MARKET
YOUR WAY TO GROWTH

8 WAYS TO WIN

PHILIP AND MILTON
KOTLER

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Praise for *Market Your Way to Growth*

"The world economic order has been reset, and the only way to survive is to grow continuously and sustainably. This book is a compelling road map to achieving growth based on first principles that businesses need to follow to negotiate a challenging yet promising future. The insights of Philip and Milton Kotler are incisive and perceptive, and they provide a blueprint for a successful enterprise—a must read."

—Mukesh D. Ambani, Chairman and Managing Director, Reliance Industries Limited, India

"Phil Kotler has done it again, giving us a superb distillation of the Big Issues of these difficult times and pragmatic advice on how companies can grow."

—Shumeet Banerji, CEO, Booz & Company

"I think that companies would benefit greatly if their senior management would read and discuss the eight ways to achieve growth in this difficult world economy. They would recognize pathways to growth that they have overlooked."

—Ram Charan, business consultant and author of *Execution: The Discipline of Getting Things Done* and other best-selling business books

"Phil Kotler is the reigning sage of marketing, with vast knowledge, penetrating insight, and a fabulous ability to synthesize a complex topic into truthful simplicity. A master teacher, Kotler continues to shape the minds of marketing leaders around the world—and through his writing, he can shape your mind, too.”

—Jim Collins, author *Good to Great* and *Built to Last*

“*Market Your Way to Growth* goes way beyond marketing. It provides a fantastic framework for strategic leadership!”

—Marshall Goldsmith, executive coach and author of *New York Times* best sellers *Mojo* and *What Got You Here Won't Get You There*

“In this period of slow growth, this book is bound to stimulate new thoughts on strategy.”

—Wen Bo He, President, China Bao Steel Corporation

“KMG China helped us to use these eight pathways to grow our civil aviation industrial park in Xian. We put customer demand before manufacturing start-up. We are now the largest general aviation air base in China.”

—Qian Sheng Ji, CEO, China (Yanliang) National Aviation Hi-tech Industrial Base

“*Market Your Way to Growth: 8 Ways to Win* offers compelling insights for public companies that are operating in a rapidly changing and challenging global marketplace. The developed markets are slow, and emerging markets are on the fast track.”

—William R. Johnson, Chairman, President, and CEO, H.J. Heinz Company

“Constant self-renewal is one of the essential traits for any business leader, and is an important theme in the Kotlers' book. Their wisdom, keen powers of observation, rich experience, and common sense will surely make this an important and practical business book."

—Robin Li, Co-Founder, Chairman and CEO of Baidu, Inc.

"In these uncertain times, growth is the single biggest challenge facing businesses across the world. The Kotler brothers have provided a comprehensive and valuable guide for businesses seeking fresh ways to grow."

—N. R. Narayana Murthy, Chairman Emeritus, Infosys, India

"The Kotler brothers are the masters of marketing and strategy! They can show you how to turn your marketing strategy into a growth strategy."

—Hermann Simon, Chairman of global consultancy Simon, Kucher & Partners and author of *Hidden Champions of the 21st Century*

"A brilliant guide for all business leaders seeking to move their companies to the fast lane, written by the greatest minds in strategic marketing."

—Prijono Sugiarto, CEO, Astra International, Indonesia

"Philip Kotler and Milton Kotler have given us many insightful suggestions and much help. Their theory is leading us to find new ways to grow in the global market."

—Xiu Guo Tang, Founder and CEO, SANY Group

"The eight pathways are a great place for a leadership team to start ideating about stepping up growth in what is likely a low-growth environment for the next decade."

—Peter F. Volanakis, Former President and COO, Corning Inc.

"Better marketing is vital for businesses in the era of social media and economic turbulence. I believe business leaders should all think strategically about marketing, as demonstrated in Philip and Milton Kotler's book."

—Shi Wang, Founder, Vanke Group

"The Kotler brothers have provided a pragmatic and holistic approach to delivering sustainable, profitable growth. They position the eight pathways and marketing as the strategic centerpoint of the transformation to higher growth."

—Katharyn M. White, Vice President Marketing, IBM Global Business Services

"The Kotler brothers have made new contributions to growth strategy. Our company is actively practicing these eight strategies and becoming a major force in the global economy."

—Guang Quan Wu, CEO, China AVIC International

"Philip Kotler and Milton Kotler's book is a superb refresher course for managing and strategizing in a period of slow growth."

—Hang Xu, CEO, Mindray Group

"The Kotler brothers have made a fresh contribution to the literature on growth."

—Yuan Qing Yang, Chairman and CEO, Lenovo Group

"After *Marketing 3.0*, Philip Kotler is again leading the way to thinking about how to get out of the current slow growth period gripping today's companies and countries."

—Rui Min Zhang, Founder and CEO, Haier Group

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From Philip:

To Nancy, my wife, my love, for your humor and wisdom that I treasure.

To my international friends who gave me insight into the economies of their countries: Evert Gummesson (Sweden), Pietro Guido (Italy), Masatoshi Ito (Japan), Hermawan Kartajaya (Indonesia), Fahim Kibria (World Marketing Summit), Kam Hon Lee (China), Jose Salibi (Brazil), Hermann Simon (Germany), and Walter Vieira (India).

From Milton:

To Greta Kotler, my partner in love, in family, in work and thought.

To Cao Hu, my steadfast colleague in building Kotler Marketing in China.

Introduction: Preparing to Master the Eight Pathways to Growth

The years ahead will be best for those who learn to balance dreams and discipline. The future will belong to those who embrace the potential of wider opportunities but recognize the realities of more constrained resources, and find new solutions that permit doing more with less.

—Rosabeth Moss Kanter, 2011

We Live in a Two-Track World: Low/Slow Growth versus High/Fast Growth

Companies now find themselves operating in a two-track global economy. It is unlike the past economy—the one in the years before 2008. During that time, the world's countries typically all rose together and then dipped together as the global economy became increasingly interdependent. There is no doubt that the world today has countries operating at two different levels (low and high) and at two different speeds (slow and fast) relative to economic growth. At the time of this writing, both the United States and the European Union are facing the prospect of low and slow economic growth for the balance of this decade until the year 2020. Both will be marked by low growth rates—so low that their economies will not be able to create enough jobs to match the size and growth of their respective workforces—especially younger workers. They will also fail to keep pace with generating the tax revenues needed to even begin to deleverage their countries' enormous accumulated public debt, let alone bootstrap new industries. The U.S. economy may be unable to create enough jobs to match its population growth, which is expected to rise by almost 30 million from its current 2012 level of 313 million to 342 million by 2020.[1] Several EU countries are in, and some on the verge of, recession—and unemployment is acutely high.

Without substantial growth, unemployment rates could rise even higher than their current high rates, and more of each country's budget will be required to support the growing ranks of the unemployed. The costs of unemployment include lost growth, the price of unemployment benefits, health costs, and the general demoralization of the population.

Persons will remain unemployed for extended periods for *structural workforce* reasons (i.e., the advance of automation and a mismatch between open job positions requiring specific skills that the currently unemployed cannot fulfill), as well as *cyclical economic* reasons (i.e., reduced demand for currently unemployed skilled workers because of the downcycle, and the imposition of austerity measures that further reduce the number of jobs and incomes available for spending). [2]

The already swelled deficits in the United States and in Europe will then be financed in one of two ways. They will either print more money (i.e., *quantitative easing*), a potentially inflationary solution, especially at the very low interest rates currently in place and projected for the next several years. The alternative will be to raise taxes to levels that will dampen business investment and consumer spending.

Will the fragile state of the developed economies remain limited to them—or will their fragility spread to the stronger, faster-growing countries in the developing world?

The unfortunate answer is that the United States and Europe's lower growth is now shrinking developing world growth. China's growth rate fell from 10 percent to 8 percent, and the other BRIC countries (Brazil, Russia, and India) from 8 percent to 5 percent.[3] The higher growth rates in the Middle East and several African countries have come down; however, these economies are still in the fast lane compared to the United States (with a 2 percent growth rate) and the Eurozone (0.3 percent).

In the *very* slow lane are countries like Greece, Portugal, Italy, Ireland, and Spain—that are almost basket cases—as well as nations like Germany, France, and the United States that are struggling to squeeze out an annual growth rate of 1 to 3 percent. Although the BRIC countries are suffering from diminished growth as their exports fall in the low-growth countries, these countries' large populations make this a less dire issue. As their export revenues fall, BRIC countries can turn their attention to developing their domestic markets, which have not yet benefitted from the high growth rate. So Brazil, for example, can develop its northeast states, while China can develop in western regions. The fast-lane countries can stay alive and well by focusing their economic growth plans on their domestic market.

Business Responses in a Low-Growth Economy

Until the public sector decides what approach to take—either austerity or stimulus or some mix of these—it is impossible to predict the rate of economic recovery. Consumers and businesses are living under a cloud of uncertainty and keeping their purses closed tight—a scenario that only perpetuates low growth. There is even concern for further double dip recessions—and any economist who claims to be able to predict with certainty what the world economy will be like in the following years should clearly be ignored.

However, businesses have to act; they cannot wait for public policy to be enacted. So what options do companies have nowadays? There are two broad alternatives: cutting costs or restrategizing for growing revenues. Let's examine each of these in detail.

Cutting Costs. Many businesses that face declining demand will respond by using various methods to cut costs—for example, laying off some workers and trying to wrest more concessions from their suppliers. Of course, this leads their suppliers to cut their costs, lay off some workers, and wrest concessions from their own suppliers. This produces a cascade effect; the initial cuts from top businesses lead to further cuts all the way down the supply chain. The situation goes from bad to worse. And even though prices are falling as well as costs, customers hesitate to buy—because they expect to gain more by waiting for prices that might fall even further.

Restrategizing. It makes much more sense for each firm to restrategize rather than panic into cost cutting. Some firms believe the crisis to be an opportunity in disguise, and therefore “a terrible thing to waste.” And in fact, an industry- or country-wide crisis *is* the best time to increase your market share. It is difficult in normal times for one company to gain share from other companies, because they are all well financed and fortified. But many firms become distressed during tougher times; they cannot get enough cash from their bank, or their cost of borrowing rises; they let go of some key employees; they are stuck with swollen inventories; and so on. This is the time that firms with sufficient cash can expand on the cheap; namely by acquiring good talent, purchasing inventories at distressed prices—perhaps even buying up competitors. For example, during the recent recession—while most air carriers were cutting their costs—Jet Blue planned to add 70 new planes and billions of dollars of new debt to continue its rapid growth. We will speak of Jet Blue later.

Restrategizing takes many forms; specifically, a company has to ask such questions as:

- Do we have any fat in our system? If so, let's cut it out (but be careful not to cut out any muscle).
- Are there certain market segments that will no longer be profitable? If so, let's move our money to more profitable segments.
- Are there some geographical areas that will no longer be profitable? If so, let's move our money to more profitable geographical areas.
- Are there some products and services that are losing money? If so, let's move our money to products and services that have more potential.
- Do we lose money by serving some customers? Let them buy from our competitors and bleed them rather than us.
- Are we taking advantage of low labor and capital cost sectors of our domestic and international economies to reduce cost and gain competitive price advantage?

Posing these and similar questions will allow a company to restrategize and take advantage of the crisis—instead of becoming another victim of it.

How should companies plan to grow—let alone prosper—in a low-growth economy? We are not looking for a prescription for raw growth, namely, growth at *any* cost. We all remember the businessman who prices his goods below his cost. “How are you going to make a profit?” He answers, “Volume.” This is a Ponzi scheme—and it's not our answer. When we talk about *growth* as a company objective, we mean *profitable growth*—at least, that which is profitable in the long run, even if not in the short run. And we would add one more crucial adjective here: *sustainable* growth. By this, we mean helping the company's other partners to do well and helping the planet to thrive with clean air, water, and natural resources.

As such, our purpose in this book is to define the major pathways toward achieving profitable and sustainable growth.

The best way for a company to achieve steady growth is to have a clear company *purpose* and *goal*—and to ensure that all stakeholders are *passionate* about achieving the goal. Although this passion is manifest during a war period, it needs to be manifest during times of peace as well. The goal might be to become the best-performing economic engine in that particular industry. A hospital that wants to be one of the best hospitals in the world at treating illness will continue to learn from medical discoveries and from other hospitals' best practices. The earth-moving equipment company that wants to build new structures in the most efficient way possible will adopt the latest technology and learn from its best competitors.

Obviously, some companies will find clever short-term ways to make money in a crisis, and others still will have to survive by cutting their costs and prices. Unfortunately, cutting their costs include payroll cuts—thereby putting more persons in the unemployment line. Cutting prices means reducing profit margins, which leave these firms weaker—especially when facing strong competitors. Being weaker means that they are more likely to be acquired by their competitors at a cheap price or vanish through liquidation.

What Should Companies Do in a Low-Growth Economy?

Let's figure out how businesses can grow in a low-growth global economy and *prosper*—and for this, we will propose two things. The first is to recognize the nine megatrends that point out the major areas of opportunity. The second is to master the eight pathways that can deliver growth even in a slow growth economy.

Capitalizing on the Nine Megatrends

Here is our list of the nine megatrends that will affect growth and opportunity in the decade from 2013 to 2023:

1. Global redistribution of wealth and economic power.

2. Strategic refocusing from global to regional, regional to local.

3. Continued urbanization and growing infrastructure needs.

4. Growing number of opportunities arising out of science and technology.

5. Acceleration of the green global economy.

6. Rapidly changing social values.

7. Growing cooperation between private and public sectors.

8. Customer empowerment and the information revolution.

9. Hypercompetition and disruptive innovation.

The following is a thorough explanation of how any business can capitalize on each of these megatrends.

1. Global redistribution of wealth and economic power.

Since the 1500s, Western Europe has been the dominant economic power through the colonial global expansion of the British, Dutch, French, Spaniards, and Portuguese. The United States took the leadership in the nineteenth century—more through indigenous growth than colonization. The United States became the major world power from 1945 until recently—when talk about U.S. indebtedness and decline has been increasing. There is no doubt that economic power had initially shifted primarily to Japan and then the Middle East with their oil preeminence, more recently to the Asian tigers, and now primarily to China and India.

But it is also critical to note the growing concentration of wealth within most countries. Many of the new millionaires and billionaires are coming out of emerging countries. The good news is that some developing economies have high amounts of capital waiting to be utilized. There are now seven major sovereign funds with huge amounts of capital. Capital supply is not the problem. Major companies that need more capital can tap some of these sources of wealth. The problem is that the average citizen's purchasing power remains low—and therefore, spending remains low.

This megatrend is of special interest to luxury goods companies such as Louis Vuitton, BMW, Hermès, Gucci, Rolex, and others. These brands have opened outlets in countries where wealth is growing rapidly—China, Brazil, India, Russia, and Mexico, to name a few. In São Paulo, Brazil, the super-wealthy fly their helicopters to the roof of a major upscale department store where they park and then descend to do their shopping. The growth of the wealthy is leading luxury hotels such as Four Seasons to decide where to build their next properties. Private aircraft companies such as Gulf Stream and yacht makers are approaching the super-rich for plane and yacht sales. The lesson for your business is to consider growth opportunities for marketing to super-rich niches.

2. Strategic refocusing from global to regional, regional to local.

When opportunities are abundant, companies will move to the top-tier regional markets and cities. Chains like McDonald's and Starbucks have moved into Europe—first to major capital cities, and subsequently to second-tier cities. A major executive training firm called HSM Brazil—which had initially conducted its programs in São Paulo and Rio de Janeiro—is now taking its training programs to less well-known Brazilian cities such as Fortaleza, Porte Alegre, and Recife.

3. Continued urbanization and growing infrastructure needs.

Urbanization is highly likely to continue. Whereas major cities used to be under 10 million in size, cities today—including Shanghai, Beijing, Mumbai, São Paulo, Mexico City, and others—are approaching populations of 20 million. Furthermore, new cities continue to come into being. China itself is laying plans for the creation of many new cities and towns in part to absorb urbanization growth and to put brakes on further growth of the established megacities. As these cities grow, they require roads, electricity, energy, buildings, water sourcing, and sanitation facilities—all of which will produce jobs and require workers. Companies such as Caterpillar, General Electric, and Cemex are profiting by moving their products and services to established cities that are growing, as well as to new cities being built.

4. Growing number of opportunities arising out of science and technology.

There is no shortage of opportunities. The world is saddled with old problems that still need solutions—poverty, water shortage, air and water pollution, and global warming, to name a few. Businesses and consumers have many functional and emotional desires they are eager to satisfy. And then there are the rapidly emerging new sciences—life sciences, personalized medicine, functional foods, new energy, and nanotechnology—areas ready for refinement and exploitation. High-tech companies such as Google, Facebook, Apple, and Amazon have thrived by bringing their services worldwide.

5. Acceleration of the green global economy.

Most of the world's businesses and citizens now recognize the fragility of Mother Earth as exploitation of her resources continues at an alarming rate—producing pollution and scarcities in its wake. Aside from the world economy running out of certain essential minerals, we have endangered our natural resources. Forests are being cut down to burn wood for cooking, and the evidence of overfishing is undeniable. One of the collective nightmares haunting cities such as Amsterdam, Venice, and New York is the possibility of uncontrolled global warming—which would lead to rising sea levels that could potentially drown these cities or cripple their commerce. There is a growing need for regulation and innovation to find ways to reduce energy use, contain pollution, and recycle materials.

Resource scarcity and pollution provide numerous opportunities for businesses. General Electric CEO Jeffrey Immelt launched a program called Ecomagination to show how money could be made by solving challenging global problems. GE ventured into the solar panel and wind turbine businesses to generate other sources of energy. Similarly, retail chain Walmart is replacing its gas-guzzling trucks with fuel-efficient vehicles that use 50 percent less fuel. Automobile companies are moving more swiftly into hybrid and pure electric cars and trucks. Resource companies are moving into fracking and finding new reserves of natural gas. What is *your* company doing to help save the planet by going green?

6. Rapidly changing social values.

The digital revolution has led to an explosion of information and communication contents and channels. I can get an answer to almost any question within a matter of seconds by searching on Google—a website that people have described as closest to God in being all-knowing. I can reach 600 friends from all over the world on Facebook and communicate with them instantly through e-mail, headsets, or Skype. I can watch videos from around the world to see different cultures in action. New ideas, fads, and fashions spread faster than ever—a trend that makes all of us more aware of other beliefs, norms, mores, and practices, while throwing our own ways into sharper relief.

We are far from being a homogeneous society. There are so many different "tribes" with which citizens can identify. In their book *Microtrends*, authors Mark Penn and Kinney Zalesne describe 75 micro groups that have particular needs and wants that alert businesses should recognize as opportunities.[4] Consider just the following seven: single-woman households, women marrying young men, the working retired, stay-at-home workers, office romancers, Protestant Hispanics, and extreme commuters. Each group will have a specific set of needs and wants. Take, for example, the increasing number of