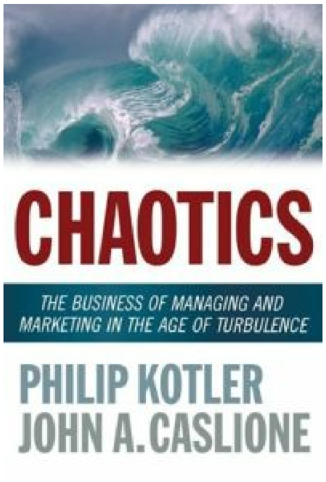

Book Chaotics

The Business of Managing and Marketing in the Age of Turbulence

Philip Kotler and John A. Caslione
AMACOM, 2009
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Recommendation

The world is uncertain and growing more so. Businesses must react to new and constant fluidity. Remaining calm and clear-eyed in the face of chaos takes nerve and perception. Marketing guru Philip Kotler and business adviser John A. Caslione offer a rock of judgment to stand on amid these tossing seas. Their knowledgeable, organized approach proves scholarly enough to offer illuminating historical background and forward-looking enough to present a clear – if general – set of guidelines for managing, marketing and selling in a future where change is constant. They identify obstacles and offer strategies to help leaders cope with the unknown and stay flexible when the going is chaotic. *BooksInShort* recommends this readable prescription for thriving in troubled times to anyone who intends to earn a living today, next week or 10 years hence.

Take-Aways

- Change is the new status quo in a global economy dominated by “interlocking fragility.”
- Organizations must have systems designed to deal with “risk, which is measurable, and uncertainty, which is immeasurable.”
- Coping with turbulence requires “a pragmatic, highly disciplined approach.”
- Hurried solutions in search of cash flow generate costly strategic mistakes.
- Closely track consumer behavior; respond swiftly in your strategy, marketing and sales.
- Constant change renders “the traditional three-year strategic plan” useless. Make short-, medium-, and long-range plans, and be prepared to change them.
- “Unknowable” events, like the terrorist attacks on September 11, 2001, obscure any connection between cause and effect. The world can be remade in an instant.
- In lean times, talent is worth more than capital.
- Constantly re-evaluate your products, brands, strategies, people, marketing, sales, finances and other basics. To thrive amid chaos, “save the strong; lose the weak.”
- Stay true to your fundamentals.

Summary

Turbulence and Chaos

When the pilot turns on the seat belt sign and the plane shakes and shudders, you grip the armrests and wait for the turbulence to end. You can’t control what the pilot does. Patience is your only recourse. The opposite is true in today’s turbulent business climate. Patience and passivity will kill your profits and your firm. Uncertainty is, and will continue to be, the enduring market condition. The usual knee-jerk response to heightened uncertainty is to cut back in every area. That's as unproductive and thoughtless as doing nothing. New times demand new strategies. To find them, embrace the unknown. Don't move blindly, but know that with discipline and common sense, you can guard against chaos and find a route to profitability when others founder.

> "The fact is we are entering a new age of turbulence and, moreover, heightened turbulence."

Technology and global markets interconnect in today's business world. This integration generates an unknown level of "interlocking fragility"; that is, the actions of one firm, market or nation affect many, many others. Leaders cannot predict how their actions will influence every other market participant, but the executives of sound companies should at least know how their actions are going to affect their own businesses. Organizations need systems designed to cope with turbulence – with "risk (which is measurable) and uncertainty (which is unmeasurable)." Such systems should include "early-warning" alarms to alert leaders to upcoming turbulence, a "scenario construction" program for creating appropriate reactions, and a "quick response system" that provides a fast-track strategy for responding to market changes. These systems all come under the rubric of "chaotics."

> "Economic turbulence creates the same impact on us as turbulence in nature."

"Most companies operate on the assumption of a built-in self-restoring equilibrium," a cycle of good and bad times that returns to balance. Given the past 100 years of business, that might seem valid, considering the idea of cyclical markets: years-long upswings of expansion and innovation followed inevitably by years-long downturns when businesses retrench and await the next surge. The new interconnected economy makes those cycles obsolete; they will never return. Turbulence, the "new normality," produces vulnerability, which requires firms to protect themselves, and opportunity, which companies must instantly exploit, whether it comes from taking a market from their competitors, seizing a segment that rivals don't recognize or absorbing a faltering competitor. Opportunity also exists if you do not make companywide cuts while others do.

Constantly Changing Change

Change is the new status quo, leaving managers without firm ground from which to gaze at the onrushing future as markets, technologies, governments, consumers and products undergo constant change with blinding rapidity. Faster shifts create new, more powerful shocks. The interconnected fragility of corporations, markets, banking systems and nations means that turbulence in one sector creates shocks or changes in another. This is the "butterfly effect." A single flap of a butterfly's wings may create a minuscule shift in global winds and weather systems, but that tiny change might affect "the trajectory of a tornado" half a world away. Astute leaders must be alert to the fluttering of butterfly wings in their industries. Managers and marketers should watch for seven factors that are likely to generate severe turbulence:

1. **"Technological advances and the information revolution"** – If you're older than 30, you're a "digital immigrant"; if younger, you're a "digital native." People and markets suffer information overload, and discerning which data have value is increasingly hard. Local market downturns now have global effects, so your firm must mimic the Internet and be "more adaptable...interwoven and...specialized." Business faces a new pervasive paradigm: Information and communication are no longer separate entities or functions; all information contains communication, and all communication contains information. This means everyone in the firm, not just marketers, carries out work that can affect consumers' perceptions of the company.
2. **"Disruptive technologies and innovations" –** New technologies are, by their nature, disruptive to business and to previous generations of technology. When the technological norm proves almost instantly out of date – for instance, the way the web is challenging print media advertising – market chaos ensues. Disrupters almost always prevail. Recognize how they might affect your market share and react appropriately.
3. **"The rise of the rest"** – The East's emerging industrialized nations will come to dominate the world economy as the US and Europe have for the past two centuries. The world is facing an enormous shift in power, equal to the 15th-century emergence of Europe and the 19th-century rise of the US as economic juggernauts.
4. **"Hypercompetition"** – The speed and chaos of competitive high-tech advances generate "technologies or offerings" (notably the Internet) so radically unfamiliar that no standards or rules exist to judge or regulate them. The constant evolution of new modes means long-term competitive advantage is dead. Innovative products and firms sow chaos in markets, make money, and either move on or surrender their segment to copycat rivals who replicate their new goods more cheaply – thus "shortening the innovator's return on investment." Chaotic market shifts occur when firms waste resources staving off narrowcasting upstarts who profit from the tiniest market edge.
5. **"Sovereign wealth funds" (SWFs)** – These "state-owned investment funds" might hold "stocks, bonds, property, precious metals or other financial instruments." They wield enormous global might. China, for example, invested heavily in the US during the 2008 financial crisis, bolstering the dollar, the US economy and the idea of interconnected fragility. The financial wherewithal of China and the oil states means that the US and Europe will find their influence diminished. Singapore, Kuwait, Abu Dhabi and China have assets nearing $4 trillion, and they invest in financial markets around the globe.
6. **"The environment"** – With carbon emissions becoming ever more important to national economies and private businesses, ecological concerns remain a wild card. How much will nations and firms spend to operate under new regulations? What industries will rise or fall? How will rapid climate change affect fishing, mining, agriculture or water use?
7. **"Customer and stakeholder empowerment"** – Consumers dominate brands now. Advertising must seek and hold shoppers' attention. Firms must respond to increasingly demanding customer feedback. Poor goods or services cannot endure; users will destroy them online. The web creates astonishing levels of word-of-mouth turbulence.

What Not to Do

In times of turbulence, the worst thing you can do is to follow your instincts and become cautious. Most leaders cut costs too broadly, avoid risk, stop investing in IT and neglect new product development. This leads to some common fear-based mistakes: diverting resources from your core strategy; cost cutting in all departments instead of focused paring of weak divisions; endangering stakeholders by pursuing short-term cash; spending less on brand development, marketing, and new products; discounting prices; and neglecting your distributors and suppliers.

> "Expect more big shocks and many painful disruptions, causing heightened levels of overall risk and uncertainty for business."

When figuring out where to allocate resources, leaders must calculate how well the firm did in the previous recession and what lessons that taught. Does performance then offer any guide to future actions? Firms must really know their liquid assets, like ready-to-sell goods, since quick fixes to gain cash are almost always expensive in the long term. "Across-the-board cuts" reduce your dynamism. As firms globally cut deadwood, talent will become far more valuable than capital. Think carefully before you decimate your staff. Before you skip payments to suppliers and distributors, realize how crucial they are to you as long-term allies – not as short-term costs. Seek "partner-oriented" suppliers. Stay true to your core values, ethics and the financial fundamentals.

> "Turbulence is occurring at a blistering pace, leaving many businesses unprepared and vulnerable to the chaos it brings."

Market share depends on marketing; if you reduce your market presence, how will consumers find or value your product? Address well-defined markets based on "customer segments," not products, and focus on "intangible assets" such as "brands, customer equity, channel loyalty and intellectual property." Use marketing to build long-range, far-reaching, stakeholder-oriented connections. Look at less costly digital marketing campaigns. In a crisis, re-evaluate your clients, locations, products, ads and brands, and drop the nonperformers. Do your market and sales research so you can "save the strong" and "lose the weak." In sales, cut lackluster people and promotions, find new opportunities, and link deeply with marketing. Sales managers must enrich client relations, foster motivated "team spirit," oppose discounting, and set rigorous but realistic goals.

> "Great marketers don't just rebound from crises. They build the internal capacity to expect the unexpected."

"**Chaotics Management Systems"** Companies need chaotics management systems. Old-school three-year plans are now worthless; no one knows what a market will be like in three years. Engage in "triple planning" for current, mid-range and long-range time frames. Opportunities and dangers now appear instantly. Leaders must be on the cutting edge to exploit openings and go "where change is happening." Stay alert to the web, meet young people in your field and watch your industry's outliers. If you hear of an outrageous new development that everyone says will fail, learn all about it. Make sure that you hear all the company news, good and bad, and that your subordinates don't censor anything.

> "Turbulence and chaos produce the good, the bad and the ugly."

Unfiltered information crucially offers warning signs of failing business tactics. Those below the executive level know when strategies are faltering or working. They might have kept such information to themselves in the past; now they must report upward so their leaders can act. Executives need to recognize that any strategy has a built-in half-life. What looks like genius today may look more like stupidity in a year. Ideas and practices will grow obsolete quickly; be ready with new ones. Even top executives might not "see what is in front of them." They must ask tough questions: What's new in your industry that might weaken your business? What developments are your rivals pursuing? Can you respond swiftly to possible threats? Examine when and how your firm suffered earlier blind spots, and become newly vigilant in those areas.

Future Scenarios

Part of chaotics management is creating scenarios of viable futures. You will benefit from the time, energy, and research you spend on constructing views of distant possibilities when that knowledge enables your firm to respond quickly and profitably to turbulence that wrecks others. To create scenarios, identify "turbulence drivers" in your business world, "levels of uncertainty" that might generate chaos. A "clear enough future," where no visible disruptions or immediate chaos threaten your market, means you can create a future scenario based on current conditions. If you face several possible new business situations, create an "alternative future" with scenarios to deal with each development. A "range of potential futures" means projecting how multiple variables may operate in different contexts and developing a few of them as scenarios. However, if you study too many, you won't fulfill any of them adequately. Select the most likely potential futures and build those workable scenarios. "True ambiguity" means you face so many variables you cannot sensibly predict any scenarios. If your firm is in such a state, jettison weaker divisions or brands, focus on core strengths, build capital and closely monitor events.

> "Our ultimate objective is to provide a guide for business leaders to create businesses that will live on and thrive despite the turbulence and chaos they may encounter."

The next step after true ambiguity is, of course, chaos: "the realm of unknowables," events so cataclysmic no one can foresee them, like the September 11, 2001, terrorist attacks. When unknowables occur, leaders must recognize them as such and forget past practices. The world reinvents itself in an instant, demanding new solutions. After 9/11, the mayor of New York, Rudolph Giuliani, called for order, asked citizens to help one another and pursued the business of keeping the city running. He understood the event's magnitude and responded in purely functional ways.

Flexible Responses

Of course, change on a far less dramatic level is always ongoing. Some companies and their marketers have systems in place to deal with such change. When an IKEA furniture store begins to sell fewer expensive items, the Swedish chain shifts costly products off its sales floor and gives the space to lower-priced merchandise; when high-end goods sell well, they get more space. IKEA's managers are ready for shoppers' spending patterns to change constantly. They respond with "a pragmatic, highly disciplined approach," showing flexibility, vigilance and willingness to accept uncertainty. By responding with a clear-headed strategy, IKEA doesn't let the market dictate to it. It remains "responsive, robust and resilient," which is every company's goal amid chaos. To achieve that objective, "make strategic planning more dynamic," "facilitate cross-functional decision making" and "break large organizations down into smaller, flatter groups."

About the Authors

The "father of modern marketing," **Philip Kotler** teaches at the Kellogg School of Management at Northwestern University. His books include *Marketing Management*. Strategist **John A. Caslione** is the CEO of GCS Business Capital LLC, a mergers and acquisitions advisory firm.