120 at capacity.

A worker-owners' committee is researching the purchase of new equipment more versatile than that used at the old Grand Iron Works. This will make it possible to meet the stiff competition from plants in other states and countries. "The trouble is that capital is more mobile than labor," says Local 455 official Harry MacIntyre. His speculation that employee ownership might serve to equalize their mobility is not part of Kelso's theory, but it will do if it helps to stabilize the city's industrial jobs market.

Of course, no one involved expected the buyout to take so long to assemble, but the obstacles to organizing such an unconventionally structured company came as no surprise. The employee purchase of Weirton Steel, despite a cooperative seller, support from state and local government and massive attention from the media, took over a year and a half to complete.

Also encouraging to the New York Ironworkers have been the results of studies of similar ventures; for example, of 60 firms purchased by their workers to avoid shutdowns, Cornell University researchers found only two had subsequently closed, while many became extremely successful. However, the transition from conventional to employee ownership is easy for neither managers nor workers.

Professor William F. Whyte, director of the New Systems of Work and Participation Program of Cornell University and a leading authority on employee ownership, warned in testimony before Congress, "The leaders of the new employee-owned firm tend to try to carry on business as
usual as if the shift in ownership required no change in the decision-making process. In such cases, the firm will fall far short of the theoretically possible gains in productivity and organizational efficiency.” NCEO director Rosen advises that the issue of control under employee ownership “must be faced squarely and negotiated by employees and management so that both sides agree on what they are undertaking from the outset, and can settle on a plan appropriate to their company.”

An Employee-Owned Failure in N.J.

Both management and labor cite the lack of such an agreement as the main reason for the failure of employee ownership at Hyatt-Clark Industries. The troubled New Jersey automobile parts plant was purchased by its employees from General Motors in 1981 amid much press coverage and high hopes for the success of what was at the time the largest employee buyout in the country. A $53 million ESOP provided the financing vehicle. Labor, management and government all endorsed the idea, with United Auto Workers Local 736 taking the lead. Though the ESOP owns 100 percent of the new company, its worker-owners are represented on its board of directors by only three of 13 members. The others were selected by the administrators of the ownership trust who vote its stock. (ESOP legislation does not require that worker-owners receive full voting rights for their stock until ten years after the plan begins—for the Hyatt-Clark workers, 1991.)

In 1984, after a period of sharply increased productivity, the new company showed its first profit. A dispute arose over whether to distribute a portion of it to the worker-owners (as many of them believed was promised in their contract) or to devote it to capital improvements. The board voted 10 to three for the latter, rejecting even a token distribution proposed by the union. Thus began the bitter conflict which eventually destroyed Hyatt-Clark Industries.

According to company president and CEO Howard Kurt, “The employees responded with an 18-month slowdown and demands for committee management by the union.” Local 736 official and Hyatt-Clark board member James Zarelo disputes Kurt’s characterization of the response. “The board’s decision deflated the productive enthusiasm of the new worker-owners, and acted as a catalyst for shopfloor control” that is, worker self-management at the level of production. The idea became popular among worker-owners who felt deprived of decision-making rights they had expected.

“Management does not recognize the ownership expectations of employees for serious input,” says Zarelo. Kurt, however, maintains that worker-owners should be satisfied with what he calls “psychological ownership,” in which management listens but retains decision making. In this hostile atmosphere, management and labor agree only that the dispute has ballooned into a hopeless situation in which Hyatt-Clark has been forced to file for bankruptcy and is seeking a buyer.

The selection of management for Hyatt-Clark reflects the composition of the board of directors, which in turn reflects the forces which structured the employee buyout: financial institutions typically reluctant to give much corporate control to workers, nominal owners though they are. The separation of ownership from control has long been something of a fact of corporate life in America, and ESOP legislation does not directly address the question of control of employee-owned companies, leaving much discretion in this regard to the designers of each employee stock ownership trust. Jeff Gates of the Senate Finance Committee suggests that this may account in part for ESOPs’ popularity with management and with privately held companies, where workers do not wish to sacrifice control for capital. “The right-to-receive-income aspect of ownership is the most important in an ESOP,” he says. “Why cut employees in on control?” But control has become an issue in various employee-ownership situations, such as Eastern Airlines, where employee minority shareholders threatened to oust management, with which they were engaged in a bitter contract dispute. And in the case of Hyatt-Clark, a failure to adequately resolve misunderstandings about what influence workers can expect in an ESOP buyout may have turned a promising new company into a bankrupt lemon on the auction block.

Caution at New York Ironworkers

Back across the Hudson River, the New York Ironworkers are trying to avoid just such a misunderstanding. By meticulously involving the prospective worker-owners in every aspect of the new company’s formation, including the selection of corporate leadership, the organizers of the buyout hope to ensure a high degree of philosophical harmony. “Workers have been part of the decision-making process from the beginning,” says Interface’s Ondrasik.

Based on a model developed by PACE, a Philadelphia organization which advises employee owners, control of the corporation will be allocated equally among employees. Ondrasik says that when financial institutions question this unusual power structure, “We tell them that one-worker/one-vote is not negotiable.” A comprehensive
system of worker-owner committees has been set up to study and make recommendations on every aspect of future operations. This is not to say that the “committee management” deprecated by Hyatt-Clark CEO Kurt will be practiced at NYI; however, the degree of involvement of worker-owners in everyday operations will be decided democratically among themselves.

Responding to recent research, leading authorities on employee ownership seem to be moving toward a consensus that the maximum benefit can be derived when worker-owners exercise all the rights of ownership, including participation in determining company policy. According to the NCEO’s Rosen, “The successful employee ownership company is always reinforcing the idea of ownership...mostly by making large annual contributions, but treating people as owners makes an important difference as well.” An NCEO study found that three factors—the size of the firm’s annual contribution to the ESOP, management philosophy, and employee participation in job and company decisions—had the greatest effect on the success of the employee-owned company. Of the last factor, Rosen writes, “This does not mean that employees always wanted to participate in corporate management, although in a few cases they did. In fact, employees seem to be very conservative shareholders, and normally would prefer to let management manage. They do, however, want to participate at the job level and at least to be taken seriously when they have ideas that might be useful beyond that level.” The Washington-based, non-profit ESOP Association, whose recent survey found 72 percent of ESOP companies reporting increased productivity, suggests, “The key seems to be providing some immediate, tangible attribute of ownership to employees, rather than simply telling them they are going to get some stock someday.”

The Reagan administration, which supports the idea of employee ownership, advises in recent ESOP-related tax proposals, “Direct ownership of employer securities, with the attendant rights and benefits, is far more likely to be an incentive for employee productivity than a speculative benefit to be realized only upon separation from service. Moreover, employees are fully capable of exercising all the rights of direct stock ownership including the right to vote.” It warns against tax laws which “foster arrangements, such as those existing under current law, which actually defer, and in certain respects deprive employees of the rights and responsibilities of stock ownership.”

Even ESOP originator Kelso, whose consultancy has been attacked in recent years for promoting employee ownership plans unfairly favorable to managements at the ex-

pense of wage-earners, told Inc. magazine that to realize the productivity gains promised by his theories, ESOP corporations “should treat employees as owners” and “let them vote their stock.”

Most of the 15-acre complex that once housed Grand Iron Works now stands vacant and unused. The open space is filled with weeds and garbage instead of the massive shapes of steel or bronze ready for shipment to a midtown construction site. Three of the four huge structures are empty. Also absent are several dozen ironworkers who remember the last metal fabricating plant of its kind in the city. They hope soon to raise their hands to a new task, to make New York ironworkers the first of another kind of plant: the first in a long line of employee-owned manufacturing companies in New York City.
The Gentrification Blues

by Eric Fox

Item: Childcraft, Inc., a fixture on 23rd Street since 1949, opened its doors for the last time on Dec. 31, 1985. The reason: a 600 percent increase in rent from $3,000 to $21,000 per month, on a lease that is only 10 years old. Because of the closing, operations will be consolidated at the main store on the Upper East Side, but only two out of seven employees will be transferred. The rest are on their own. “I’m a little annoyed,” says one of the laid-off salesmen.

Item: The Phantom Clothing Store at 323 Park Ave. So. also vacated its store on Dec. 31, 1985, after 10 years in the area. They’re only facing a 200 percent increase, from $5,000 to $15,000 a month. According to manager George Rodriguez, store operations will be moved to the main store on Seventh Avenue and “no one will be laid off.”

Item: At 45 E. 25th St., construction is nearly finished on a 25-story luxury building called the Stanford. The Stanford, which advertises itself as the building between “Park and the Park,” will have one and two bedroom apartments selling from $200,000 - $300,000 each.

Gentrification, a word that strikes terror into the hearts of the working poor and the middle class, and dollar signs in the hearts of developers, landlords and speculators has struck another New York area.
the migration, which has become stronger in the past year to 18 months." He adds, "The main attraction for retailers was relatively inexpensive large space." Five years ago, retail space in the area could be rented for $15 to $20 per square foot. Today, rents range from $40 to $50 per square foot.

Although restaurants fueled the increased demand for retail space, "major retail forces [are] going in" and the expansion is now "straight retail," says Finkelstein.

Residential real estate prices spiralled gradually upward, soon after. By 1981 and 1982, many parts of New York City had experienced an upsurge in rents for residential property, but the speculative and developmental frenzy had not yet hit the Baruch area.

When the area was a manufacturing area, McCluskey maintains, retailers in the area, such as fabric suppliers and equipment shops, relied on the manufacturers for most of their business. As the area began changing, these same retailers noticed a sizable drop in their business volume. McCluskey cites this, and not the increase in rent, as the main reason so many small businesses have left.

"Retailers typically pay five to six percent of their gross as rent," says McCluskey. He said many other components, such as labor and cost of merchandise, consumed more resources than rent. The bottom line is that the "nature of people in the area is changing" and this is reflected in the changing retail mix.

McCluskey also disputes the widely held notion that many of the new stores are pricier. "High profile restaurants occupy a tiny percentage" of new stores moving in. McCluskey points to clothing stores, Korean fruitstands, card shops and boutiques as forming the bulk of the new entrants into the area.

McCluskey argues against the theory that small "mom-and-pop" stores are being replaced by large retailers. "Seventy-five percent of new space is taken by tenants of 5,000 sq. ft. or less," indicating according to McCluskey, an operation of 25 employees or less.

Many are not happy with the rapid pace of expansion in the area. Lydia Brown, district manager for Manhattan Community Board No. 6, which covers 14th Street to 59th Street, from the East River to Lexington Avenue, says "the so-called renaissance with more costly buildings is done at the expense of low and moderate income residents." Brown cited the East End Temple at 23rd Street and Second Avenue, which is selling its air rights in anticipation of a move to uptown quarters. The sale will result in the dislocation of several rent controlled tenants, according to Brown.

SRO Speculation

Much activity has centered around the S.R.O.s that are in the area. While accurate figures regarding the population and number of S.R.O.s is unavailable pending completion of a city-wide study by the Mayor's office on S.R.O. housing, Brown says that her board's jurisdiction has a high concentration of the hotels. The residents, many of whom are elderly and poor, make natural targets for unscrupulous owners. One case of landlord harassment occurred in 1981 at the Hotel Monroe, located at 321 Third Ave.

According to Alan Kleinman, acting director of the Mayor's Office on S.R.O. Housing, a multi-agency inspection of the hotel was conducted in October 1984, resulting
in a January 1985 consent order. The owner, Nick Nikas, agreed to correct 117 outstanding violations of the building code.

A moratorium on conversion of S.R.O.s, retroactive to Jan. 9, 1985, may have temporarily halted the pace of conversion. The moratorium, which covers most S.R.O.s in the city, prevents owners from knocking down walls to combine rooms, or install kitchens or bathrooms.

Another casualty of the escalation in rents has been the printing industry. Once located almost exclusively in the large industrial spaces along Broadway, Fifth and Sixth Avenues, a large number have been driven into other boroughs, with dire consequences for their health.

"You have a printer in the city, who has been here for 40 years and you're asking him to do business out of Brooklyn," says Small. "The ones that will survive are the large ones that can afford the rent."

Baruch Rent Bill Triples

Baruch College has also been affected by the boom in office rents, with the school's rent bill more than tripling in the past five years.

According to Alfred Toscano of the Department of Planning and Real Estate in CUNY central administration, Baruch paid $2.95 million for a $285,100 rentable (total) square feet in fiscal year 1980-81. In the 1985—1986 fiscal year, CUNY set aside $9.1 million for 411,525 rentable square feet for the college.

Joel Segall, President of Baruch College, says the college's large rent bill did not affect the amount of leased space that Baruch has, and that if the boom in office rents had not occurred, "Baruch would have had the same amount of space."

The lease for the basement, first and 17th through 20th floors of 360 Park Ave. So. was renegotiated in August 1985 from a base rent of $9.97 to $25.24 per square foot. This increased Baruch's annual rent there from $883,167 to $2.33 million.

Baruch has the best deal in 46 E. 26th St., where the college pays a base rent of only $5.30 per square foot for 143,240 square feet on floors three through 10. That lease, which was signed in July, 1975, is for 10 years, but has seven one-year renewal options and one 11-month renewal option, so the final termination date is actually May 31, 1993.

Toscano said that three separate leases cover 111 E. 18th St. with Baruch paying a total average base rent of $28.25 per square foot, or $4.97 million for 176,000 square feet. The high amount per square foot for space in 111 E. 18th St. reflects amortization of the cost of renovations that were done to the building to accommodate Baruch. The leases expire from 1992 to 1994.

Donald E. Farley, vice-chancellor for facilities, says "The size of Baruch's rent bill is a contributing argument in favor of Baruch's request for new facilities." The college hired the architectural firm of Davis, Brody & Associates, at a cost of $550,000, to devise a new master plan for the college. Completed in March, the master plan is still awaiting review by CUNY officials and the Department of Education of the New York State Board of Regents.

Most people involved in the neighborhood agree that development and upgrading of the area will continue. But there are those, who, even though they may benefit financially from the upgrading, are concerned about its ultimate effects. "It kind of saddens me," says Small.

From the very start, punk rock and "respectable" music labels did not get on. According to the musical establishment, punk rockers didn't dress right and they didn't behave properly and, worst of all, their music was deemed "totally unmusical." The labels thought they could reform the young punks into corporate rockers, but they couldn't. The result: the evolution of an "anti-music" musical culture.

"The independent scene started with punk," says Steve Carter, owner of Lost Moment Records, a UK independent. Although independent record labels existed long before John Lydon changed his name to Johnny Rotten, the proliferation of small record companies intimately tied to punk is really a 10 year-old phenomenon.

Along with these labels, a whole support structure exists, which includes record stores, promoters, fanzines, and of
course, the kids. The kids are the real backbone of the “scene,” the name given to this eccentric industry. “These kids buy, I don’t think a lot of them work, but they always come in and buy. We sell a lot of hardcore, and it’s all kids,” explains Annette Rodier, from Freebeing Records. Located on Second Avenue near St. Mark’s Place in New York’s East Village, the shop has one of the most up-to-date selections of punk rock, and a very mixed clientele.

But who cares about punk rock anymore? Ten years after it all began, punk may already be over-the-hill, having been replaced by rap and then heavy metal. Still most people don’t know what punk rock really is and they’re curious about it.

First off—what it’s not. Punk rock is not: Billy Idol, the Police, Duran Duran, any band with synthesizers, or any band commonly seen on MTV. What it is—bands most commercial radio listeners have never heard of, like the UK Subs, Discharge, Agnostic Front, and Reagan Youth—to name but a few.

The music these bands play is fast and loud, but unlike heavy metal—a style hardcore is often confused with—there is a limited use of studio effects and a strong preference for the unpolished sound. Charlie Harper, frontman for the UK Subs, describes British punk as “an angry outlet for violence.”

Despite the changes over the past 10 years, British punk is still selling, even in America.

More than 25 percent of Freebeing’s sales are punk, estimates Annette. Local New York heroes and the bigger UK bands sell best. Out-of-town customers often wander in looking for specific records, but most of the punk stuff is bought by the NY hardcore crowd, who stop by frequently.

In the suburbs, the scenario is quite a bit different. There,
"The people that are buying the British punk are some of the old line punkers—the people that were into the Sex Pistols and the UK Subs. I don't see many of the new hardcore people buying it today," explains Nip, the manager at Record Stop, a small store located in Suffolk County. Even so, he says punk accounts for well over 10 percent of his total sales.

"There's a revived interest in it. A lot of the earlier, real traditional bands still sell well. Crass always sells. British punk's selling more now than four years ago," says Tower Records' rock import buyer, Daniel Vogel. Punk accounts for about 8 percent of sales at the giant outlet located on Broadway near Bleeker Street. "We sell everything we order," Daniel says, noting that the best customers for punk music include students and club-goers.

Making the Records

Back in London, many labels press punk, from the larger Secret Records and Jungle/Fallout to small labels like Steve's Lost Moment Records. In existence for two years, the company has released over 25 records. "At the moment, we're concentrating on six bands," says Steve, "and that's shortly to be narrowed down to three."

The company's sales have varied: their largest selling LP sold 3,500 copies, while other singles have sold only 500 copies. According to Steve, most records average about 2,000 copies, but it really depends on the band. As an example, he points to his best selling band, the Rattlers. Their new LP is listed in the Melody Maker (one of the biggest UK music weeklies) independent chart at number 19. Being on the chart, Steve explains, "is almost like an ad."

Lost Moment's best selling Rattlers' LP has already generated a profit of over 1,000 pounds ($1,391). Steve says, "Although certain records are making a profit, the company as a whole isn't." Not surprising, given the nature of the beast. Steve says, "A lot of independent record labels are started by young people—and they probably don't know the business side of the business. They've got to learn from experience, and once your money runs out you can't learn from experience, can you?"

As in any suit-and-tie business, profits are related to costs, and the costs of releasing a record, though variable, are high. First of all, there's the studio expense. "With one band we spent precisely seventy-seven pounds fifty ($107.81) on the studio, with other bands we have spent over a grand ($1,391) for a single," says Steve. While pressing costs stay constant, the sleeve cost varies according to color, with a four-color sleeve costing about the same as the actual record.

In England, a seven-inch single retails for roughly one pound sixty ($2.23). The same single, as an import here in the States is priced between $2.50 and $3.50. An LP sells for anywhere between four pounds ($5.55) and six pounds ($8.35), $6.99 to $10.98 as an import here, depending on the record and the store. Lost Moment receives only 64 pence (89c) for each single and two pounds twenty five (3$13) for each LP, whether it's sold domestically or as an import. Retail markup is just a small part of the final price—most of the difference is taken by distributors as a handling fee.

Like many other small to medium size labels, Lost Moment is distributed through The Cartel, a major distribution company for independent records. Any record that doesn't sell is returned to the label. "If they like it, they'll actually push it and sell it to the shops," Steve explains, "but I think they're a bit lazy unless they really like a record."

The UK Subs

In November of 1975, an irate social secretary cut the power after the fifth song of the Sex Pistols' debut at St. Martin's School of Art, in a suburb of London. Who would have predicted that punk music would ever be heard? Certainly not Charlie Harper of the UK Subs.

"When the UK Subs first started, just to have a record company was enough, just to be able to put out one record," Charlie says. "We were on the John Peel show (a popular rock radio program), and John Peel said, 'Well, haven't you got a record out,' and we said, 'no.' He said, 'Well, you should get a record out,' and we thought, should we, like you know, should we become recording stars. I didn't think that was part of being in a rock and roll band. And I thought, well, John Peel knows best, so we said okay, we'll make a record." The result was their 1978 debut on small independent City records, which entered the charts around number 79.

Together since 1976, in one configuration or another, Charlie and the UK Subs are one of the oldest punk bands around and they still enjoy some measure of popularity. Their records have been released on seven different labels, ranging from small independents to Gem records, a now defunct subsidiary of RCA.

Between 1979 and 1982, the UK Subs were signed to Gem, and as Charlie puts it, "We were the most successful thing they ever had. Our Crash Course album sold over 150,000 copies."

Since joining forces with Jungle/Fallout, a UK independent label distributed through The Cartel, the Subs' albums now sell only 5,000 to 10,000 copies. "The trouble with
Jungle/Fallout is that their distribution is so limited. Our sales went down right away. But then again, at Gem we were spoiled because RCA distributed it, and they’ve got one of the most modern distributing plants in the whole world.”

Being on a major label was quite different than working with an independent, he recalls. “They almost over-supported us. They gave us so much money, and of course took all that back out of our royalties on the records we sold. They gave us enough money to go into a very, very good studio—but very, very good studios aren’t always the way.” Still, he says, too much time in the studio is better than too little.

Raw energy, thundering bass, frantic vocals are essential elements of punk music. The slick production and sweetened elements of an expensive studio have no place here. The idea is to belt a song out with anger, passion—gut feeling—and capture the intensity, a challenge that often requires many takes in the studio.

The Scene

“The punk revolution is almost ten years old if you count from the beginning. It’s not the new thing anymore,” says Charlie.

Although London gigs still draw well, he says, “You just don’t get 600 people nowadays in the 100 Club.” But there are more clubs doing punk shows this year than last. The 100 Club on Oxford Street, where it all started, still does punk every Tuesday night. Admission costs about three pounds fifty ($4.87). The Marquee, a large hall in central London that refused to do punk in the early days because of violence, now does occasional shows with some of the old-time punk bands. Admission price at the Marquee varies with the band. The Greyhound in Hammersmith does frequent gigs with both new and old punk bands, and is reasonably priced between one and three pounds ($1.39—$4.17). The Sir George Robey in Finsbury Park also does punk shows on a regular basis, with a door price around two pounds ($2.78). Some new bands play gigs at “squats,” illegally occupied abandoned buildings taken over by the punks. Admission varies with the doorman’s whim, but is never more than two pounds ($2.78).

Punk fashion remains everywhere, from the markets to Carnaby Street to the Kings Road in chic Chelsea. Trendy “Sloane rangers”—London’s Valley Girl-yuppie hybrids, dubbed for the tube station nearest the King’s Road—have mostly stopped wearing punk styles, but the shops are still there. Poseurs and punks alike parade along the King’s Road on Saturday mornings.

“People are getting used to it. Even trendy people are trying to take advantage,” Annette says, referring to the mainstream fashion take-over of punk styles that began five ago. “It’s ridiculous. I mean money is what’s going to kill the world. The reason this whole thing started was because people were poor and couldn’t afford to buy clothes.”

In London where many young people are on the dole (a British cross between our welfare and unemployment systems), the kids utilize punk “fashion” to earn some cash. They hang around tourist areas and wait until someone tries to take their photograph. For the privilege, the punks often demand a pound ($1.39) from the foreign photographer.

“We made thirty seven pounds ($51.47) the other day,” explains Spekki, as he stands by the Westminster tube station with his friends. All three are natty dressers with odd colored mohicans at least six inches high. “Sometimes they don’t know the money and they’ll give us five quid ($6.96),” he says.

The London markets are also popular hangouts where punks can turn capitalist by taking stalls for the day. Everything from antique and punk clothes to out-of-print records to bootleg tapes are sold at these open markets—two of the more famous being the Camden Lock and the Covent Garden Markets. “The best records you can get are bootleg tapes at the market. They’re the best buys,” says Charlie.

Bootleg tapes are usually live recordings transferred to blank cassettes. Sold at market stalls or on the street by young people, they cost about three pounds ($4.17) for anywhere from half an hour to 90 minutes of music. These recordings are unavailable elsewhere. For example, a newly released 45-minute recording of the Sex Pistols live at the 100 Club in 1976 sells for two pounds fifty ($3.48).

Out-of-print records are also sold at the markets. A mint copy of the Stooges’ first LP for seven pounds fifty ($10.43), and the UK Subs’ 1979 blue vinyl single, “Tomorrow’s Girl” for two pounds fifty ($3.48), are just two of the better bargains to be found at the Camden Lock Market on a Saturday morning.

The markets create one of the big differences between the English and American scenes. “It’s much easier for them to go out and get things,” Annette explains. “Punks over here are into fashion; over here they’re into ripped up, dirty, clothes. They don’t work, so even if they wanted to buy nice stuff, they couldn’t.”

The New York hardcore crowd very rarely wears British clothes. In fact, they put down trendy dressers. “We hold Miss Avenue A awards when we feel like it on weekends, giving empty beer bottles to the most laughably costumed jet-setters,” says Carol, who plays guitar when she’s not hanging out on the corner of St. Marks Place and Avenue A.
The New York scene is smaller but devotees of punk are loyal. Two clubs, CBGB's on the Bowery, and Rock Hotel do punk regularly. CB's still does hardcore matinees on Sundays, but they don't book the English bands or the bigger American bands because the club is too small. The door price now hovers around $6, after a rent hike that almost forced the club to close. The other fairly steady hardcore haven is Rock Hotel, most recently located—but in the process of moving due to problems with the landlord—at 113 Jane St. English and other out-of-town bands play at this large hall which charges $10 admission.

Recently, there have been a few punk shows at the Irving Plaza, just down the block from the ultra-chic nitespot, the Palladium. Finally there's the Ritz, which occasionally does both English punk and U.S. hardcore shows, but charges around $15 to get in.

Rock Hotel

By bringing English bands over to play at Rock Hotel, Annette helps to bridge the London and New York scenes. "There's two different ways of getting the bands to America," she offers. "Sometimes they're coming over on their own and the people who are doing their tour call us, and we just book a date for them. But what I usually do is go to London, or I phone over there, and I get the bands, and I bring them over and I do the tour for them."

Deciding which bands to bring over for a show isn't easy. "You have to have a feeling for who would sound good together," Annette says. "I wouldn't put a rock and roll band with a skinhead thrash band. You know how these kids are, you do that and they give the band a hard time."

Although Rock Hotel has its own PA, the English bands
must usually rent equipment or borrow it from one of the other bands on the bill. Annette admits, “English bands are expensive...plane fare, hotel fare, and they have to rent gear over here...just one thing on top of another.”

It all adds up to a steep door price, often as high as $10. “They’re moaning about the door price all the time and I understand,” Annette confesses. “But if they could see all the money we pay out each show, then they’d understand.”

“The landlord is just ridiculous, I mean the money we have to pay a night, we could pay a month for a place. We spend a fortune to bring the English bands over here.” Depending on the show, Annette explains, “It could run into a couple of thousand dollars easy. The basic problem boils down to this: the landlord doesn’t want us to do shows. We lose money at a lot of our shows because of him.”

“The club itself has a great atmosphere,” Annette says in explanation of Rock Hotel’s continued popularity, “I’m not going to be like the Ritz and all these bigger clubs that hire professional bouncers. I like having people on the scene work there."

Nevertheless, there are problems. New York gigs are often plagued by fights brought on by enthusiastic but unruly fans. Another source of friction is the graffiti that punks paint on the club’s neighboring buildings, and all surrounding surfaces. “Time and time again, I ask them not to graffiti the streets. People get petitions to get us thrown out—which they’re about to do,” she concedes. “I tell them over and over again, and they still do it. Then they wonder why I can’t do any more shows.”

Gigs are an important factor when it comes to record sales. Annette mentions Discharge, an English band that played here recently. “They’ve sold twice as much since the first time they came here. They definitely sell more albums after a show.”

Though it’s in Suffolk County, about an hour and a half by car from Rock Hotel, Nip finds sales at Record Stop increase after a Rock hotel show. He says, “Other things affect sales, like college radio stations obviously, and sometimes just word of mouth. Maximum Rock n Roll (a U.S. fanzine) doesn’t have as much of an effect. People want to see the bands—print to a certain extent is dead.”

“The best thing you can give a band, support-wise,” says Lost Moment’s Steve, “is radio plays and club contacts, because that’s what sells records, nothing else.” Annette says, “Independent labels don’t have enough money to really promote the bands properly. They seem to try their best, but they just don’t get advertised enough.”

This is a situation the punks may have to live with. The way Charlie sees it, independents are “the only kind of label a punk band can get on—whether it’s successful or not. No punk band can get on a major label.” Annette agrees, “I’m trying to think of a punk band on a major. CBH and Discharge, well it’s not really a major, but they’re on Clay. Clay’s a decent size label, but obviously they weren’t doing well enough, because they dropped all the punk bands except Discharge.”

“Big companies just don’t have the time to pay attention to punks. They just sign them all up, put the records out and take the money,” says Annette. “Independent labels take more time with the bands, pay more attention. But again they don’t have enough money to do it properly.”

U.S. Stores

Most of the punk records coming over from England these days are sold through smaller store’s like Freebeing and Record Stop, or large city stores with vast selections, such as Tower Records.

Tower Records carries all styles of music, with punk occupying a little less than 8 percent of the store’s space. To keep the bins stocked with a good selection, Daniel uses The Cartel and everybody else. He says, “There is a continuing trend in British punk. That’s why there’s no steady decline in sales over the last six years.”

A small suburban store like Record Stop obviously attracts fewer customers than a big city outlet. Nip says about five percent of his shop’s space is devoted to punk. “A year and a half ago we were ready to do away with our hardcore section. We did do away with our hardcore singles, because they no longer sell. People would rather have an album.” Nip uses eight different importers, including Important, The Cartel and Rough Trade, but the Stop’s selection is nowhere near as wide or as current as Freebeing’s.

Freebeing gives almost 20 percent of their space to punk and hardcore, and they sell a lot of it. When the Reagan Youth album came out, 60 copies were bought the first day, and the same for both Kraut LPs. In comparison, a popular major-label mainstream act like the Cure sold about 100 copies the first day. Other mainstream bands don’t sell as well as the punks at Freebeing. Sales were nominal on the new Squeeze album. Annette says that whenever new English punk comes in it sells “really well, really fast,” especially the more known bands like English Dogs, the Exploited, Discharge, etc.

The shop deals directly with Important and Rough Trade, two of the biggest English distributors. All the orders are done by telex, so according to Annette, “If something comes out in England today, we’ll have it by tomorrow.”
Although the English records are available quickly, they are still more expensive than domestics. An import costs anywhere from $2 to $5 more than its domestic equivalent. That is one reason, says Charlie, that "we're getting an American license. Our records will be made in America, so American people can buy them without paying the extra import tax."

Here to Stay

There have been swings in the popularity of punk rock ever since the Sex Pistols' anthem "Anarchy in the U.K." was Melody Maker's number one single in 1977. "If you start off playing punk rock, especially now—you've got to know it's a specialist field," explains Charlie. "It's more like jazz and blues. I mean people go around saying punk is old hat, but they don't go around saying jazz is old hat. Punk is here to stay, and you'd better believe it. It's another established musical genre like jazz. It's white ghetto music. But punk bands have to realize that they won't be able to get to number one on the charts or even number ten playing punk rock, because it's a minority music now."

The U.K. Subs, along with other English bands like GBH, Discharge and The Exploited, are experiencing a deflated market in New York, according to Nip. "Demand has slowed down, because the industry is changing. The up and coming musical trend is very fast heavy metal. Older English bands don't fit into that category."

For some bands, moving away from the punk style has brought commercial success. But Steve speaks for many when he says, "It's discouraging when the bands get watered down in the process. Bands like the Clash and the Jam, and even to some extent U2, started off as punk bands, and eventually became more traditional rock bands. Some would say for the better, some would say for the worse."

For Charlie, mimicking established punk-flavored but prettified bands is unthinkable. He says, "If everyone tried to copy Billy Idol and get really rich, it would be bad for the scene, because they wouldn't make it. Billy Idol's just got on to a little formula and a couple of real good songs, and did it. But there's only ever going to be one or two people like that." The veteran punk adds, "All the best things come from poverty anyway."
Chewing gum was not sold at the turn of the century. It was given away by an enterprising salesman named William Wrigley Jr., as a bonus for buying 50 bars of soap. He called the gum Lotta, and realized as profits grew, that this was a product with a lotta potential. In 1915 Wrigley washed his hands of the soap selling business he’d been in since the age of 13 to concentrate on marketing chewing gum as a distinct product. He collected every telephone directory in the country, and mailed four sample sticks of gum to the 1.5 million people listed. He did the same in 1919, reaching seven million homes. Wrigley applied his advertising philosophy “Tell ‘em quick and tell ‘em often” to the minty sticks, and an industry was born.

Today, the William Wrigley Jr. Company remains the leader of the world’s $1.7 billion a year chewing gum business. U.S. chewing gum sales were $406.5 million in 1983, up 3 percent from ’82, according to the Import and Export Report of Chewing Gums. Alone, Wrigley’s worldwide sales reached $590.5 million in 1984, an $8.8 million gain from the previous year. Competition is fierce, however, propelled by technological advances, bulk packaging and shrewd marketing aimed at the energetic-jawed consumer.

Who Chews?

64.3 percent of the U.S. population chews gum, according to the Simmons Market Research Bureau. 12.8 percent of the masticating millions are considered heavy users—they chew eight or more pieces per week—and together consume 48 percent of all the gum sold. 74 percent of the Black population chews gum, and 19.5 percent of them are heavy users. Among 79.6 percent of people between the ages of 18 and 24 who chew gum, 19.1 percent are heavy chewers. 72.5 percent of single people chew gum, as do 60.9 percent of married people. 69.5 percent of Southerners chew gum, as compared to 56 percent of their neighbors in the Northeast. An income survey showed 66.7 percent of people with household incomes of $20,000 to $24,999 chew gum; 13.1 percent of these are heavy gum users.

How Sweet It Is

More and more consumers are attracted to sugar free gums, for dental and caloric reasons. Bill Piat, corporate secretary for Wrigley says, “The sugar free gum market has great potential.” His company would like to snare a larger piece of it. “Wrigley’s strongest competitors in the sugar free market are Trident and Nabisco’s Carefree,” says Joan Brunner, Wrigley’s public relations officer. Trident, made by Warner-Lambert Company’s American Chicle Division, is the leading sugarless brand, accounting for 40 to 45 percent of the market share. Carefree is second, with control of 25 to 30 percent of the market.

Progressive Grocer Magazine’s 1984 survey placed supermarket sales of sugarless gum at $158 million, which netted
retailers $8 million in profits. Total supermarket gum sales for 1984 added up to $363 million.

"In the 1970's Wrigley tried unsuccessfully to enter the sugar-free market with Orbit, sweetened with Zxyleton," recounts Brunner. The company attributes the product's failure to the sweetener, whose safety was under question by the Food and Drug Administration. By the time the FDA gave its approval, it was too late. "The press had given extensive coverage to this and the sales dropped drastically. We had to take Orbit out of the market," says Ronald Cox, vice president of marketing for Wrigley.

Wrigley's most recent bid for the sugarless market, in the form of Wrigley Extra, has been well received by the cavity-conscious. Piat says the gum captured 10 percent of 1984's $430 million sugar-free market. And the reason for Extra's success—Naturasweet. "Naturasweet is a sugar substitute," says Piat. "With this ingredient in the gum, there will be no worries on the package, as there is with saccharine."

Not only is Naturasweet caution free, according to Piat, it also tastes better longer. That's good news in light of research done in 1983 that showed people felt the flavor of sugar-free gums—all 34 varieties—did not last long enough. Piat says, "Naturasweet means big money, at least for Extra. It's pulled in a 16 percent larger market share than Orbit did." He says Naturasweet has neither increased nor decreased production costs, and adds "We anticipate that the sugar-free gum market will continue to grow."

At least one other gum company may switch from saccharine to Naturasweet. Marshall Molloy, public relations officer for Warner-Lambert Company says, "We're always working on improving Trident, and that could mean using Naturasweet." However, according to Molloy, Naturasweet is not the industry's biggest trend—sugarless bubble gum is. The target: parents who want to protect their children's teeth, and kids who want the bubble gum taste. Molloy says sugar-free bubble gum now accounts for 30 percent of the bubble gum market. Total supermarket sales of bubble gum—there are 33 different types—reached $57.19 million in 1984, according to Progressive Grocer Magazine.

**Attracting Consumers**

"Advertising is the heart of it all," says Piat, adding that "Television is the most effective media, because the combination of sound and moving pictures gets the audience involved in the ad, and this attracts consumers." Extensive television and radio advertising were used to introduce Wrigley's Extra, as well as coupons in food and women's magazines, plus free samples.

Although Piat would not reveal any financial data about Wrigley's, an advertising expert who wishes to remain anonymous estimates the company's 1983 advertising at nearly $60 million, with radio ads at about $2.5 million. The same source says Wrigley spent approximately $15 to $20 million in initial advertising support for Extra sugarless gum.

Supermarkets account for the bulk of gum sales in the U.S., not because consumers grab a pack at the check-out to accompany their National Enquirers and Redbooks, but because multi-packs are sold there, in the candy aisle. "The multi-pack is an economy pack. It makes the buyer buy that instead of ten individual packs," says Molloy. Wrigley's Piat explains, "Women are still the guardians of household budgets, the gatekeepers of grocery. The multi-pack offers them a price break, and has increased our sales." 1984 annual reports from each of the big three gum manufacturers—Wrigley, Nabisco and Warner-Lambert—show increased sales due to multi-packaging.

Price influences some consumers to buy in quantity, but the promise of fresh breath is an even more powerful lure. This is particularly true for cinnamon gums, all of whom march to the beat of Dentyne, the no-contest leader since its introduction in 1899. First advertised as "beneficial to the teeth," Dentyne embellished its teeth whitening and breath freshening image with the very visual slogan "Brush your breath with Dentyne."

"The cinnamon gum market accounts for one fourth of chewing gum sales in the U.S.," says Wrigley's Piat. Cinnamon is the third most popular flavor, after peppermint and spearmint. Would-be usurpers of Dentyne's top spot echo the company's fresh breath pitch, in spite of (or perhaps to counter) survey results indicating that cinnamon gum chewers feel the flavor and breath protection of the gum do not last long enough.

Wrigley introduced its cinnamon flavor, Big Red, in 1976. Ronald Cox, vice president of marketing says, "We found that women between the age of 18 and 49 were the biggest cinnamon gum chewers." An upbeat jingle appeals to that group: "So kiss a little longer, sing a little longer, laugh a little longer with Big Red. That Big Red freshness lasts right through it. Your fresh breath goes on and on while you chew it. Say goodbye a little longer, make it last a little longer, give your breath long lasting freshness with Big Red."

The slogan seems to go on and on too—quite a switch from the company's Doublemint ad, a simple "Double your Pleasure." The kiss-sing-laugh slogan made Big Red the fastest growing brand of chewing gum during 1979 and
1980, the jingle's first two years. The company continues to use this to advertise the gum, spending approximately $9 million for support in 1983. Plat denies the ad appeals to romance, saying instead "It's trying to show that no little gum lasts longer than Big Red."

The Pleasure of Chewing

There is a difference between breath freshening chewing gum and breath freshening candy, according to Peter Pantooso, the National Confectionery Association's manager of media relations. He says, "There is no competition, because the buyer's point of purchase is different. People buy chewing gum for the pleasure of chewing."

The pleasure of chewing was in fact the undoing of Violet Beauregarde in Charlie and The Chocolate Factory, a children's story by Roald Dahl. This obnoxious rich girl, an incessant gum chawer, ran amok in Willy Wonka's candy plant. Disregarding warnings that a new chewing gum, which would taste like an entire seven-course meal from tomato soup to blueberry pie, still had a few defects, Violet crammed a stolen stick into her mouth. She promptly became a human blueberry. "We always seem to have problems when it comes to the dessert," Mr. Wonka said.

Such slight complications with multi-flavored gum have not been encountered by Nabisco Brand, Inc., makers of Bubble Yum. The company brought the first complex flavors to the market in 1983 with Pink Lemonade and Orange Sugarless. They recently introduced "Luscious Lime and Banannaberry Split, the result of a breakthrough in technology where two flavors are mixed together," according to Carolina Fee, public relations officer. As yet, no children have turned into fruit of any kind.

DOLLARS and SENSE, May, 1986
When the clock strikes five p.m. in New York, the city undergoes a metamorphosis. Full-time office workers flock to bars, clubs, and restaurants. Part-time employees arrive, ready to tap the night away on CRT screens.

Downtown becomes desolate. The twin towers lurk like sentinels above the deserted streets. A 24-hour McDonald's gets through the night with barely enough business to empty a pot of coffee. Statues in Battery Park look frighteningly real. When the stock market closes, Wall Street becomes a wasteland.

But the wasteland may soon become civilized. These days the proposal to convert to round-the-clock trade is being seriously considered. The New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), the National Association of Securities Dealers (NASDAQ), a self-regulating agency for members of over-the-counter (OTC) markets, and the Securities Industry Association, a trade group of brokerage firms, are all discussing the possibility of implementing 24-hour global securities trading within the next two years. "I think 24-hour stock exchange trading will happen in the near future, probably in the very near future," says Ira Lee Sorkin, regional administrator of the Securities and Exchange Commission (SEC).

By plugging U.S. investment opportunities into the world circuit, or vice versa, 24-hour exchange-based trading could become a reality. For some time now, international bond markets have been trading on a 24-hour basis when buyers and sellers required it. Will the stock exchanges follow suit?

In the past year the number of U.S. companies listed on the London stock exchange has almost doubled and U.S. listings on the Tokyo exchange, the world's second largest, have risen from six to 10 firms in just six months, from January to June 1985. U.S. pension funds which comprise a total of over $1 trillion in assets, will invest $25 billion in foreign securities by 1986, estimates the National Association of Securities Dealers (NASDAQ). By the same token, hundreds of foreign firms are traded on U.S. exchanges as American Depository Receipts (ADRs), which are receipts for shares of a foreign corporation that are held in U.S. bank vaults.

By its very nature, global trade, spanning many time zones, lends itself to a 24-hour system. Determining the extent of future international trading and developing a system to facilitate it are formidable challenges.

Round-the-Clock Competition Heats Up

Eased trade restrictions may help to facilitate 24-hour worldwide trading. The London Stock Exchange opened ownership of member firms to outsiders last June and has deregulated equities trading. It has also begun swapping price quotes with the NASD on more than 550 British and American issues. A British investor can now obtain price quotes on American trade activity after his country's exchange is closed and vice-versa. The Tokyo Exchange has eased listing requirements by no longer demanding an extensive Japanese audit and relaxing a variety of reporting requirements (in fact, three months ago Merrill Lynch became the first foreign member of the exchange). Even the Socialist government of France is moving to deregulate financial transactions by introducing stock option trading (an option is a contract which gives the right to buy or sell a set number of shares of a security within a pre-determined time period) and a system of specialists (those who make a market in a security and control price fluctuations by buying or selling from their own accounts). Montreal has opened the first gold futures contract calling for delivery of cash rather than bullion, securing itself a unique trading niche. It has also begun listing stocks of large European and other overseas companies to attract U.S. investors.

Within the U.S., in June of 1985, the Securities and Exchange Commission announced that the Philadelphia, New York, Chicago, and Pacific Exchanges would be allowed to engage in direct competition offering options on over-the-counter stocks, which are traded online through the National Association of Securities Dealers Automated Quotation System (NASDAQ). New York Exchange directors approved a rule on April 4, 1985 which will make it easier for large, diversified member firms to buy or invest in market-making or specialist trading units on the exchange floor. In addition to attracting new firms, this move provides a boost in capital for the specialists. The NYSE has also announced a review of its entry requirements, making it easier for firms to be listed and more difficult for companies to be thrown off the exchange. After all, AMEX, a major competitor, has less stringent requirements than the NYSE.
The Time Factor

Perhaps the most threatening Big Board competitor of all is NASDAQ. "The New York Stock Exchange is not nearly as powerful as it used to be," says Terry D. Earle, general manager of the New York Society of Security Analysts, a non-profit educational professional organization of roughly 5,000 analysts. "NASDAQ is growing by leaps and bounds. NYSE is competing with the NASDAQ system and they've got to come up with a mouse trap," he continues. "That would be extended trading." Indeed, only last summer the NYSE extended its trading time by half an hour, beginning at 9:30 a.m. instead of 10 a.m. Moreover, NYSE and NASD are each discussing global trading hookups with London.

Mergers among the exchanges would allow New York trade to span more time zones, thus paving the way to extended trading hours. Mergers allow investors to use linked markets as if they are one. The NYSE has begun discussing a possible merger with the Pacific Exchange (which remains open a half hour after New York closes.) It is also investigating linkups for trading with the London Exchange. The Boston and Montreal Exchanges currently operate a link between their markets. There is also a proposed linkage of London's stock and commodities markets with those in Philadelphia and Chicago. A currency futures link between Chicago and Singapore began its operation last September. It is even possible that the AMEX in Chicago will merge with the NYSE. "I've heard rumors that New York and AMEX are merging," says Earle. Moreover, the April 4, 1985 appointment of former AMEX president Robert Birnbaum to the presidency of the NYSE might strengthen the possibility. "Mr. Birnbaum is expected to deal a serious blow to the AMEX management structure, wrote Scott McMurray, Wall Street Journal staff reporter, "and put increasing pressure on the AMEX to merge with the Big Board." Trade on the London International Financial Futures Exchange (LIFFE) fills a five-hour gap between the closing of Tokyo financial markets and the opening of U.S. markets, allowing for a global trading continuum. The exchange just began trading yen-bonds (Japanese government bonds) in conjunction with the Chicago Board of Trade. An investor who buys a contract in the morning in London can later sell it in Chicago after London's close.

The Present 24-Hour Market

While the various organizations conduct their research into 24-hour securities trading, many broker-dealers already trade continuously by passing their trading positions on to traders in branch offices in later time zones. "It's not because of something we wanted to do. It's something already happening to the market," says Christopher Keith, senior vice president of the NYSE. "Goldman Sachs passes the book from time zone to time zone," to accommodate clients. But Keith warns that such overnight trade is risky. "It does not provide a two-sided market." Shearson Lehman American Express also conducts round-the-clock trade. At their offices, where wall clocks note the time in 20 different countries, executive vice president of the International Division, Gilbert F.rozen, says he is not worried about institutional investors. "Institutional investors can take care of themselves," he jokes. "If investors in foreign markets want SEC protection they can buy ADRs."

Other dangers of overnight trade in the absence of a formal system range from "insider trading" (which is based on
privileged information) to manipulation of trading by foreign brokerage firms. In either case, the SEC has no authority outside the United States to investigate such suspicious activity, according to a June 1985 article in the Wall Street Journal and many foreign banks such as those in Switzerland have secrecy laws which protect their clients' accounts from snooping by outsiders.

The System

With overnight global trading already taking place, do we actually need a formal system to accommodate it? "The pressure really comes from the need to execute securities on a more orderly, centralized basis than is available in the present over-the-counter market in London," says Gilbert F. Bach, vice president of the International Division of Shearson Lehman American Express, "but London will catch up quickly," he adds.

Presently, you can't trade a stock that's only traded on New York in London," says Terry Earle. A formal round-the-clock system would make it easier for firms to raise capital internationally. It would exist "so that the global economy can be fully used," he says.

If a formal system were to exist, it might not be the auction type set-up to which Big Board devotees are accustomed. "We're going toward a 24-hour global market but not in the same terms as that in the United States," says Bach. "The New York Stock Exchange auction market as we know it is unlikely to appear on a 24-hour system around the world." The silver-haired NYU graduate expects a 24-hour system which would resemble either NASDAQ or the system used for gold trading, in which "the book passes around the world," he says.

The nearest any system has come yet to 24-hour exchange-based trading is through the International Options Clearing Corp. which links trade of gold options among the Sydney, Vancouver, Montreal, and Amsterdam Stock Exchanges. It also links Vancouver and Amsterdam in silver options trading. The link allows orders to circulate among the cities until they are processed. An options player can thereby take advantage of trading and news developments in another time zone. With the addition of Sydney in January of 1985, the linked exchanges, spanning four time zones, can now trade for as long as 20 hours depending on the season.

While movement in the direction of extended trading hours is apparent, the optimal way to accommodate round-the-clock trading is not. Costs, personnel requirements, differing international regulatory standards, and technical needs, are problems as insurmountable as 5 p.m. traffic in the Lincoln Tunnel.

Planning Around the Clock

With the Big Board's already aerobic 9:30 a.m. to 4 p.m. floor activity, could its employees handle the additional workout of round-the-clock trading? Industry officials stress the staffing dilemma. "The principal cost would be the human cost," says Edward O'Brien, president of the Securities Industry Association. "People are not willing to work excessively long hours."

Christopher Keith agrees. "A specialist won't come in at 4 a.m. to make a market. It's highly unlikely that the exchange staff and floors will be open at 6 a.m." Puffing on his Benson and Hedges cigarette, Keith adds that 24-hour trading will not necessarily require staying up all night. The
NYSE vice president reasons that Cable News Network is available 24 hours a day, "but that doesn't mean people are taking amphetamines glued to the TV set."

The personnel problem might not be so bleak if computers supplanted the workforce. "It would not be a totally computerized market," says Securities Industry Association President O'Brien; "Some risk can only be evaluated by humans." Keith agrees that human interaction is necessary, especially with considerable trading volume. He discusses the possibility of a totally computerized system. "If you can make cake without butter, why make a cake with butter? But all cakes are not the same," he adds. "I can provide some but not all of the qualities electronically." Stressing the desirability of "human interaction," he points out that "88 percent of the time NYSE buyer and seller meet directly."

The merging of U.S. exchanges could also ease personnel needs. "X number of warm bodies will be required," says Earle, "but if the exchanges were to merge, one could do a job that would have otherwise demanded two or three employees."

Computers to the Rescue

Though their names sound like an alphabet soup full of acronyms, existing computer systems may be the biggest boost to organized 24-hour trade. NASDAQ, instituted in 1971, has proven a success with over two-thirds of all securities traded over-the-counter. Consequently, the NASD awaits 24-hour trade with relish. Involved in a linkage with the London Stock Exchange, they are studying the extension of NASDAQ system trading hours. "This would provide an hour of additional overlap with the European trading hours and obviously be another step toward the 24-hour worldwide market," said NASD president Gordon S. Macklin in a speech last May on "NASDAQ and the 24 Hour World Market." Moreover, the Association of International Bond Dealers is also looking at a NASDAQ type system to accommodate worldwide trading in Euro-bonds (corporate bonds issued at fixed rates of interest on an international market and repayable in the currency of issue) and other securities.

The New York Stock Exchange Designated Order Turnaround System (DOT) allows firms to transmit smaller routine orders directly to specialists at their trading posts on the exchange floor, bypassing the floor booths. This could prove valuable during the wee hours when staff is less than plentiful. DOT orders participate in over 45 percent of all New York Stock Exchange trades.

The breakthrough that seems tailor-made for 24-hour global trade is the Intermarket Trading System (ITS). An electronic link, it allows brokers and specialists to transmit buy and sell orders from one exchange to another after seeing the bid and asked prices in all markets.

The potentially complicated process of international financial disclosure by listed firms would be simplified by EDGAR, the SEC's affectionately nicknamed Electronic Data Gathering Analysis and Retrieval System. "By more rapidly disseminating information to more and more investors, EDGAR will ensure that prices at any given moment more fully reflect underlying realities," says Fortune reporter Daniel Seligman. This is reassuring due to the concern over market efficiency posed by global securities trading.

On-line bases, which "have been providing brokers with instant market information for some twenty years," writes Seligman, "are now linked to PCs." Spectrum, the Chase Manhattan home banking and information system linked to a user's PC, has a video broker package, spectrum, which, according to its brochure, "lets you place buy and sell orders for stocks and options seven days a week, 24 hours a day, for execution during market hours." Spectrum also offers 24-hour access to market indicators and a digest of over 130 stock market letters. Quotation/news services are also offered by Dow Jones and Dialog Information Services.

While computers offer systems to accommodate continuous securities trading off the exchange floors, Christopher Keith says NYSE discussions of an exchange-based system are "in their embryonic stages."

Global Trading Model

The international commodities market might be worth scrutinizing as a model for global securities trading. International Commodities Clearinghouse (ICCH) is London's only commodities clearinghouse. (A clearinghouse functions as a middleman in every transaction to guarantee fulfillment of futures contracts.) It helped create the first international commodity-trading link in 1980 with joint wool futures trading on New Zealand and London Exchanges and is moving to expand futures markets in areas from Hong Kong to Bermuda. It may even set up a New York office to reduce costs for U.S. brokers and traders to trade on London exchanges.

The ICCH, independent of any exchange, performs joint clearing of trades from separate exchanges, reducing paperwork and duplicated processing costs. Joint clearing also benefits brokers and traders. They can pool margin
money—(the deposits required to back their trade)—for contracts traded on separate exchanges, instead of posting margin money at each exchange.

Since 1980 United States clearing agencies have been developing links with foreign clearing agencies to more efficiently and safely process international securities transactions. To date, however, "only links in which the foreign clearing agency has become a member of a US clearing agency have enjoyed significant use," according to an SEC report.

**Does It Pay?**

While few can begin to estimate the cost of devising a 24-hour stock exchange system, volume will determine if one is cost effective. The SEC, in a request for comment last June on issues concerning the internationalization of the world securities markets asked, "Will extended trading opportunities result in spreading out existing trading over longer hours, or will greater trading volume result?" This question is hard to answer. O'Brien feels that trading volume would have to be such that "commission income would offset new costs."

"**Shifts?**

**It's not an automobile factory.**"

The unevenness of trading volume also makes job scheduling difficult. "Who gets the graveyard shift when you're getting straight commissions?" asks Earle. Christopher Keith suggests the use of "trading slices" so that the workforce could accommodate the varying flow. But the innovation might be premature. "Shifts?," says Bach, "It's not an automobile factory."

**Hiring a Boss**

There are those who believe in the possibility of world government, but for now, forming a governing body for the express purpose of global securities trading seems challenge enough. "How do you tell a foreign company they have to govern by the rules of the SEC?" asks Earle. "Actions by broker-dealers, banks, securities markets, clearing agencies, and regulators, represent initial steps to respond to the emergence of international trading and to anticipate further developments," the SEC report states. But the report points out that in the absence of "a central forum for discussion of these trends," it is difficult to prepare for future developments. "By issuing this request for comment, the Commission hopes to provide that central forum to promote better coordination as international markets continue to develop," the report adds.

A reputation of security and fairness must be upheld in order to keep investors confident in the market system. Keith compares the world class stock trading opportunities offered by the NYSE to the quality image of foreign autos. "Right now we offer a Mercedes. We have to find a way to find the same credibility and fairness—it ain't easy," he says.

Most of New York's landmark institutions are now open around the clock—newsstands, bagel bakeries, restaurants, even the city's banks. But with all the obstacles, will 24-hour NYSE trading be next?

Extended trading seems more likely than round-the-clock exchange-based trading. Earle believes there will be extended trading hours "nine to five or six" within one or two years. "I think they are seriously considering it (24-hour trading)," he adds, "but it's an extreme." Unlike 24-hour trade which he does not expect before the year 2000, "extended trading is easy—just a matter of when they ring the bell," says Earle. Ed O'Brien says, "It is likely that there would be an extension at the front end rather than the back end."

NASD is positive that a formal continuous system will soon be instituted. At a NASD conference held last May, NASD President Macklin said that "The 24-hour world market is virtually here. When it arrives, NASDAQ and NASDAQ securities will play a major part in it."

Still some financial experts are not convinced. Gilbert F. Bach of Shearson Lehman American Express doesn't think that 24-hour exchange trading is feasible. "I think it's pie in the sky. Nine to five—maybe that's the evolution of this. They'll extend it in slow stages in response to fear that they will lose business to other markets," says Bach.

Trading officials say that the final decision on 24-hour trade will be determined by big member firms such as Morgan Stanley. "I don't think a 24-hour system will take place within the foreseeable future," says SIA President O'Brien. "Some expansion is worth it although I am not sure of a need for a 24-hour market. But if enough firms think it will make sense," O'Brien adds, "it will happen."
Heard Any Good Books Lately?  

by Teddi Scrofani

Instead of flipping the pages of a book you can flip a "book" into a cassette player, and listen to Studs Terkel reading The Good War, John Updike reading his Selected Short Stories, or Gore Vidal narrating his Lincoln. Books on the best-seller list have found another niche in the publishing market—now they're after your ears.

Random House created a new "Audio Division," in November, 1985 launching the first of 12 titles, drawn from their publishing imprints Random, Pantheon, Times Books, Knopf and Villard. The list includes Darren McGavin reading James Michener's Space, The Stories of John Cheever, read by Maria Tucci and Meyer Friedman and Diane Ulmer's Treating Type A Behavior—And Your Heart, read by Peter Thomas, among others.

Simon and Schuster sells its non-fiction titles under the name "Sound Ideas." Selections include The Only Investment Guide You'll Ever Need by Andrew Tobias, and How to Make Love to a Man, by Alexandra Penney. The company introduced novels in April. Last January, Warner Communications purchased Mitchell Deutsch and Jeffrey Hollender's self-help cassette company, Network For Learning. They renamed it Warner Audio Publishing and the firm now releases 20 titles a month from science fiction to romance, to personal and professional development. Bantam Books will take the plunge in the spring of '86.

This new trend in publishing coincides with the recent electronics boom. And it's not only gadget crazed yuppies who are buying up car tape decks, home stereos, and Sony Walkmen galore. A marketing survey cited by the New York Times shows 85 percent of American households have at least one cassette player, 60 percent own car tape decks, and about 50 percent have portable players.

"There are in the vicinity of 400 million tape players," says Mitchell Deutsch, president of Warner Audio Publishing. "We've been sitting on this vast world of audiocassettes, and audiocassette players in this country. "We have the opportunity of reaching a large public," says Jane Becker Friedman, head of Random House Audio.

The Target Market

"I think our audience is anyone who likes to hear the spoken word," Friedman says, giving an example. "It used to be that a poet or a novelist could attract 20 to 30 people to a poetry reading, or a reading of a work-in-progress. Now, the 92nd Street YMCA is jammed with hundreds of people coming to listen to John Updike utter an hour of his work." Friedman is convinced that "people want to hear the words of people who are writing." Eileen Rundell, vice-president of Listen For Pleasure, the Canadian-based audio publisher, founded in 1980 says, "50 percent of females buy. A large segment of those en route to work buy; others buy for their elderly parents. Readers are part of our market," she says, "but there is not enough research to pinpoint a specific target."

"We are appealing to an audience that's not reading at all.

"We are appealing to an audience that is not reading at all," says Mitchell Deutsch of Warner Audio. "Those people who don't have, or think they have the time, or want to commit the time to reading a full length book." Statistics show that the reading of books is on a decline. The percentage of Americans reading has decreased five percent since 1978, according to a study released in July, by The Book Industry Study Group, a non-profit organization in Manhattan. "We don't condone people not reading," says Deutsch, adding, "audiobooks and printed books don't compete with one another. Audiobooks are enhancements. I would never, ever, consider ourselves publishers in the literary sense of the word."

Researchers for Warner Audio Publishing say that people who listen to audiobooks because they don't have the time to read, often go back and purchase the printed version.

Warner Audio Publishing presently has 14 different categories of product, with everything from self-help, best sellers, and original programming. Warner employs different marketing strategies, including focus groups and packaging for each product category. "We're not trying to sell What They Don't Teach at Harvard Business School to young girls, we're trying to sell them young adult adapta-

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tions. We gear our product to our audience,” says Deutsch. Audiotapes on weight loss would be advertised in *Savvy*, or *Glamour*, while science-fiction tapes might be advertised in *Twilight Zone*, according to Dayna Winter of Visibility, the public relations firm which represents Warner Audio Publishing.

**Those Who Went Before**

The publishing industry is plugging into a market enjoyed in the past by only a limited audience. The National Library For the Blind and Physically Handicapped has provided full-length book recordings since 1931. Caedmon Publishers began with recorded book excerpts in 1952, and Books On Tape, a California based mail-order operation, has offered a rental club of full-length audiobooks since 1975. Newer companies include The Mind’s Eye, specializing in dramatizations of short stories and classic novels, and Spoken Arts, which concentrates on poetry, classical literature and folk stories for children. Listen For Pleasure offers a wide variety of abridged (edited) works, and Listen Library’s fiction is recorded in full.

**The Product**

Most publishers are producing abridged versions of books with a sole narrator. On some cassettes sound effects have even been added for dramatic reasons. Retail market prices can range from $17.95 for a two cassette book to $7.95 for a single cassette book. Listen For Pleasure’s production of *Dr. Zhivago* runs just three hours on two tapes. Uncut, the novel would be an 18-hour listening marathon, and might cost more than $50.

“Listen For Pleasure produces all material from
scratch,” says Eileen Rundell, vice president. “We sign the title up, and wait to select the reader, but in some cases we might have the opportunity to sign the reader and then go through our repertoire.” Listen For Pleasure will have Lauren Bacall narrate Big Blond. “There is no way any other person could read that book,” says Rundell. “We’ve had the book for a long time waiting for it to fit into Ms. Bacall’s busy schedule.”

Bookstores Encourage The Trend

Bookstores have embraced the recent audio trend. Waldenbooks began to stock tapes on their own label in September, 1982. They now have 500 titles. Racks to accommodate the 500 tapes are at the front part of the selling floor in all 920 stores. B. Dalton of Sixth Avenue and 8th Street in Greenwich Village, a smaller bookstore, allocates one percent of its floor space for audiobooks, according to Dotty McNally, manager. She says, “We are putting more money into the product. Business will definitely continue to get stronger.” She believes people will begin listening to stories on their car tape decks instead of listening to music. During the 1985 Christmas buying season, audiobooks sold well, especially the self-help variety. Particularly popular were “How to Lose Weight,” and “How to Stop Smoking.” Ellen Marin, a manager of the Barnes and Noble Annex on lower Fifth Avenue predicts, “As people’s time gets more complicated, the market will continue to grow. There is nothing faddy about it. In the future, a number of new lines will be coming out. Next year, we will be making a bigger section. There has been no real effort to advertise, people just come and buy.”

Steve Van Pelt, manager of B. Dalton at Fifth Avenue and 51st Street says, “The characteristic thing about the tapes is that the non-fiction outsell the fiction tapes. The Lee lacocca tapes sell very well.” He adds, “Many stores use display units that the tape companies give them. We use our own, it looks better for the overall appearance of the store.”

Big Business

Random House Audio initiated their new “Audio Line.” Warner Audio Publishing took in several million dollars during their first year, and expects a growth of six to ten times next year. Newman Communications Corp. of New Mexico, a retail distributor of audio tapes, earned $7 million in 1985, up from $1.25 million the previous year. Audiocassettes are becoming big business. Accordingly, mechanical reproduction rights will now be contended for. In years past, audio rights were licensed to companies for $100 to $200, because it was never a big market. It was considered a “nice little royalty” for the author, according to Jane Becker Friedman of Random House Audio. She explains that “some companies still pay $100 to $200, others much more. There is a broad range of advances." A basic median price, Friedman says, “would make business much easier.” Mitchell Deutsch of Warner says recording fees “have increased drastically over the years, but are proportionately low compared to the book business.” Eileen Rundell of Listen For Pleasure says, “Every audio production firm has a different approach. It’s all in the negotiation of the contract.”

“We’re not publishers in the literary sense.”

“Most audio rights are not owned by the publisher, but by the author,” says Deutsch. “It’s an open hunting ground in many cases.” An example of this can be found with author Stephen King. His book Thinner is produced on tape by Listen For Pleasure, while Warner Audio Publishing has his Night Shift on their label.

“There will be a lot of non-exclusive arrangements made,” says Friedman. Her company produces The Maltese Falcon, as does Listen For Pleasure. “I am adamant about this—it is the title that is selling.” The object, according to Friedman, is to match the reader to the title. “The best production, and that includes packaging, will win out.”

Random House Audio offers a square dust jacket which can store one to two tapes. Listen For Pleasure’s jacket is a simulated book cover (actual paperback size) that opens up with a cassette pegged in the upper right and the lower left. Warner Audio tapes are sealed in clear plastic like children’s toys, with a hole at the top, so that they can hang conveniently on a display rack.

With the onslaught of tapes and publishers entering the market, product differentiation will depend on consumer tastes. In the highly evolutionary world of the technology business, success is fragile. “It’s the same story as computer software,” says Jane Friedman, “only the better ones will survive.”

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Gray Market Goods

by Dan Daley

You need some audio cassettes, so you head to one of the ubiquitous electronics outlets that have proliferated in metropolitan areas over the last few years. You notice a familiar brand name selling for a price well below what you expected to pay. After making the purchase, you walk out of the store smiling, the beneficiary of a competitive marketplace. It's only when you get home and examine your purchase that you notice all the copy on the packaging is in German or French or Japanese.

The tape you just bought isn't counterfeit and it will probably perform as well as you expect it to. Without realizing it, however, you have touched the surface of the phenomenon of product diversion, otherwise known as The Gray Market.

The gray market is a growing, multi-billion dollar problem for American business. Bob Evans, an international economist with the Department of Commerce in Washington, D.C., says, "It's impossible to keep annual figures on this problem." By his estimation, however, the damages may be as high as seven billion dollars a year. He says, "It's a significant component—three or four percent—of the U.S. trade deficit."

The gray market is hardly confined to tapes. Electronic devices such as stereos, calculators and radios, cameras, watches, drugs, even automobiles are all products that may have a gray tint.

Though channels of diversion are somewhat murky, defining the gray market is a straightforward matter. "The gray market product is one that comes into the United States without the permission of the authorized American distributors," says Gary Shapiro, vice president for government and legal affairs for the Electronics Industry Association (EIA), an umbrella lobbying organization based in the nation's capital. One result of this unauthorized, but not necessarily illegal, importation is that the product is not subject to that manufacturer's U.S. warranty and service programs, according to Shapiro. He adds that many, if not most, gray market goods don't meet U.S. standards and regulations since they were originally intended for sale elsewhere.

How and Why It Works

The primary reason the gray market exists is the current strength of the American dollar. Enterprising third parties bring in legitimate merchandise bought at the point of foreign manufacture for considerably less than it would cost to buy from the authorized U.S. distributor. This puts the American trademark holders and licensees in the odd position of competing with their own products.

Shapiro explains the sequence of diversion this way: "You'll get a guy in Taiwan or Hong Kong who'll buy up an incredible amount of product. He might buy the factory overrun or factory seconds from the manufacturer in Japan (the source of most electronics sold in the U.S.) and then he'll bring them into the United States. It might be a cash transaction to escape duties payment. Then they'll distribute it in the United States. It might be an outdated product or a discontinued model and then they just flood the market."
The American market is perceived as a quality market in the rest of the world, according to Shapiro. Since standards are so different in other countries, gray market goods pose a threat to the image and marketing campaigns the American manufacturers launch and pay for. "When gray market goods come along the whole image is shattered," says Shapiro. "You see some discount dealer selling your product as a loss leader to get people to come into the store, and not only does your whole price structure go down the tubes, but also the product's image in the consumer's mind. Imagine a Rolls Royce being sold in a neighborhood used car lot. Well, that's the same with any manufacturer's product. The manufacturer has to provide advertising and service support. They do a lot for retailers at great cost and there's no way for them to compete with the gray market because the gray goods are getting a free ride."

Meanwhile, American consumers get a better deal, because retailers can pass along the savings they encounter by buying gray. Gray goods, particularly electronics, have fueled price wars in New York, Miami and other cities. The recent influx of inexpensive Korean electronics has also spurred the battle, while American pocketbooks enjoy the boon.

Caveat Emptor

But Shapiro is quick to point out that this apparent blessing has a dark side for the consumer as well. He cites cases in which products are accompanied by erroneous operating manuals or manuals with instructions printed in foreign languages. Sometimes, there's no manual with the product at all. In other cases FCC or other agency certification has not been sought or acquired. Some products, like cosmetics, may use substances that are banned in the United States but acceptable elsewhere—like Red Dye No. 2, determined by the FDA to be a carcinogen.

Though gray goods are not counterfeit products, many distributors will not honor warranties on products they did not authorize for importation. Should something go wrong and the consumer seek redress, he or she is apt to be left out in the cold. Michael Golacinski, marketing manager of Maxell Corporation of America, distributor of Maxell tapes in the United States says, "Our general policy is that we don't replace defective gray goods." Still, he admits that Maxell will acknowledge all communications and if it's a first time, the company will inform the buyer of the tape's unorthodox nature and then probably replace it.

That is the wall American distributors claim they are being pushed up against, however. Failure to compensate the consumer leads to consumer dissatisfaction and revenue loss. The image of reliability the company invested so heavily in is thus jeopardized, they say.

Daltron, Inc., located at 25 West 45th Street in New York City, confirms that they are an importer of gray market watches. Seikos account for 95 percent of their business, according to the firm's secretary, Regina Langer. "We print up our own warranty card offering a one-year free repair warranty. We maintain a repair shop on the premises. Our warranty is probably close to what Seiko offers."

It is similar, according to Stuart B. Zuckerman, senior general manager of merchandising for Seiko, New York. "We offer a limited one-year warranty on our watches," he says, though he stresses that Daltron has nothing to do with Seiko, neither the wholly owned American company Zuckerman works for nor the Japanese parent company.

The real problem is the misrepresentation to the con-
sumer by retailers as to whether a Seiko product is gray or not, according to Zuckerman. He says, “Misrepresentation is quite typical of stores that sell gray goods. The problem is that people think the product is the product and if there’s a problem with a watch we didn’t sell, it impacts negatively on the company’s image.” And even in the case of importers who provide their own warranties, he adds, “We have no idea what sort of job they do on repairs. We’re the ones who hear the complaints.”

American distributors face an enormous task in trying to remedy the situation themselves. David Mosteller, vice president and general counsel for Charles of the Ritz fragrance makers, gives a prime example. His company has a network of over 1,800 retailers in France alone, some of whom—in violation of their retail agreements—sell to third parties who then ship the perfumes to the United States. “It’s impossible to police a distributorship that large,” he says. “The one we have the most problem with is Yves St. Laurent’s ‘Opium’ fragrance,” for which the company owns the trademark outright. Mosteller estimates that 40 percent of all Yves St. Laurent fragrances sold in the United States are gray market goods. “In the case of ‘Opium’ we’re talking about $40 million annually. We sell those fragrances to fewer than 2,000 carefully selected stores, and yet we estimate the fragrances are available in up to 15,000 retail outlets, from reputable stores like J.C. Penney to flea markets.”

Although the devaluation of the dollar is often cited as the quickest antidote for the gray market, Mosteller isn’t so sure. “We had this problem back in 1977 when the dollar wasn’t so strong,” he recalls. “I think if the dollar did weaken, there would still be a problem because the mechanism for diversion is so well established.” Mosteller points to another factor keeping this shady business booming—the European Value Added Tax, which reflects approximately 33 percent of retail price. By exporting rather than selling domestically, French retailers avoid this tax. “So you have a 33 percent margin right from the start,” he says. Hence, goods landing in New York or Miami sometimes have a price lower than their American wholesale price.

In the case of products like ‘Opium’ that have a status cachet, Mosteller says consumers don’t always get the benefit of a reduced price from the gray market. “As it so happens, ‘Opium’ is not discounted here. Penney’s has a full line of ‘Opium’ fragrances and they didn’t buy directly from us. It’s all gray market and they sell them at suggested retail. Because of the demand for the product they don’t have to discount.”

This is a prime example of manufacturers having to compete with their own products, and Mosteller adds, “It raises the question of whether in the long run companies like mine are going to be willing to invest at all, when their opportunity to get a return on that investment is undermined by the gray market.” Ken Furst of tape maker Pro Denon puts the possible scenario in more graphic terms: “As gray market product comes into the U.S. and starts to affect our image and reliability, there go another 35 people out on the street. I don’t want to appear alarmist, but this may well be the future.”

**Pharmaceuticals Also**

The course of diversion for perfumes and electronics is much the same for pharmaceuticals. With drugs, big money is involved, but it’s not the only concern. The health of the general public is also at stake. In one case, reported by the Wall Street Journal in its August 6, 1985 edition, drug maker Merck & Co. consummated a deal in which 10 tons of heavily discounted drugs were sold to a Belgian firm and slated for shipment to Zaire. The medications, anti-arthritis
and anti-depressant drugs, had a domestic wholesale value of $1.47 million, but since the drugs were destined for a needy African nation, the price was fixed at $1.3 million. The drugs were indeed shipped to Brussels, where they lingered several days in a warehouse and were then reshipped to the U.S., passed through the hands of trucking companies and were finally discovered to have been sold to Revco, D.S., an Ohio-based drugstore chain.

In other cases, it's all done domestically. Hospitals and clinics are contacted by diverters wanting to purchase pharmaceutical surpluses bought by medical institutions at discount rates. (Discounts to hospitals, particularly teaching ones, are common, since it builds a relationship between drug makers and the doctors who will ultimately prescribe them.)

The quality of gray drugs is suspect in many cases, since there is no way of knowing how long a diverter may have stored the drugs. Many drugs lose their potency over time, especially if stored under less than ideal conditions, and others may undergo chemical changes. The underground aspect of the transactions also makes it easier for counterfeit drugs to infiltrate supplies.

The reason the market is growing for gray pharma-

aceuticals is the same as for the gray market as a whole: retailers and wholesalers looking for a price edge in a very competitive field. And this is precisely the argument put forth by diverters defending their actions. They say they help the consumer by providing less expensive prescription drugs. They also point out that the practice is prevalent in other types of industry and that legitimate diverters are licensed by the states.

Congressional investigators counter by warning that the licenses are easy to obtain and offer no guarantees of quality.

**Question of the Decade**

The problem of diversion has driven American companies to seek relief from the federal government and through the courts. When asked whether the importation of gray market goods is considered legal, Gary Shapiro of the EIA replies, "That's the question of the decade. It's very complex because when you get down to the actual law, it appears to be very illegal."

The law Shapiro is referring to is Section 526 of the Tariff Act of 1930 and its interpretation first by the U.S. Customs Department and more recently in the courts in a case brought by Vivitar. The American subsidiary of the Japanese camera maker brought suit in federal court to prevent gray market cameras from coming into the country on grounds that Section 526 was not being interpreted by the Customs
Department as Congress had intended. According to Bob Evans of the Department of Commerce, the law states: "No one may import a trademarked good whose trademark is owned by an American citizen—and that extends to American companies—without the owner's consent. On the face of it, it flat out outlaws gray goods. However, Customs went back to the legislative history of this and said that when it comes to interpreting the law, they base their interpretation on the case that caused Congress to pass the law in the first place."

That particular case involved a French firm which had given an exclusive license to an American distributor for its face powder in the 1920's. The French company then apparently granted other "exclusive" licenses. After petitioning by Customs, Congress enacted the law which prohibits the double sale of exclusive distributorships to protect U.S. firms' trademark rights.

American companies affected say now that Customs has too narrowly interpreted the law. In the Vivitar case, according to Evans, "The court said that Customs' interpretation of the law is within the letter of the law. However, it does not exhaust the law," thus leaving it open to further interpretation by lower courts. He adds that several district judiciaries have indicated they would look favorably on a more exact interpretation—exactly what the trademark owners and licensees would like.

On Capitol Hill too, opposing forces are marshalling support. "The two protagonists in this, if you will," says Evans, "are Customs on one side, saying this stuff should come in, arbitrage is a good thing, it's not easy to enforce, etc., and Commerce and the Patents and Trademarks Office on the other side, saying let's protect our trademarks as much as possible. A number of other agencies fall in between."

Petitioning Reagan

Al Manzella, an agent at the Customs office in New York City, says that as long as the items entering the port have paid their duty, it is a legal transaction as far as Customs is concerned. He says his office can only stop a shipment if it is counterfeit or if the contending company has registered its trademark with customs. Once a shipment is past the port, he claims, "We're out of it."

Michael Golacinski argues, "Maxell Corporation of America is the authorized
distributor of Maxell tapes made by our parent company Hitachi, Japan. But since we are not the owner of the trademark, we cannot register it with Customs, and therein lies the importance of the Vivitar ruling."

The executive branch of the Federal government has been petitioned on the matter too. Evans says that while the gray market is "not a front burner issue for the president, it's a good bet that whatever the Economic Policy Council (EPC) recommends will end up being the policy."

Those recommendations can take a number of forms, including doing nothing, says Evans. However, there are a number of compromise solutions being considered, both by the EPC and the affected businesses. De-marking is one such proposal. It involves altering the trademark logo in such a way as to clearly differentiate the gray goods from the authorized ones. But like most compromises, de-marking has its drawbacks. "In many cases you can't demark the good without destroying it," Evans explains. "There are cases where the trademark is part of the configuration of the good. So how do you destroy the trademark when it's part of the good's value? And what if the marking is etched into the product itself, how do you demark it? Do you tape over it? Fine, you tape over it and you get it into the U.S. and then when it clears Customs the importer takes the piece of tape off and then you've got another gray market good."

A Political Hot Potato

Though some governmental action is stirring, implementation of any decision could take considerable time. Many businesses directly affected by gray market importations are already leaning toward some sort of early compromise, one which addresses the pragmatic and political realities rather than the finer points of the law.

"It's a political hot potato right now," admits EIA's Shapiro. "There's heavy lobbying going on on both sides. The way we're coming down right now is that we're ready to compromise and say importers can bring the products in, but they have to take the trade name off. That's the only thing they don't own. We'd say they bought it fair and square and can resell it, but that they shouldn't be able to capitalize on the trade name, because we're the ones paying all the money to make that name what it is."

Even Japan, where the parent corporations of many American electronics subsidiaries and distributorships are located, is feeling the crunch of gray market goods. According to Shapiro, they are looking for ways to control it from their end, for example, by identifying shipments to ascertain who is actually shipping and selling and where the products wind up. "But it's very tough to identify individual shipments all the way up and down the line," he admits.

"One of every three cameras sold in NYC is gray."

New York State was the first state to promulgate regulation of gray merchandise. Assembly Bill 5971, effective since Oct. 31, 1985, stipulates that retailers and mail-order houses must notify consumers as to which products are gray. New York Attorney General Robert Abrams sponsored the bill. His spokesperson Sandy Mandel says the regulation was in reaction to "hundreds of complaints" about warranty problems generated within the state in
1984 alone. He confirms a report from another publication that "one of three cameras sold in New York is a gray market camera."

The new law will be regulated by the New York City Consumer Affairs Department. Retailer response is varied. Several stores specializing in electronics and cameras refused to be interviewed or acknowledge whether or not they deal in gray goods. The Wiz, a New York City chain, says they sell only products with authorized warranties. The store manager, who requests anonymity, says, "We are in favor of this law. We don't deal in gray goods. We're a big operation. The guys who do (sell gray goods) are hole-in-the-wall places."

Over at Brothers Cameras, on Lexington Avenue, the store manager, identifying himself only as "Sil," states that they do sell gray goods, but the law "will not make any difference to us at all as long as they don't limit the importation of the merchandise." He says that Brothers always informs customers which items are gray. "We have no reason for secrecy. We sell both types of products and that way the customer has a choice."

The Metropolitan Retail Merchants Association's Barbara Turkewitz says they will take a "wait-and-see" approach to both the state and the pending city action. But she says her constituents have reservations about some of the tenets of the bills, such as the size, location and types of signs required to be posted in stores.

New Jersey adopted a regulation in February 1986 requiring stores to notify customers of any restrictions or limitations affecting gray goods—such as incompatibility of electrical currents, or ineligibility for rebates. Print advertising must clearly state if an item is gray, and conspicuous signs must be placed at the point of sale. As in New York City, the regulation was brought about by consumer complaints, according to George Danco, public information officer for NJ's Division of Consumer Affairs, whose inspectors are charged with monitoring offenses.

Stricter internal policing is one way of attacking the problem. Compromise solutions may be reached between individual industries and importers on a one-to-one basis. If a strong enough case is made by the industry, then the EPC may recommend more stringent measures to the President. And the dollar may fall to the point where its decline has some impact on the ebb and flow of cash and products. But considering the dimensions and difficulties of the situation, one of these solutions will not be enough.

Despite all the existing and proposed legislative whitewashing, gray is here to stay.

Just before publication, Dollars and Sense contacted EIA's Gary Shapiro to check on the progress of gray market regulations. He said, "It appears that the gray market issue is still too controversial for the EPC to address. No recommendations from the council have been submitted to the President."

The locus has now shifted to government at the state and municipal level, Shapiro noted, pointing to the New York State and New York City regulations, and to the pending similar regulation in California. Shapiro also stated that the impetus for action has come from the consumer sector and not from the corporations involved.

All regulations, proposed and implemented, are aimed at protecting consumers. Only the practical aspects of the matter have been addressed; the larger consideration of legality remains debated publicly. Shapiro said court cases relevant to the issue are before various levels of the judiciary, but any comprehensive response will still have to come from the executive branch.
Rebuilding Bed-Stuy

by D. Erickson/A. Carrington

Located in the heart of Brooklyn, Bed-Stuyvesant has become the country's second largest Black community, after Chicago's West Side.

An upper middle-class, white community at the turn of the century and until World War II, by the mid-1960's it had deteriorated into an exhausted community of 450,000 people—almost 85 percent of them Black. General unrest erupted into rioting, and it was this climate of violence that drew the late Senator Robert F. Kennedy in 1966.

He recognized the plight of hard-working citizens struggling against abysmal conditions, and determined to help the neighborhood. With the cooperation of then New York City Mayor John V. Lindsay, and Senator Jacob Javits, Kennedy introduced an amendment to the Economic Opportunity Act of 1964.

"We start from this truth," Kennedy said. "If there is to be a revitalization of Bedford Stuyvesant and places like it, methods must be found to join human resources with capital resources. No society ever thrives without this marriage."

The resulting Special Impact Program brought public funding to the area, which led to the formation of two non-profit organizations. They would work under the same roof, with the same capital, and together guide the community on its long and bumpy road to recovery. The Bed-Stuyvesant Development and Services Corporation represented the business and financial community, and later provided technical assistance in attracting outside resources. The Bedford Stuyvesant Restoration Corporation was comprised of local residents, and responsible for the development and implementation of programs.

Restoration became a revitalization conglomerate in 1973, when it absorbed the Development and Services Corporation. Thirteen years later, the non-profit's goal remains the same: complete economic, physical and social revitalization of Bedford Stuyvesant. This lofty ambition may someday be fulfilled because of Restoration's unique approach to the poverty problem, which Corporation literature says "relies on a series of interrelated and mutually-reinforcing investments in business and social ventures."

Today, the Restoration Corporation remains a trellis for the community, supporting numerous vines: Restoration Plaza, a 300,000 sq. ft. "one-stop shopping center";

Restoration Development Corporation, a real estate division that has brought 1,900 new housing units to the area; a job training and assistance program that has placed over 15,000 people in private sector jobs; a Family Health Care Center that provides affordable, much-needed medical services, and a wide variety of cultural programs.

The abandoned Sheffield Dairy Farms building became Restoration's headquarters in 1971, following $3.9 million of renovations. Restoration Shopping Plaza grew up around the corporate offices, and opened its doors in 1975, tenanted by small and medium size companies. It was developed by a for-profit subsidiary of the Restoration Cor-

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Corporation—Restoration Development Corporation of Bedford Stuyvesant—without prior lease commitments or permanent financing.

The Plaza was built by the award-winning firm of Arthur Cotton Associates, famed for their Canal Square Development in Washington, D.C. It is the first shopping mall ever developed for a low-income minority community.

Chemical Bank provided $4 million of construction period financing for the 300,000 square foot Plaza, and the Federal Office of Economic Development contributed $1.7 million. Permanent financing could not be found until 1980, when New York Life Insurance agreed to issue a 30-year mortgage. It's probably safe to assume these votes of confidence were attracted by the Ford Foundation's 85 percent guarantee—a legally binding promise to assume responsibility should Restoration default. Private grants matched the Vincent Astor Foundation's $500,000 challenge grant, which financed recreational facilities including an ice skating rink within the complex. Restoration Plaza cost $6.7 million total, and is now valued at $15 million.

Tenant Mix

Eleven years after its completion, the Plaza has finally managed to lure several well-known tenants: Pathmark, Citibank, Brooklyn Union Gas, Lerner's Shops, Con Edison, The Department of Social Services, the U.S. Post Office, a Family Health Care Center and Job Tap Center No. 1.

"This tenant mix evolved over time to what it is today," says Clarence Stewart, business agent for the Restoration Corporation. "When the plaza first opened, many of the tenants were small. Finding themselves unable to generate sufficient traffic for themselves and the Plaza, they left. Restoration then recognized the need to strike a better balance between its service and product offerings; thus the concept of a one-stop-shopping plaza evolved. Today, the average shopper comes to the plaza, fulfills his needs for basic services and then shops. The Plaza's unique service/product mix distinguishes it from Albee Square Mall and Kings Plaza." 5,000 to 10,000 people visit the retail stores per week, he says, generating almost $5 million in sales in 1984.

Credit for the Plaza's prosperity goes mostly to Pathmark. This 30,000 sq. ft. store was completed in 1979. It's Bedford Stuyvesant's first new supermarket in 15 years, and the 40th largest minority business in the country. "This location is Pathmark's second or third highest grossing store per square foot—it grossed over $24 million last year," says Tom Morrison, Restoration's vice president of operations. "It's considered a minority business because Restoration owns two-thirds of the equity, and Restoration represents this community which is 99 percent minority."

Supermarkets General, Pathmark's parent company, owns the other third of equity. Under the joint venture agreement, Pathmark supervises the day-to-day management, while Restoration handles operational problems and major expenditures. The same venture shares ownership of a 12,000 sq. ft. Pathmark Discount Drugstore, completed in 1983. Together, the operations employ about 220 people from the community.

The Supermarket was financed with a $700,000 loan from Citibank, taken at nine percent which was the going rate in 1978. Benevolence was not Citibank's motivation for granting the loan—money was. Restoration was required to place $560,000—80 percent of the loan, in a cash escrow account until the debt was repaid. Restoration paid back six months early in 1984 to free their money.

The Road to The Top

Getting the Plaza to this stage of development was not easy. Morrison says, "This plaza was not conceived and financed the way most other plazas have been." He explains, "In most cases a developer goes to the bank with a list of the most desirable tenants and long-term leases in hand. Instead, Restoration was built on the hopes and prayers of many concerned individuals who worked tirelessly to see it through to reality." Initially, most businessmen lacked confidence in the community, and were unwilling to risk their capital. But when Pathmark came, others felt more secure about investing, and did.

As recently as five years ago, the Center was only 70 percent rented, and there were many vacant storefronts along the Nostrand/Fulton Corridor, the area's hub. Social program cutbacks in 1985 forced some tenants to leave the Plaza, which today is 100 percent full. It has a positive cash flow and its space is in demand.

Two years ago, gross rent was $1.2 million. It's now $1.6 million and will increase soon when old leases are renegotiated at new, higher market values. New tenants pay $12 per square foot, up from $9.
The Bustle

The Plaza’s role as a one-stop-shopping center is growing. According to Marcia Baird Johnson, public relations person for Restoration, “You can come to the plaza and do the things you want to do in a hurry. You can shop, pay for utilities, buy stamps and make appointments. All day long traffic ebbs and flows as people go in and out of offices and stores.”

This bustle is causing others to take note. Recently, a branch of Citibank moved its offices from Herkimer Street to a sidewalk location in the Plaza, and Dime Savings Bank opened a branch at the Pathmark supermarket. From all indications, these ventures are doing quite well.

A service crucial to the community is provided by the Family Health Center. The modern center offers a staff of specialists and provides a broad range of basic medical services including internal medicine, ophthalmology, urology, obstetrics, gynecology, pediatrics and podiatry. The center is also involved in health promotion and disease prevention in the community.

The health of the area’s economy was given a boost by Restoration Plaza. 800 individuals are employed there in positions ranging from security guards to middle management to professionals. Some of these individuals were counseled through the Job Tap Center No. 1, located in the plaza, which provided employment services to 2,600 people last year. Job Tap (the initials stand for Testing, Assessment and Placement) is operated by the Restoration Corporation, with funding from the New York City Department of Employment.

Employment, however, remains a problem for the area. That’s why a new Burger King restaurant, begun in March, is so eagerly awaited. It will employ 50 workers, mostly teenagers. Restoration assisted the private owners of the franchise by channeling $160,000 in revolving loan funds to them, from the federal Economic Development Agency. Restoration also gave $340,000 from their own Office of Community Services grant.

Focal Point for Art and Culture

The Plaza has become a cultural anchor, as well as an economic one. The Billie Holiday Theatre, which seats 200 and plays to nearly 40,000 people yearly, stages three major productions by young Black playwrights each year. Two of the more famous productions, “The Trials and Tribulations of Stagger Lee Brown” and “Heaven Must be a Complicated Place,” were held over because of ticket demand. The theatre also sponsors parties and cultural programs.

The Bedford Stuyvesant Dance Theatre, which recently merged with the Billie Holiday Theatre, “offers dance instruction that embodies all the performing arts.” The Center for Art and Culture mounts 10 to 12 major exhibits each year in the Skylight Gallery, assists community groups in artistic planning and provides workshops for minority artists. One of the most famous recent exhibits hosted at the center was “Ceremonies and Spirits,” a traveling exhibition of art from the Michael C. Rockefeller wing of the Metropolitan Museum of Art.

Improving Environ

The Plaza is not only attracting new businesses. It’s also stimulating improvements in the immediate environs, notably Fulton North, South and the Nostrand/Fulton Cor-
ridor. Ted Barnett, president of the Restoration Corporation says, “The commercial center is like an anchor for the entire Bedford Stuyvesant area, especially along Fulton Street from Bedford to Albany Aves.”

In 1976, Restoration completed Fulton North, a project begun four years prior. Chase Manhattan Bank loaned $2 million for the gut rehabilitation of 14 four-story buildings, previously abandoned or occupied by squatters. The first floors were developed commercially: now there’s a pizza shop, doctor’s office, Chinese restaurant and a bodega along this section of Fulton Street. The upper floors were made into 42 residential units. Morrison says, “For privacy and good traffic flow, the residential entrances are behind the stores. Instead of a back alley, there’s a lovely grass courtyard.”

Fulton South is a development of 65 residential units and 30,000 sq. ft. of commercial space. Morrison says the acquisition costs in 1975 were “substantial—in the hundreds of thousands. Building began in 1983, when we had coordinated the necessary $7 million.” $1.1 million came from the Federal Office of Community Services, and was used toward equity. $4.4 million came in the form of a mortgage from New York State’s Housing Finance Authority. The HFA financed the loan by floating tax-exempt bonds, which paid 12.5 percent during the riskier construction period and 10.5 percent thereafter until maturity.

The six-story building, finished in October 1985, is a federal Section 8 project. Through this subsidy program, a family’s rent is at maximum 30 percent of their income. “Incomes range from $12-$16,000,” says Tom Morrison. “Full rent for one bedroom is $900, $1000 for two bedrooms. But no one pays more than $300 or $400.”

Would he live there? “In a minute. Two thousand people entered a lottery hoping to get in. They’re very nice homes.” To be sure that the project really did benefit the neighborhood, “Restoration stipulated that 30 to 40 percent of the units go to people from a close area—basically Bedford Stuyvesant and Brownsville.”

At the moment, Restoration is a general partner in Fulton South, holding a one percent interest. Their responsibility in the partnership is basically guaranteeing positive cash flow. Morrison says, “Hollywood-type people have the other 99 percent for now. Each investor is a limited partner who has committed at least $1 million for 15 years. Restoration effectively buys back the project over time, while the limited partners collect tax breaks.

A Commercial Revitalization Program broke ground on April 20, 1982. Phase I spent $325,000 to improve storefront facades and sidewalks. Better lighting was installed, trees were planted, and trash receptacles were conveniently placed. Phase II, conducted in 1982-83 with $155,000 of city funds, taught store owners operating and management techniques. To date, five business management seminars have been conducted to help local merchants learn more about loan packaging, insurance information systems, marketing and customer/employee relationships. Phase III, a “marketing and feasibility study,” is ongoing. It receives $55,000 in city and $25,000 in state funding. A brochure sponsored jointly by the Bedford Stuyvesant Restoration Corporation, the Fulton/Nostrand Merchants Association, and the New York City Public Development Corporation emphasizes eight positive elements about the area:

- 250 businesses now operate in Bedford Stuyvesant
The area services a population of 300,000.
Strong local buying power attracts workers from a mile away.
Good transportation—transit, buses, railroads
A large concentration of brownstones
A strong flow of businesses and professional families
New housing units being built
An active merchants association

The New Brownstone Owners

Five years ago, middle class Blacks began moving to Bedford Stuyvesant, rediscovering the area as "a fine place to live, not leave." Some were attracted by the affordable homes and the ease in getting federally funded mortgages. Others were drawn by the turn-of-the-century architecture, or wanted to live in a Black community, or foresaw rising values in housing, and bought hoping to double and triple their investments. Some wanted the opportunity to live close to Manhattan.

"Home buyers are mostly newlywed, middle-class."

Whatever their reason for coming or returning, most of these newcomers were assisted by The Brownstones of Bedford Stuyvesant. The non-profit organization founded in 1978 serves people interested in purchasing and restoring brownstones. The organization is primarily an information source, but also sponsors house tours and workshops on financing and interior decoration.

Expanded Role for Dime Savings

"Since 1980, the Dime's role in Bedford Stuyvesant has expanded," says Ellen Nathanson, community affairs officer for the Dime Savings Bank. "We found many good reasons to invest in the community." In October of that year, Dime brought together real estate agents and bankers for a home buyers seminar at Restoration Plaza. "The response was simply overwhelming," Nathanson says.

Dime and the New York City Housing Preservation Department are co-sponsors of a loan program called SHARP, the Small Homes Auction Rehabilitation Program. SHARP turns the city's $1 million subsidy into low interest mortgages for low and middle income people. Nathanson adds, "So far, 50 of these loans are either approved or are in the pipeline and another 25 are in the works."

The bank also conducts a Market Rate Program, providing acquisition and rehabilitation financing for new home buyers—mostly young, newlywed middle-class families with one or two children. Not everyone moving to Bedford Stuyvesant is eligible for assistance, however. Owners who acquire their houses through city auctions are not. Auctioned homes may go for as little as $15,000, but lucky bidders often spend considerable amounts of money for renovation. Houses in somewhat better condition may command up to $50,000 initially, but need less repair.

"There is a definite sense of community in Bedford-Stuyvesant," according to Mrs. Jones, a local resident. "It's the people that make it such a wonderful place to live. My block's the kind of block that watches out for everybody. We have block watchers. You walk out your door and are greeted by 'Hellos', How are yous?' and 'Good mornings.'"

Matters of Most Concern

The community has come a long way since Kennedy made his vow in 1964. But the primary problems of that time remain the matters of most concern today: education, crime, poverty and employment.

It's hard to attract good teachers to a rough neighborhood and consequently, local schools are infamous for graduating inadequately trained students. Some residents are active in school and community life, others send their children to private schools. Recent high school dropout statistics are marginally encouraging—50 percent, down from 60 percent in 1965.

Aggravating the dropout problem is high unemployment—three times higher than the national average at 15 percent overall, and a frightening 50 percent among teenagers. If these problems continue, crime rates are sure to rise, and may kill the community's chances for survival. Recent statistics are varied, so it's too early to gauge the neighborhood's progress in its war on crime. Local police reported 22,064 felonies in 1982, 19,138 in 1983, and 20,117 in 1984—high numbers all. Low incomes are the rule in Bedford Stuyvesant, and outright poverty still exists to an alarming degree. Median family income has hardly improved in the decade 1969-1979, inching from $6,300 to $8,500.

These problems and others have yet to be stamped out. But some individuals and groups are taking steps in the right direction. The Vanguard Urban Improvement Association focuses on employment with a program called
STEP, for out-of-school teenagers. STEP recruits 100 dropouts between the ages of 16 and 18 and trains them for up to 22 weeks in marketable office skills. About 60% of the teenagers who complete the course get jobs. The other 40% usually require further training. In spite of this success, Vanguard's director Bertram Green is cautious in his estimation of the community. He says, "Bedford-Stuyvesant is at the crossroads."

Funding is a major, growing problem for the Restoration Corporation. Although $1.5 million in Section 8 funds from HUD are expected in June, the organization's federal assistance is drying up. The Special Impact program begun by Kennedy in 1967 used to give Restoration $4 million per year, but President Reagan stopped that in 1980, his first year in office. The Corporation does receive venture capital through competitive bidding with 200 to 300 other non-profit organizations across the nation. (Of the many projects submitted for funding, the U.S. selects only 30). Previously, both administrative and venture capital funds were provided by the Office of Community Services. President Reagan shut off that annual payment of $100-$200,000 in 1983, shifting the Corporation's dependency to contributions, endowments, and profits to meet costs.

Some say social spending cuts are needed. They say places like Bedford Stuyvesant must be weaned from the system, must stop draining the rest of us. Others respond, "Have you no souls? These are people in need of help." Caring people, and dollars, have helped the community this far along the rocky path. Now Bedford Stuyvesant, with the Restoration Corporation as its staff, has come to the crossroads. Survival is so close.
Hasbro Inc. lands on "Chance" and takes a card: "You have acquired Milton Bradley, one of the oldest board game producers. Advance to Illinois Ave." Selchow and Righter, manufacturer of Trivial Pursuit, passes GO and collects far more than $200. Parker Brothers, owner of Monopoly, takes in over $100 million from hefty rents on Boardwalk and Park Place.

It seems that board game manufacturers, entrepreneurs of the fine art of competition, are playing their own games these days in the race for first place. The stakes are high and the product appeal seems to be universal.

Although board games are famous for providing escape and diversion, the billion-dollar-a-year board game industry is not merely a game. "Board games tend to reward the intellectual and have thought-challenging qualities," says Dr. H. Paul Gabriel, a professor of clinical psychiatry at New York University Medical Center. "In our kind of culture, where competition is rewarded in many ways, any type of game that is competitive is enjoyed by people, young and old, because it is a way of displacing aggressive feelings."

The challenge of board games accounts for their staying power. They survive while video games like Pac Man and Space Invaders have virtually faded back into oblivion. "My sense is that electronic games eventually become very boring," says Raymond McDermott, professor of family and community education, Teachers College, Columbia University, New York. "After the patterns are learned, the [video] games are dull."

Board games, on the other hand, allow players to start as equals in society, to indulge their acquisitive or aggressive fantasies (with the notable exception of the Mad Magazine Game where the winner is the person who loses all of his or her money), and to pursue more flexible strategies. After a surge in video game sales between 1979 and 1982, board game sales rebounded in 1983 and 1984, with estimated U.S. shipments rising more than 20 percent and video game shipments falling 35 percent during this same period.

Besides pleasing consumers, the ever-popular board game allows manufacturers to pass GO and collect huge profits. Four years ago, in 1982, Hasbro's annual report listed sales at $137 million. By 1983, sales had risen to $223 million. But it was the acquisition of Milton Bradley in 1984 that made sales soar to $719 million, with Milton Bradley responsible for $205 million and Hasbro bringing in $514

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million. In 1985 retail sales of Hasbro Bradley, including their Playskool toy division, totalled $1.2 billion. Selchow and Righter's Trivial Pursuit has sold 20 million games since its introduction in 1982. In 1985 retail sales were $400 million, according to Melanie Shimoff, senior account executive for the firm. Game industry sources say the spurt in board game sales is largely due to the phenomenal success of Trivial Pursuit. This memory-challenging game, which includes die rolls, board moves, and potentially mind-boggling trivia questions and answers for two to 24 players, was first introduced in Canada in 1982. It sold 100,000 games there, a mere drop in the bucket compared to the one million Trivial Pursuit games sold in the product's first nine months in America, in 1983.

"We began looking for a new board game that would allow the consumer to rediscover the social interaction and non-electronic fun of family board games," says Richard Selchow, president of Selchow and Righter and grandson of one of the original founders. Trivial Pursuit's meteoric success has been a boon to the entire board game industry; some experts believe that the question and answer game is responsible for a 30 to 35 percent jump in industry-wide sales, and for the more than 80 trivia games on the market this year. Meanwhile, Selchow and Righter continues to sell some two million sets of Scrabble every year. The old favorite has generated the only television program based on a board game (NBC-TV's "Scrabble") and 100 active Scrabble Players' Clubs in the United States and Canada.

Milton Bradley has been the game industry's leader for 126 years. Home to 24 of the 50 best-selling games, including The Game of Life, Operation, Battleship, and Yahtzee, the company got into the trivia game last spring with its own version, called Stage II. Introduced as a "more creative" challenge for trivial hounds, Stage II offers a second, deductive stage of play after the questions and answers.

In September 1984, Milton Bradley was acquired by Hasbro Inc., the 48-year-old toy manufacturer famous for G.I. Joe, for an estimated $300 million in cash and stocks. The merger resulted in Hasbro Bradley, Inc. "There were several reasons for the acquisition," says Alfred J. Verrecchia, senior vice president of finance and chief executive officer of Hasbro Bradley, Inc. "We wanted to balance our toy business by expanding our product line to gain a broader perspective." Milton Bradley is now a game division of Hasbro Bradley, with a separate sales force for each. "The acquisition of Milton Bradley by Hasbro Inc. was a mutual, friendly merger that draws upon the strengths of both companies," according to Diane Peck, a public relations spokesperson for Milton Bradley. While total sales of the newly-merged companies would seem to make them No. 1 in the board game world, "It's difficult to rank the board game companies even in terms of sales, since most of them produce toys as well as games," says Paul Miller, associate editor of Toy and Hobby World Magazine. No official rankings exist, according to Miller, but there are plenty of unofficial ones, especially as far as game buffs are concerned.

The Promise of Power

Parker Brothers holds the monopoly on the best-selling copyrighted game in history—Monopoly. 100 million sets of the company's number one game have been sold since its introduction 50 years ago. Retail sales of Monopoly in 1985 amounted to nearly $30 million. Charles B. Darrow invented the game while he was unemployed during the Depression. Initially rejected in 1933 because it had "52 fundamental errors," it was finally marketed in 1935.

Now licensed in 32 countries and printed in 19 different languages, Monopoly has been banned by the Soviet Union for being "too capitalist." Fidel Castro ordered the seizure and destruction of all known sets when he took over Cuba, according to a Parker Brothers press release. There have been exotic versions of Monopoly, including an all-chocolate set offered a few years ago by Neiman-Marcus and Dunhill's $5,000 board inlaid with semi-precious stones, 14-karat gold and ebony.
The game inspires record-breaking play. For example, the current record for playing Monopoly underwater, if one should care to know, is 1,080 hours, established by the Buffalo Dive Club in 1983. Other groups have set records for playing Monopoly in a moving elevator (16 days), in a bathtub (99 hours), and for continuous play (1,416 hours or 59 days). To celebrate Monopoly’s own record-breaking 50 years, Parker Brothers has brought out a special anniversary edition, complete with replicas of the original wooden houses and little silvery playing pieces.

“Castro banned Monopoly for being too capitalist.”

Paid media advertising is not, say company executives, the reason behind Monopoly’s extraordinary success. “Zero percent is spent on advertising for Monopoly, because of the time and money spent on commercial public relations events,” says Chris Campbell, director of business planning and research for Parker Brothers. “Advertising is supposed to increase recognition of a product but Monopoly already has that recognition. It is kept in the public eye by the public, because they organize and run the many Monopoly-oriented events,” Campbell explains. “Half a million a year is spent on Monopoly marathons, museum exhibits and Monopoly record events.”

What makes a game a success? “Lots of different factors,” says Dave Wilson, senior vice president of sales for Milton Bradley’s game division. “First of all, a game has to be fun. It’s easy to get people to play a game once, but the trick is to make it interesting enough so that they want to play it again and again.”

Creating successful new board games is always on game manufacturers’ corporate calendars. Board game manufacturers must answer a series of questions when test marketing new games: Is the game challenging? Is the game too easy to win, or does it end too quickly? Does the game give players a sense of accomplishment, or is it frustrating and discouraging? Since each player should have a fighting chance, does the game offer enough reward to have a “repeat play value?” Ideally, a game should be fresh, interesting, challenging, and entertaining each and every time it is played.

Games that have endured the ravages of history clearly meet these criteria. In Monopoly there is always the promise of holding the blue, green, yellow, and red properties, loading them with hotels, and bankrupting opponents. Danger lurks in the orange and yellow Chance and Community Chest cards: “Go Directly to Jail, Pay School Tax of $150, Go Back Three Spaces.” A lucky throw of the dice, or making the right decision about buying a new property or hotel, can mean victory. There is always hope, but as the instructions say in bold type: “THE RICHEST PLAYER WINS.”

Elsewhere, the quest is power, not money. In another Parker Brothers game, Risk/A World Conquest Game (1959), the object is to “eliminate your opponents by occupying every territory on the board.” Players are advised that: “Winning your battle will depend on careful planning, quick decisions, and bold moves. You’ll have to place your forces wisely, attack at just the right time and fortify your defenses against all enemies.” Risk is no game for pacifists.

Classics Revised

Even phenomenal successes such as Monopoly and Clue reach a maturity phase in their long product life cycles. It
becomes time to build on the original. “Advance to Boardwalk” was introduced to the toy trade in February at the 1985 annual American Toy Fair, as part of Monopoly’s 50th birthday celebration. A board game about real estate deals in Atlantic City, it was introduced as a way of “leveraging the awareness and popularity of Monopoly,” according to Gary Forman, assistant product manager at Parker Brothers. “We saw an opportunity to extend the franchise through graphics, recognizable symbols (the little rich character is on the box cover), and similar play principles. It’s brand new in its game play, yet familiar.”

Clue, which is “probably Parker Brothers’ second most popular game,” according to Forman, was introduced in video form last April. “By the end of this year, one out of every three houses will have VCRs—that’s a real big number,” says Forman. “We see it as an opportunity; we’re pleased by it.” The game has the same mansion setting and characters as the Clue board game, but the mystery is solved from video information. Though Parker Brothers is carefully keeping apace with the video industry, they don’t see it as threatening. “Who knows how long VCRs will last,” asks Forman, “but board games will be around forever.”

Creating New Games

Creating a board game costs twice as much today as it used to and the prices of today’s board games reflect the higher development costs. When Monopoly was first introduced in 1935, it sold for $2.00. Today, the game sells for seven times that price. “But the whole family can play a game, so the price is divided up,” says Jim Houlihan, vice president of research and development at Milton Bradley, in defense of higher prices. “If you buy a game for $40, you can go back and enjoy it for years to come.”

According to Donna Datre, public information manager of the Toy Manufacturers of America, there are 12 to 18 months between a board game’s conception and its debut on the marketplace. A manufacturer’s research and development department spends most of its time trying to come up with new concepts. The next step involves protecting the product idea through the lengthy processes of copyrighting or Patenting. Then in order to bring the game to consumers, a firm either test markets the product or shows it at the industry’s annual toy fair in the hopes of attracting buyers who will stock the game in their stores.

For each game idea that makes it through these developmental steps to the stores, thousands of others die on the drawing board or are never even considered. As one vice president of Selchow and Righter told the Wall Street Journal several years ago, 95 percent of new game ideas “are just adaptations of existing games.”

Still, the Toy Manufacturers of America say they receive numerous phone calls and letters from inventors of new games. Datre feels that games with simple concepts which
appeal to many age groups stand a better chance than those based on trends and fads, but she says the ingredients of a sure-fire success remain a mystery to her. Gary Forman at Parker Brothers agrees that predicting a board game's fate is next to impossible. "It's subject to the whims and fancies of children," says Forman. "A game like Monopoly comes along only every 50 years."

Old Favorites

The oldest board game known to man is believed to be the 3,000 year old Ur Royal Game of Sumer, now in the British Museum. The first American board game was The Mansion of Happiness, invented early in the 19th century by a minister's daughter and now in the Parker Brothers' collection. Eternal Happiness was the reward for winning this game, played without dice, which were then considered tools of the devil.

Milton Bradley's The Game of Life is 126 years old, the first game the company published. Known in the 19th century as The Checkered Game of Life, it offered a "happy old age" as the winner's prize, that is if he didn't fall prey to those bugaboos of lewdness, intemperance and idleness, updated in the newer version as business failure, mortgage payments and dead-end careers. The game, says Dave Wilson, vice president of sales at Milton Bradley, "is a tongue-in-cheek reflection of how times and morals can change, yet remain the same. A classic remains fresh generation after generation."

Chess, checkers and backgammon are board games whose histories go back to ancient civilizations and whose popularity never seems to diminish. As chess champion Gary Kasparov says, "For me, chess is above all art, with elements of science and sport—the art of seeing in advance your own moves and your opponents."

The Olive Tree Cafe, on MacDougal Street in Greenwich Village, experiences a daily board game frenzy. "Chess, checkers, backgammon, Scrabble and even tic-tac-toe play havoc at mealtime," says Joyce, one of the Olive Tree's managers. "People love playing games while eating or drinking, but there are certain times when we only serve meals, like Saturday evenings and Sunday and they get mad."

New Wave Games

Although traditional games have retained a loyal following, futuristic games are fast gaining fans. At Forbidden Planet, a five-year-old Greenwich Village store specializing in avant-garde games, "Our most popular game is Dungeons and Dragons," says Christopher, a salesman. "D and D is a role-playing game where each player develops his own unique character with certain attributes and strengths. The game's geared to people with above average imagination. During the last two years, sales of the game have almost doubled," Christopher adds. "D and D," put out by T.S.R. Manufacturers, costs $9.95.

Another popular new game is Car Wars (Steve Jackson Games, $15.00), a fantasy game in which each player designs his or her own car by drawing it on paper and assigning it different types of weaponry. In all of these fantasy games there is a game master who controls the play.

So far, relations between traditionalists and the avant-garde seem peaceful. "Both traditional and fantasy board games will continue to coexist," says one fairly sophisticated urban teenager, "simply because each person must strike his or her own balance between the imaginary and the real. When I'm in an evasive mood, the allure of fantasy games is great. But when I get bloodthirsty, there's always Monopoly."
Marketing the Stars

by Deborah Erickson

Have you ever gone out to the country and spread your scratchy wool blanket under the stars? There is something wonderful about the night sky.

That’s easy to forget if you live in New York City. Somehow, reclining on a tar-papered apartment building roof, gazing at TV antennas doesn’t quite measure up. But there is an alternative. You can see the stars night and day at the Hayden Planetarium. Without mosquitoes.

Four-fifths of all visitors to the world’s largest planetarium are, in fact, native New Yorkers according to Lynne Azarchi, director of public relations. “Some people come here to learn about astronomy, others are looking for a place to bring the family,” she says. “A survey we did in the summer of 1984 showed 74 percent of visitors came to the Planetarium less than once a year; 57 percent were visiting for the first time in five years or more.”

But attendance and income at the Planetarium have risen drastically since Dr. William Gutsch became chairman in April of 1982. In 1981, the Planetarium suffered a $30,683 net loss, one of many that had swelled the accumulated debt to $753,633. By 1985, the Planetarium branch of the American Museum of Natural History recorded a net profit of $257,575. Gutsch’s profit-oriented strategies are responsible for the debt’s substantial reduction. It now stands at $533,279.

Educating the public about space is the institution’s mandate. But in the 1980’s, earning a profit has become just as important. Gutsch explains his aggressive approach to the marketing of astronomy. “We don’t survive on tax dollars—we don’t get any. We have to earn our keep. That means creating products that bring people in.” Admission fees from 578,000 visitors totalled $984,055 in 1985—a $180,000 jump from 1984’s receipts.

“Today people expect more than just stars on the ceiling when they come to the Planetarium,” Gutsch says. That sufficed in the 30’s and 40’s, but daily shows in the Sky Theatre had changed little from that time and were out of sync with the star-wise, technically jaded public. “The shows were still like lectures; and people were bored stiff,” Gutsch says.

He remedied the problem by writing and producing his own programs, heavy on special effects. He says, “Astronomers of the 1980’s are not studying the Big Dipper. They’re studying black holes and quasars and life in space. With our visuals, we can actually take people to a black hole or the rings of Saturn or an erupting volcano on the planet Io, instead of just telling them about it.”

Feats like these are daily performed by the $2 million Zeiss VI Star Projector, together with optical effects, electronic circuitry, two computers, sound, music, photography, artwork, models and several hundred smaller projectors—almost all specially designed.

That Sky Show attendance has shown such a marked increase is no surprise. Gutsch perfected his skills at the Strassenberg Planetarium in Rochester, New York. To date he has written “six or so programs for the Hayden, about 30 all together.”

If the name Dr. William Gutsch sounds familiar, it probably is. This doctor of science education (master’s in astronomy/astrophysics) writes a syndicated column on space for the Gannett newspapers. He is also WABC-TV’s weekend and occasional weatherman, alternating with Storm Fields. He designs all his own graphics.

Although the Planetarium is his “home base,” on any given day Gutsch may be across the country, or across the world. His work as a consultant for NASA takes him to aerospace bases and plants, highly secret meeting rooms and anywhere there is space research and talk.

Some of his travels is to see what other planetariums are doing, because he believes that “looking over the fence is healthy.” Gutsch says, “Although I have not done much shifting of dollars [since taking over as chairman], I do spend more for travel. Just a few thousand. I think it’s important for the staff to see what their colleagues are doing.”

“We spend a little more for publicity, too,” he says. “But basically the rosiness of our financial picture is because we’ve been spending less for markedly different programs.”

In 1982, Gutsch recalls, “I didn’t see anything good enough to leave alone, so I had to set priorities. Since the Sky Theatre is the reason 98 percent of the people come here, that’s where I concentrated my efforts first.”

Some of the most astounding moments of the Sky Show involve images of spacecraft like Voyager, the Viking Lander and Galileo. The man who makes the models is Brian Sullivan, whose apparently boundless energy is fueled by his love of space. He talks excitedly, skipping from federal space spending to space-related discoveries like Velcro, elastic and calculators to photo techniques to growing chemicals in zero gravity. He mentions that he
wanted to be a train engineer until he saw the movie 2001.

Sullivan has worked for the Hayden Planetarium for over two years now. He also builds models for NASA and the European Space Agency, and his work appears in *Time*, *Omni*, and *Discover*.

"If you know the industry hardware, you can do models," he says. Although Sullivan's models rival those seen in *Star Wars* and *Close Encounters*, most of his cost less than $10 to build. The movie versions cost about $25 million. Sullivan spray paints a floodlight white and creates the base of the Soviet comet probe Vega. The rim of a lemon sherbet container becomes an orbiting space station.

Sullivan's innovative, economical approach also benefits Sky Show advertising. "Exciting visuals bring people in," he says, and explains how that is accomplished. The various elements of a poster or brochure—say a starry sky, Halley's comet shooting through it, and the show's title—are photographed and exposed separately for maximum eye-grabbing clarity. Then Sullivan paints color onto the black and white photos with an airbrush. The process, called photo illustration, takes only a day. Lucasfilms achieves the same result with fiber optics costing millions.

**Economical, Astronomical Advertising**

Posters of upcoming shows are strategically located at the Planetarium's entrance/exit. "If visitors have had a good time, they are likely to be receptive to advertising while they're on the way out," says Lynne Azarchi. "Hopefully they will leave with a conscious imprint that our shows change—which they do three times a year."

The Planetarium's main entrance is at the corner of Cen-
central Park West and 81st Street. The other way in is through the American Museum of Natural History. "We’re lucky to have the Museum audience right here," Azarchi says. "We make sure to keep our pamphlets and information flyers stocked up by the entrance."

Actually, the Planetarium’s proper name is the American Museum-Hayden Planetarium. "We are a department of the Museum, just like Anthropology or Invertebrate Paleontology," says Gutsch. "We operate as a separate fiscal entity, though, with our own balance sheet, and we pay the Museum for services like security and accounting." In some respects, being part of the Museum is limiting—the Planetarium may not actively raise funds or recruit its own members. "On the other hand," Gutsch says, "since Museum members are automatically Planetarium members, we have a direct line to those 22,000 people."

But the Planetarium is not just waiting for Museum visitors to drop by on their way from Ornithology to Mammology. Not since Lynne Azarchi arrived in January of 1984, armed with a Masters from Columbia, and launched a community marketing attack. Her modus operandi: partaking of free listings wherever they are found.

"Our advertising budget is very limited. We can’t afford the New York Times," she says. Instead, community newspapers like Senior Edition and Manhattan Arts are an affordable way of reaching the New York area. Radio public service announcements and corporate newsletters are other good, free places to advertise, Azarchi says.

To attract tourists, known to be 18 percent of visitors, Azarchi sends brochures to hotels, visitor bureaus and travel agencies. She lists the Planetarium with Where magazine, which is sent to all the major hotels; and with the Big Apple Guide, published by the New York Convention and Visitor’s Bureau.

Azarchi says, "We do more promotion—like coupons and free gifts—than advertising. It’s less expensive and easier to measure the effectiveness of these direct response vehicles." She quips, "If coupons are good enough for Procter & Gamble, they’re good enough for us. Our goal is to at least break even, which we usually do."

**Space Sells**

Admissions are by far the Planetarium’s largest source of income. Next best is revenue from the two gift shops, managed since 1981 by David Roth. Sales have climbed steadily, going from $134,885 in 1980 to $234,225 in 1985. Why? "I have a knack for this. I buy by intuition," Roth says. He reports that astronaut ice cream is the most popular item. Thousands of the peculiar freeze-dried souvenirs are sold each year.

Markup is usually double wholesale, but Roth admits, "I like the little kids to be able to buy, so it’s sometimes lower than that." Though distributors and sales people bring products in personally and send catalogs, Roth says, "I aggressively seek items. I shop in candy and stationery stores, gift shops, anywhere."

"Nobody says, 'I can get it cheaper at Hayden,'" Roth says. But in fact, his prices are 10 to 40 percent less than those of similar stores materializing of late in NYC. "We’re not in competition with anyone," he insists, and that is probably true. The Planetarium shop pays no rent per se, but money is taken out of Roth’s operating budget for overhead. He says, "We get free advertising when the media come. But if something isn’t moving I just lower the price. I prefer selling more at lower prices anyway." The gift shops do collect 8 1/4 percent sales tax.

Stores like Star Magic and The Daily Planet are built for this stuff," he says. Their mirrors, spotlights and glittering glass cases cultivate mystique. Tinkly electronic piano concertos (prototypically by Stephen Halpern) are piped in. Tapes of the music, available here, are not only the latest prescription for cosmic self attunement. Their unending upbeat seems calculated to keep shoppers alert. Star Magic on Broadway at Astor Place is particularly orchestrated, almost hypnotic. It plays the allure of space to the hilt.

Educational and “gee isn’t this neat” is the feeling of the Planetarium’s gift shops. Here sincerity compensates for flash. Roth points to the glass globe in the knee level display cabinet. "Certain things we don’t expect to sell. We just have them because someday somebody will want them."

Of course it’s also a matter of pride. Roth says, "I like to have a nice variety of items. And some of my stock is chosen with planetarium groupies and eclipse chasers in mind." Such people, he says, are "well educated and seem to have money. They follow eclipses around the world, and they always have $25 for a new astronomy book."

Halley’s Comet items were much in demand beginning in the summer of 1985, although the fiery phenomenon was visible in the northern hemisphere only from January to March of 1986. By that time, Roth was trying to get rid of inventory that included a $10 plush comet (looking much like a fuzzy cornucopia with eyes) and glow-in-the-dark Halley’s tee shirts. He notes that "Many people bought as an investment, although as far as I know the Halley’s stuff from 1910 isn’t worth anything."

A big draw from summer through March was a 16-minute
mini-feature called “Halley’s Comet: Once in a Lifetime.” Star Trek’s Leonard Nimoy did the voiceover, because Gutsch likes the programs to have a name narrator. Though a comet in the news may have boosted Planetarium traffic a bit, Gutsch says, “Revenues are up across the board, and have been for 29 out of the past 30 months. So I don’t feel that once the comet goes away we’re dead meat. The strength of our programs is responsible for this success.”

Strong Programs

Three seatings of laser shows fill the 650-seat Sky Theatre on Friday and Saturday nights. “Heavy Laser” is choreographed to the music of Van Halen, The Police, The Who, and Rush, heard through a Fostex sound system capable of shaking the very heavens. “Laser Floyd” and “Laser Zeppelin” were described by one heavy metal music fan as “absolutely, unbelievably, totally awesome.”

Public laser shows were first presented by the Planetarium in 1974. Gutsch says they were successful other places but not here. He “pulled the plug on them almost immediately” in favor of the current programs with more animation, better effects and music. Income from the laser shows (respectable at $5 per ticket) is channeled into a restricted fund used for maintenance and repair of Planetarium property.

In 1981, “proceeds from special presentations,” as this income is called in the public Statement of Changes in Fund Balances, were $181,522. By 1985 the proceeds were $253,130. Gutsch shies from discussion of finances. But he is glad to talk in terms of attendance. He says “In 1983-84, attendance was up 95,000 over 82-83, primarily because of the laser shows. In 84-85, we were up 61,000 more. Laser attendance was holding steady at that time, while the preschool and public shows were drawing more. As of March 1986, we were up 41,000 more over the same part of last fiscal year.”

“Wonderful Sky” is a program for preschool children, written by Gutsch and produced with the Children’s Television Workshop. Instead of sending the little ones off alone into the nighttime sky, a teacher/host (Gutsch himself when time permits) says hello with the lights on. Then the dome is darkened, and much beloved characters—universally recognized by the young audience—appear. Gutsch says, “The kids go wild, they love it. We explore the skies together, and learn about rainbows, the moon, the stars.”

Grown-ups may prepare themselves for the Sky Show with a wrap-around slide presentation on astronomy and space science given in the Guggenheim Space Theater. The round room upstairs was revamped in February — each of the 22 screens got two new projectors, and a fidelity system that lets sound fly around the room was installed. Now a computer coordinates the doubled visual capacity, instead of the outdated “programming unit” used since 1974. Gutsch says the $60,000 worth of audio-visual improvements were “long overdue.”

“It’s a very nice catering facility,” says Gutsch. “We can fit 250 for sit-down dining. Using the projections, corporations can show new products, or logos, or create an environment.”

The American Stock Exchange recently held a board of governor’s dinner in the Space Theatre. Susan Griffin, vice president of information, and one of the individuals who worked on the affair, says, “Generally non-profits want you in and out. They don’t help you make it something special.
But everyone at the Planetarium went out of their way. Dr. Gutsch's personal presence was felt too, he's not just a figurehead."

The evening began with a cocktail hour in the exhibition hall. There stand the busts of famous space scientists from Ptolemaeus, "father of astronomy," to Edwin Hubble, discoverer of the Andromeda nebula. Just across the way are pale green metal scales, telling one's weight on other planets. Griffin recalls the 360 degree slide presentation "pushed that old programming unit to its limits, but it was terrific." She says, "We started with shots of the stars, went to random NYC nights, to Wall Street to the Exchange. It was really personalized, almost magical. The Planetarium people inspire childlike wonder. White-haired, very dignified executives were reduced to saying wow and gee."

"We had a party for our sales team at the Museum and Planetarium when we were presenting the new fall shows," says Ken Krupka, promotions coordinator for WCBS-TV New York. "The presentation went over really well because of the unique facilities in the Sky Theatre. Can you imagine Wheel of Fortune on the entire dome, with lasers? Definitely not run of the mill. And the seats are so comfortable." For jointly sponsored events like this, Gutsch says, "We do a 50/50 split and the Museum handles the door."

Special events are good for the staff, Gutsch says. "They're a chance to think of something other than science. They help generate a new audience, and they bring in money." Other projects, he says, are done "more out of ego than economics."

"Generating a new audience."

For example Live Concerts Under the Stars. Gutsch guarantees a clear night for the new wave and classical concerts presented in the Sky Theatre. He says, "We began in 1983 and sold half a house for each of two concerts. For Christmas of '84, two performances were sold out a week in advance. In 1985, tickets were sold out a month in advance." The acoustics of the dome—which is 48 feet high, 75 feet in diameter—are no less spectacular than the effects. "They can't do snow at Alice Tully Hall," Gutsch jokes.

Sales of artwork (slides of original pieces done by the Planetarium's artist/technicians Brian Sullivan and Helmut Wimmer) brought in $13,000 last year. The images of asteroid swarms, alien moon bases and the like sell for $10 each. Gutsch says there is no interest from the public because the slides are borderless, suitable for projection on a Planetarium dome, but not on a home screen.

Prices are low because the only buyers are other planetariums on six continents. "We're aware of each other's budgets," says Gutsch. Although he brought the idea of selling artwork from the Strassenberg Planetarium in Rochester, the Hayden became a seller of complete programs almost by accident.

He explains, "We didn't consciously set out to sell programs, or show kits. But our colleagues would be in town, like the show and want to buy it." Programs like Starquest have a name narrator (i.e. Leonard Nimoy here, Vincent Price in another), an original soundtrack, artwork and models. They usually have over 100 slides, and "cost varies with complexities from $500 to $1,500." Gutsch says, "We matched the current pricing structure of other planetariums like the Strassenberg, who pioneered showkits, Jacksonville and Salt Lake City." The latter's products are cheap or free because they get government grants.

Educational courses are another supplemental source of income for the Hayden Planetarium. They brought in $60,325 in 1985, up from $49,763 in 1981. Lynne Azarchi says the .5 percent response to her direct mailings was "pretty good for a non-profit, comparable with industry figures." Here as with the more general brochures, she carefully targeted markets. 3,000 pilots received notice of a course in navigation; 2,000 readers of kids' magazines were told about school-age astronomy courses.

Now that revenues are increasing, Gutsch says, "I'll be able to assign some money to lower level priorities like exhibits. They're just very expensive, not as effective a tool on a per dollar basis." Still, he plans to replace a large, boring pile of oil barrels (representing the energy used by a family in a year) with a real live weather station.

Dr. Gutsch says he wants the public to see the Planetarium as "a neat, exciting place to learn about the newest discoveries in the universe." While some visitors pursue the vast knowledge of the galaxies, David Roth identifies another source of attraction. He suggests, "Part of the Planetarium's appeal is its technological orientation. That's the kind of society we are. But I think a lot of people are interested in space because they're dissatisfied with this era. They're looking to the heavens for something else, something better."
Pets, Vets, and Debts

Some people say that pets are the only form of love that money can buy. And buy Americans do. In a recent study on pet ownership, the Humane Society of the United States (HSUS) reported that 41.5 percent of all American households own dogs and 27.6 percent own cats. That's a total of 84.6 million dogs and cats who have become more than pets — instead, a part of the American family.

In fact, a 1985 study by Kal Kan, a pet food company, showed that more American households now have dogs than have children, by a margin of 1 percent.

Raising kids is expensive, but at least parents can take a standard $1,000 income tax deduction for each child. Pet owners get nothing from the IRS, even though owning an animal can take a healthy bite out of the family budget. In 1984 alone, independent retail stores sold almost $1.7 billion worth of pets and pet supplies. That number jumps exponentially when revenues from chain stores like Doktor's Pets are added.

The American demand for cuddly companionship has spawned a pet health care industry catering to every phase of a pet's life: doctor and dentist visits, shots, insurance, holistic care, retirement homes, even funeral ceremonies, burial and monuments.

This new range of womb-to-tomb care starts with a series of vaccinations that costs up to $200, according to Dr. Jerome Klinger of the County Animal Clinic in Yonkers, N.Y. Klinger bases this figure on his clinic's $35 fee for each of a puppy's four distemper shots and an additional $10 fee for a rabies shot. Kitten costs for the first year are "about the same if you do everything including the feline leukemia vaccine, distemper, and the rabies shots," he says.

Vaccinations are a necessary investment in the health of any pet. If an animal is ill or needs surgery, fees are considerably higher. "Probably 10 to 15 percent, maybe 20 percent of the average pet population requires surgery during its lifetime — about the same as with people," Klinger suggests. "I can't put an average price on surgery though. It can range from $150 for same-day-out procedures to $1,000 for long-term hospitalizations."

Alterning or spaying the pet so that it cannot reproduce should be considered. The procedure is now routinely recommended by vets, animal shelters and humane societies. "Agencies offering pets for adoption often promise to pay for neutering," says Eleanor Schilman of the Yonkers Animal Shelter. Yonkers, like many other shelters, has an arrangement with certain vets who perform the surgery and are reimbursed later. This agreement covers only the animal's operation, not the hospitalization charge added by many clinics. The usual hospital fee at the County Animal Clinic, Klinger says, is $20 for cats, $22 for dogs under 50 pounds, and $25 for dogs over 50 pounds. The average cost of spaying a female cat is $85 and the cost of altering a male is $40. The procedure for female dogs runs about $85-$95 and male dogs approximately $60-$65.

Caroline Malczynski of the Dr. Michael Mills' Animal Hospital advises pet owners to look into a program spon-
sored by The Friends of Animals. This organization provides owners with a certificate entitling their pet to a free neutering. Similar to the Yonkers Animal Shelter arrangement, Friends of Animals reimburses the vet at a later date. Not all vets honor these certificates, however, Malczynski warns, and reminds owners to always check with their vet beforehand.

One of the newest, most rapidly expanding areas of pet health care today is animal dentistry. Both Dr. Milts and Dr. Klinger recommend regular dental checkups for pets. "It's good prophylactic care," Klinger says. "In a lot of cases, however, when the animal is brought in after it already has a lot of periodontal disease, it's no longer prophylactic, it's therapeutic." A regular dental exam includes a hydrosonic cleaning of the teeth and gums and costs about $85 for dogs and $65 for cats. When severe dental disease has set in, a visit can cost as much as $150-$175.

But animals have survived for years without vaccines, dentistry and the like. Are all of today's veterinary services really necessary? Klinger says, "Absolutely. People survived for years without a lot of the care we can give to them today too, but now we can extend their lives tremendously. With an animal, we're not only extending the length of the pet's life, but also the quality of its life."

With the proliferation of new health care services—and their fees—it would seem someone is making a significant profit. "Not the vets," contends Tim Donovan, national media coordinator of the American Veterinary Medical Association (AVMA). "Vets are small business people. Their overhead is quite high. Vets in private practice must support a full service hospital. They have a lot of expensive equipment in their offices and often have large staffs. A veterinary practice is an expensive creature to finance."

"Are all these health services necessary?"

Donovan cites a 1983 survey that shows the average income before personal taxes for a private veterinary practice is $39,669. "This ranged from a high of $48,300 for a vet who does equine work to a low of $35,100 for vets who do half pet animals and half large animals. Compared to the salaries of other medical doctors," Donovan says, "veterinary medicine is not a lucrative profession."

There are 30,000 vets in 16,500 practices across the United States. Donovan says this "slight surplus" is expected until the year 2000. "We see the number of vets increasing 73 percent, with the demand for pet services growing 31 percent and the demand for food and large animal services growing 24 percent." This surplus, "could result in a decrease in real income for the average veterinarian."

Regardless of these foreboding statistics, the competition to get into any one of the country's 27 veterinary colleges is fierce. Dr. Michael Milts whose Animal Hospital is located in midtown Manhattan recalls, "There was a day when anybody who couldn't get into medical school applied to veterinarian schools. Today," he says, "if you don't get into med school, don't waste your time trying for vet schools—you won't even get an interview."
“Most vets,” Donovan says, “receive a four year bachelor’s degree and then go on to complete a four year program at a veterinary college. Intern periods are not required, and licensing is regulated by each state.

“Veterinary medicine is experiencing an explosion of medical knowledge,” Donovan reports. “Certainly that tends to lead toward a greater degree of specialization and a greater range of services. Advances in virology, for example, have lead to better vaccines to prevent disease, and arthroscopy, a new surgical technique to repair bone and cartilage injuries is now being used more and more on companion animals.”

Insurance Eases the Bite

With animal health care costs beginning to rival those of humans, requests for pet health insurance coverage have multiplied. Though various companies have offered coverage since 1936, Veterinary Pet Health and Accident Insurance founded in 1982, is the only program in the country accepting new policies. Frontier Insurance, a large insurance company that offers health, home and other insurance policies, ventured into the pet health insurance business three years ago. But Kim Taylor, manager of Frontier’s pet health program, reports, “Losses have been huge.” As a result, Taylor says, “The company is renewing policies we already have, but we are not accepting any new pets.”

“Losses in pet health insurance have been huge.”

Dr. Klinger is not surprised. “I think the premiums for most policies are too low in relation to what they’re giving,” he says. Carolyn Malczynski of Dr. Milts’ Animal Hospital agrees. “It’s not worth it for the insurance companies.” She says, “Pet owners will pay a $50 a year premium but then run up a $300 bill. It’s likely that some insured animals will see a vet every month.” Though Ms. Taylor would not point to any direct cause for Frontier’s retrenchment in the pet insurance area, she does concede that “too low premiums could have been a contributing factor.”

Ron LaCharite, vice president of Veterinary Health, Inc. sees a successful future for his insurance program. “Unlike other programs,” he says, “we have the direct involvement of vets in this plan. Over 900 vets are shareholders. What we have created is a plan for the profession.”

“Our company has seen a 17 percent to 20 percent growth rate per year,” LaCharite says, “and has sold over 80,000 policies thus far. We have processed over 45,000 claims and have paid out $2 million.”

LaCharite does not intend to be overcome by claims. “We have our losses under control,” he says. “Payments [to policy holders] are proportionate to premiums and are made according to a benefit schedule.” There are also controls on the amounts of payments, he adds. “$750 is the maximum payment per incident and $5,000 is the maximum payment per year.”

Veterinary Health offers both an accident plan (Plan A) and an accident plus major medical plan (Plan B). Plan A requires a yearly premium of $24 and covers dogs and cats from two months to 11 years of age. Plan B’s premium varies. It ranges from $44 a year for two to 11-month-old puppies and kittens, to $99 for dogs and cats from nine to 11 years old. A $20 deductible applies to both Plan A and B.

National Casualty Co., the underwriter of the policies, promises to pay 80 percent of the first $180 and 100 percent of the expenses in excess of $180 per incident and according to the benefit schedule during each policy term.

As the company does not engage in any paid advertising, LaCharite says word of its programs is most often spread “by vets, our policy holders, and the press.” A toll-free number is also available for pet owners desiring more information about the company’s policies.

Holistic Health Care For Pets

Not every pet owner believes that vets are the answer to pet health care needs. Diane Kaufman, a New York City cat owner, believes “holistic health care can solve a lot of common health problems.” This natural approach focuses on the well-being of the entire animal, both physical and emotional. She says, “There are some wonderful vets, but others are not worth their fees. Like doctors, they load you up with medication without getting to the cause of the ailment. They misdiagnose and overmedicate tremendously. Most vets aren’t even up on proper pet nutrition.”

Kaufman seldom visits vets with her cat Pandy. Instead, she consults with a holistic vet in Oregon by phone and pays per minute. She also prepares her own pet food naturally, rejecting most canned products. Is Kaufman’s approach saving her any money? “Sure,” she says, “An ounce of prevention is worth a pound of cure.”
Putting Your Pet out to Pasture

Like people, pets grow old and sick, and sometimes owners can no longer care for them. Pet retirement homes provide an alternative environment for ill or aged pets, another indication that pets have been accorded member-of-the-family status. One such local establishment is the Kent Animal Shelter and Retirement Home for Pets—two hours drive from Manhattan, at the eastern end of Long Island in Calverton.

Here owners may literally farm out their animals for "lifetime care" on two acres overlooking a river. Animals here have the run of "a very nice ranch-type house" and may go in and out of a fenced-in play area whenever they like. The facility supervisors are a married couple, described by publicity material as "foster parents." "This is not a kennel, and there are no cages," Director Pamela Senon says emphatically.

The home provides medical care, special diets, and favorite foods as specified by the pet's owner, who pays a one-time fee of $6,500 for a dog retiree, and $3,500 for a cat (two cats, $5,000).

In order to arrange for their pet’s retirement, owners sign an agreement, through a lawyer, with the Kent home. Most often, such arrangements are made in wills. "Older people worry about what will happen to their pets after they're gone," founder and former Director Gretchen Scanlon told the New York Times in 1981, three years after she opened the home in May 1978. "We've decided to help give them peace of mind." At the time, "five older dogs and at least a dozen cats" were living at the retirement home. New Director Senon reports that there are just two retirees in
residence at the moment.

What Are The Options?

Most pets today live long and happy lives. When they do pass away, however, many pet owners are not aware of the available options. Pet owners in this circumstance usually leave the arrangements up to their vets. The owner may opt for community burial, private burial, or private cremation. “Community burials,” Dr. Klinger says, “vary in costs. To bury a small cat, it’s about $20. To bury a large dog, it’s about $45. If you go to private cremation, you can spend anywhere from $50 to $150 or more.”

“Private burial is an option that more pet owners are exploring today,” according to Ed Martin of the Hartsdale Canine Cemetery. He says, “Many pet owners are dissatisfied with the thought of mass, country or estate burials, which are merely euphemisms for using a backhoe to dig a trench and filling it with layer upon layer of animals.”

The Hartsdale Canine Cemetery was established in 1896. It is the oldest pet cemetery in the world and despite its title, it does bury other animals. Though 70 percent of the animals there are dogs, 27 percent are cats and the remaining 3 percent includes a variety of pets such as birds, rabbits, fish and hamsters.

Pet burials entail a number of contingent costs. The first is the purchasing of the plot. Hartsdale’s 2’x3’ plots are priced at $160 and the 2’x4’ ones are $190. More than one body can be buried in each plot. “Although when people initially buy the plot,” Martin says, “they think it will be for only one pet, most eventually do get another pet and use the plot again.”

There is a $65 charge for opening and closing the grave, incurred at the time of the first burial and if and when another animal is added to the plot. A casket must be purchased for about $75. Many pet owners buy a headstone for their pet’s grave, although this is not required. “Ninety percent of the people who put up headstones,” Martin says, “choose an average size one ranging from $300 to $500. Some will spend over $1,000.”

The Hartsdale Canine Cemetery buries about 1,000 animals a year and Martin says business is increasing steadily. In fact, he is considering adding a crematory to the services his cemetery already offers. The cost of installing the necessary facilities would be at least $50,000 but Martin says the charge to patrons would “probably be about $100.”

“We have had a number of people requesting that we do
Warning: Warped Lyrics

By Anne Kaufman

In May of 1985, a coalition of concerned mothers, all wives of United States Senators, requested that a rating system be implemented for the recording industry. The group, calling itself the Parents Music Resource Center (PMRC), conceived a categorical rating system for "explicit" album lyrics. They said ratings were necessary to help protect young, innocent children from perverse songs, and filed their request on the basis of a need for consumer information.

Almost immediately, the Musical Majority led by Danny Goldberg, president of Gold Mountain Records, was formed. The committee, consisting of recording artists, managers, radio programmers, and others in the music business, in association with the American Civil Liberties Union denounced the PMRC, claiming infringement of the right given by the First Amendment—freedom of speech.

Six months later in November, the Senate Commerce Committee presided over hearings on the subject, to determine if legislative action was necessary. Musical luminaries Frank Zappa, Dee Snider, lead singer of the heavy metal group Twisted Sister, and John Denver testified on behalf of musicians.

In the heat of controversy, the PMRC relented and reduced their request to the application of a generic warning inscription, or the inclusion of printed lyric sheets with albums containing lyrics of an explicit sexual, violent, or drug/alcohol nature.

The Recording Industry Association of America (RIAA) and the PMRC finally reached an accord, rendering legislation unnecessary. For future album releases, both opponents agreed that by February 1986, generic warning labels or printed lyric sheets would identify albums the record labels deem explicit. The inscription states Explicit Lyrics—Parental Advisory, and appears on the back of the album in the lower right-hand corner. The printed lyric sheet is inserted under the shrink wrap, while cassettes bear a See LP For Lyrics imprint.

Leaving the matter of artistic censorship in the hands of the record companies did not please singers and writers. As guests of radio personality Scott Muni on WNEW-FM's anniversary show held at the Hard Rock Cafe on Nov. 1st 1985, the day of the accord, Frank Zappa and Billy Joel protested the ruling. Zappa read the press release for the agreement, "The record companies will decide what constitutes explicit, and there are no guidelines." Stan Gortikov (President of the RIAA) is quoted as saying "What is explicit is explicit." Those singers whose contract gives them control over album cover design are free to ignore the understanding, and the record companies may skip the special advisory if they print the exact words on the album cover."

Frank Zappa says, "What this amounts to is nothing. A few months ago when the PMRC contacted the RIAA about this matter and made their demands, the record industry said then, they would put a warning on the albums that said 'Parental Guidance—Explicit Lyrics,' which is basically what they've agreed to now. But before they got to that, these women, by virtue of the fact that they've got husbands in the Congress, dragged the industry through a Senate hearing, stirred up a lot of nonsense in the news trying to claim that everything wrong with society is the result of someone's song. And it's absolutely absurd. No matter what the lyrics are, I don't think that is sufficient reason to go through all the hoopla that has been going on here. There's too much politics in this. You can object to the lyrics in terms of taste, but you shouldn't think the thing needs to be legislated, because there's no scientific evidence to support the theory that hearing a song is going to turn you into a mongoloid."

Billy Joel, a victim of censorship in 1978 says, "I put out a record called "Only the Good Die Young," and it was banned by an archdiocese, and by a couple of cities when the record was on the way down. When it was banned the record turned into a hit. So this is a good example of what banning is going to do to music."

When the issue of censorship was raised on the nationally syndicated call-in radio program, singer/songwriter Tommy Shaw said, "I think it's an insult."

But censorship is not a new issue in the music world. It was initially directed at rhythm and blues when that style was first recorded in 1954-1956. Songs such as Clyde McPhatter's "Such a Night" and "Honey Love," as well as "Work With Me Annie" and "Annie Had A Baby" by the Midnighters were suppressed. Record companies cleansed the suggestive lyrics and the resulting versions were re-recorded by white artists who claimed the hits.

In the 1960's record companies rarely intervened with artists' modes of expression. When they did it was to edit out obscenity. However, the television and radio mediums did act as censors. The Ed Sullivan Show filmed Elvis' "The Pelvis" Presley from the waist up only, and the Rolling Stones were prohibited from singing the word "night."
when they performed “Let’s Spend The Night Together.” While some potentially offensive rock lyrics received criticism, they almost never reached radio audiences simply because stations didn’t spin the risky tunes.

Is It Explicit?

Federal Communication Commission (FCC) guidelines were not affected by the agreement. Charlie Kendall, Program Director of WNEW-FM says, “There has been no legislation regarding any FCC requirement to follow the rating codes that the RIAA has imposed. There’s no legislation pending, and nothing on the boards right now.” A prime time situation, in which explicit rock would be played after 10 p.m., will not be implemented. Kendall says, “I don’t think anyone in major markets ever has really played a lot of the things that were on the PMRC lists.”

Steven Elliss, program director of WAPP-FM in New York says, “Radio has always had very good judgment in what material they play and don’t play. And if anything is questionable, I would think that 99 percent of the time they do not play that product.”

“I really don’t think the rating system is going to make a difference. I don’t feel there’s a problem with it right now,” says Elliss. Kendall agrees, “The only effect that it might have on radio, is if there is further legislative action down the road. But that will probably not take place until the end of ’86.”

Concerts do contain explicit language. Henry Cisneros, the mayor of San Antonio, Texas recently passed an ordinance banning 14-year-olds from attending shows that utilize such material. In New York, Twisted Sister’s promoter, Jimmy Coplich, president of Cross Country Concerts says, “As far as this company is concerned, we will not issue a disclaimer for explicit language when advertising concerts.”

Employment of warning inscriptions is not a recent development. Bob Altshuler, vice president of publicity at CBS Records says, “In reality, even before this whole business began with the PMRC, we had put a disclaimer on an album we released by Marvin Gaye called “Dream of a Lifetime.” The line on the album cover suggested that some people might find the lyrics contained in the album offensive. So, the new proposal is in mind with a policy that already existed here.”

Henceforth, either the warning inscription or lyric sheet option can be used. “It will depend on the album,” says a spokesperson for PolyGram Records. “Each album is going to be judged on its own merits, and where appropriate, a warning sticker or album sheet might be inserted.”

Altshuler says, “In this particular case (Marvin Gaye) the warning was actually printed on the album jacket.”

For now, since there has been no ruling specifying when warnings or lyric sheets are necessary, each individual record label may make its own interpretations. “There are many people involved in a decision like that. I can’t give specific names, or even which department. It’s on an album-to-album basis, and it would be the decision of several people,” says Polygram’s spokesperson. Altshuler does not foresee the creation of a deciding panel. He says, “I think that within the company itself there is enough good judgment to make that determination.”

Losing Creative Control

Recording artists are not apt to lose creative control over their lyrics. According to Altshuler, “We believe in freedom of expression. We leave it to the artists to determine what it is they want to write, and what it is they want to record, to a large extent.” Polygram echoes that sentiment, assuring that “No freedom will be lost. Polygram isn’t willing or able to censor what their artists can say.” WNEW-FM disc jockey Scott Muni expresses the relief of many when he says, “If a writer cannot write what he wants to write, then I think we’re all in a lot of trouble.”

The presence of a lyric sheet or warning notwithstanding, Frank Zappa remains certain that parents still purchase albums for young children. He says, “If the child is obtaining albums, it’s because Mom is buying them. And if Mom is ignorant enough to buy something that might hurt the child, that’s Mom’s problem.”

At the Senate hearings, Dee Snider, author of Twisted Sister’s song “Under the Blade” testified, “The words in question are about war, and the fear it instills in people.” Tipper Gore, vice president of the PMRC charged the song with “encouraging sadomasochism, bondage, and rape.”

“We’re not enforcing the explicit lyric agreement,” says Patricia Heimers of the RIAA. “It’s a completely voluntary action.” Yet Zappa notes, “Mrs. Howar, president of the PMRC, said her group would monitor the record industry’s compliance with the agreement, and said letter writing campaigns and other pressures would be put on artists and companies that do not go along with it. So, how voluntary is this?”

Though some feel the industry’s interests are being compromised, Ms. Heimers disagrees. “No, not by the agreement that has been reached. Not at all. We tried to reach a reasonable compromise between the concerns of parents of younger children, and the rights of our artists’ creativity.”

The Musical Majority remains opposed, and is still fighting restriction, particularly in the form of warning stickers. In
fact, the group was initially organized around this issue. Spokeswoman Debra Kresh recalls, "The Musical Majority was set up as a public relations effort to educate the public and other people in the music industry, to try to get the non-stickering. We are against that decision."

The other identifying option is acceptable to the Majority. Kresh says, "We have nothing against making lyrics available to the store, or having them in the shrinkwrap. That's fine with us, and none of the bands are against that. If there's a choice, we would opt for the lyrics instead of stickering a record."

The group feels warning stickers will not do anything helpful, and may only "make obscure bands more viable. Kids might buy records because there's a sticker on it. It's more attractive like, Oh good, there's a sticker, let's buy it."

The bands chosen by the PMRC as representative of the recording industry, according to Kresh, simply are not. She says, "A lot of almost unheard of bands have gotten publicity out of this. I mean, you have to search for some of the bands the PMRC has come out against." One such band is WASP, who has not received radio airplay because their lyrics do not meet FCC requirements. Kresh says, "Now people are seeking out their record, and they will probably sell a lot more than if the PMRC had never focused on them."

Kresh contends regulation means the artists are being compromised," but adds, "I don't think that it's going to hurt business either way, records will still be sold."

Forced content control violates the First Amendment, the Musical Majority insists. "This is America, we're supposed to have freedom of speech. Any type of monitoring, putting people in boxes, is taking away a certain amount of freedom."

"Just one of our fears," Kresh explains, "is that record companies might not want to sign certain bands. They might now be looking for bands that can be rated. Very possibly, if somebody is a pop artist, say a Paul Young type, maybe the record company personnel will say, "You know Paul, gee that lyric. Because of that we'd have to put a sticker on the record, can you change the lyric?" And to a heavy metal band they might say, 'Why don't you beef up your lyrics, so we can put a sticker on it.' I'm not saying they'll definitely do that, but because of this agreement there's a chance that could go down." Though lyric rating advocates equate their plan with that of the film industry, Kresh points out, "It's much easier to rate a movie. Is there nudity? Is there not nudity? Are there curse words, are there not curse words? How can you rate something that's purely subjective like lyrics?"

The PMRC provided the public with an inaccurate self-description, says Kresh. "They want to come off as housewives and mothers. But they never would have had this power if their husbands weren't in the positions that they're in. That's why Zappa, and other people got involved. They'd rather see these women spending their time and effort on things that can really help. Let them get their homes together and not worry about everybody else's homes. Or if they want to worry about other peoples' homes, let them do something in a positive light, not take away something. Especially this year, when music has been such an amazing benefit for the world."

**Unhappy With Compromise**

While not happy with the compromise, the Musical Majority does not consider itself the loser, according to Kresh. "It's time for us to move on to things that are more important. And the less made out of this, the better. "We were more disappointed that the RIAA didn't come through for us, that they were too easy to give in. They're supposed to represent us."

Kresh says, "The Musical Majority would like the public to speak out against censorship by writing to the American Civil Liberties Union and record companies."

The RIAA's apparent lack of gumption was actually a Machiavellian ploy, according to many in the industry. *Rolling Stone Magazine* reported in a no-byline blurb that the real reason 24 record companies agreed to sticker their albums was their fear that "opposition to the PMRC would thwart legislation granting royalties to the record industry on the sale of blank tapes and tape recorders." The proposed legislation would impose a penny per minute of playing time tax on blank cassettes, on the assumption that tape buyers are copying albums they would otherwise buy, thus robbing the industry of royalties. By most accounts the warning sticker agreement was an 'I'll-scratch-your-back-or-your-wife's-back move, in hopes that the PMRC husbands will pass the tax.

The issue of specified rating systems is still alive in some courts, however. Twisted Sister led the way by placing this warning on their latest album, *Come Out and Play.*

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**HUMOR:** THIS RECORD CONTAINS SOME WORDS AND PHRASES THAT REQUIRE A SENSE OF HUMOR. IF YOU DON'T HAVE ONE, DON'T LISTEN.
Financial Follies

The book business, like the world of fashion, has long been faddish. Exercise books, diet strategies, and sex manuals; books on how to make your first million in the stock market; and management books on how to run a successful business. Some predict that books on quick investment advice will be the next trend; others say that the future lies in celebrity autobiographies. To date, only Iacocca seems to have truly captured the reading public's fancy, although future releases include the autobiographies of Victor Kiam, the Remington Products Inc. chairman, and of Thomas Monaghan, the man who started Domino's Pizza.

Author Robert P. Gandossy has another theory on the next category of best-selling business books: frauds, and the bigger the fraud, the better. Bad Business; The OPM Scandal and the Seduction of the Establishment is Gandossy's effort to get the story behind one of the biggest frauds in American history, the 10-year wheelings and dealings of computer leasing company, OPM Leasing Inc.

Robert Gandossy's Bad Business provides the reader with an in-depth study of white-collar crime by poking into areas where few other reporters or writers have tread before: the detailed workings of the corporate world, the role of accountants and lawyers in fostering and maintaining corporate images, and corporate reluctance to blow the whistle on fraud. Gandossy is ever so bold in pointing out that the line between good and bad business is grayer than most would expect and that innocent but interested bystanders must inevitably monitor the conduct of those with whom they do business.

Founded in 1970 by Myron S. Goodman and Mordecai Weissman, OPM Leasing Inc.'s rise was mercurial, moving from an unknown little company which leased anything from chicken fryers to air-conditioners, to one whose clients included AT&T, American Express, and Rockwell International. In its heyday, leading financial blue-chip companies like Goldman Sachs and Lehman Brothers Kuhn Loeb provided OPM with almost a billion dollars in loans for computer equipment. By December 20, 1982, founders Goodman and Weissman were sentenced to spend 12 and 10 years respectively in Allenwood Federal Prison Camp in Montgomery, Pennsylvania—a disastrous end to their American dream.

The Rise and Fall

Within two years of the company's founding, OPM moved from Brooklyn to Wall Street, where Weissman and Goodman hired top-notch accountants and bankers to create a slick, pin-striped image for OPM.

Highly leveraged, with little working capital, the quickly expanding OPM soon experienced cash shortages due to lessee defaults and premature expansion. Executives Weissman and Goodman solved their financial problems by double discounting or "dipsy-doodle" leases, an illegal procedure which uses the same collateral to finance two or more loans. The money from the bad loans, Gandossy reports, was used to handle cash shortages and mounting debts.

To keep afloat, Weissman and Goodman's next step was to find flexible auditors and accountants "who would be willing to bend a few rules and close their eyes to what Goodman and Weissman believed were minor improprieties." OPM hired Rashba & Pokart and Weissman's first cousin Marvin Weissman to audit the company's financial statements for the 1973 fiscal year. By the time Marvin Weissman finished his audit in the summer of 1974, however, he concluded that the company was insolvent. Determined that these findings should not see the light of day, Goodman fired Rashba & Pokart before the firm could issue its opinion.

But the tale did not end there. Since OPM needed financial statements to extend their credit from Chase Manhattan, Weissman and Goodman actually used Rashba & Pokart letterhead to create phony financial documents to present to...
the bank. The lesson to be learned from the accounting experience according to author Gandossy was obvious, "Never again would outsiders—or insiders, for that matter—have access to OPM’s financial statements. The image had to be preserved."

Something had to be done to reverse the negative trend—the company’s negative net worth “plummeted from under $16,000 in 1971 to under $650,000 in 1975. Two accounting firms qualified their audits of the company’s financial statements over that brief period. When the figures didn’t come out the way OPM wanted, it changed auditors. In five years, OPM had gone through three accounting firms.” So the firm turned to Stephen Kutz of Fox to handle their books. Gandossy recounts how Kutz and his team of accountants devised a method to show a profit for OPM—the trick was to recognize income immediately on certain equity transactions rather than amortizing the income over the life of the lease.

Kutz’s magic method worked for the next two years although subsequently Philip Lint of Price Waterhouse, the accounting firm brought in by trustee James P. Hassett to look at OPM’s books, determined that it did not conform to generally accepted accounting principles since “it currently recognized income that was in fact contingent.”

From July 1978 to February 1979, when OPM’s cash flow problems were acute, the company obtained a number of fraudulent loans with the apparent aid of Sidney Hasin. Most notable was the loan on Equipment Schedule 81 and “The Bridges to Nowhere,” thirteen equipment schedules representing identical equipment destined for the same location which were all bridge-financed, and the Rockwell fraud. OPM took obsolete equipment off Rockwell’s hands saving the aerospace company millions of dollars and Goodman alone handled the Rockwell account.

Through his careful reading of the trial records of the OPM scandal and his subsequent interviews with involved parties, Robert Gandossy traces the intricate maneuverings of OPM principals and the web of OPM’s collaborators: Stephen Lictma, a former high school classmate of Weissman’s, who served as Goodman’s assistant since coming to OPM in March 1977, Allen “Goodhands” Ganz, Weissman’s brother-in-law, Mannes Friedman, a 32-year-old former textile salesman, and Martin Shulman, “the senior player on Goodman’s team, who was hired by OPM from American Express, where he had received a substantial amount of cash from OPM in exchange for facilitating OPM’s frauds.” The foursome handled “the day-to-day management of the fraud.”

By scrutinizing official documents, Gandossy shows how the OPM team “fraudulently induced nineteen different lending institutions to purchase sixty notes in forty-nine separate transactions, fraudulently obtaining over $190 million, from late 1978 through February 1981.”

Trouble

The highly dramatic chapter titles of Bad Business reveal how the OPM fraud began to unravel: “The House of Cards Begins to Shake, The Aftermath of Clifton’s Resignation, The Summer of Nondisclosure, The View from the Outside, The End of Bondage,” and “The Fall of the House of Cards.” Things moved swiftly and by February 1981, OPM officers had already received grand jury subpoenas. One by one the cards began to fall: OPM filed for court protection from creditors under Chapter 11 of the federal bankruptcy laws; the Washington law firm of Cutler & Pickering began a two-year investigation of the fraud at a cost of more than $2.5 million; Audrey Strauss, an assistant U.S. attorney, conducted a parallel investigation that led to the criminal convictions of all of the OPM collaborators.

The trustee’s investigation revealed that “most of the money obtained in the frauds was used to keep OPM in business and to support the luxurious lifestyles of Goodman and his team. To recoup some of the stolen funds,”
Gandossy says, “the trustee took possession of Goodman’s home, automobiles owned by the company, and other items.” Finally, in late May of 1985, the OPM trustee, “after four years of cleaning up after Goodman and Weissman, executed a purchase agreement to sell OPM to the Chicago-based Pritzker family—owners of Braniff and Hyatt—for $17 million (pending approval of the bankruptcy court.)”

“Dipsy-doodle leases.”

In his final chapters, Gandossy addresses the most puzzling of questions: what conditions made the OPM fraud possible and difficult to stop. Gandossy stresses that, from the start, OPM appeared legitimate and that “victims” were easy targets since they most often sought “quick, easy, and lucrative returns from OPM.” Then, too, it was difficult to blow the whistle on OPM since information about OPM was “diffused among many individuals and organizations, few of which had verifiable evidence of wrongdoing.”

Gandossy’s “Epilogue” offers several suggestions for avoiding fraud of the OPM magnitude: re-examining the confidentiality norms of the professions in light of the increasing interdependence of organizations; clarification of appropriate conduct in gray areas since rules and laws only establish outer limits, “what individuals are not allowed to do”; and the creation of professional hotlines where members can call in anonymously to resolve ethical issues. In conclusion, Gandossy points an accusing finger at the world of business and insists that “Members of the business community have the ultimate responsibility to communicate their unwillingness to accept or tolerate the kind of conduct exhibited by so many in the OPM affair and others like it.”

$4: Interviews Author Robert Gandossy

$4: How did you first become interested in the OPM scandal?
RG: A good friend at Yale who is a partner in a Washington law firm talked about the case and it caught my interest. I thought the story worthy of a book.

$4: Who was your targeted audience for this book?
RG: Basically, I was writing for business people, lawyers, accountants and also business and law school students. The book is not intended as a text; any layman could read it.

$4: How did you do your research? How did you get your sources?

RG: A court appointed trustee was responsible for investigating this case in front of a public grand jury. I listened to the witnesses and defendants and got to know some of the people involved.

$4: How hard was it to get people to talk?
RG: Not very hard. Many of those involved and accused were interested in clearing their names. They were very helpful in supplying information.

$4: Did anyone consciously misinform you?
RG: No, not intentionally. Most of the people saw what they wanted to see and gave their own perspective of the actions taken.

$4: What, if anything, did you leave out of this book? Did you find yourself “self-censoring” when you wrote the book?
RG: I tried to be careful not to be self-righteous. Any one of us could have closed our eyes to misconduct and I tried to create a fair picture. I didn’t leave out anything that was critical but I did have to avoid being libelous.

$4: Who is the typical victim of this kind of white collar fraud?
RG: That’s a difficult question. My feeling is that a lot of the victims were those who were guilty—people who closed their eyes, and those who attempted to put a stop to the fraud. They were perceived as whistle blowers and they suffered because they tried to put an end to what was wrong.

$4: What has happened to OPM, the players and the people, since the “fall”? Is there an update?
RG: OPM Leasing Service was sold for $19.5 million and is now located in Greenwich, Connecticut where it is a viable, profitable business. Some of those who were not guilty still work for the company. Mordecai Weissman and Myron Goodman are still in prison. All of the others, who received 2-7 year terms, were released on good behavior.

$4: What have been the reactions to your book? How is it selling?
RG: So far, it has received positive and neutral reviews. Neutral reviews said the book was informative and an interesting story. Others said that it gives a better understanding of what happened. The book is selling quite well, better than was expected by the publishers. There will be a second printing shortly.

One result of writing this book is that I am doing some consulting on ethical leadership. More and more corporations are taking steps to reduce possibilities of fraud. They are very concerned about ethical conduct.

Robert P. Gandossy has worked for several manufacturing and retail firms, and also holds a Ph.D. from Yale University. He is now a management consultant with Goodmeasure, Inc., in Cambridge, Massachusetts.