



**IMPROVING MARKETING DECISIONS:
10 RECOMMENDATIONS FOR MAKING BETTER
DECISIONS IN AN UNCERTAIN WORLD**

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EXECUTIVE SUMMARY:

Marketing decisions such as the development of a new product or campaign, which segments to target, how much should be spent on media, price setting and selecting distribution channels are made without ever really being certain of which alternatives will bring success or failure. In an increasingly fast-moving world, marketers are required to make decisions where uncertainty dominates and they are under more pressure to succeed with limited budgets, resources and short-timelines.

This paper explores the challenges, shortcomings and risks inherent in making strategic marketing decisions. It reviews recent research into decision-making and classifies the areas where decisions can go awry as either errors in framing the decision, errors in analysis and errors of judgment.

The paper outlines 10 practical guidelines for marketers when next confronted by a major decision:

Framing Decisions

1. Accept uncertainty
2. Be decision-focussed, not data-focussed
3. Spell out hypotheses and test them
4. Don't ignore executional risk

Analysing Alternatives

5. Measure what you must, not what you can
6. Seek non-confirming evidence
7. Decrease feedback cycle times

Exercising Judgement

8. Engage across your organisation, with your business partners and customers
9. Conduct a pre-mortem
10. Keep judgements independent

Through a clear understanding of the decision and what evidence will be required to support it, the task of analysis can be more focussed and efficient. By also recognising the inherent limitations of human cognition in forming judgement, marketers can take steps to counteract this by involving other stakeholders in the decision. Increasingly, progressive marketers are including customers and business partners as direct and continuous participants in the decision process. Judgement can also be enhanced by providing a framework for supports the independence of viewpoints and pre-empts possible barriers to achieving the desired outcome.

Making good decisions is not easy

Almost all marketing decisions are made in situations when the outcome of the decision cannot be perfectly predicted. Decisions about the success or failure of a new product or campaign, which segments to target, how much should be spent on TV as opposed to digital channels, pricing, distribution channels and so on, are made without ever really being certain of whether the decision will deliver the outcomes the marketer and the rest of the business expect.

Uncertainty for marketers has always existed, however today, it is exacerbated by increasing market volatility, media fragmentation, intensified competition and rapidly shifting consumer preferences and behaviours. Interactions between these and other volatile variables such as changes in technology, regulation and the broader economy, generate a constant stream of opportunities and threats.

In an operating environment where planning cycles are compressed, marketing departments are increasingly lean in terms of both people and resources and there is an increasing scrutiny of the return on investments made in marketing, the pressure to make good decisions has never been greater. All of this compounds the degree of difficulty for marketers at a time when the range of

alternatives available to them have never been more prolific or complex.

Recent research highlights the problem. A study conducted amongst executives world-wide by McKinsey & Co¹, found that only 28% of the 2,207 executives surveyed felt that the strategic decisions made by their companies were “generally good”. The vast majority of executives felt that “bad decisions were about as frequent as good ones”.

Agility is critical in uncertain environments

Some organisations have responded to the challenge of making decisions in an uncertain world by dropping the pretence they can make accurate forecasts and have reduced their financial and strategic planning cycle-times. Others are focussed on building greater organisational agility, enabling them to be more responsive and nimble in the face of unpredictable market changes.

Donald Sull, a Professor at the London Business School sees the task of building organisational agility as akin to acquiring the skills of a master sailor. He writes “Not even the best captain can predict the elements with accuracy, let alone command the wind to blow or the waves to calm. With insight and

experience, a captain can harness the wind and ride out the storm”². Mastering uncertainty therefore requires improvisational skill, not absolute precision and control.

Uncertainty is not the same as risk

Sull goes on to make the point that it is important to understand that uncertainty differs from risk. Risk, he argues, resides in simple choices, where there is an identifiable range of possible outcomes, and that, through analysis, the decision maker can assign prior probabilities to their occurrence. For example, a roulette player knows that there are 38 possible pockets in which the ball can land.

Uncertainty however, arises in complex situations where the range of possible decisions or actions that can be taken is nearly infinite. Nearly all strategic marketing decisions are complex in nature. Making a decision about the development of a new products, market entry strategy, brand positioning, distribution or pricing will require judgement to be exercised in relation to which levers to pull, when to pull them, how hard and in which sequence or combination.

In such situations, a marketer cannot pre-determine the probability of all possible events

that might affect their decision. Variables such as changing regulations, consumer behaviour, interest rates, political, technical and economic forces are almost impossible to forecast with accuracy. The impact of competitors can also not be predicted with certainty, as any successful marketing strategy will undoubtedly draw some form of competitor reaction.

Better research is will not guarantee better decisions

The market research industry largely exists to reduce uncertainty for marketers. Yet, despite its existence for many decades, decisions continue to be made which, in many cases, do not deliver the expected outcome. Some may argue that this as a failing of the research industry to provide sound information, analysis and advice. However others may see it as a failing of marketers to appropriately harness research in their decision making process.

The truth lays somewhere between these two views.

Research conducted by McKinsey & Co¹ into the effectiveness of strategic decisions found that the **process** of decision making matters more than **analysis**. By reviewing over 1,000

strategic decisions, the impact of the process on the ROI of a decision was found to be six times greater than the depth or quality of the analysis undertaken.

That is not to say the quality of research or analysis underpinning the decision is unimportant. The McKinsey research showed that none of the decisions where a solid decision process was applied were supported by weak or shoddy analysis. An unbiased and methodical decision process will always uncover inadequate analysis. The reverse, however, is not true. The most comprehensive and thorough analysis will be useless unless the decision process allows it to be fairly considered.

Three areas where decisions go awry:

1. *How the decision is framed*

How decisions are “framed” is one element of the decision process that can have a massive bearing on the outcome of the decision.

A text-book case of a very poorly framed marketing decision was the ill fated relaunch of Coca-Cola as “New Coke” in the USA during 1985.

In the early 1980’s Coca-cola was still the market leader as far as the soft drink market was concerned. It had, however slowly lost market share from a peak of 60% post WWII to 24% in 1983, despite a continuous and significant investment in marketing communications.

Pepsi cola was growing market share and in 1983 had almost reached parity. Pepsi’s strategy had to make claims that people preferred the taste of Pepsi to Coca-cola in blind-taste tests. Coca-cola’s own testing showed also this to be the case.

In addition to the competitive pressure being applied by Pepsi, the overall size of the cola market was under attack. An increasing number of consumers were switching out of the traditional sugar cola category, to either diet, citrus or caffeine free beverages.

With Pepsi closing in on market leadership, Coca-cola could not stand-by and let their main competitor take the crown and claim to be America’s most popular cola. Something had to be done.

Coke set about an extensive R&D program to create a cola that out-performed both Pepsi and the original Coke in blind tests. Using the results from extensive product testing and knowledge gleaned from the successful recent launch of Diet Coke, a decision was made to reformulate the original product. In 1985, with great fanfare, “New Coke” was launched using the better tasting formulation and original Coca-cola was discontinued.

Shortly after launch, there was a huge outcry about New Coke and the discontinuation of the Original Coca-Cola. The criticism and dismay from customers was so loud that 3 months after the launch, Coca-cola decided to reverse its decision and reintroduced the original product as “Classic” Coke.

By the end of 1985, Pepsi’s cola sales outnumbered New Coke and Classic Coke combined.

Coca-cola's difficulty arose because of the way the decision was framed. The problem Coca-cola believed they were trying to solve was one of taste.

The strategic thinking around the decision was once Coca-cola had a better tasting formulation, they could simply go to market with the confidence of having a superior product. The framing of the decision largely ignored, the impact of the emotional relationship many consumers had with the brand.

Any strategic decision is underpinned by a series of hypotheses. For example, the decision to launch a new product may be underpinned by some or all of the following hypotheses:

- There is an underlying customer need for the product
- The product can deliver significant functional benefits which differentiate it in meaningful ways to current and known future competitors
- The product can deliver significant emotional benefits which differentiate it in meaningful ways from current and known future competitors
- The size of the market is growing

- The product can be manufactured with sufficient quality at sufficient volume to service the market opportunity
- The product will not cannibalise our existing products to a high degree
- The product can be distributed through channels where customers will want to buy it
- The trade-off between price and likely demand will enable the product to generate profitable revenue given the cost of bringing it to market.

In the case of New Coke, while there was, reportedly tacit acknowledgement of the chance that not all original Coke drinkers would want to switch, insufficient effort was placed upon testing this hypothesis.

Before any strategic decision is made, not only should the relevant hypotheses be established, but also criteria applied to each of them, which indicate prior to any analysis, a metric by which the hypothesis can be tested and objectively agreed as having been met or not met.

The articulation of measurable hypotheses is a critical step in framing a strategic marketing decision. Without them, how analysis should be undertaken to support the decision process will be unclear. Of even more concern will be a lack of clarity ahead of exercising judgement

about the tolerance for accepting or rejecting each hypothesis.

Another set of framing parameters that can lead to poor decision making is clearly identifying who will make the decision and how they will make it.

Without a clear, understanding of the decision path, the way in which evidence is brought to bear upon the decision is at best subjective and at worst, ad-hoc. This can introduce the risk of either ignoring or down-playing crucial evidence because it's importance has not been established by being put into the appropriate context.

Establishing measurable hypotheses is useful, but connecting each of them in the form of a decision tree prior to the analysis stage of the decision is vital if consistency and objectivity about which strategic alternative to be pursued is to be achieved.

Identifying who takes part in the decision process has also been found to have a profound impact on the quality of the outcome.

With too few people involved, or too few with differing perspectives within the organisation on the brand, product, channel or market opportunity, a marketer runs the risk of flying

blind in respect to a critical hypothesis or assumption. If the participating group is too large, the decision process may get bogged down with trying to gain consensus, possibly increasing opportunity costs by not making the decision more promptly.

Three areas where decisions go awry:

2. How analysis supports the decision

While there are many potential flaws in testing any hypotheses in a decision process, perhaps the greatest risk is not shoddy research or analysis, but a simple failure to search for *non-confirming evidence*. In other words, introducing error by failing to seek information that does not conform to the accepted or expected view of the relationship between variables.

One of the most tragic examples of a failure to look for non-confirming evidence is the Space-shuttle Challenger disaster. The Challenger launched in conditions that were the coldest of any previous Space-shuttle launch. The unusually cold temperatures led to an extreme failure of an O-ring, ultimately leading to the explosion of the Challenger.

NASA scientists analysed the risk of such a failure the day before the launch. They analysed data from previous launches when O-ring damage had occurred and found no clear connection between launch temperatures and O-ring degradation in those 7 cases. Had they sought temperature information from the 17 prior launches where no O-ring damage had occurred, they would have seen, an unequivocal relationship between launch temperature and the probability of O-ring failure. With this knowledge it is likely they would have delayed the launch.

The critical error in the Challenger case was simply a failure to seek *non-confirming information*, such as the launch temperature readings missions where no O-ring damage had occurred.

By the time most market research or data analysis gets to an senior marketers desk, it is usually, and rightfully highly summarised for the intended recipient. Very often the nature of the analysis will focus on confirmatory rather than contradictory evidence.

A 2008 survey³ of over 2,200 executives asked respondents to describe the process in respect to a recent strategic decision. Among the 1,139 executives that reported a positive business result arising from the decision, 23% indicated that evidence contrary to the initial plan was NOT sought and factored into the decision. Among the 1,068 executives where the decision had led to an unsatisfactory business outcome, 53% indicated that non-confirmatory evidence had NOT been sought nor factored into the decision.

Forward vs backward looking analysis

Another aspect of how analysis supports strategic decisions made in uncertain situations is in the weighting of analytic efforts toward predicting the future marketing environment

versus efforts toward sharing and gathering rapid feedback from customers, prospects and business or trade partners in respect to the alternatives being considered.

A recent study published in the Journal of Marketing in 2009⁴, contrasted the decision-making processes and analytic styles of highly experienced entrepreneurs with marketing managers who had little or no entrepreneurial experience. All participants were asked to explain how they would approach the uncertain situation of discovering and/or creating the market for a new product.

Participants were provided with a detailed written description of a new product and then asked a series of 5 questions:

1. Who could be your potential customers for this product?
2. Who could be your competition for the product?
3. What information would you seek about potential customers and competitors? List the questions you want answered.
4. How will you find this information? What market research would you do?
5. What do you think are the growth opportunities for this company?

Participants were then provided with detailed market research information relating to the

market opportunity for the product and asked three additional questions:

1. Which market segment(s) will you sell your product to?
2. How will you price your product?
3. How will you sell to your selected market segment(s)?

The study found that marketing managers approached the task using a process the study authors describe as *predictive rationality*. Predictive rationality emphasises foresight and the extent to which one can predict the future determines the extent to which they can control it. In contrast, entrepreneurs demonstrated a more *effectual* approach, best summarised as the extent to which one can control the future, reduces their need to predict it.

In the exercise, marketing managers were significantly more likely to take the market research information at face value and base their decisions about strategy on the magnitude of the numbers presented. Entrepreneurs on the other hand were significantly less likely to believe the market research analysis and downplayed its use in making decisions and defining strategy.

Expert entrepreneurs believed the value of predictive analysis was low as the nature of such analysis is perishable in fast-moving, uncertain environments and because the analysis does not take into account the impact of the actions they might take in the market.

Expert entrepreneurs replace traditional analysis with co-creational, partnership strategies with potential customers and business or trade partners. By interacting and “listening” to such stakeholders, companies in the initial stages of making a strategic marketing decision are more like to identify novel information that is both useful and valuable that traditional research would be unlikely to uncover.

By taking this form of analytic approach, marketing decision makers learn at every step, what customers, prospects and business partners will commit to. Bad product or service ideas can fail fast and better ideas brought to market faster.

Rather than investing time, money and managerial effort into extensive research and analysis, expert entrepreneurs place greater importance on analysing faster, real-time feedback and responding and continually adjusting to how the market reacts to the

actions taken on the back of the decisions they make.

Marketing decision makers who face uncertain environments should consider the value of alternatives to conventional market research analysis and at the very least, look to compliment traditional analytic effort based on the premise of predictive rationality with more collaborative, co-creational, fast-feedback from customers, prospects and business partner stakeholders as an integral part of the analytic effort supporting a decision.

Three areas where decisions go awry:

3. How judgement is exercised

The discipline of Behavioural Economics has shown in both experimental and real life settings, that regardless of expertise, business decision makers are susceptible to biases in how they judge the probability of certain outcomes.

Daniel Khaneman, the Nobel Prize winning cognitive scientist is one of the forefathers of Behavioural Economics. In collaboration with the late Amos Tversky, Khaneman found that people do not behave in accordance with rational economic theory. Rational economic theory expects that, when faced with a decision, people implicitly assign consistent utilities to their preferences (what they value most), estimate the probability of getting what they want and then make a decision that give them the greatest chance of maximising their utility (getting what they want).

Khaneman & Tversky repeatedly demonstrated that people are inherently poor at making judgements about complex matters, relying on heuristics to imperfectly process information about the probability of events and the utility of outcomes. Their research and that of many other Behavioural Economists found that people, when confronted by decisions where uncertainty exists, were predictably irrational. That is, people were predictable in sometimes

making choices that did not maximise their utility.

Cognitive psychology uses the term, *Heuristics* to describe the aspect of our cognition that simplifies information processing tasks and allows us to form judgement as quickly and as efficiently as possible. There are many different types of heuristics and while this paper does not attempt to cover all of them, there are some categories of heuristics that are particularly relevant when considering how marketers form judgement in respect to decisions.

Pattern recognition bias

Some heuristics introduce a *pattern-recognition* bias, where people overweight recent or highly memorable information in forming judgements about the present and future. Other types of pattern recognition bias include a tendency to place greater emphasis on information that conforms to existing beliefs or ideas. The risk inherent in such biases is that when forming judgement, we may see patterns in information when there are none or ignore patterns that don't conform to our past experiences or beliefs.

While past experience and beliefs are useful in that they help us to quickly assess and make some sense of complex situations, in an increasingly unpredictable world where markets

are being shaped by technology and communication forces that have never previously been seen, marketers run the risk of under estimating the impact of these changes upon their strategies.

Stability bias

Other types of heuristic can introduce *stability biases*, where our judgement leans toward preservation of the status quo. Anchoring is a form of bias where, a person becomes mentally attached to an initial value and makes insufficient adjustments when making subsequent estimates about the value.

Experiments have shown the impact of anchoring occurs even among people with expertise in regard to the information upon which they were asked to make a judgement.

In one study conducted by cognitive scientist Dan Ariely⁶, two groups of real estate agents were provided with detailed information about properties for sale in an area and asked to recommend a initial listing price for each property. One group was told the sellers desired listing price for each property, while the other group were left to form their own judgements in recommending the value of the properties. The study showed that, when comparing the prices suggested by the two

groups, those who were told the sellers desired listing price were “anchored” by it and were statistically more likely to recommend listing prices close to that proposed by the seller. Those without knowing the seller’s price, typically recommended listing prices far higher than those of the anchored group.

An example of anchoring in a marketing context would be the forecasting of future sales based on the knowledge of previous sales alone. This could lead to incredible over-statement or understatement in a fast-moving, uncertain environment.

Stability biases are even more pronounced in situations where there are multiple alternatives from which to choose. Making a judgement between one of two options requires less mental effort than one of three or more. As the number of alternatives increases, people are more inclined to base their judgement around maintaining the status quo. The adage – “better the devil you know” appears to be consistently born out in complex situations where judgement is to be formed and a decision to be made.

Overconfidence

A third area where heuristics influence judgement is that of *overconfidence*.

This type of bias is the result of a cognitive tendency for people to over-estimate the outcome of planned actions and the likelihood of positive events while underestimating the likelihood of negative ones. It is also manifest in people being over-confident in their ability to forecast the outcome of events.

In a series of experiments reported in the Harvard Business Review⁵ people were asked to forecast the closing value for the Dow Jones Industrial average at the end of the following week. Subjects were instructed to nominate a range within which the closing value would fall. They were asked to pick the top of the range by selecting a value for the Dow Index that had only a 1% chance of being exceeded and a bottom value where the Index had only a 1% chance of falling below it. In theory, if the subjects were able to forecast accurately, they would only be wrong on 2% of the time. The results showed that most people in the experiment failed to specify the correct range for the closing price of the Index 20-30% of the time.

In regard to over-confidence, Daniel Kahneman states “Overconfidence is a powerful source of illusions, primarily determined by the quality and the coherence of the story that you can construct, not by its validity. If people can construct a simple and coherent story, they will

feel confident regardless of how well it is grounded in reality. There are often entire aspects of a problem that you can't see – for example, am I ignoring what competitors might do?”⁸

The real danger of heuristics in respect to forming judgement is that we are that they are hard-wired into our cognition and in most cases, we are largely unaware of them. While we can't ever be rid of their impact on our judgement, there are measures that can be taken to reduce the potential for them to lead us to make poor decisions.

Using many minds to improve judgement

One of the main approaches to countering the effects of heuristics upon making good decisions is to obtain the views of many people when forming judgement.

The act of engaging a group of people to deliberate on a decision helps mitigate the extent of some sources of bias. The broader range of experience each member of the deliberative group brings to the judgement reduces pattern recognition bias. There is a greater chance that an important pattern in the available information will be missed and less chance patterns will be seen that aren't

supported by the data if many people are looking at it.

Even if we take an approach to broaden the involvement of marketing stakeholders in the process of forming judgement, there are potential pitfalls that can still lead to error and potentially poor decision-making. In the book *Infotopia*⁷, Cass Sunstein describes many challenges for deliberative groups.

One of the most important relates to the tendency for deliberative groups to spend most of their energy sharing commonly held knowledge among the members of the group.

This is a tendency arises because it is often easier and socially less risky to engage other group members around ideas or concepts that are commonly held. In many situations, important information that may be held by only one member of the group will not be shared with other members. This can be particularly true of deliberative groups where there is an explicitly hierarchy within the group. Would a junior marketing executive dare to share their knowledge of an issue, if more senior members of the group are discussing other matters?

In summary, the sources of potential for poor decision-making can come as a result of one or more errors that can be broadly classified as

errors in framing decisions, analysis or forming judgement.

By simply being aware of these potential sources of error, marketers have already taken an important first step toward improving the likelihood of making better decisions in the future. There are, however many other steps that can be taken to deal with the issues described above. The following section of this paper outlines Brand Navigator's thinking on the top-10 practical steps marketers can take to improve their decisions.

10 Practical Guidelines for making better marketing decisions

Not all decisions are equally important for an organisation. Some decisions warrant far greater time and attention than others, given either the frequency with which they are made or the possible consequences for making good or poor decisions. The following recommendations are made in respect to two types of decisions that a marketer may need to contend with.

The first type of decisions are, one-off, strategic decisions that have a high level of potential for risk or reward. In a marketing context, such decisions may include new product development decisions, market entry decisions, brand or product rationalisation or acquisition.

The second type of decisions is those made repeatedly, but where there are significant real costs or opportunity costs to getting them wrong or significant up-side to getting them right. These sorts of decisions may include budget and resource allocation decisions across the marketing mix, pricing decisions or decisions in relation to customer handling or relationship processes.

Recommendations for improving Framing

1. *Accept uncertainty*

In many cases, expectations of the planning process in respect to a marketing decision are that it delivers absolute certainty about the outcome, before funding is committed or work commences. However, more often than not in today's fast-moving environment, what actually happens will be different to what we might predict about the needs of customers, actions of competitors or forces that will drive change. There is no escaping this, and even the most robust, reliable and carefully constructed research will not make it less so.

Peter Jueptner, the head of strategy at Estée Lauder said in a recent panel discussion with McKinsey, that his organisation has "stopped predicting growth rates" and alternatively has set business goals by indicating a range of performance outcomes as a percentage of overall market growth. This type of goal setting acts as a hedge against unknowable macro economic realities.

Rank the critical uncertainties

When framing a decision, be sure to acknowledge the extent to which uncertainty is a factor in the decision that needs to be made.

Spend time on looking at the range of factors that create uncertainty in respect to the decision. List them out and rank them according to the likely impact they could have on the outcome of the decision.

By undertaking this exercise, one can begin to manage your own expectations in respect to the possible outcomes of the decision and may also help identify areas of threat or opportunity that otherwise might go unnoticed.

Allow others to express uncertainties

Extend the exercise to include others that have a stake in the decision and its outcome. This will help manage their expectations in regard the context in which the decision needs to be made. It will also help identify possible sources of uncertainty that might have be outside the bounds of your awareness and thereby improve the set of issues that need to be considered in the decision process.

Allow time for uncertainty to be raised and discussed during meetings among stakeholders during the decision process. Often there is a cultural imperative to move quickly to action. In such situations, without the explicit permission to raise uncertainties in the framing of the decision process and giving people time and space to table these for discussion, there is an

increased risk of overlooking key information when assessing alternative courses of action.

2. Be decision-focussed, not data-focussed

A common pitfall in making marketing decisions is initiating research or data analysis before the decision has been properly framed. Not only can this lead to wasted time and money, it can also introduce risks where the range of alternatives considered is limited by the data available.

There are numerous instances where, at the 11th hour in a decision process, a new idea or alternative has been identified, but is subsequently dismissed because the assembled research or data used to support the decision had not been designed or was not sufficiently broad enough to examine its potential.

Such situations are symptomatic of poor framing. They arise because research or data analysis was set in motion too soon, before there had been sufficient opportunity for alternatives to be identified. Insufficient as a result of either too little time being invested in articulating the hypotheses that underpin the decision and how those hypotheses should be tested, or engaging too narrow a group of

stakeholders in early stages of the decision process.

To avoid this scenario we recommend the following steps:

1. Establish who will be involved in making the decision and the role each will play.
2. Engage them individually at the commencement of the decision process to identify, regardless of the alternatives considered, the outcome they would wish to see in respect to the decision.
3. Build a decision tree that steps out the structure of the decision in terms of the interrelationships and interplay between different alternatives and possible outcomes. Through this process it is imperative that the outcomes described in the decision tree interlink business-based financial outcomes with market outcomes. Start with the end in mind, where you firstly establish what “success” looks like in purely financial terms and then work backwards to identify what range of market-based outcomes – measureable customer behaviours, would deliver that business outcome.

4. Re-engage the players and establish agreement to the possible alternatives and outcomes.

There are two things that will happen as a result of this process. Firstly, it will become clear who is making the decision. Secondly the criteria they will use to make the decision will be established up-front, so the design of the analysis stage of the process can be structured to ensure it generates evidence that directly addresses those criteria.

3. Spell out hypotheses and test them

The alternatives for any decision will be founded upon a range of assumptions and hypotheses. In many cases these can be unspoken or not document because they are take as “given” or aren’t seen as particularly important, even if they are incorrect. In many cases, assumptions are made about rates or market growth with little regard to the potential for market contraction or even market failure.

In the case of a new product decision, assumptions would need to be made about how the features or benefits of a product in the category are valued by customers. Assumptions would also need to be made about the relationship between price and

demand in the category, the likely support of channel partners to distribute the product, the availability of supply and the possible reactions of competitors.

By writing down the assumptions that underpin a decision, testable hypotheses can be generated. Once the hypotheses have been identified and how they can be tested, the sources of data that should be used to test them can also be identified. The framing of hypotheses allows for a much more focussed effort in the research and analysis stage of the decision.

For example, in making an assumption about pricing the following “null” (zero-state) hypothesis could be generated: *There is no change in demand for the new product as the price of the product changes in relation to the market leader.* To test this hypothesis, several types of inquiry could be undertaken. One option would be to conduct new primary research using conjoint or choice modelling to examine if demand does change as a function of the price of the new product relative to the price of the market leader. Alternatively, analysis of the relationship between relative price and demand for other new products that have recently launched could be undertaken if historical price and sales data.

4. Don't ignore executional risk

Good decisions can turn bad when they are poorly executed. One of the often un-stated assumptions made in framing a decision is that the organisation will execute it flawlessly. There are many good ideas of products, brands or marketing initiatives that failed simply as a result of execution, not because of the idea itself.

Sources of executional risk include, the availability of sufficient resources to implement the decision, either in terms of money, time or people. Executional risk is inherent in poor quality processes or practices, either within the organisation or that of business partners. Another source of executional risk is limited skills or expertise in delivering the product or customer experience.

Like any other assumption, we recommend that this be considered and the hypotheses that underpin it, clearly articulated and tested.

Fashion retailer Zara have made an art-form out of managing executional risk in regard to the development of new garment designs. They understand the limitations of being able to accurately forecast what will be popular and what will not from season to season. Rather than putting all of their emphasis on the

decision on picking the right design ideas to take to market, they balance those decisions against picking versatile fabrics that can be adapted to alternative designs quickly, should the initial design ideas for a season fail to ignite customer interest. They understand that over-investing in fabrics with limited application exposes them to even greater risk by having too many eggs in the one basket.

Recommendations for improving Analysis

5. *Measure what you must, not what you can*

The easiest data to obtain is not necessarily the best source of information to adequately test the hypotheses that underpin a decision. While it may address some of the hypotheses pertaining to a decision, further evidence in the form of more robust, timely or relevant data may be required.

Time and resource must be given to filling critical data gaps and sternly testing the integrity of the data at hand. This in some cases may mean delaying a decision in or allocating funds to source the right data for the decision. Unfortunately short-cuts in this area can easily lead to incorrect conclusions being drawn and poor decisions being made.

Conversely, if data is being gathered and analysed that does not directly connect to the decision at hand, then be prepared to re-direct that time and investment to areas of analysis that are more relevant. Legacy research programs and data gathering activities should not continue if their insights are not directly connected to the decisions the organisation needs to make, particularly in cases where too little analytic effort is directed to areas which have much more relevance to decisions and business outcomes.

To identify “analytic waste” ask the following questions about all research and analytic activities:

- Why are we doing this?
- How are we using it or going to use it?
- Will it really affect our decision?
- What would we do differently if we didn't have this information?

6. *Seek non-confirming evidence*

The failure of New Coke and the Challenger space shuttle disaster are both examples of a failure to seek non-confirming evidence.

In the case of Challenger, NASA decision makers should have asked to look at information that revealed the relationship between air temperature at launch and O-ring damage for all space shuttle launches. Instead they chose only to analyse data for launches where O-ring damage was known to have occurred. This limited set of data points meant that important evidence about the existence of a relationship between temperature and O-ring damage did not surface in their deliberations to launch.

In the case of New Coke, the product development-testing program was so focussed on developing a cola soft-drink with a better taste, that no-one bothered to check how Coca-cola drinkers felt about a worse-tasting drink. Had research explored the relationship brand loyalty when people were given a *worse* tasting drink than the original formulation and a better tasting drink, they would have found that brand factors were far more important to customers than taste.

When confronted with a high-stakes marketing decision, it is imperative to go beyond an analysis of information that is only confirmatory of the underlying hypotheses. Make a dedicated and specific attempt to find and analyse non-confirmatory data. There are two specific things you can do to achieve this.

The first is to make a person in the decision group responsible for the task of de-bunking the stated assumptions and hypotheses. Ask that person to be, in Edward De Bono terms a “Black-hat” and to find examples where the opposite to what is widely believed or assumed is true.

The second action that can be taken is to pay attention to “outliers” in the data that is being used to support the decision. For example, if there is a particular brand or product in the market that appears to behave differently to the majority of the market, rather than simply dismissing it as an outlier, dedicate some effort to better understanding what might be driving it’s apparent difference to the rest of the market. Outliers can often be powerful sources of non-confirming evidence.

7. Decrease feedback cycle times

If the future cannot be confidently predicted, then one way of improving the outcome of a decision is to gather information quickly so adjustments can be made if necessary. The ability to adjust and adapt to unpredictable market events, can be even more important than having made the right decision in the first instance.

Fashion retailer Zara provides an excellent example of balancing analytic efforts across forward-looking activities and retrospective analysis.

An interesting characteristic about Zara's retrospective analysis efforts is that they work on incredibly short-cycle times. Their business processes and sales data systems enable real-time capture and analysis of customer behaviour in the store, including not only what garments the customer bought, but also tried on. Sales personnel in each store provide daily feedback about their interactions with customers and what they observe in-store.

This continuous feed of market intelligence is analysed and reviewed and discussed by centralised decision teams comprised of designers, marketing and commercial executives who have the ability to make adjustments to product design, supply, promotion of communication.

Whilst this real-time analysis and adjustment to the execution of product, sales and marketing decisions takes place, Zara continue to harness research and analysis to look forward. Zara make heavy use of ethnographic research in innovative, but real-world fashion environments such as university campuses, entertainment districts and other cultural events, continuously

collecting information and imagery about what are or could become emergent trends.

The shorter market-feedback cycle times can be made, the more quickly marketers can adjust their decisions to events, threats or opportunities that would have been difficult, if not impossible to predict through the planning stage of the decision process. However, achieving a balance of investing analytic time and effort across forward looking activities and fast-feedback activities is the best approach for marketers wanting to make better decisions in an uncertain world.

8. Engage across your organisation, with your business partners and customers

One of the best ways to mitigate the risk of a poor decision is to engage stakeholders across your organisation in the decision process.

The effect of "many-minds" being involved in forming judgement mitigates the extent to which some sources of cognitive error, particularly pattern-recognition bias, where due to the limitations of personal experience, patterns in information relevant to the decision are not observed or misinterpreted. Increasing the number of people involved in forming judgement ensures broader awareness and

understanding of the information upon which judgement is formed.

Donald Sull, of the London School of Business believes that organisations need to build greater strategic agility in times where uncertainty is increasing. He states that strategic agility requires executives to constantly update their understanding of a fluid situation, evaluate alternatives and periodically revisit their assumptions. But executives are faced with a paradox in trying to do this, while at the same time, trying to make things happen by selling in projects, energising team members, monitoring performance and making mid-course corrections¹⁰.

Sull writes that conversations are the key to building strategic agility, and while it may be tempting to have fewer meetings to discuss decisions than more, business decision makers need to get a better ROI on conversations. He describes four types of conversations that need to be supported when confronted with a strategic decision:

- Conversations to make sense – where stakeholders identify patterns in relevant data;
- Conversations to make choices – among alternative courses of action

and describe a clear set of priorities to focus resources and attention;

- Conversations to make it happen – that solicit personal commitments to actions aligned to the priorities;
- Conversations to make revisions – treating marketing activities as experiments, analysing the findings and using the knowledge gained to revisit assumptions, priorities and commitments.

Taken even further, there is a line of thinking that engagement around strategic marketing decisions should extend much further, engaging channel partners and end user customers. Indeed Starbucks well publicised use of social media through the “My Starbucks Idea” is an example of further engaging customers in product development decisions.

Michael Schrage, a cognitive scientist at MIT and author of the book *Serious Play: How the World's Best Companies Simulate to Innovate*⁹, also believes in establishing “no-lose hypotheses” that are tested through real-world experiments.

Schrage goes as far as to say that, expressing an “idea” as a market-defined hypothesis, forces organisations to crystallise the ends for the innovation effort, thereby creating a clearer frame of reference for making the decision to make further investment in the idea or not. A “no-lose hypothesis” is one where the organisation benefits whether the hypothesis is proved to be true or false. Either way, the organisation learns what works and what doesn’t and thereby minimises risk and possible financial loss.

Wouldn’t the reputation of brands rise in the eyes of customers, if brands approach real customers with transparency and the candour that “we might not get this right”? The idea of beta-testing has existed in relation to software for many years, perhaps brands in other industries could learn from this approach?

9. Conduct a pre-mortem

Sometimes, when decisions do not produce the expected outcome, there is often a post-mortem analysis of the factors that led to what appears to be a poor decision. Questions are raised and answered as to what information was used to make the decision, how judgement was formed and the decision implemented.

However, before a decision is made, there can be a cultural reticence that prevents people from raising potential problems as decision processes come to a close. That reticence may come in cases where the decision has already received support or endorsement from a high level of management within the business or because work on the decision is progressed so far that the outcome appears to be a fait-accomplis.

The concept of a pre-mortem, is essentially a low-cost, but high value technique that leads a group of people to identify unexplored areas of risk before a final decision is made. It is a useful exercise in helping form judgement and ensuring that all of the appropriate analysis has been conducted and the implications carefully considered.

In his interview with Daniel Khaneman in the McKinsey Quarterly, cognitive scientist Gary Klein suggests that before an initiative commences, decision makers should say “We’re looking into a crystal ball and this project has failed; it’s a fiasco. Now, everybody, take two minutes to write down all the reasons why you think the project has failed”. This short, simple process is likely to be far easier and less painful than asking these same questions once an initiative has failed.

The idea of the pre-mortem is not to kill the project or abandon the decision, but to, ahead of implementation, adjusted in ways that all stakeholders are likely to view as beneficial.

10. *Keep judgements independent*

Lastly, one of the most significant forces that can distort the formation of judgement when there are many people involved in a decision is the lack of independence in exercising judgement.

Imagine a scenario where a senior decision maker articulates his judgement in respect to a decision among a group of subordinates sitting around a meeting table. Despite encouraging the next person to speak to disregard his judgement, most people will adjust what they say and possibly the overall direction of their judgement on the basis of what the more senior person said. As the conversation moves to the next person, how they express their judgement will be affected by the comments of both of the previous speakers.

In such situations, there is an increased tendency for “group-think”, where the conversation focuses mainly upon what is commonly known and the views that are commonly shared and information that may be

uniquely held by one or two individuals is not shared.

To overcome this potential distortion in how judgement is exercised we recommend that each person independently summarises their judgement and the information they believe to be most critical in supporting their judgement, before discussion commences. If possible, it is even better that the independent judgements with supporting critical information are shared in full, before the group meets to agree a final decision.

In summary

The challenges that confront marketers in making good decisions are significant and the circumstances in which they must make them, more complex than ever. However, there are many changes that marketers can make to improve decision-making.

The secret to improving decisions lies in the processes that are applied in making the decision. By breaking down the process into the three areas of framing the decision, analysis of hypotheses and alternatives and forming judgement, marketers can adopt simple practices that will reduce the risk and bias that can otherwise creep in at each stage.

By having a clearer understanding of the decision and what evidence will be required to support it, the task of analysis can be more focussed and efficient. By also understanding the inherent limitations of our own cognition in forming judgement, marketers can take steps to counteract this, often by involving other stakeholders in the decision. Increasingly, progressive marketers are including customers and business partners as direct and continuous participants in the decision process.

Judgement can also be enhanced by providing a framework for supports the independence of viewpoints and pre-empts possible barriers to achieving the desired outcome.

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