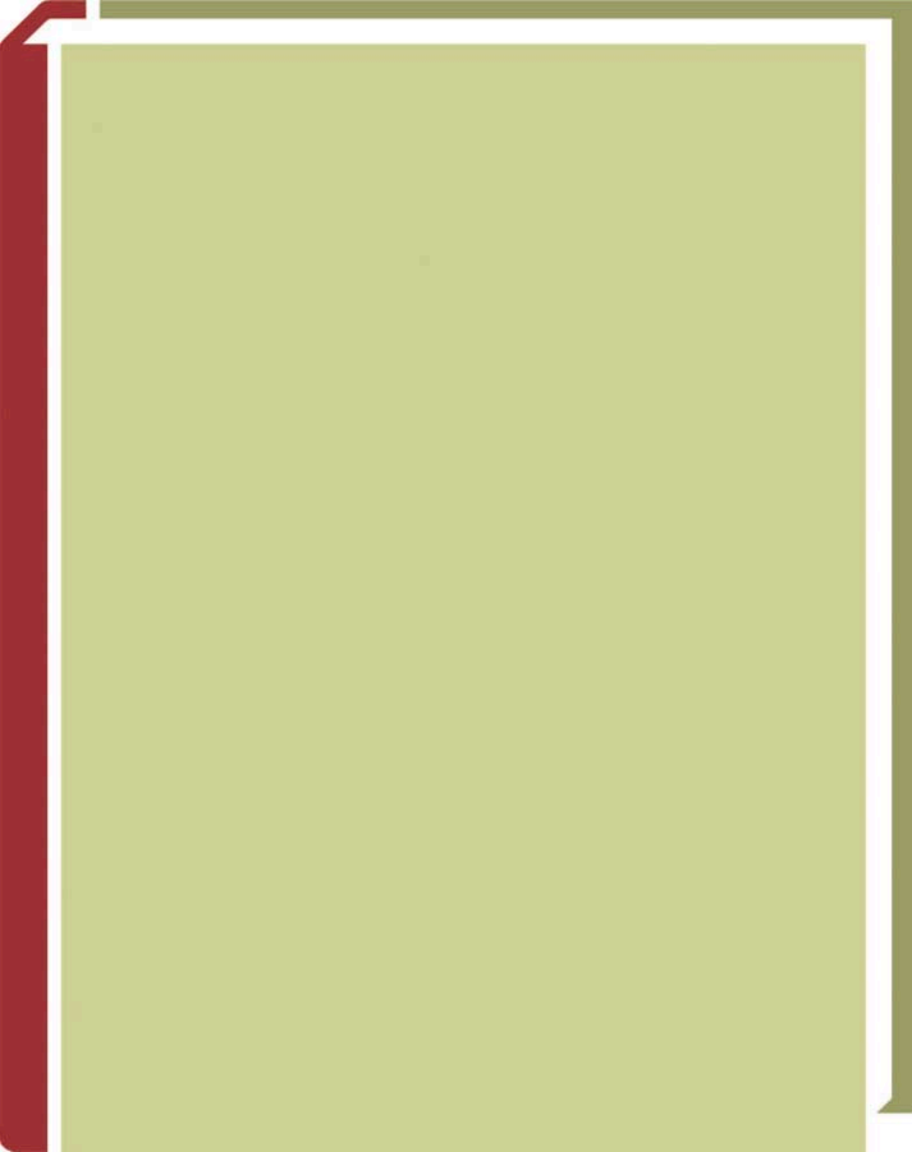

Chaotic Markets

Thriving in a World of Unpredictability

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This book is dedicated to those who have the understanding of the chaotic nature of markets and are able to develop counterchaos strategies.

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Preface

There are millions of companies in the very dynamic economy of the United States. Their primary concern is to survive. After all, if we don't survive, we cannot grow and prosper. We may not be seeking greatness, we may not be seeking maximization, but we certainly are seeking survival and a reasonable return to investment. Take a little women's apparel store with the name of Bonomo's, in a southeastern university town. The store owner had very good and artistic taste. She managed the store with an atmosphere of warmth. The ambience and the merchandise mix were all pleasing. She also had the most prominent ladies in town as part-time salespeople. These ladies had many friends. Thus, in the store the atmosphere was one long and ongoing party. Now, Bonomo's was very successful. Should this store have aimed at greatness? Probably NOT. It certainly was not the best in the world and the proprietor did not even consider such a concept. There was no piercing insight into driving the economic engine that made the store very successful. However, everybody who worked there was very friendly and deeply passionate about what they were doing. Not a world-class store, it was better than good, but not GREAT.[1] This is where most, if not all, American businesses would like to be. The proprietor of Bonomo's called her store "my little gold mine." As Collins[2] posited, out of thousands perhaps 11 are great. But literally hundreds of companies that I have known—big, small, manufacturer, wholesaler, retailer, and service—have resembled Bonomo's. Thus this book is not about greatness, but all firms can become *very good* and can achieve market power. This is the essence of market capitalism. All firms can learn to encounter chaotic market conditions and generate consumer value if they have carefully thought out and implemented market strategies. Understanding American markets is very difficult, but without such understanding, survival is impossible.

Markets are extremely dynamic and, by definition, not very friendly. The modern firm must realize that marketing problems can be solved by marketing activities, not by organizational restructuring, by some financial manipulation, or some internal musical chairs game within the company's top management.

It is not necessarily a normal phenomenon but giants such as Kodak, Sears, General Motors, or somewhat smaller firms such as American Safety Razor or Giant Foods, Inc., sooner or later have to, in fact must, hit a stone wall or a major snag in terms of changing needs, varying consumer desires, or introduction of some totally unexpected products that would make their products obsolete. It happens almost all the time. Many companies, large and small, throughout their journey in the marketplace, hit snags that can be a setback or a totally devastating experience. They lose their competitive edge, and their existence becomes threatened. Any firm, in the ultradynamic market system, must create a competitive advantage by achieving market power. Creating and maintaining competitive advantage in today's markets is so challenging that it borders on impossibility. Not only thinking out of the box, but also performing out of the box, is a necessary prerequisite not only for success but also for survival. "Business as usual" orientation is no longer acceptable. Thinking out of the box is not something that is done automatically. The firm must be doing this, on and off, powerfully and regularly. Thus, the modern firm must develop a culture of thinking unconventionally. That culture must be practiced in a disciplined manner. Without such orientation, in view of the increasing adversities of modern markets, the firm has little chance for survival.

In an earlier book, I used the concept of *value marketing*. Indeed, marketing in the final analysis is creating value; therefore, success in the marketplace is related to the success of consumer-value generation. However, generating consumer value is becoming more difficult as adversities in our markets accelerate.

This book, after many years since the earlier book, deals with the realities of chaotic markets. Here a key assumption is that market adversities are bordering on chaotic proportions. The greatest challenge for the corporate entity, therefore, is to survive chaotic shocks in the marketplace and be profitable at the same time. Surviving market shocks and remaining profitable are still equated with value generation. Hypercompetition that prevails in our markets makes generating consumer values, particularly extraordinary values, more and more difficult and, hence, survival in the marketplace due to generating extraordinary values is becoming a great challenge. Thus, today's market realities are not only very different than in the past and much more complex, but they are also much more difficult to cope with. Throughout the book, two sets of reasoning are posited. First, in order to become reasonably immune to chaotic market shocks, the firm must be futuristic, proactive, and devoid of conventional wisdom. It must be disciplined in this overall orientation of *managing the future*. Second, the firm must also manage the present and generate market power by creating consumer value as of now. Thus, the firm must manage both the present and the future. This is coined in this book as an "ambidextrousity." There is no future if the present is not managed well, but also there is no future if the future is not managed at all.

Both of these approaches, that is, managing the present and managing the future, must be juxtapositioned against the way markets are described throughout this book, *disorderly disorder*. Coping with the disorderly market is a major challenge. In fact, it is THE CHALLENGE in attempting to generate market power. But when we realize that the existing disorder, such as the unpredictability of events, sudden shock waves, unexpected developments, and the like, continue in a disorderly fashion, then the challenge becomes incomparably greater.

The modern corporate entity simply cannot afford to remain traditional, continue to be guided by conventional wisdom, and see the future as a simple extension of the present. "Business as usual" orientation not only does not work, but is also the "kiss of death."

Guided by futuristic proactivity, the firm must also develop the most suitable generic strategy for itself. A proper strategic game plan can create a sustainable competitive advantage. This will improve the firm's market position, since strong competitiveness provides certain immunity to unexpected and increasing adversities of the market.

The modern firm does not only owe it to itself to be more proactive and futuristic, but it also owes it to the society as a whole and to its customers as well. This author believes that the more consumer value is generated, the smoother will be society's desires for dramatic changes.

In some important recent research, a number of critical points have surfaced. However, these points must be carefully understood and implemented.[3] Although it has not been articulated as such, it has been implied that some leaders are *predestined* to be great. This is important, but what do we say to a struggling company? Go get yourself a predestined great leader?

Another point that has surfaced recently in management thinking is that those leaders who are modest do better. Again, first, how do we really measure modesty; second, how do we teach modesty; and third, is it really modesty or something else that creates success?

Simplification of the description of the problem appears to be advocated. First, simplicity has nothing to do with the very complex nature of the markets. Second, it is not the identification of a problem: it is getting to where the market is headed, and getting there earlier that needs to be emphasized. It must be stated at the outset that wishful thinking is NOT a strategy. There must always be a game plan or a plan of action.

Finally, "never lose faith" and "stay in there" have been advocated. Modern marketing-related issues cannot possibly be resolved with the faith to oneself and to the company alone. Market-related problems and opportunities require market-oriented activity, not just having faith in management to do things right.

All of these factors or considerations have a place and a role to play. However, first we are not trying simply to create a few "great" companies. All companies must be "great" in their own way. Second, in order to survive we must create market power. Without that there will be no future for our firm. Creating market power is a sign of greatness and cannot be achieved by looking out from the inside. Looking out from the outside is essential for achieving market power. All firms must achieve market power by generating consumer value. Here, throughout this book "consumer value generation" is used to imply that the firm is obligated to generate value not only for stockholders and stakeholders, but also for the society.

Thus, this is not a book of clichés. This is not a book of predictions; this is not a book of wishful thinking; this is not a book of forecasting the future. This is a book about thinking nonconventionally. This is a book about the modern markets, understanding them and using them proactively to generate consumer value and sustainable competitive advantage and, hence, *gaining market superiority.*

A. Coskun Samli
Ponte Vedra Beach, Florida
March 2006

Acknowledgments

A book cannot be written without the contributions of many people, and this is no exception. I may say that this book has been in the making for over 40 years, and many people directly and indirectly contributed to it. Early on, my thinking was formed by my dissertation research on business failures, under the meticulous guidance of Professor Stanley Hollander of Michigan State University. One of the best scholars of my time, a mentor, and a friend, Dr. Hollander's impact on my thinking and on my research has been rather difficult to acknowledge fairly. I owe him more than I can pay back and I miss his wisdom and friendship dearly.

My friend, colleague, and coauthor in many projects of many years, Professor Joe Sirgy of Virginia Tech, has always been available to argue or interact. His influence on my thinking has been profound. Dr. Edward Mazze, Dean of the College of Business at the University of Rhode Island, has spent much time with me on the phone discussing many related and less-related items regarding this book. Intellectually I must confess that I have been influenced by Peter Drucker's thinking and writing.

Some of my colleagues at the University of North Florida have directly and indirectly influenced my thinking. Dr. Edward Johnson, Dr. Ronald Adams, Dr. Greg Gundlach, Dr. Earle Traynham, Dr. Adel El-Ansary, and others all have been kind enough to carry on detailed conversations with me.

During my 40-year-plus professional career, I have done much research and much consulting. All of these efforts and what I have learned from them are found between the lines and pages of this book. But, above all, my weekend MBAs and my evening MBA students, most of whom are seasoned middle managers, have reacted to my ideas and interacted with me to raise the level of knowledge that we have exchanged.

At the firing line, my research assistants Tomas Miho and Sarah Forstner have given me the necessary informational inputs so that the ideas presented in this book can be further refined. Our secretaries, Leanna Payne and Carolyn Gavin not only were patient with me, but also successfully deciphered my mostly illegible handwriting. I am truly grateful for the support I have received. That also goes for my department head, Dr. Gene Baker, who helped me by not scheduling me unreasonably. As in many times in the past, Beverly Chapman gave me a helping hand in editing my manuscript. As usual, she was very helpful. Above all I would like to extend my appreciation to Nick Philipson, Senior Editor of Praeger Publishing Group, who has given me numerous valuable ideas to make this book more helpful to our readers. I am truly grateful.

To these and many other people who, over the years, discussed, interacted, or researched these issues with me, I extend my deepest gratitude. However, needless to say, I am solely responsible for the contents of this book. I sincerely hope that it makes a modest but noticeable contribution to the well-being of all of my friends in business, both those that I know and those that I have never met.

Introduction

Adam Smith could not possibly have imagined the Internet, or information technology, or modern management thinking. But, since his time, complexities of the market system have accelerated incessantly. In fact, complexities of the market system accelerate geometrically even though business populations and markets themselves grow arithmetically. But along with these complexities, adversities in the marketplace also accelerate.

The increasing adversities in the marketplace must be understood and evaluated constantly and effectively so that a firm can develop and maintain market power. The market system has multitudinous pressures, creating adversity for the modern business enterprise. Figure I.1 presents five general categories of adversity-causing pressures. These are: government and globalization, scientific progress, external uncontrollables, increasing competition, accelerating consumer demands, and external uncontrollables. These are discussed, in some detail, throughout the book. Just a brief review is in order. It must be reiterated that if these threats are not understood well, there cannot be proactive management action to enhance the opportunities for survival.

GOVERNMENT AND GLOBALIZATION

The complexities of modern living have been forcing governments to regulate, re-regulate, or deregulate and create much unwanted yet, at times, much needed controls. In recent years, these controls or lack thereof have been further modified and intensified by the globalization process.[1]

Businesses are struggling to combat fierce international competition as they also try to follow the dictates of local and national regulations.

The globalization process clearly enables the transfer of most up-to-date technology. Even though it may not be the "most appropriate" technology, it takes off successfully for a very small sector of the economy and crashes small existing businesses brutally. In Friedman's[2] terminology the global process comes on like an "electronic herd" and exerts tremendous pressure on the existing small businesses.

SCIENTIFIC PROGRESS

In addition to producing better products more efficiently, scientific progress is also creating disruptive technologies. This concept is discussed in greater detail in this book. Suffice it to say that companies quite often have difficulty deciding if they should stick to continuing technologies or switch to disruptive technologies. The latter may suddenly make the firm's products outdated, useless. Another track in scientific progress is related to information, which, again, is used by some companies, creating extremely difficult competition to cope with. Those few companies that use information technology skillfully can gain significant cost benefits against which other less skillful firms cannot compete. Similarly the future of the computer industry may be questioned as nanotechnology-related products emerge.

INCREASING COMPETITION

Increasing competition, all by itself, is a major category. Merger mania, e-trade, the outreach of global giants, and the emergence of small and medium size businesses are just a few aspects of this all-encompassing category. Not only is competition increasing because of the number and size of companies, but also because of competitive strategies and tactics.

When Johnson and Johnson acquires a new, small, but very dynamic company, it enters a new market from the high-end with significant expansion of the newly purchased company. Such activities suddenly change the nature of existing competition and make it extremely difficult for those who may take the approach of "business as usual" and have been doing business in the middle of the center of the market.

ACCELERATING CONSUMER DEMAND

When consumers wanted speed, microwave ovens as well as fast cars emerged. Consumers wanted comfort, and SUVs emerged. These are just a few examples of what this author calls "demand pull." However, consumers or the market do not have much to say about, say, the development of *nano-technologies* or fuel cell energy research which are examples of technology push. There is a constant change and hopefully improvement in consumer products and services, provoked by the increasing level of sophistication on the part of the consumer as well as improved technology. Hence, consumer demands are accelerated by *demand pull* and/or *technology push.*

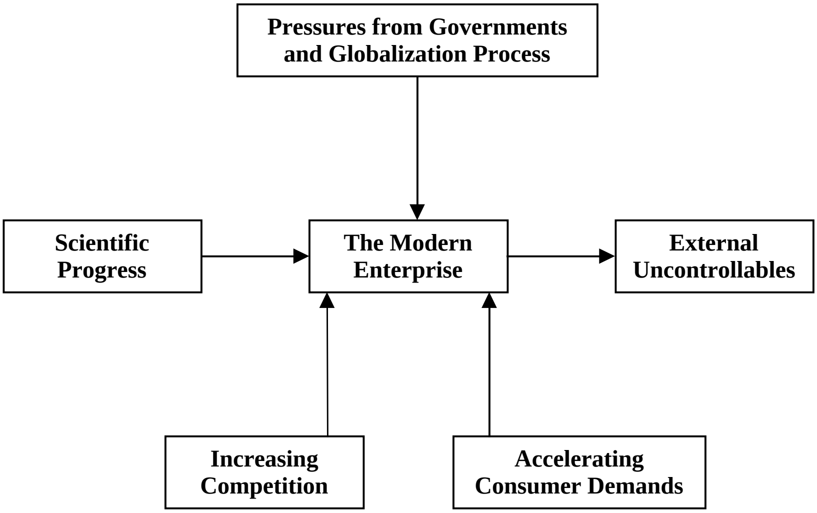
EXTERNAL UNCONTROLLABLES

As this book is being written, the American economy is in a recession. Recessions typically force many businesses out of existence. Business failures and business discontinuances are extremely costly propositions to the individual companies and to the society as a whole. Similarly the remedies, if any, which are used by the federal and state governments create pressure on different business sectors in different forms. For instance, at the writing of this book, very large tax cuts are being given to the upper one percent of the society. As a result, there may be a significant increase in demand for yachts, expensive cars, and services of Swiss banks, but the outcome of these tax cuts would not stimulate demand for K-Mart or Wal-Mart stores, since the recipients of major tax cuts do not shop in these stores. Furthermore, tax cuts will create deficits that may create a very significant financial problem in the long run. Finally, because of their consumption patterns, the rich will not run off and buy things as the people with limited means would do. Regardless of the exact outcome, recessions and the remedies used to correct them are likely to send shock waves throughout the market system.

In fact, the first four of the five pressure systems that are identified in Figure I.1 can be classified as external uncontrollables. In all of these cases, the firm does not possess any controlling or counteracting weaponry. These pressure causing factors and others are discussed in greater detail later on. However, suffice it to say here that the pressures caused by these factors are chaotic for many firms.

Pressure-causing adversity is accelerating. It is critical to develop a counteractive weaponry that will enable the firm to cope with the chaotic pressures.

Figure I.1.
Adversity-Causing Pressures.



ADVERSITY IN THE MARKETPLACE ACCELERATES

Adversities are further fed by globalization, computerization, consolidation, deregulation, intellectual capital creation, and other far-reaching developments. All of these give additional boost to the adversity-causing pressures, generating a self-propelling adversity with which modern businesses must cope.

In dynamic markets of the world and particularly in those of the United States, the adversity-causing pressures have been accelerating to chaotic proportions.

- Establishing tough autosafety regulations created chaos for Volkswagen in the 1960s.
- For surgeons who are performing open surgery, the emergence of arthroscopic and endoscopic surgery created chaos.
- Currently notebook computers have experienced shock waves created by handheld digital appliances.
- An estimated 90,000 businesses ceased to exist before the 2003 economic recession was over.

Such a list can be extended just about indefinitely, indicating the emerging chaotic conditions in the market system. As adversity reaches chaotic proportions and becomes a regular occurrence, then those businesses that are not prepared for coping with the emerging shock waves are likely to lose their footing and even their existence in the marketplace.

FROM ADVERSITY TO TURBULENCE AND FROM TURBULENCE TO CHAOS

Marketing takes place in the economy. It either moves along with current economic activity or moves against the economic tide. These two options for marketing, that is, pro- or countereconomic tide, are not of equal importance. The outcomes of the two are not likely to be equal. Moving against the economic tide is not quite an alternative, but a firm that is inactive or mildly reactive to market changes is in that position and cannot fare well against adversities. Marketing, as a very powerful process and a socioeconomic force, has to be proactive enough to decide how to deal with market adversities. If the economic tide is low, marketing needs to go against this tide proactively enough that overall economic activity is heightened. If the economic tide is high, proactive marketing may reinforce this tide and benefit fully from it.

But, in time, in a dynamic economy, the competition and conditions in the market have become more and more adverse. As the markets change from sellers' markets to buyers' markets, in other words, as the consumers start calling the shots in the market system as originally intended, the levels of market adversity continue to increase to a level of turbulence. More and more businesses are trying to get a part of the consumer dollar by offering more and more goods and services.

Samli[3] identified at least seven factors causing market turbulence. These are briefly discussed below.

Consumer Uncertainty

In the increasing complexities of the American market, consumers developed numerous uncertainties. These were based on dwindling confidence in the job market, vacillating incomes and varying qualities of goods and services, just to name a few.

Time Management

Time became more and more critical in the quality of life considerations. Consumers consider themselves constantly under serious time constraints and require more time-efficient products and services.

Market Fragmentation and Customization

The mass markets of previous eras gave way to multiple idiosyncrasy-based niche markets, and markets became fragmented. Individuals have been pushing even further to achieve customization, that is, personal attention to their particular needs. As consumer sophistication increases, such pressures become a major source of turbulence to businesses.

Quality, Design, and Service

Unlike earlier eras, as market needs changed, they changed in an intensified manner. Consumers demanded not just variety but extensive variety. They demanded not just entertainment but a wide range of entertainment. They demanded not just reasonable ovens, but superspeed microwave ovens. These intensified need changes spilled into all aspects of the market. More services, more personalized designs, more quality products are being demanded.

Insensitivity to Market Need Changes

Businesses, much of the time, started having difficulty in coping with dramatically changed and intensified market needs. Either they could not see these dramatic changes emerging or they simply encountered difficulties meeting these changes.

Insensitive Front Line Personnel

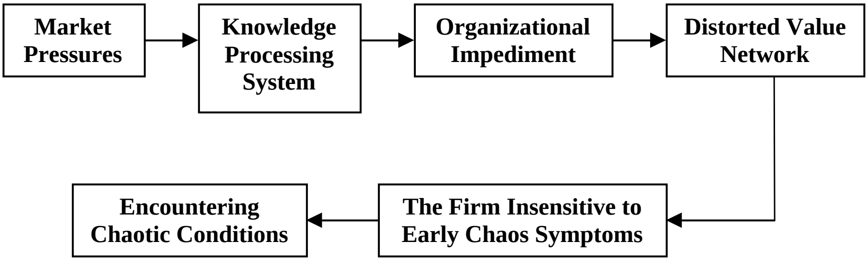
Front line personnel in businesses, by not being responsive or by not being attentive, exacerbated difficulties. They could not quite satisfy consumers' information needs. Consumers became disenchanted.

The Feeling of Losing Value

Because of the larger size of businesses due to increasing oligopolistic patterns in the market where a few businesses control a large proportion of the particular market, consumers feel small and powerless. The oligopolists who are far removed from consumers and not entirely sensitive to consumer needs, make consumers feel that they are losing value and being pushed around.

The turbulent era is still present and continuing. However, in addition to turbulence, other and more powerful adversities have emerged. Adversity-causing pressures are in chaotic proportions and creating tremendous difficulties for the modern enterprise. This book primarily deals with this extreme phenomenon even though the discussion presented throughout is also applicable to all market adversities.

Figure I.2.
Lacking Internal Sensitivity.



KNOWLEDGE PROCESSING SYSTEMS

Goethe, the famous German philosopher, once stated: Everyone lives, but only a few realize that they are alive. The same concept is more dramatically applicable to business. One very good explanation of why companies fail can be easily attributed to what Goethe meant—that is, companies are not aware of their own being due to what Christensen[4] calls organizational impediments. The company either does not have a *knowledge processing system* to understand what is happening in the market, or the processed knowledge does not go to the people in the organization who can do something about market adversities.

The second aspect of the above-mentioned inadequacy of the existing knowledge processing system is related to already established *value network.*[5] All firms, whether cognizant of it or not, have a value network. This is the network within which the firm identifies and responds to customers' needs, solves its problems, purchases what it needs, responds to market conditions, and generates profit. Thus, the value network is the cradle of the firm's strategic being and its functional activities. As such, the value network leads in the direction of the firm's internal reward system. The more established the firm, the more entrenched the overall processes of the firm. But, as mentioned earlier, if the knowledge processing system is somewhat dysfunctional and is not overcoming the established organizational impediments, implying that the firm is becoming less cognizant of its own existence, then disaster is likely to ensue.

Thus, if the knowledge-processing capabilities of the firm do not activate the firm's ability to understand its relationships with its markets, the firm is destined to face chaos. Figure I.2 illustrates this chaotic progression. Activating the firm's ability to counteract chaos before it happens is not wishful thinking; it is a necessity.

PROBABILITY OF CHAOS CAN BE FACED WITH COUNTERCHAOS MARKETING

Once again, we must consider Goethe. The firm must be fully cognizant of its own existence. As illustrated in Figure I.2, if the firm's internal sensitivity is less than adequate, the firm is destined for hardship in the marketplace. Continuing to function in that fashion cannot possibly lead the firm in a counterchaos path. As discussed elsewhere in this book, the firm not only should be cognizant of its existence, but also must be capable of taking dramatic action, which may not have been its traditional manner of functioning. Thus, the past, the present, and the future directions of the firm need to be identified. Understanding how the firm got where it is at that moment can be a good clue, but it is only that: just a clue. In fact, most companies that have a habit of listening to their best customers, and identifying new products accordingly, are not likely to survive in extremely dynamic markets where disruptive technologies are plentiful.[6]

Perhaps a simple analysis of Sears may explain Figure I.2. Sears, the number one retailer at the time, started feeling pressure from Wal-Mart. Its knowledge-processing system distorted its perception and led the company in the direction of numerous financial ventures. Thus, the company experienced a distorted value network. In the meantime, Sears' key target market of upper-middle-class was shrinking. Its insensitivity to early chaos symptoms led the company into the current chaotic market conditions without a vision for the future and without a focus.

As we advocate an improvement in the internal sensitivity of the modern firm, we must also illustrate how chaotic developments influence the firm and how a counterchaos marketing strategy needs to come about. Figure I.3 presents a general picture of how a counterchaos corporate strategy emerges. As seen in the Figure, chaotic influences can threaten extinction and/or promise extraordinary gains. Sears did not realize that its core market lost economic power, and thus became more cautious with its money, preferring to patronize Wal-Mart or Target where lower-priced goods are available. Sears is still under shock.

At the totally opposite end of the spectrum, Microsoft came up with its Windows series as personal computers became very popular. A shock wave served the company well. Figure I.3 shows that the firm had a swift reaction against the chaotic influences that lead to the development and implementation of strategic market plans. But if the firm interpreted the chaotic influences as not important and its current equilibrium in the marketplace as safe and sustainable, the firm would have been in great danger of becoming extinct.