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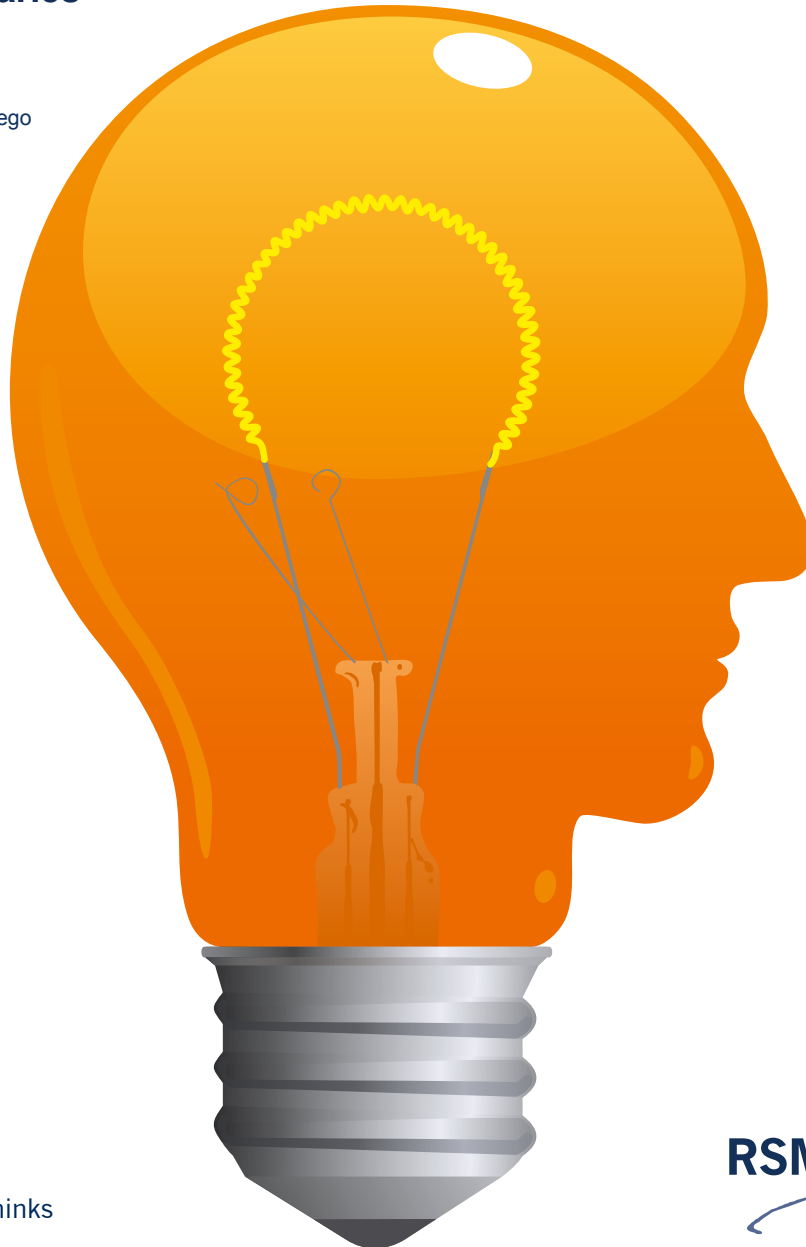
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The business school that thinks
and lives in the future

Understanding marketing decision-making

by Berend Wierenga

While a whole range of factors influences the outcomes of a marketing policy, it is managerial decision-making that can really make a difference. A clearer understanding of how marketers make decisions should therefore improve their quality.

Marketing was just a field of applied economics until around 1960, when behavioural sciences and quantitative models turned it into a discipline in its own right. However, while research into consumer behaviour grew by leaps and bounds, decision-making by marketing executives received only a fraction of the attention. It is time to rectify that.

After all, the quality of managerial decision-making is the single most

(what it costs); promotion (making the public aware of it); and place (sales channel). There are others, such as customer behaviour, competition and the economy. In the end, however, it is the marketing decision-maker who has to evaluate alternatives, evidence and uncertainties, and decide on marketing policy. Not surprisingly, marketers can deploy impressive personal assets based on market knowledge and a finely tuned intuition.

available. This they can do by asking themselves a series of key questions (and subsequently responding to them) based on prevailing concepts, experiments and issues.

Relying on a unique combination of facts and reasoning, marketing management, it has often been said, is both a science and an art. The data part of marketing can be handled by sophisticated quantitative techniques. But, there is also a need for judgment and intuition to reconcile the huge number of factors influencing a particular decision; data models alone simply cannot identify the best decision.

This requires a combination of 'head' (models and analysis) and 'heart' (intuition and gut-feeling). Creativity also plays a part in thinking up new products and promotion campaigns. This unique mix of quantitative and qualitative elements has major implications for how marketing decisions are made.

Developments in the field of behavioural decision-making are helping to provide deeper insight into managerial decision-making. In particular, this involves investigating four key elements relevant to marketing: the dual-process model of decision-making; learning; emotions; and expertise.

Let me start with the dual-process model. Research defines

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determining factor behind successful marketing management. Granted, there are many others that influence the outcomes of a marketing policy. For instance, the marketing mix: marketing instruments defined as product (type of offering and the value it delivers); price

Know thyself

However, in order to improve the effectiveness and quality of their decisions, marketers need to pay attention to how they make decisions, as well as to the choices of marketing techniques and support tools



two fundamentally different cognitive systems that describe how people (including marketers) think and reason: an Intuitive System (also called System 1), which is instantaneous parallel and automatic; and an Analytical System (also called System 2), which is rule-based and is slow, serial, controlled and effortful.

Competency in marketing management requires learning on the spot, a lot of practice, and accumulating knowledge from experience. This is Intuitive System thinking. Marketing decision-making also involves manipulating such concepts as marketing-mix (to see how it affects sales), reasoning, developing decision alternatives, abstract thinking, and sometimes carrying out computations. This is what characterises Analytical System thinking.

Hard data, soft judgment

Importantly, you need to determine whether a particular approach – intuitive or analytical – will be successful. Here four marketing problem-solving modes (the first two are analytical and the last two intuitive) provide some guidance: optimising (looking for the best solution to a well-structured problem); reasoning (analysing the solution mentally through 'if-then' logic); analogising (use of past experience of similar situations); and creating (finding creative solutions to unstructured problems by using associations and divergent thinking).

Next, how do marketing decision-makers learn? Using an advertising campaign as an illustration, one manager may use specifics from past campaigns in designing new ones. This is called exemplar-based learning.

Another manager recalls instead key relationships between attributes – say advertising expenditures and the increase in sales – from past campaigns. This is called cue-abstraction learning.

It is also interesting to see how managers respond to computer-based Marketing Management Support Systems (MMSS). Let's imagine a system for designing new sales promotions that has a database holding previous sales promotions and their outcomes, and two user functions. The first one is to search in the database for similar sales promotion situations and find out what the company did then and the resulting outcomes.

The second function uses a model, which approximates past cases in the database, to run what-if simulations for the new sales promotion. Which one will the manager use in the learning process? And how do marketing managers learn most effectively under the following conditions: when they are accountable for their decision processes; or from the outcomes of their decisions; and when the tasks are simple or complex?

Emotions can help (for example, by sensing dangers), but also hurt (for example, by making people too risk-averse). In marketing decision-making, emotions have not been explored to any significant extent, ►

Understanding marketing decision-making (continued)

by Berend Wierenga

making the evaluation of their effects in monetary terms on decision-making not possible. What can be said, however, is that emotions do play a role, especially under certain conditions, such as strong competitive pressure, negative public opinion, or internal company conflicts.

Managers often excel because of their expertise, the final element we will explore. It raises several key questions. Considering that to become an expert in a particular field requires a minimum of ten years of intensive training, along with exposure to, and activity within, the particular domain, what is the best way to create real marketing experts? Certainly this sort of training, exposure and activity is needed, but what is the best way of acquiring experience? Is in-depth and long-term exposure to a particular industry more effective than broad experience covering several industries?

Because expertise is usually limited to one domain, how do you compare the expertise of a marketer trained in a fast-moving consumer industry to one trained to market airplanes? Because of its recognition or priming nature, expertise is fast. Therefore, the interaction of expertise with time pressure is interesting. It may well be that expertise is most beneficial in situations with high time-pressure. And

how about the use of so-called expert systems in assisting decision-making? Here are some additional questions marketers could ask themselves:

- Are you using the right combination of Intuitive and Analytical System in your decision-making?
- The development of intuition is dependent on the feedback from the environment. Are you getting the type of feedback that helps to develop 'good' intuition?
- Exemplar-based learning means that you stay close to earlier experiences, which may lead to incremental behaviour. Are you susceptible to this type of potentially suboptimal behaviour?

Crucial next-step

Pursuing answers to all these questions and addressing these issues is not only an interesting academic challenge, but the results of this work will also improve the quality of marketing decision-making and thus boost the contribution of marketing to the performance of a company. More ought to be done, and for good reason. If behavioural researchers redirect just 20 per cent of their effort in marketing from consumer behaviour to managerial decision-making, the pay-off would be enormous.

Technology can also help. Interestingly, many business schools have state-of-the-art behavioural labs, and several researchers in marketing employ brain observation technologies (like functional magnetic resonance imaging or MRI) to study what goes on in the human brain during decision-making processes. In addition, modern marketing decision-makers are surrounded by information technology, making it relatively easy to observe and record their information-processing and communication activities. ■

Real-life decision-makers are essential for our research in managerial decision-making in marketing. If you are willing to participate in our experiments or surveys, please contact Prof. Berend Wierenga at [MAIL bwierenga@rsm.nl](mailto:bwierenga@rsm.nl).

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