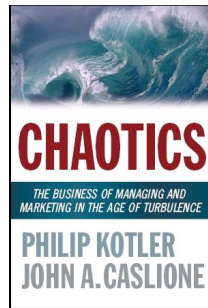


Chaotics™: The New Normality



The world is more interconnected and interdependent than ever before. Two main forces: globalization and technology, helped create a new level of interlocking fragility in the world economy. Globalization—the fact that producers in one country are increasingly importing resources from other countries and increasingly exporting their output to other countries. Technology—in the form of computers, the Internet, and mobile phones—enables information to course through the world at lightning speed. News of a new discovery, a corporate scandal, a death of a major figure, is heard around the world. The good news is lower costs, but the bad news is increased vulnerability. Outsourcing has always had its defenders as its critics. While global interdependence works in everyone’s favor in good times, it rapidly spreads much pain and damage in bad times. This now becomes an inescapable feature of the *New Normality*.

But what is turbulence? We know it when it occurs in nature: it creates havoc in the form of hurricanes, tornados, cyclones, or tsunamis. We experience turbulence in the air from time to time when a pilot asks us to fasten our seatbelts because of “turbulence.” In all these cases, stability and predictability vanish only to be replaced by being buffeted, bounced, and jabbed by conflicting and relentless forces.

Economic turbulence creates the same impact on us as turbulence in nature. One moment we hear that Miami has built more condominiums than buyers are buying. Speculators are carrying the cost and having a hard time meeting the payments. We hear of families who have purchased their homes on “nina” loans – “no interest and no assets.” Now they can’t make their mortgage payments and are facing foreclosures. Banks start realizing that they have deadbeat assets due to securitization and hesitate to make more loans to either customers or other banks. Consumers hear this news and switch from credit-based spending to saving, causing companies that sell automobiles, furniture, and other “postponables” to suffer declining

sales. These companies in turn announce major layoffs that result in less available consumer purchasing power. Meanwhile companies slow down their buying from other companies adding to their suppliers' hardships who in turn, layoff their workers.

Companies in these difficult times tend to make across-the-board cuts. They especially deeply reduce their new product development budgets and marketing budgets, both of which undercut their short-term recovery and long term future. Consumers, workers, producers, bankers, investors and other economic actors feel that they are living through an economic hurricane, a maelstrom that is unstoppable and relentless.

But this turbulence is hopefully only short lived. In the past, it has been. It has not been the normal state of an economy. Yes, economies often do return to "normal" conditions, but in this new era turbulence at varying levels becomes an essential condition. A particular country may be racked by turbulence, as Iceland experienced in 2008 as its banks moved into bankruptcy. A particular industry may be racked by turbulence. Today it might be the advertising industry as companies move more of their money from 30 second TV commercials into newer media such as websites, emails, blogs, and podcasts. Some markets may be turbulent, such as the housing market or the auto market. Finally, particular companies may be experiencing turbulence which has buffeted them especially hard, as has been the plight of General Motors, Ford and Chrysler; but has not been less of a plight for Toyota or Honda.

The fact that an individual company can be living through conditions of turbulence is underscored in Andy Grove's well-known book, *Only the Paranoid Survive*.¹ As the former CEO of Intel, Grove had to deal with all kinds of threats to damage Intel's preeminent position in the computer chip manufacturing business. It would take just one agile competitor to come out with a superior chip at a lower price to topple Intel. Grove had to live with uncertainty. His company had to erect an early warning system that would reveal signs of imminent trouble. His company had to create different "what if" scenarios. His company had to preplan different responses to the different scenarios in case they occurred.

In a word, Grove had to create a system that would insure against risk and respond to uncertainty. We have a name for such a system. We call it *Chaotics*. All companies must live with risk (which is measurable) and uncertainty (which is unmeasurable). They must build an early warning system, a scenario construction system, and a quick response system. But our finding is that most companies operate without a *Chaotics* system. They have scattered and insufficient defenses. Motorola doesn't have a *Chaotics* system. General Motors doesn't have

that system. And countless others in the U.S., Europe, Asia, and all around the world don't have that system.

Most companies operate on the assumption of a built-in self-restoring equilibrium. Economists built price theory with equilibrium in mind. If oversupply occurs, producers will cut their prices. Sales will increase, thus absorbing the oversupply. Conversely, if a shortage occurs, producers will raise their price to a level that will balance demand and supply. Equilibrium will prevail.

We postulate that turbulence, risk and uncertainty are the more normal condition of industries, markets and companies—the *New Normality*, punctuated by periodic and intermittent spurts of prosperity and downturn. And turbulence has two major effects. One is Vulnerability, and it is against this that companies need defensive armor. The other is Opportunity, which needs to be exploited. Bad times are bad for many and good for some. Opportunity occurs when a strong company can take away a weaker competitor's business or even to acquire a weakened competitor at a bargain price. Opportunity is also present when your company doesn't cut critical costs—but your competitors do.

If we are correct, companies need a *Chaotics* management system for dealing with uncertainty, as *Chaotics* will help you lead your companies to maneuver, perform and thrive in *The Age of Turbulence*.

Philip Kotler

John A. Caslione

Chaotics™: The Business of Managing and Marketing in the Age of Turbulence

1 Andy Grove, *Only the Paranoid Survive*

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