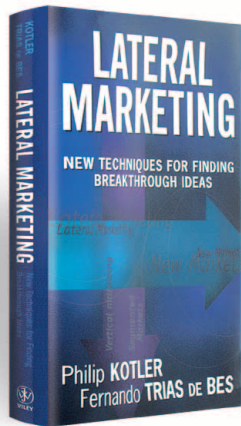




# Executive Book Summaries®



By Philip Kotler and  
Fernando Trias de Bes

## New Techniques for Finding Breakthrough Ideas

# LATERAL MARKETING

### THE SUMMARY IN BRIEF

*In a consumer economy saturated with homogenous products and inhabited by customers who are more and more immune to advertising messages, traditional vertical marketing — with its emphasis on market segmentation and brand proliferation — is failing us. But there is a better way to reach consumers, to create innovative products and markets that don't yet exist and to gain a real competitive advantage. This way is through an entirely different way of thinking — through lateral marketing. Lateral marketing complements traditional marketing by providing an alternative route to generating fresh new ideas. Whereas vertical marketing helps us find increasingly smaller subgroups for which a product might be developed, lateral marketing lets marketers develop an entirely new product that finds a much wider audience. Instead of accepting that your product or service will have a small share of a saturated market, you will find yourself the leader in new markets.*

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### What You'll Learn In This Summary

- ✓ Why so many new products fail to gain significant market share in a fragmented and over-saturated marketplace and why vertical marketing with its emphasis on further segmentation and fracturing isn't the answer.
- ✓ How you can apply a new form of marketing, lateral marketing, to conceive entirely new products and markets and gain the competitive advantage you need in the 21st century.
- ✓ How you go about the lateral marketing process, from selecting a product or service you want to innovate to getting the innovation on the market.
- ✓ How to radically change the way you look at a product or service to open up the possibility that it can become a different product or be sold in a different market entirely.
- ✓ How to create the atmosphere most conducive to innovation, from encouraging individual and team lateral thinking to budgeting for new product and service development to launching new products into new markets.

# LATERAL MARKETING

by Philip Kotler and Fernando Trias de Bes

## — THE COMPLETE SUMMARY

### The Evolution of Markets and The Dynamics of Competition

The last decades of the twentieth century were prosperous for most companies in the developed world. Population growth and longer life expectancy meant greater purchasing power. Increasingly sophisticated marketing efforts resulted in greater product trials, repeat purchases and brand loyalty. But you can't expect to use 20th century marketing tactics in the 21st century to get the same result.

Nowadays, a strikingly high percentage of new products are doomed to fail. Only 20 years ago, the proportion of failures to successes was much lower. Why is it so difficult to succeed now? Because of the breadth of what's available and what it means. Take the cereal category, which features dozens of subcategories and varieties, each addressed to a very specific target market: those who watch their weight, who need fiber, who prefer cereal with fruit, who prefer cereal with chocolate and so on. In milk-based products there are over 50 yogurts competing for shelf space. In any developed country there are several dozen TV channels, leaving little room for one more.

Marketing today is not the same as it was in the 1960s and 1970s. Today there are products to satisfy almost every need. Customers' needs are more than satisfied: They are hypersatisfied.

Companies can continue to segment the market more finely, but the end result is markets too small to serve profitably.

Further complicating the picture is the fact that:

- **Distribution of packaged goods is now largely in the hands of giant corporations and multinationals, such as Wal-Mart and Ikea.** Distributors own shelf space and decide who gets it.
- **There are more brands but fewer producers.** Each segment and niche of the market got its own brand as producers discovered that by creating more brands it became more difficult for a competitor's attacks to make headway.
- **Product life cycles have been dramatically shortened.** A brand arms race has developed in which

competitors quickly launch new brands, competitors respond with their own new brands and the cycle repeats.

- **It's cheaper to replace than repair.** It's faster, easier and cheaper to buy new, and people have accepted that products are disposable, encouraging more new product launches.
- **Digital technology has led to a new range of products and services, including the Internet, global positioning systems and computer and consumer products.**
- **Trademark and Patent registrations are increasing.**
- **The number of varieties of products has increased radically.**
- **Markets are hyperfragmented.** Companies, in their search for differentiation, have identified and created more and more segments and niches, resulting in highly fragmented markets.
- **Advertising saturation is increasing and a fragmented media is complicating product launches, making it harder to reach consumers.**
- **Claiming consumer mind space is harder.** Consumers have become selective, ignoring commercial communications. Novelty might be the only way to catch their attention.

The challenge in marketing today is to fight against fragmentation, saturation and the storm of novelties that appear duly in the market. But recently new business

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### The Evolution of Markets and the Dynamics of Competition

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concepts have appeared that are the result of a different creative process than the endless vertical segmentation of yesterday. This process is responsible for cereal bars that can be eaten as a snack or in the morning instead of with milk, grocery stores at gas stations, refrigerated pizza, and yogurt for busy women that can be carried in a purse.

The new priority must be to find ways to create and launch more successful products. This is the main objective of lateral marketing.

#### **Traditional Marketing Thinking**

To understand how lateral marketing will transform how you market, you must first understand the strengths and weaknesses of the traditional approach to marketing. Marketing starts by studying consumer needs and figuring out how to satisfy them. Yet many manufacturers forget to focus on needs and instead focus only on selling their products.

Once needs have been identified, the next step is determining who is the market. The market is defined as the persons or companies who buy or might buy the product or services you produce in a given situation to cover a given need. For example, the market for yogurt might be any person older than one who is in a breakfast, dessert or snacking occasion.

In turn, every product and service is included in a category and a subcategory. For example, the product “yogurt” belongs in the milk-based foods market and has subcategories such as fruit yogurt. Defining a category for your product is necessary if you want to develop a marketing strategy because you need to know where and against whom you are competing.

Defining needs and categories are important but can also cause problems. By defining needs and categories for your products, you necessarily exclude from consideration those you think don’t need your product or service.

Imagine that we are in the first years when yogurts started to be commercially produced. Normally, markets are born with a first brand that creates the category. There is a current and potential market for the category. Competitors will appear if they sense an opportunity. The first two in the category typically capture 75 percent of the market, leaving just 25 percent for later arrivals.

If you are third or later, you typically choose a subgroup or persons/situations in the market and address your product directly to them. You usually do this by highlighting a concrete characteristic of the product to emphasize — this is your positioning. It allows you to

### Slide Rule Marketing

A classic example of focusing on selling the product and forgetting about need is the slide rule. The slide rule was a wood or plastic device on which many numbers were printed. By gliding the parts of the ruler, a user could carry out most arithmetic operations. In its heyday, every engineer and math student had one and used it to make calculations faster than the old paper and pencil process. But sales started to decline when the electronic calculator arrived on the scene. The calculator was easier, faster and more accurate even if at first it was much more expensive.

Could its manufacturers have saved the slide rule by using traditional strategies for segmentation, targeting and positioning? Would it have helped to make separate slide rules for different groups in different colors and advertising how they feel good to hold and use? Was there any way to segment the market to make room for newer and better slide rules? No!

Could the slide rule makers have thought of a new product such as electronic calculators to substitute for slide rules? Probably not since segmentation thinking and positioning would not lead to imagining an electronic calculator. They were stuck looking at what they already had and not able to imagine something entirely different. The problem was a lateral one. Someone had to think of the idea of slide rule + technology + a need to calculate to create a product that was more efficient than the slide rule.

Current marketing theories tend to work from the top down. They are not very effective in creating alternative or substitute products.

divide and conquer. Instead of attacking the whole market and getting a tiny share, you segment the market and obtain a major share of that segment. And there is another benefit. By targeting specific needs, you fill the needs of a group of customers better and they may increase their consumption — they may eat more yogurt. Segmentation provokes a double effect: it fragments the market and at the same time makes it bigger.

Of course, as companies continue to segment the market, it becomes fragmented and saturated. Market fragmentation leaves little room for new products — which are the key components for companies that want to grow.

Another tactic you can use is “positioning.” Positioning is linked to segmenting. In the case of yogurt, there are brands positioned as healthier or cheaper or fresher or more natural. Choosing a charac-

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### The Evolution of Markets and the Dynamics of Competition

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teristic and accentuating it gives personality to your brand and makes it more noticeable. It helps you stand out in a crowded field. On the other hand, it may also blind you to innovative new concepts.

#### *Innovations Originated From Inside a Given Market*

Another way you can innovate is through modulation. Modulation-based innovations consist of variations in any basic characteristic of a given product or service by increasing or decreasing that characteristic. Examples include:

- **Juices:** with low sugar content, with more juice, not from concentrate, with vitamins.
- **Detergents:** with more bleach, with more soap concentration, fragrance free, with less foam, with more foam.
- **Banking:** with monthly interest payment, without usage charges, with more offices, with better trained staff.
- **Couriers:** faster delivery, higher maximum weight, better guarantee.

You can also innovate by size — such as selling in large packs and individual serving size. In this case, you never change the product or service, just the volume, intensity or frequency of the offer. Another possible innovation is through packaging such as chocolates marketed in an array of boxes from simple to extravagant.

Another variation is design-based. The product, container or package and size sold are the same, but the design or look is modified. A car company may launch the same product with a different exterior design or a ski maker may change the color of the skis. The changes keep the product fresh and appealing. There are also innovations based in complements such as adding complementary ingredients. Cookies can be sprinkled with sugar or chocolate or cinnamon, for example.

All these innovations have a common factor. They consist of continued variations on what the product or service is, but do not intend to modify its essence. The innovations occur within the category in which they compete, since the methodologies for creating them assume a fixed market. **These innovations do not create new categories or new markets. The innovation always occurs within the category where the idea originated. The end result is still fragmentation and a small share of the total market. ■**

### Lateral Marketing As Complement To Vertical Marketing

Lateral marketing involves taking a product and sufficiently transforming it in order to make it appropriate for satisfying new needs or new persons and situations not considered before. The big advantage is that instead of capturing part of a market, it creates an entirely new one.

Vertical marketing and lateral marketing work side by side — both are necessary and complementary. In fact, lateral marketing cannot be fully developed without vertical marketing since the latter will produce more variations after a new category is discovered.

The vertical marketing process obliges you to first define the market. Vertical marketing uses the definition of the market to create competitive advantages. The innovation is done inside the definition. Lateral marketing is based on seeking an expansion by approaching one or more needs, uses, targets or situation that we discarded earlier when we defined the market.

Lateral marketing requires you make an important transformation to your product. When you engage in lateral marketing, you restructure the product by adding needs, uses, situations or targets unreachable without the change. Put simply, lateral marketing uses a process

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### The Case of Cereal Bars

Cereals have many advantages. They are nourishing, rich in nutrients and healthy. Hero, a European company selling food sector products but with a low market share in the breakfast cereal category, needed to gain more market share. Since the cereal segment was highly fragmented and saturated with cereal choices, it didn't make much headway there. The solution was to redefine the utility of cereals. They decided to market them as a healthy snack at any time of day.

Hero adopted the form of another product — the candy bar. By combining cereal with chocolate and caramel, they created a cereal bar that could be carried and eaten any time. Today Hero is one of the European leaders in the cereal bar category. The innovation wasn't within the market "breakfast cereals." Instead, Hero used the positive attributes of cereal but embedded them in another concept, a candy bar, and created a new convenience and a new category. This lateral marketing process expanded the market for cereals into new occasions.

### Lateral Marketing as Complement To Vertical Marketing

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that creates by opening up new directions, being provocative and making leaps.

The innovations that come from lateral marketing create new categories or subcategories. It does this in one of four ways:

**1. A lateral product can restructure markets by creating new categories or subcategories.** For example, the launch of Walkman by Sony radically restructured the market for electronic goods since it converted millions of young potential customers into personal audio products consumers.

**2. It can reduce the volume of other products within the given market.** For example, a lateral product like Barbie dolls has taken a huge percentage of the doll market. When Barbie was introduced, the doll market consisted of baby dolls, but a lateral thinker saw the potential for adult dolls to be played with by children. The result — an entirely new category — the fashion doll. Barbie remains the leader in the category.

**3. A lateral product can sometimes generate vol-**

**ume without hurting other volume.** For example, cereal bars have not slowed the consumption of cereal but have instead expanded the occasions cereal is consumed.

**4. A lateral product may take volume from several categories.** The cereal bar has affected the chocolate, salty snacks and other snack categories by adding another alternative. ■

For Additional Information on examples of lateral marketing innovations, go to: <http://my.summary.com>

### The Lateral Marketing Process

Lateral marketing is a work process which, when applied to existing products or services, produces innovative new products and services that cover needs, uses, situations or targets not currently covered. As a result, lateral marketing leads to new categories or markets.

The lateral marketing process is a creative one. Creative thinking follows three simple steps:

- **Select a focus.** This will be a product or service.
- **Make a lateral displacement for generating a stimulus.** A lateral displacement is an interruption in the middle of a logical thought sequence.
- **Make a connection.**

Here is an example. Let's take "flowers" as our product focus. A logical thought sequence about flowers is the fact that "flowers die." A lateral displacement of that sequence is "flowers that never die." Then we make connections between the new concept and the original focus. In this case, that would involve asking ourselves under what circumstances will a flower never die? If a flower is made of cloth, silk or plastic, then it would never die. We have found a new concept — "artificial flower." This is creativity. Innovations are a result of connecting two ideas which have no apparent or immediate connection.

#### How to Apply the Process

If you want to apply lateral marketing, it is essential you understand each step. If you are thinking about the focus, you must be prepared to generate a displacement. If you are thinking about a possible displacement, you have to be aware you are generating a stimulus for later use. And if you are working on a movement for making a connection, you have to be aware that you are working on changing your stimulus to make it logical.

Applying the process to real life, here is how it would work. First, choose a product or service you market. Creative thinking works from the bottom up, from the concrete to the general. It is inductive, not deductive.

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### When Each Type of Marketing Is Appropriate

Both lateral and vertical marketing are important. In understanding which is most appropriate in a given circumstance, remember that innovations that come from vertical marketing are easier for customers to assimilate and understand while lateral marketing innovations need more time for assimilation.

#### Vertical marketing:

- ✓ works best in new markets
- ✓ works best to convert potential customers and for developing the market
- ✓ is less risky
- ✓ requires fewer resources
- ✓ doesn't depend on high volume
- ✓ fragments markets
- ✓ maintains business focus

#### Lateral marketing:

- ✓ works best for mature markets with no growth
- ✓ creates markets from scratch
- ✓ is riskier
- ✓ requires greater resources
- ✓ anticipates high volume
- ✓ may redefine mission and business focus

### The Lateral Marketing Process

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Make sure it is one where you have difficulty competing.

Once you have chosen a product or service, break it into pieces using the scheme of vertical marketing. You will then be able to see the whole picture.

The basis of lateral marketing is creating a gap. If there is no gap, there is no lateral marketing. A gap exists only if it requires you to jump. But this is hard to do, because we have been trained to think logically. You are thinking laterally if you are thinking about substituting, inverting, combining, exaggerating, eliminating or reordering your product or service.

Take, for example the practice of sending roses to the beloved on Valentine's Day. Here are some possible lateral marketing ideas:

- **Substitute it:** send lemons instead.
- **Invert it:** Send roses all the rest of the days of the year, but not on Valentine's Day.
- **Combine it:** Send roses and something else on Valentine's Day.
- **Exaggerate it:** Send either dozens of roses or one rose on Valentine's day (upward and downward exaggeration.)
- **Eliminate it:** Don't send roses on Valentine's Day.
- **Reorder it:** The beloved sends the roses on Valentine's Day

### Similarities Between Humor and Creative Thinking

The logic of creativity is very similar to humor. A funny story consists of someone describing an initial situation (focus) and a displacement in order to generate a gap (change of perspective at the middle of the funny story). The listeners have to search for logic and will make a movement in order to connect both ideas. When connected, the result is laughter. Take as an example the famous remark by Groucho Marx: "I don't care to belong to any club that will accept me as a member." The first part of the sentence is the focus (we think he is going to specify a certain type of club composed of people he does not like.) The lateral displacement is to talk of himself being accepted by the club. The gap is that Groucho would never accept membership in any club that would accept him. The sentence makes no sense at all until we force it to by seeing another perspective. Groucho is telling us that he realizes his personality is unacceptable to anyone, even himself.

### Making Connections

The object of creating the gap is to find a way to fill it. Let's use an example. Someone has proposed you sell popcorn in discos. When you consider a couple ordering popcorn in a disco, you realize it will be hard to see. You get the idea you might sprinkle fluorescent salt on it. You imagine them eating popcorn and getting thirsty. They order drinks. Now we have solved the gap. There is an opportunity for popcorn companies to convince discos to offer free popcorn, The profit margin of an additional drink compensates for nearly four and a half pounds of popcorn.

Of course, not every gap can be connected and not every idea will be a winner. But every idea doesn't have to be — just a few winners is all you need. ■

### Lateral Marketing at the Market Level

It's time to apply what you have learned at the market level by using one simple technique: change one of the dimensions. The easiest and most efficient is substitution. A market level contains several dimensions where a product or service competes. These dimensions are need, target and occasion. The last one is a combination of place, time, situation and experience.

Substituting one dimension for another is easy. What you are doing is substituting one of the dimensions of the market for another that was discarded. Here are some examples:

- Red Bull opened the category today called energy drinks — soft drinks that stimulate one's energy. This serves the new need besides the normal one of quenching thirst and a new market — those interested in sports and energy replenishment.
  - Bayer aspirin, seeing that there were lots of competitors for treating aches, began recommending an aspirin a day to recent heart attacks sufferers after scientific evidence emerged that aspirin might prevent heart attacks.
- You can also change the target of your product. These should be non-potential targets of your current product — not those who have a need for the present product but who could buy it at any moment. Examples of products that have been altered in order to reach non-potential targets are:
- Gillette's sale of razors to women by introducing pink and feminine Venus razors.
  - Amusement parks and colleges who offer their locations off season for business conferences. Idle facilities remain in use.

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### Lateral Marketing at the Market Level

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● Classical music for babies has led to the recent success of Baby Mozart and Baby Beethoven videos in which the music is played with colorful images.

Other ideas include changing the time your product is used and moving your product to a new setting. Occasions and events are often linked to specific products. Champagne is for Christmas, end of year parties and celebrations while white wine is for special dinners; candy is for Halloween while cake is for birthdays. You can also choose activities or experiences where other products are strongly positioned and move in. For example, an important radio station created a new program of 30 minutes of news designed for commuters who might otherwise listen to music. Others who have moved into the commuting experience are books and language courses on tape.

In most cases, you will have to refine some characteristic of the product. You will identify elements to be removed, generally those elements that are anchoring the product to its natural dimension. Do this by eliminating it or changing it. For example, a French company that produced cheese wanted to get kids to eat more of it. The anchor was that kids did not find cheese sweet or fun to eat. The cheese producer sweetened the cheese and put it on a stick, which kids loved. ■

For Additional Information on an example of creating an entirely new product, go to: <http://my.summary.com>

### Lateral Marketing At the Product Level

To apply lateral marketing at the product level, you must use one of six techniques for making lateral displacements. This is how each could be applied:

● **Substitution.** Substitution consists of removing one or several elements of the product and changing it. For example, you could substitute “students teach students” for “professors teach students.” Students, one by one, prepare a class. Every day, one explains a lesson to the rest while the professors act as moderators. Or consider what happened when someone added batteries to watches or hard candies were put on a stick to make lollipops.

● **Combination.** Combination consists of adding one or several elements to the product or service, maintaining the rest. For example, a “Pedelec” was the result of the idea of powering a bicycle with electric batteries that are recharged when it is ridden. Result — one million units already sold in China. Or consider what happened when someone added the attribute “funny” to ties

— the subcategory of funny ties with Disney and Looney Tunes characters was born.

● **Inversion.** Inversion consists of saying the contrary or adding “no” to an element of the product or service. For example, just-cooked pizza inverted into non-cooked pizza, a staple now in freezers and refrigerators around the world.

● **Elimination.** Elimination consists of removing an element of the product or service. For example, a telephone without a wire led to wireless phones and perfume without a bottle led home fragrances in wax. In some parts of the world, the idea of a motorbike that couldn’t be parked led to folding bikes that can be stored in apartments. And the idea of not waiting for film to be processed led to Polaroid prints and now digital cameras.

● **Exaggeration.** Exaggeration consists of exaggerating upward or downward one or more elements of a product or service or imagining a perfect product or service. Tandem bikes are one example as are tiny cars for congested areas. Disposable contact lenses were made possible from the idea that contacts could be discarded every day.

● **Reordering.** Reordering consists of changing the order or sequence of one or more product or service elements. For example, the idea that people could request ads be sent to them led to permission marketing. Other examples include popcorn packaged before being cooked led to microwave popcorn and soap foam dispensers in restrooms. (Ordinarily people have to handle the soap first to create foam.)

Each of these examples involves finding a new possible setting (a small car for an congested, urban area) or extracting a positive thing (disposable lenses eliminates the old fear of losing a contact). ■

### Lateral Marketing At the Marketing Mix Level

Making a lateral displacement using as a focus the rest of the marketing mix elements (price, place and promotion) implies moving away from the current way of presenting the product or service to the customer. But here you are not modifying the essence of the product or service, not the need, target or situation that the product or service covers.

In most cases, the lateral marketing displacement made at the mix level will result in a subcategory or an innovative commercial formula for the product or service, rather than a completely new business or category.

You can use lateral marketing to diversify your marketing mix by applying existing pricing, distribution or

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### Lateral Marketing at the Marketing Mix Level

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communications formulas that correspond to other existing products or services and which are not naturally associated with the category you compete in.

For example, coffee vending machines have applied the credit card concept to selling coffee. You can “charge up” a coffee card in a machine by depositing money and then use the card as cash in the machines. Toll roads allow you to use an electronic device to pass through toll gates without having to fumble for change — your account is simply charged for the amount of the toll. Note that in each case, the payment system isn’t new, nor is the product. What’s new is using the existing method to pay for an existing product that was paid for differently before.

Examples of changes to distribution are all around too. For example, real estate companies have started to sell houses and apartments in shops located in malls or other urban shopping areas and booksellers such as Amazon.com are selling books on the Internet. Finally, companies are using communication to sell existing products. Telecom giants are advertising on television to reach more small business prospects, for example. ■

### Implementing Lateral Marketing

To successfully implement lateral marketing, you must understand the underlying principles, summarized here:

- Companies need to innovate if they are to grow and prosper.
- An excessively high percentage of new products fail (80 percent of consumer goods and 40 percent of business goods) in spite of careful market research and planning. The reasons for the innovation crisis lie in the traditional innovation process.
- Most new products offer just a specialized version of something already on the market, such as a new flavor, size or package. This is segmentation or vertical thinking.
- Repeated application of vertical thinking results in a hyperfragmented market so that few niches remain that are big enough to yield profit.
- Marketers need a complementary way of thinking up new products or services that will lead to new categories or markets. This strategy is lateral thinking, and although it carries greater risks, the rewards are also greater.
- Lateral marketing thinking uses a distinct frame-

work and processes that can be taught to anyone and can become a part of an innovative company’s culture used in conjunction with vertical marketing.

● Lateral marketing thinking might occur spontaneously or consciously. It requires putting together ideas such as food + fast or cellular phone + camera. If you can get everyone to think laterally, you will create a company full of innovative market creators. Innovative companies like Sony and 3M have created a corporate culture that allows lateral thinkers to flourish. Yours can, too.

An innovative company does not have a few wildly creative individuals who spontaneously think up new ideas. Rather it is characterized by several systems — an idea market, a capital market and a talent market.

Companies have an idea market if they have a system for actively soliciting, collecting and evaluating new ideas. Such a company appoints a high-level executive to manage an idea committee made up of high-level representatives from different departments. The committee meets regularly and evaluates ideas that have flowed in from employees, suppliers, dealers and distributors. They arrange funding for evaluating the most attractive ideas.

To make lateral marketing rally work, you need to have a system in place that takes ideas and puts them through the lateral marketing process. For example, if a brainstorming session nets ideas, the next step is to connect proposals through concrete and shared displacement techniques like those presented earlier in this summary. Using this lateral marketing framework will make idea generation a normal activity. Funding must be set aside to support idea evaluation as well as to train employees in thinking laterally. And the company will have to hire people with the talent to develop the best ideas.

The first part of the lateral marketing process, “doing a lateral displacement,” can be done individually. Pick one of the three levels and apply any or several of the six techniques to it.

Next, a lateral marketing meeting should be dedicated to listening to displacements and thinking about possible ways to connect them. This is a working session where a group applies analytical and vertical thinking. After the session, you should have some discarded ideas and some valid ones. Discarded ones should be stored away as they may prove valuable in the future. The ideas should be readily available for recycling and to avoid wasted effort considering an idea already discarded.

Take the valid ideas and put them through the normal product development process — from initial idea to concept testing to prototype testing to market testing and finally to market launch. By doing so, you position yourself as the leader in a new category or market rather than a bit player in an already saturated one. ■