BOOK REVIEW

Chaotics – Philip Kotler and John A. Caslione

Reviewed by

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Taking the cue from Peter Drucker's 'Age of Discontinuity', Andy Groove's 'Only Paranoids Survive' and Alan Greenspan's 'Age of Turbulence', redoubtable Philip Kotler and his collaborator John A. Caslione argue in this book that there is manifestly much more risk and uncertainty in business today than ever before and that it would be well for us to accept that this is the new normality. Time was when there was either an up cycle in business lasting six or seven years or a down cycle with an average of ten months – not any more. The new normality economy is more than just a recurring pattern of up and down business cycles; it is today identified with heightened turbulence involving big shocks and painful disruptions at both the macroeconomic and microeconomic level, challenging business and government leaders to understand, accept and proceed to create new ways and strategies to deal with them.

The last four months of 2008 were an example of the kind of turbulence that we can expect henceforth. A globalized world characterized by an "interlocking fragility" has spread the crisis of 2008 world-wide. Kotler and Caslione list the critical factors that are raising the stakes for business risks in that world: technological advances and the information revolution; disruptive technologies and innovations; the 'rise of the rest' (notably the BRIC countries); hyper competition; sovereign wealth funds; the environment and customer empowerment.

The authors argue that much as turbulence in business is the inescapable order of the day, companies can choose how they face its consequences and ramifications.

Through 'chaotics' they seek to provide a framework of response to turbulence, a disciplined way of facing up to the vulnerabilities and opportunities emanating from turbulence. The reward at the end is business enterprise sustainability which is maximization of the underlying value of companies in extended long term, while optimizing company performance and value in the short and medium term.

Kotler and Casilione go on to argue that turbulence in the business world can lead to all the wrong responses from management. Some of the most common mistakes that they list are: resource allocation decisions that undermine core strategy and culture; across-the-board spending cuts vs. focused and measured actions; quick fixes to preserve cash flow, putting key stakeholders at risk; reducing marketing, brand and new product development expenses; responding to declining sales by price discounting; decoupling from customers by reducing sales-related expenses; cutting back on training and development expenses in economic crises and undervaluing suppliers and distributors.

While companies wanting to emerge from turbulence stronger and more valued must avoid these mistakes, what matters in the new age – the Age of Turbulence – is the ability to detect turbulence itself, anticipate chaos and manage risk. Citibank's problem was its failure to heed early warnings about the financial meltdown of 2008; in the case of the three US auto giants, GM, Ford and Chrysler, the failure was in navigating their way through a strategic inflection point which itself they were unable to apprehend. On the other hand, Southwest Airlines has remained one of the world's most profitable airlines over the years because it had a correct understanding that rising fuel costs were the main threat to its business model and had developed a sophisticated automatic response hedging strategy to reduce those costs by as much as fifty per cent. What is required, argue the authors, is for companies to construct different scenarios of the future so as to gain deeper insights and develop flexible strategies that would do well against whatever happens. Early warning systems to detect turbulence and new and robust organizational muscle to deal with both its perils and promises is what the system of chaotics, so essential today for companies, will involve.

Chaotics behaviours and strategies are not only to be fashioned, they would also need to be embedded into the organization. The goal is for business leaders to put in place well-defined systems designed around a "robust, resilient and responsive" management framework or risk the kind of failure that befell Citicorp and General Motors.

On the marketing front, companies would need to recognize the key changes that have swept the landscape, among which are better informed and empowered customers, growing preference for private labels as against more expensive national brands and the role of the internet and social networks as new media sources and means of direct-to-customer selling. All this makes it essential for companies to question their current marketing policies and ideas, for the fact is that they find themselves today at a strategic inflexion point on marketing, what with new consumer behaviours and global players like P & G (which reported an 18% decline in profits in the second quarter) making moves to reduce their marketing costs and conserving capital. But while lowering its costs, a company must follow steps that will preserve its value proposition and appeal and furthermore, choose its strategy mix in relation to what its competitors are doing: companies cannot start to make cuts until they grasp what is happening to their customers, competitors, dealers and suppliers. Each company must act in a way that best promises to preserve its customers, its brand strength and its long-term objectives.

As part of chaotics, the authors consider the main marketing activities that would call for a review and possible cost savings such as marketing research, product mix, services advertising, pricing and distribution. All of these activities run into each other and therefore, any cut in one area is likely to cause repercussions in others. Clearly the company needs to develop a vision of what strategic and tactical responses are available during a slowdown, particularly a long, extended slowdown. And finally, the company must develop a sense of the possible scenarios and formulate a view of appropriate responses to each of them.

The universal fear of business leaders, posit the authors, is about their ability to react quickly enough to the fast-changing conditions around them, despite the stress on their reaction time and capacity caused by the recurrence of crises.

Their prescription consists of three specific actions: make strategic planning more dynamic, interactive and compressed into shorter time cycles of three months rather than a year; facilitate cross-functional decision-making at key levels for better and faster decisions and break larger organizations down into smaller, flatter groups and subgroups – reaching out to each other on a global basis – to facilitate and achieve faster reaction times. Business Enterprise Sustainability (BES) is what organizations should seek to achieve; it will involve a comprehensive strategy to maximize the underlying value of companies in the extended long term while optimizing company performance and value in the short and medium term – "managing with a double vision".

Quoting the views expressed by several authors, the book sets out the various factors that give rise to a company's reputation and its ability to develop enthusiastic customers, elements essential to BES. This eclectic approach describes, with the helpfulness of a textbook, how companies must balance short and long term considerations in crafting their strategies and address factors affecting their reputations on the one hand and customers' loyalty on the other.

The overarching thesis of the book is that the shocks and disruptions of the present time are here to stay, for the world has entered a new economic stage where we are to anticipate increasing turbulence for business in the next two decades (the book is silent on what happens thereafter). It conforms to a predominantly American tradition of writing about what is perceived from time to time as the wave of the future, Alvin Toffler's 'Future Shock' being one of the early examples. Overstating the case is part of this genre of writing, so also a certain amount of repackaging of old ideas – and this book is no exception. Whether the fallout from the financial meltdown has meant a basic change to competition among companies and management of business in a globalized post-industrial economy is a moot point. From that perspective, the attempt of the authors to forge what they claim to be new tools may well be seen as a redundant exercise. But to the credit of Kotler and caslione, they make a good effort to recapitulate the grand lines of contemporary business strategy under a topical guise. Useful reading for MBA students!

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