Photograph by Brad Wilson

Recent Studies

Branding, privatization, productivity, capital controls, and management.

Research Notes
By Martin Morse Wooster

Branding to Junior

Deborah Roedder John, "Consumer Socialization of Children: A Retrospective Look at 25 Years of Research," *Journal of Consumer Research*, University of Chicago Press, December 1999. www.journals.uchicago.edu/JCR/home.html.

Children are one of America's most lucrative markets. According to Texas A&M marketing professor James U. McNeal, American children age 4 to 12 purchase $24 billion each year, and influence parental purchases of $188 billion. But what's the best way to market to kids? Deborah Roedder John, a marketing professor at the University of Minnesota's Carlson School of Management, explores the three stages children go through in her summary of 25 years of research on how and why children buy.

In each stage, children learn more about purchasing and the meaning of brands:

1. Perceptual stage (age 3 to 7). Here children begin to learn about the market. They have some knowledge of product differences, but are more likely to differentiate products by size than by brand.

2. Analytical stage (age 8 to 11).

Martin Morse Wooster is an associate editor of *The American Enterprise*, a visiting fellow at the Capital Research Center, the education book reviewer of *The Washington Times*, and a contributing editor to *Reason* and *Philanthropy*.

This is the age when brand awareness begins. One study examined children's letters to Santa Claus, and found that 85 percent mentioned at least one brand name in their letter, and that half of the products in these letters were for specific brands.

3. Reflective stage (age 12 to 16). Adolescents in this stage are highly brand-sensitive, but tend to be skeptical of commercials. Rather than being swayed by advertisements, adolescents are more likely to buy products to gain status among their peers.

Much research still needs to be done. While researchers have extensively studied the influences of television commercials, little is known about the ways by which television programs and movies persuade young people to buy products. Nor are there any studies about whether manufacturers' giveaways (of backpacks or T-shirts, for example) persuade adolescents to switch brands. But 25 years of consumer socialization research, Ms. John concludes, have yielded an impressive set of findings.

Privatization Rights and Wrongs

Roman Frydman, Cheryl Gray, Marek Hessel, and Andrezj Rapacyznski, "When does Privatization Work? The Impact of Private Ownership on Corporate Performance in the Transition Economies," *Quarterly Journal of Economics*, MIT Press Journals, November 1999. mitpress.mit.edu/journal-home.tcl?issn=00335533.

A decade after the fall of the Soviet Union, Eastern European economies are still struggling. One reason for their struggle, note New York University economist Roman Frydman and his associates, is the privatization of inefficient state-owned enterprises. Companies sold to outsiders — foreigners, and domestic banks and venture capitalists — did well. But companies sold to managers or other insiders foundered.

The authors surveyed 218 mid-sized manufacturers in the Czech Republic, Hungary, and Poland, including 128 privatized firms and 90 that were still state-owned. Mr. Frydman and his colleagues found that companies sold to outside owners raised their revenues on average by $9.7 million over three years and increased productivity per worker by $9,200. And foreign owners were far less likely to fire workers.

Companies sold to managers or other insiders (as was the case with 70 percent of Russian privatizations), however, did as badly as when they were state-owned. Inside-owned firms saw revenues rise by $680,000 over three years, and saw productivity per worker fall by $7,900. In part, that's because inside-owned firms increased their payrolls by 7.7 percent, compared to 1.5 percent among outside-owned firms. It would seem that some managers who buy companies, having risen to the top during the Communist era, find it hard to adapt to the demands of the market. Moreover, most of these managers did not have enough capital to buy without financial assistance, and the state loaned money with requirements that workers not be laid off and be given shares in the enterprise.

In Eastern Europe, the authors conclude, privatization is effective in increasing the revenues and productivity of companies that come to be controlled by outsider-owners, but produces no significant effect on companies controlled by insiders.

Repairing Productivity Statistics

Ellen R. McGrattan and James A. Schmitz, Jr., "Maintenance and Repair: Too Big to Ignore," *Quarterly Review*, Federal Reserve Bank of Minneapolis, Fall 1999. woodrow.mpls.frb.fed.us/research/qr/.

Forecasters use all sorts of data when calculating how productive American businesses are. But one statistic they can't use is how much time and money corporations spend maintaining and repairing equipment. According to Federal Reserve Bank of Minneapolis economists Ellen R. McGrattan and James A. Schmitz, Jr., that's because no U.S. agency compiles data on repair costs. This ensures that it is not possible to determine how much money businesses spend fixing equipment.

Statistics Canada, however, does collect statistics on how much Canadian firms spend on parts and repair. From 1956 to 1993, on average, 5.7 percent of Canadian GNP went into maintenance and repair. That's slightly less than the amount Canadians spent on education (6.8 percent of GDP), but more than three times the amount that Canadian corporations spent on research and development (1.4 percent of GDP).

While the U.S. Department of Commerce can say how much homeowners spent fixing their houses (0.7 percent of GDP), no comparable statistic exists for business. But the cost of maintenance is an important tool to determine how productive corporations are, since businesses that shut down their plants frequently because of equipment failures are less efficient than those with more reliable machines. Lacking information about maintenance costs makes productivity statistics less reliable, Ms. McGrattan and Mr. Schmitz write. And having maintenance cost information could also help fine-tune economists' calculations about capital formation and a myriad of other economic issues.

The First Branding Giant

Nancy F. Koehn, "Henry Heinz and Brand Creation in the Nineteenth Century," *Business History Review*, Harvard Business School, Fall 1999.
www.hbs.edu/bhr/.

Until the late 19th century, few consumers chose products by brand. Most households grew their own food and made their own clothes, buying a few generic supplies at the local store. But as household income rose in the 1880s and 1890s, consumers began to purchase labor-saving products made by trusted national manufacturers.

Many great brands date from this period: Gillette, Kodak, Waterman, etc. But Harvard Business School professor Nancy F. Koehn credits Henry J. Heinz with being one of the first U.S. entrepreneurs to pursue a consistent, innovative, and multifaceted brand-building strategy.

Mr. Heinz struggled for years, and actually went bankrupt in the recession of 1875. After reorganizing, Mr. Heinz began to invent marketing strategies. But it wasn't until the 1890s that Mr. Heinz implemented his two greatest marketing ideas.

In 1893, the H.J. Heinz Company had a booth at the Chicago World's Fair. Few people stopped by until, in an inspired moment, Mr. Heinz distributed thousands of cards that offered a free souvenir to every visitor: a pickle pin. The resulting stampede to the Heinz booth forced fair organizers to close the exhibit until the floors could be reinforced.

Three years later, Mr. Heinz was riding an elevated train in New York when he saw a sign for a shoe store offering 12 styles of shoes. Why not tell the consumer how many products Heinz made? Mr. Heinz arbitrarily decided to advertise "57 varieties," even though his firm made many more products, because he thought seven to be a potent number. Mr. Heinz would later write that 58 varieties or 59 varieties did not appeal at all. Soon, "57" appeared everywhere — on the tops of hills along major railroad routes, and on Manhattan's first electric sign, for instance.

These innovative marketing strategies ensured that Mr. Heinz's company would become an international success. Few other 19th-century entrepreneurs, Ms. Koehn concludes, deployed a brand-creation strategy that surpassed the scope, effectiveness, and sustainability of Mr. Heinz's.

Can Capital Be Controlled?

Sebastian Edwards, "How Effective Are Capital Controls?" *Journal of Economic Perspective*, American Economic Association, Fall 1999.
www.vanderbilt.edu/AEA/jrncnt.htm.

In the wake of the 1997-99 financial crises in Asia and Brazil, some economists have called on developing countries to impose capital controls if their economies go sour. Sooner or later, wrote Paul Krugman, we will have to turn the clock at least part of the way back "to limit capital flows for countries that are unstable for currency unions or free floating exchanges."

Sebastian Edwards, an economist at the Anderson Graduate School of Management at the University of California (Los Angeles), disagrees. Capital controls, he argues, do little to help weak economies become stronger.

There are two kinds of capital controls: devices that prevent capital from flowing out of a country, and those that keep foreign investment from coming in. Capital outflow controls, Mr. Edwards argues, can be easily evaded by companies willing to pad their import invoices and not declare some of their exports. About 70 percent of the time, countries that try to block the flow of capital out of a country end up with more capital leaving than before the ban was imposed.

What about countries that try to limit short-term foreign direct investment? Mr. Edwards looks at Chile, which imposed capital inflow controls from 1991 to 1998. In that instance, foreign direct investment of less than one year was prohibited, and all investors had to place up to 30 percent of their capital in a non-interest-bearing deposit at the Chilean Central Bank.

These capital controls did restrict short-term foreign investments, which fell from $1.6 billion in 1990 to $81 million in 1997, while long-term foreign investments rose from $181 million to $2.7 billion during the same period. But these investments, by restricting the amount of capital available, ensured that small- and medium-sized enterprises had to pay interest rates of up to a stunning 24 percent to borrow money.

Rather than capital controls, Mr. Edwards suggests that finance ministers who want their country's economy to be healthy should pursue sound macroeconomic policies, avoid overly rigid exchange rates, and implement banking supervisory systems that reduce moral hazard and corruption.

You Can't Argue with Success

Nancy M. Schullery, "Argumentative Men: Expectations of Success," *Journal of Business Communication*, Association of Business Communication, October 1999. www.cohums.ohio-state.edu/english/organizations/abc.

What's the best way to get ahead — pick fights with your boss, or avoid confrontation with a supervisor? Western Michigan University researcher Nancy M. Schullery suggests that nice guys tend to get ahead. It's not true, she contends, that success accrues to those who are highly argumentative.

Schullery gathered 283 questionnaires from Michigan-based male employees. She asked the men both how many people they supervised and how much time they spent arguing. Non-supervisory employees tended to argue the most. But the higher up a man was in an organization, the less likely he was to get into arguments. This finding supported an earlier study Schullery made of women, which found that after the first promotion, women's moderation in argumentativeness increased linearly with supervisory level.

If you're going to get into an argument with your boss, Schullery believes, choose your ground carefully. Don't pick a fight with your boss on an unimportant issue that your boss knows more about than you do. If you're going to argue, remember that logic is more persuasive than emotion. Observe how disputes are conducted in your office, and how your boss reacts to disagreements.

Remember that about 90 percent of a typical manager's time, Schullery reports, is spent communicating with staff and clients. And the best managers spend as little time in fights as possible. +

THE INTELLECTUAL CAPITALIST by Bruce Feirstein

Send Now Send Later Save as Draft Add Attachments Signature Contacts Check Names

Account: “Monte Stellar” <CEOMonte@AmSmelt.com> **Priority:** Highest

To: “Biff Chatsworth” <TheBiffster@SmudgePR.net>

Cc:

Bcc:

Subject: Talking Points for Interviews

Size Smallest B I U T

Dear Monte:

Congratulations on taking the helm at Amalgamated Smelting. And again, thanks: We’re thrilled to be back on board - part of the team again - charter members of the unofficial "Monte Stellar kitchen cabinet and coaching club" @ $50k per month, plus options and reasonable expenses, TBD.

(As always, we’ll work out the exact figures and the billing - corporate/personal - later)

Until then, as per your request, here’s the short list of talking points - potential issues and proposed answers - for the press interviews we’ve lined up during your first month on the job.

1) "A BIG MAN FOR A BIG JOB" (formerly "A New Era, A New Challenge"). What are you doing at Amalgamated Smelting? "Creating the future." But it would appear to have nothing in common with (Fortune) "the catastrophe that was Chicken DeCluxx." Do not get angry. Take a deep breath. Smile. Drop the phrases: "Thinking outside the box," "Reinventing the future," "The global marketplace," and "A new paradigm for a new millennium." With luck, this won’t come up at all: Most journalists today are so all-consumed with envy of their kids’ college roommates who've become dot-com billionaires that they don’t even bother to do a Nexis search anymore. Which brings me to my second point:

2) YOUR INTERNET STRATEGY. You don’t have one. So get one. Fast. In the meantime, do not mention that your secretary prints out your e-mail. (Thanks, Marge!) Instead, when asked about the Internet, say, "I can't live without it." Along the same lines, we're sending a Palm Pilot to leave on your desk as a prop. Again: "I can't live without it." Keywords: B2B. Clicks-and-mortar. Stickiness. Value-add. "A new paradigm for a new millennium."

3) YOUR MISSION STATEMENT. I know you were kidding that night at Trader Vic's (London Hilton basement, after DeCluxx worldwide mgt. conf) when you said, "I want to be richer than Croesus." Not that it isn't a worthy goal. But it won’t play. Substitute the following: "Our mission is to be number one at everything we do with Six Sigma quality, to increase shareholder value while striving to be a good corporate citizen, and to never forget that the customer comes first." (The short private version: "We want to make the shareholders richer than Croesus.") With this in mind, we're sending you an assortment of classic literature and current best-selling business books. Place them near the Palm Pilot.

4) ADVERTISING STRATEGY. Hmmmm. Despite my best advice, I see you’ve gone out and hired one of those new-age agencies that confuse advertising (i.e., let's sell something) with entertainment (i.e., let’s blow the budget on the Super Bowl and get the agency written up in The Times). Alas, no one has a clue what you’re selling, what’s unique about the product, why you should buy it, or even the name of the company. Oh well. If asked, there’s only one word to cover this: Branding. If pushed, try to subtly imply that perhaps the journalist is "too old to get it." Failing that: "A new paradigm for a new millennium."

5) A FINAL PIECE OF ADVICE. The trend that has trivialized politics has now crossed into the business world: the confusion of "wit" and "competence." (I wasn’t kidding when I said that if I ran a multinational, I’d broom the accounting department and hire 25 joke writers). So if all else fails, you can always say, "Hey. Somebody’s still got to make stuff."

I’ll be in touch.

The Biffster