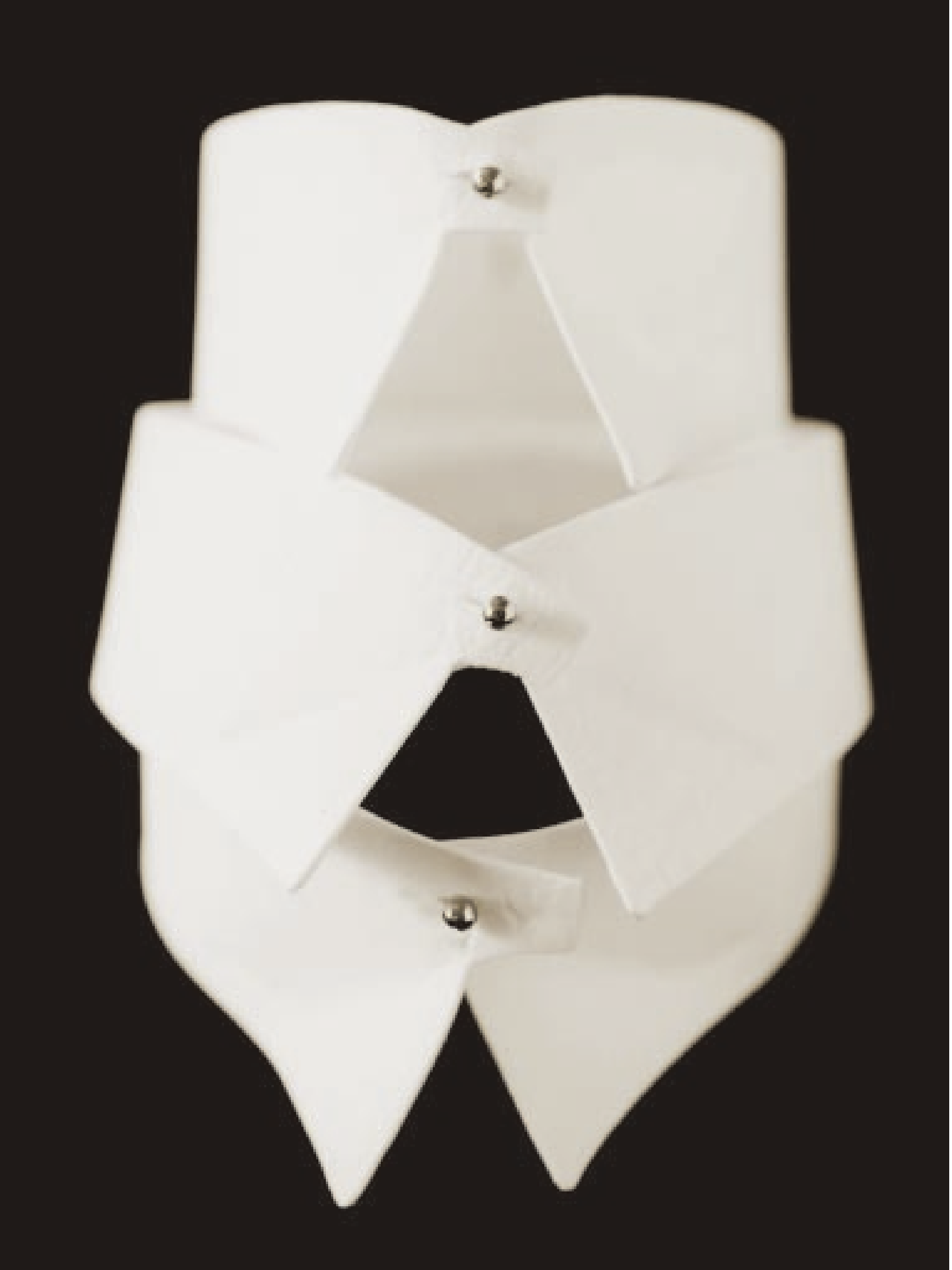

Photograph by Matthew Septimus

Recent Studies

On technological obsolescence, Russian business, banking rules, and other topics of interest.

Research Notes
by Martin Morse Wooster

The Curse of the Detachable Collar

Carole Turbin, "Collars and Consumers: Changing Images of American Manliness and Business," *Enterprise & Society*, Oxford University Press, September 2000. www3.oup.co.uk/entsoc/

One lesson marketers should never forget is that they must abandon a popular product when it has been rendered obsolete by technological change. Professor Turbin, a sociologist at the State University of New York (Empire State College), shows why in her case history of Cluett Peabody and Company's detachable shirt collar.

Detachable collars were invented in 1827 by Hannah Lord Montague, who realized that laundering a collar was far easier than washing an entire shirt. But these collars didn't become widespread until 1889, when Frederick Peabody, a sales manager at Cluett and Company, realized that detachable collars were a product that could be mass-marketed and branded. He began to market Cluett's collars as Arrow Collars, which quickly became the leading national brand. Mr. Peabody was rewarded by becoming a partner in what became Cluett Peabody, the Troy, New York, cloth-

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ing manufacturer that grew to be the largest among Troy's collar and cuff producers. Cluett Peabody maintained its operations there until 1990.

In 1900, Arrow brand collars came in dozens of styles, many with pseudo-British names (the "Moreland," the "Coleston"). But they didn't become fashionable until 1907, when Cluett Peabody hired commerical artist Joseph Christian Leyendecker to create the Arrow Collar Man. For the next 24 years, Mr. Leyendecker's illustrations (the sartorial male counterpart to the Gibson Girl, the "Victorian glamour girl" created by artist Charles Dana Gibson) ensured Cluett Peabody's success. The ads were so popular that women wrote marriage proposals to the Arrow Collar Man; some even sent Christmas and Valentine's Day presents. Men believed that wearing a crisp Arrow collar meant they would be seen as rising white-collar executives, not as low-class collarless workers.

But in the 1920s, detachable collars began to lose their elite cachet. The advent of electric washing machines and improved detergents meant the masses could wash shirts regularly. New competitors to Cluett Peabody, such as Phillips-Jones's Van Heusen line, created shirts with attached collars that were looser and less cumbersome than the constricting detached collar, and more practical.

Despite falling sales in the 1920s, Cluett Peabody executives continued to make detached collars, thinking the new all-in-one shirts a passing fad. Its sales force collected articles on snooty clubs that banned shirts with attached collars. In 1935, however, Cluett Peabody finally abandoned the Arrow Collar, transferring the brand to an attached-collar shirt line.

Although the Arrow brand survives to this day (you can find it on the Internet at www.arrowshirt.com), by resisting change, Cluett Peabody ensured that it would take several decades to restore the dominance it once had, if, in fact, it could recover at all.

First Strike Franchising in Russia

Ilan Alon and Moshe Banai, "Franchising Opportunities and Threats in Russia," *Journal of International Marketing*, American Marketing Association, Fall 2000. www.ama.org/pubs/article.asp?id=4857

Despite continuing economic turmoil, Russia remains a rich target for American investment. U.S.-based firms have invested more in Russia than in any other country, and the American Chamber of Commerce in Moscow is the fastest-growing U.S. chamber overseas.

In the fall issue of American Marketing Association's *Journal of International Marketing*, Ilan Alon, an international business professor at the State University of New York (Oneonta), and Moshe Banai, a management professor at Baruch College in New York City, suggest practices direct investors should heed if they hope to succeed in the Russian marketplace. Franchising is the primary focus in this article, but these principles are broadly applicable. And although the authors' suggestions may seem basic, more than one experienced company has stumbled because it ignored common sense in this turbulent marketplace.

• **Choose partners carefully.** In 1990, the Canadian branch of the McDonald's Corporation became the first foreign company to open Russian franchises. Because every Russian McDonald's is a joint venture with the city of Moscow, the government has a vested interest in ensuring that McDonald's operations work well and are in good locations. By contrast, Subway, the U.S. sandwich shop franchise (which is no innocent abroad; it has more than 14,000 restaurants in 76 countries), opened its first and only Russian franchise in 1994 with an unreliable partner. The operation was quickly shut down by police and reopened by a company allegedly controlled by Russian organized crime. This resulted in Subway's withdrawal from Russia by 1996.

• **Think long-term investment.** When Allied Domecq's Baskin-Robbins division began to invest in Russia, it waived franchise fees for initial investors in the hope that brand loyalty would build sales, but still is counting on royalties as a source of revenue. The idea was to eventually charge fees as it developed greater consumer brand-name recognition. The firm also took the risk of investing $21 million in 1996 in a giant ice cream plant in Moscow. Today, it produces 1,000 tons of ice cream a year, although, according to company officials, it has a capacity of about 16,000 tons a year. (Potential demand is as high as 300,000 tons a year.) Baskin-Robbins is one of the most successful franchises in Russia. In 1994, it had 30 company stores and one franchisee; in 1996, this rose to 50 corporate units and 67 franchisees. It now has a total of 82 in Russia and 93 throughout the Commonwealth of Independent States.

• **Selectively adapt to the local market.** Franchisers should know they can't offer economically struggling Russian consumers the same selection of goods that Western customers can buy. But they must also resist the tendency of Russian businesspeople to alter existing business models. Although Allied Domecq is very successful with its Baskin-Robbins line, it ended its attempt to bring Dunkin' Donuts franchises to Russia in 1999, because the Russian branches sold vodka and meat patties in violation of the franchise agreement.

The economic and political risks of the Russian market may deter investors, but that's good, observes a vice president of Allied Domecq. He says companies that make a "preemptive move" can lock out competitors later. And Professors Alon and Banai share this view: "The payoff is great for franchisers that are willing to endure the economic cycles, political instability, and social threats of this hybridized emerging market."

The 6-to-6 Workday

Thomas M. Beers, "Flexible Schedules and Shift Work: Replacing the '9-to-5' Workday?" *Monthly Labor Review*, Bureau of Labor Statistics, June 2000.
http://stats.bls.gov/opub/mlr/2000/06/contents.htm

Flextime was an important workplace innovation of the 1980s, but Bureau of Labor Statistics (BLS) economist Thomas Beers suggests that most workers' schedules are not that flexible. For many, the workplace is no longer a 9-to-5 job, but nearly all workers still have to be in the office sometime between 6 a.m. and 6 p.m. "The '9-to-5' workday," Dr. Beers reports, "does not appear to be in jeopardy of fading from its prominence in U.S. workplaces."

He analyzes a 1997 BLS survey that is the federal government's latest effort to calculate how much time Americans spend on the job. According to the survey, 27.6 percent of the workforce, or just over 25 million people, have some control over when they begin and end their workday. College professors have the most flexible hours, while machine operators are most likely to punch a time clock.

The BLS researchers found that there are classes of workers who have flexible hours, but would prefer more regular ones — suggesting that although flextime or irregular hours are becoming a necessity for some people, it may not be the way they'd like to live. Only 6.1 percent of those who worked an irregular shift received better pay, and 4.1 percent said they worked odd hours in order to manage child-care arrangements.

Although 13 percent said they worked an irregular shift because their bosses made them, 6 percent said they worked nights because they couldn't find another job. Interestingly, 13 percent reported they were on alternative shifts specifically because their employers required it to meet transportation demand, management needs, or pollution control compliance requirements.

For business professionals who have more choices, the BLS found that many maintain traditional 9-to-5 schedules. Nearly all (92 percent) of executives work normal daytime hours, as do more than 90 percent of the clerks, farmers, real estate and insurance salespeople, and construction workers included in the survey. And despite countless stories about late-night hacking marathons, 96 percent of the computer scientists also work normal daytime hours.

Germany Enters the New Economy
Mark Lehrer, "Has Germany Finally Fixed Its High-Tech Problem? The Recent Boom in German Technology-Based Entrepreneurship," *California Management Review*, Haas School of Business, University of California (Berkeley), Summer 2000. www.haas.berkeley.edu/News/cmr/contents_.html

Germany enters the 21st century with some substantial competitive advantages: an efficient, well-educated workforce, some of the world's leading research facilities. But with the notable exception of the software firm SAP, German firms have been reluctant participants in the New Economy.

Mark Lehrer, a management professor at the University of Rhode Island, shows how Germany's corporate and bureaucratic establishments have slowly come to accept the entrepreneurial, high-tech revolution.

The failure of Germany to create a class of high-tech entrepreneurs is due to both business and the state. Since the 1960s, most German research and development has been conducted not by industry, but by 13 centers funded by the Federal Research Ministry. Yet the author contends these centers failed to produce technology that business could use, and by crowding out private R&D, helped precipitate the collapse not only of the German biotechnology firms, but also of German computing firms, such as Siemens AG.

But German industry shares much of the blame. Few Germans want to be entrepreneurs. Most engineers and scientists would rather stay in a state-funded research institute (with hefty pensions and substantial fringe benefits) than start their own company. Self-employment peaked in Germany in the 1960s, and has dropped ever since; in 1999, only 2.2 percent of Germans were involved in a startup company, compared to 8.5 percent of the U.S. labor force.

Moreover, Germans who do run businesses would prefer to stay small and own a firm entirely, rather than reduce control by having outside investors dilute equity. This *Herr im Haus* ("master of the house") mentality, reports German venture capitalist Falk Strascheg, means that German entrepreneurs are mice who will always run tiny enterprises, whereas their American counterparts are gazelles who expect their firms to become large.

After nearly a decade of economic stagnation in the 1990s, there are signs that Germany has become more receptive to entrepreneurs, especially in the past three years. The Neuer Markt, a small-company stock market comparable to Nasdaq, opened in 1997; as of May 2000 its market capitalization was 210 billion euros (about $196 billion). Germany legalized stock options in 1998, and in 1999 liberalized its bankruptcy laws to provide more chances for entrepreneurs to rebound from failure. "The once institutionally 'tight' German system is becoming looser," Professor Lehrer writes, "allowing for a greater diversity of individual and firm strategies."

After nearly a decade of stagnation, there are signs that Germany has become more receptive to entrepreneurs.

Should Banks and Non-Banks Mix?
John Krainer, "The Separation of Banking and Commerce," *Economic Review*, Federal Reserve Bank of San Francisco, 2000 annual.
www.frbsf.org/publications/economics/review/index.html

The passage of the United States' Gramm-Leach-Bliley (GLB) Act in November 1999 removed many of the Depression-era restrictions imposed on banks by the Glass-Steagall Act. But one significant restriction the GLB Act left in place is the prohibition against banks engaging in non-financial commercial activities. Indeed, many of the architects of the GLB "argued purposefully for financial reform only on the condition that banking and commerce not be allowed to mix," according to the article's author, Federal Reserve Bank of San Francisco economist John Krainer.

Mr. Krainer starts his analysis of the Act's consequences by asking two questions. First, why might banks and commercial firms want to unite — would this create new operating, funding, and informational efficiencies? Second, why are lawmakers so afraid of allowing unions of banks and commercial enterprises?

Under the GLB Act, banks can, for the first time, set up merchant banking subsidiaries to make short-term investments in non-bank enterprises. But financial holding companies still have to get approval from the Federal Reserve Board if they want to invest in other companies, and these investments will be vetoed if they are seen as speculative ones that threaten deposits.

According to Mr. Krainer, there are major loopholes in the new legislation. Banks are free to contract out surplus capacity to outside, non-bank vendors. They can lease space inside their branches to coffee shops and use surplus broadband capacity to create Internet service providers. Moreover, "unitary thrift companies" — holding companies that control only one savings bank — will continue to operate. This ensures that such large firms as Ford Motor Company and Sears, Roebuck and Company, which entered the financial services industry in the 1980s by exploiting the unitary thrift loophole, can maintain their banking subsidiaries.

But suppose that banks were completely free to make outside commercial investments. Wouldn't a bank use its considerable capital to favor firms it invests in over those firms' rivals? Mr. Krainer contends that it's debatable how much clout banks really have over credit and capital. In the 1990s, the number of banks declined while the number of non-bank lenders steadily rose. So it's probable that competitors to bank-controlled firms have ready access to credit from non-bank financial lenders.

Other laws, most notably sections 23A and 23B of the Bank Holding Company Act, help preserve the safety of deposits by restricting loans made to non-bank subsidiaries to 10 percent or less of a bank's deposits. These regulations would remain in force if restrictions on non-bank investments were eased.

Part of the deregulation resulting from Gramm-Leach-Bliley allows banks to create subsidiaries for venture capital and merchant banking. Thus, it's less likely that banks would want to have long-term investments in other companies, even if prohibitions were removed. As a result, Mr. Krainer predicts, "the benefits of allowing banks and commercial firms to mingle are not likely to be huge" — and the prohibitions against such mingling are increasingly irrelevant. ✚