



Transcripts: Book Insights

Chaotics

By Philip Kotler and John Caslione

Reviewed by Barbara Kastelein

Welcome to the latest episode of Book Insights from the Mind Tools Career Excellence Club.

In today's podcast, we're looking at *Chaotics: The Business of Managing and Marketing in the Age of Turbulence*, by Philip Kotler and John A Caslione.

Kotler is **the** top name in strategic marketing. In 2001, the *Financial Times* named him as one of the world's leading management gurus and he's Distinguished Professor of International Marketing at Northwestern University's Kellogg School of Marketing.

Kotler has authored and co-authored more than thirty titles, and the 13th edition of his classic textbook *Marketing Management* was published in 2008. In *Chaotics* he turns his attention to the current crisis, which the authors believe is **not** a passing phase.

Instead, they propose that trouble, or chaos, is our new normality. Why? Because globalization and technology mean that the **whole** world is locked into the current crisis. So we can't expect to ride out this storm. What we need to do instead is develop strategies for living with what they call "heightened turbulence."

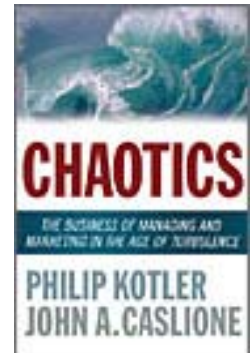
Who should read this book? Well, *Chaotics* is most useful for business leaders and managers who want to know what they should **do** to protect and improve their operations in the current downturn and future chaos.

But it also offers a particularly fascinating discussion of the new economic reality. This will be of interest to anyone who's trying to make sense of what's happened and how things are likely to be in the future.

So listen up if you want to know whether you should or shouldn't cut prices; why you need to start focusing on your blind spots; and what Harley-Davidson's got that many organizations simply don't have.

The first chapter sets the scene for the rest of the book by describing how we've ended up where we are. It includes an explanation of Chaos Theory and what's known as "the butterfly effect." This is the concept that the tiny

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drafts caused by a butterfly flapping its wings in one place could have a knock-on effect that causes a tornado to develop thousands of miles away.

This is relevant to the current economic turbulence because the global nature of business, and our instant communications, mean that events around the planet are more and more interconnected. As the authors explain, an event in one country, like a currency default, can spread quickly to other countries and lead to unexpected results or uncertainty.

But the most revealing part of this chapter, in helping us understand the new environment, is the description of factors that cause chaos. These include phenomena such as cloud computing – when computer users can use IT resources on demand through the Internet, without having them installed on their own machines. This enables small organizations to use technologies that were previously only available to big corporations, so they can become a serious challenge to the big boys.

Perhaps the most interesting factor listed here is what the authors call “The Rise of the Rest.” Wealth and, with it, political power, are on the move. The balance of power that was, until recently, focused in the United States and Europe is clearly shifting towards emerging economies and countries rich in resources. One example is China’s push to have a greater say in the International Monetary Fund after the financial disaster of 2008.

State-owned investment funds, known as sovereign wealth funds, are another chaos-causing factor, according to the authors. Since the start of this century, China, Russia and the Middle East have been accumulating cash, as the prices of oil and other natural commodities soared. This gave them the financial clout they needed to enter Wall Street and the major exchanges in Europe.

And the authors note that the sovereign wealth funds of Kuwait, Singapore, China and Abu Dhabi control assets of almost four trillion dollars. Corporate acquisitions and the growing role of newly powerful, often smaller states in the global economy are a new reality that contributes to turbulence, the authors say.

The clear description of these and other factors of change help us understand why organizations are facing such a different reality today. They have to defend themselves **and** rise to the new opportunities.

The main message is that we have to get away from the mindset of trying to avoid risk, because risk is all around us now. By understanding that turbulence and disruption are inescapable, readers will be more open to the advice that follows.

But before the authors reveal that advice, the second chapter looks at what **not** to do in response to turbulence.

One typical mistake CEOs make when trouble comes their way is being over confident at first, and denying their companies are at risk. Then, when

they can't avoid the truth anymore, they tend to panic and become driven by fear. They choose what the authors call "wrong responses," such as cutting costs in the wrong places, firing talented employees, avoiding risk, and slashing technology and product development.

The point here is that a competitor choosing the "wrong responses" can be an opportunity. The authors give the example of Ryanair, Europe's biggest budget airline. When the airline industry hit chaos in November 2008, Ryanair moved in when other airlines were cutting routes. The company seized the chance to take advantage of falling costs for jet fuel and the cancellation of rivals' orders for new planes. The CEO predicted that the airline would double its profits by 2012.

But while swimming against the current and doing all the right things can lead to success, it may not – as in the case of investment bank Goldman Sachs. Goldman spotted the risk in sub-prime mortgages early on and insured against it. What they hadn't foreseen, though, was that their insurer couldn't cover the payout it needed to when the risk turned to reality and Goldman claimed.

This is where the book recognizes that many business leaders are at a loss as to whether they should or shouldn't make cuts – they feel damned if they do and equally damned if they don't. It's a question that has many answers, but 'across-the-board' cuts are a definite no, the authors say.

Instead, business leaders should seize the moment, especially with what they call the "pricing paradox." Instead of cutting prices on existing products, it pays to design new products that are less expensive. These should be branded well but differently from existing lines, with a clear eye to customers' needs in troubled times.

This is what McDonald's did in 2008, with a new line of smaller products that are cheaper than the rest of the menu and are branded with a strong emphasis on value.

This year McDonald's is going one stage further with new coffee bars attached to thousands of its restaurants in order to go head to head with premium coffee provider Starbucks. The ability to plan ahead with something new and seize the initiative is why McDonald's was able to run up the hill.

Another "wrong response" to turbulence that managers should avoid is squeezing suppliers and undervaluing distributors. At the same time, we should be careful not to have too many suppliers, so that the ones we **do** use receive enough volume from us to continue offering competitive prices. Simple contracts are better than complex ones, and suppliers should be selected by a range of departments in the company, to avoid decisions being made from just one perspective.

After some more examples of turbulence and its consequences, chapter three finally launches the authors' Chaotics Management System. This

essentially replaces the old-fashioned three-year plan and, in their words, “is a systematic approach to detecting, analyzing and responding to turbulence and its chaos”.

The Chaotics Management System has three main components, and the remainder of chapter three goes into the **first** of these in detail. It describes why and how organizations need a formal early warning system for detecting and analyzing turbulence.

When it comes down to the details of **how** to construct an early warning system, the authors say don't reinvent the wheel. They suggest using a tried and tested system that already exists. We should use eight questions to feed information into the early warning system about opportunities that can be exploited, and also about weaknesses organizations need to be aware of. What the authors are advocating here is continuous SWOT analysis. SWOT is an acronym for strengths, weaknesses, opportunities and threats, as many managers will know.

The eight questions are well thought through. For example, the first asks what blind spots the organization has had in the past and what's happening now in these areas. Another leads us to look at important signals that we're rationalizing away, and identify which individuals in our business are good at picking up the signals that everyone else misses.

To show how these questions work in practice, the authors apply them to the big three US automakers. Their analysis shows that one past blind spot in the automotive industry was US buyers' growing preference for foreign designs.

The book then moves on to the second of the three parts of the Chaotics Management System. This focuses on constructing key scenarios, or pictures of the future, in the new turbulent environment. Managers need to develop at least three scenarios: a worst case scenario, a best one, and a most-expected scenario. There are other permutations too, such as the most-feared scenario. Once you have your scenarios, you develop strategies for each one.

The third and final part of the Chaotics Management System involves selecting strategies to use to respond to the surrounding turbulence. A key part of this is deciding how much risk you're prepared to take in the pursuit of rewards. But even when that's been defined, the unused strategies shouldn't be discarded. They're ready-to-use alternative responses that organizations can switch to if their early warning system shows they need to try something different.

In chapter four, the authors describe how to introduce and embed the strategic behaviors you need to implement the three elements of the Chaotics Management System. They focus on five of the key functions found in most businesses – finance, IT, operations, procurement and human resources. This is extremely helpful, practical stuff.

Managers need to ensure that these functions are **robust, responsive** and **resilient** – that is, strong and lean, capable of analyzing situations quickly and reacting with aggressive moves, and able to spring back.

First of all, companies need to check whether their business model and strategy are still the right ones for the current market conditions. Next, they need to optimize their ability to act on strategy under the new stresses brought on by chaos.

The authors use various diagrams here, and the most informative is one called the “chaotics strategic behaviors execution plan.” This shows the need for flexible actions and decision-making that embrace different business functions, as well as the need to provide more training when necessary and to alter how performance is measured.

By applying the recommendations in this chapter, companies will reach long-term sustainability, the authors say, which is a theme that will appear again in chapter six.

But before that, chapter five considers a core business function that wasn't covered in the previous chapter, which is marketing. Now, as one of the two authors is a leading global authority on marketing, readers' hopes for this chapter will be understandably high.

Unfortunately, disappointment sets in early on, in a section about “major changes that have been happening in the marketing landscape.” This points out that customers are now able to research products on the internet, and competitors can copy new products fast, thus reducing the competitive advantage for innovators.

Sure, these **are** features of the marketplace, but they started happening long before the current downturn set in. Having said all that, all of the advice that follows is wise and sensible, and although it won't be news to anyone who's read Kotler's other work, it's nevertheless a timely reminder, albeit one that's been somewhat over-sold here.

The final chapter looks at what the authors call “business enterprise sustainability” – in other words, how to keep your organization going for as long as possible. An important aspect of achieving this, they argue, is to have a brand that customers feel emotionally attached to. They cite Harley-Davidson and Apple as good examples of this.

By the end of this book, readers may well feel assured that organizations can still thrive in the current turbulent times and into the future – even if we never return to the stability of the past. And for those who found some of the recent excesses distasteful, the good news is that the successful companies of the future will be those that add real value for their customers, rather than simply benefiting from a rising market.

Chaotics: The Business of Managing and Marketing in the Age of Turbulence is published in hardback by AMACOM.

That's the end of this episode of Book Insights. If you'd like a transcript, log on to the Career Excellence Club at www.mindtools.com. And thanks for listening. [Click here](#) to buy it from Amazon.

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