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RETHINKING JAPAN

After years of haggling, the U.S. still runs a $52 billion annual trade deficit with Japan, and Japanese society remains closed in crucial ways. As a result, a radical shift in U.S. thinking about Japan is under way. This revisionist view holds that Japan really is different—and that conventional free-trade policies won't work. Once, such views would have been dismissed as "Japan-bashing," but now they have an intellectual base. At a time of political crisis in Japan, America's challenge is to restore economic balance without destroying our broader relationship. PAGE 44

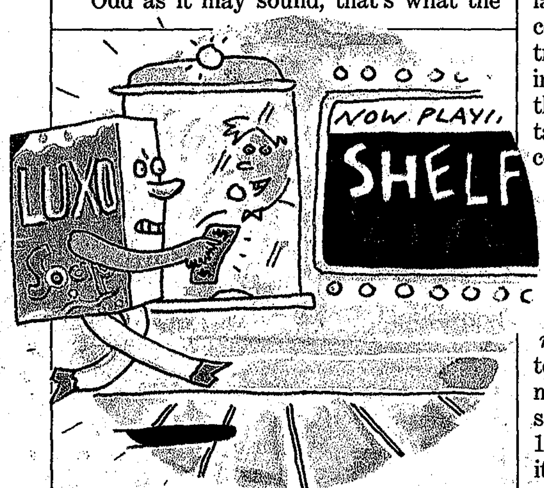
CONSUMER PRODUCTS

WANT SHELF SPACE AT THE SUPERMARKET? ANTE UP

Chains are demanding a cartful of fees to carry products

When Kenneth C. Meyers began selling his new brand of preservative-free popcorn four years ago, he discovered that some supermarket chains were charging thousands of dollars just to put new products on their shelves. With his shoestring budget, the new fees kept him out of a lot of those stores.

Odd as it may sound, that's what the chains had in mind. To cope with an avalanche of new products, each of which is expensive to handle and stock, retailers began imposing fees called slotting allowances. At first, they simply hoped to recoup some of their costs and discourage frivolous new products. But the eagerness with which many large companies ponied up taught retailers a lesson: Their shelf space is valuable real estate. So, producers say, stores increasingly are looking to make money not just by selling products to consumers but by renting shelf space to manufacturers. "Grocers do have a problem: There are costs attendant on new products," one consumer-products maker admits. "But there's a difference in addressing the cost problem and making it a profit center."



SLOTTING ALLOWANCES

Luxo ships 3,300 cases at $20 a case to a 50-store chain, for $66,000. It pays $100 per store	$5,000
Luxo gives the chain one case for each case bought	$33,000

It's proving to be an attractive difference. Almost all major supermarket chains now are demanding that manufacturers pay slotting allowances and an array of other charges, according to a study by retail-industry consultants Willard Bishop Consulting Ltd. It can easily cost $70,000 or more in fees to get a truckload's worth of a new six-item line into just one 50-store chain. Multiply that by the dozens of chains it might take to get national distribution, and the cost rises into the millions.

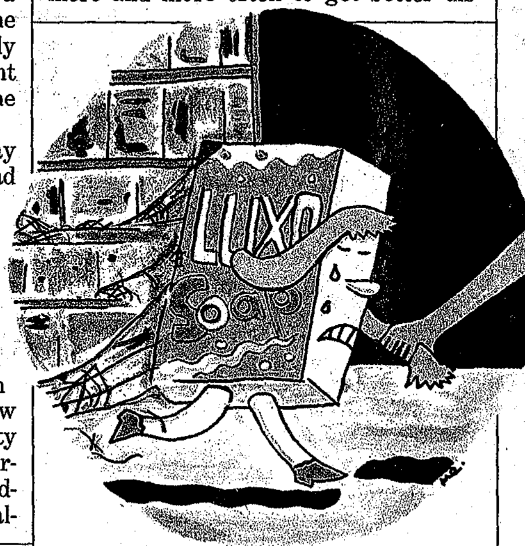
COPYCATS. Critics of the fee frenzy say it's stifling innovation. "If we had had slotting allowances a few years ago, we might not have had granola, herbal tea, or yogurt," asserts Martin Friedman, publisher of *Gorman's New Product News*, a newsletter. But retailers point out that the number of items stocked by a typical supermarket has risen to 26,000 from 13,000 in 1979. And they say most new items aren't very original: The majority are copycats or line extensions—different flavors and sizes of existing products. As a result, they typically cannibalize sales of other brands, so they rarely mean extra revenue for the grocer. And 9 out of 10 new products fail.

TRADE ALLOWANCES

Luxo gives a 20% volume discount for cases bought.	$6,600
It pays fees for ads, displays, and in-store demonstrations	$6,200

Until recently, manufacturers enticed the retail trade into carrying the latest barbecue sauce or glass cleaner by offering some free goods for an initial order. But that didn't cover retailers' costs for adding the goods to inventory, then removing them after they bombed. With most chains operating on miserly net margins of less than 1%, those expenses hurt. Now, however, there are slotting fees for every item, plus fees for special displays, product sampling in the stores, and promotions such as ads in grocery circulars. Grocers are also demanding discounts in return for large orders.

The chains have been hitting established brands with fees for several years, and those charges are now rising rapidly, too. Manufacturers are paying more and more often to get better displays and bigger promotions. There's even "some talk of an annual renewal fee" to stay on the shelf, says Barry Shepard, chief financial officer for Scott's Liquid Gold Inc., a furniture polish maker. All told, the various discounts and fees ate up 44% of a typical marketing budget last year, up from 37% in 1984, according to Donnelley Marketing.



FAILURE FEE

The product bombs. The chain removes it. Luxo pays a fee	$2,000

FLOP FEES. Failure has a new price in the supermarket, too. In April, J. M. Jones Co., a wholesaling unit of Super Valu Stores Inc. that supplies goods to small food chains, announced that it will impose a fee when it pulls a flop from its warehouses. If a new product doesn't hit a minimum sales target within three

M. E. COHEN

months, Jones will yank it and charge $2,000 for the effort. Lucky Stores Inc. and Alpha Beta Stores Inc., two California chains owned by American Stores Co., expect to begin levying failure fees soon, says Robert Sherrick, Lucky's vice-president for grocery buying.

Some manufacturers are so eager to get on the shelf that they volunteer to pay. Campbell Soup Co. will launch a voluntary failure fee on Aug. 1. Since 1985, Campbell has introduced 503 new items—including notable successes such as Le Menu frozen dinners and some costly mistakes such as Fresh Chef chilled salads. Now, the company is guaranteeing that each new item will achieve certain sales after six months. Explains Herbert M. Baum, president of Campbell USA: "It places a greater burden on our people to make sure products are well-tested before rolling out."

The charges seemed to be slowing the torrent of new products last year. The pace of introductions grew just 3.7% in 1988, down from a 26% rate in 1987. But launches were up nearly 15% in the first half of this year, according to Friedman. While some small companies say the charges are a serious obstacle, others are finding ways to dodge them. Meyers, for example, started by selling his new popcorn to mom-and-pop stores and small chains that didn't ask for fees. The popcorn outsold competing snacks, and supermarkets began waiving or reducing their charges.

TIME IS MONEY. From its base in suburban Boston, Meyers' SmartFoods Inc. has rolled out its snacks as far as Washington, D. C., and Ohio, racking up sales of $15 million last year. In January, PepsiCo Inc.'s Frito-Lay division bought the company for $14.5 million.

Similarly, My Own Meals Inc. started by taking phone and mail orders for its single-serving children's meals. MOM used the revenues from these sales to help pay the fees demanded by the big grocery chains. After just two years in business, the Deerfield (Ill.)-based company has expanded into 1,000 stores in 10 states. Original Italian Pasta Products Co. refused one chain's demand for $26,000 per item to stock its line of 11 fresh pastas and sauces and went to competing stores that had low or no fees. The chain has since offered to reduce its asking price to $3,000.

Still, the fees keep coming. Industry sources say some supermarket buyers have even begun charging hundreds of dollars just to listen to a sales pitch for a new item—although no one will admit to imposing or paying such a fee. At what point do the hurdles to put a new product on the shelf get too high? That's the $64,000 question—or more, depending on the fees.

By Lois Therrien in Chicago

Government

Commentary/by Dave Griffiths

DEFENSE SPENDING: IT'S TIME FOR A SHOWDOWN WITH THE BRASS

Richard B. Cheney has spent just four months in one of Washington's toughest jobs, and already he's on the attack. Ignoring a Pentagon credo of countering the Soviets at all costs, the Defense Secretary tried to kill several big programs in his $296 billion budget request for 1990. Exactly what will be scrapped remains a subject of debates, such as this summer's tussle over the B-2 bomber. Still, it's obvious that the Defense chief has discarded the open-checkbook policies of his predecessor, Caspar W. Weinberger, and that he will force the services to manage themselves more efficiently.

The difficulty of swinging the pendulum back is apparent in the B-2 debate. Cheney tried to keep the $70 billion program while killing the Marine Corps' V-22 Osprey tilt-rotor aircraft and the Navy's F-14D fighter, worth a total of $51 billion. The House Armed Services Committee, mindful of the effect on civilian employment, voted against him. The result may be a draw: Congress may partly fund the Osprey and either trim or delay the B-2 when it settles the Defense budget in the fall. But in the end, the 1990 budget probably will remain skewed toward big weapons vs. the supplies and training U.S. troops need to fight large-scale or brushfire wars.

STEINKAMP/PICTURE GROUP

CHENEY: LESS MONEY FOR BIG WEAPONS, MORE FOR READINESS

'SERIOUS SHORTAGES.' Still, Cheney is just starting. He has ordered a review of Defense budget plans from 1991 through 1994. Some reform-minded Pentagon officials hope he will retire one or two aircraft carrier groups and replace some Army tank divisions with less costly mobile infantry divisions. Support for such moves, which would free money for boosting combat readiness, has been building. In February, Richard A. Davis, a General Accounting Office official, warned that some U. S. forces have "serious shortages of highly technical, sophisticated munitions." He claims they could exhaust their medical and petroleum supplies in one major battle. Similarly, some civilian Pentagon officials worry that Army air-crew training is falling to what one calls "dangerously low levels." The likely result: sagging morale and early retirements. "If pilots don't fly, they leave," one official notes.

The alternative is to depend more on the reserves—an appealing option, on paper. About half of the Defense budget goes to maintain 320,000 U. S. troops in Europe. The cost of supporting the National Guard and reserves, which account for 35% of the 3.3 million Americans in uniform, is much less. One Pentagon study suggests that moving 240 Air Force fighters into reserve squadrons could save up to $500 million a year, including closings of three bases. Military readiness might even improve: F-16 pilots in the reserves, many of whom fly commercially, need only 13 flying hours a month to maintain proficiency vs. 19 hours for active F-16 pilots.

Greater dependence on reserves won't come cheap at first. They would need better equipment and more spare parts, not to mention more transport planes. And resistance from the services would be fierce. They would lose clout: Who has the largest active force often determines "the winners and losers in budget fights," says one civilian Defense official.

Still, national security, not turf wars, should be what matters. Sooner rather than later, Congress will have to fund a leaner military—one with better balance between fancy hardware and combat-sharp fighting units. If it does the job right, it will shoot down the sacred cows. Maybe even the B-2.