THE NEW ODDS

by

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Sales Executives Club of NY. 11th annual conference - The New Odds 1971 October 15

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"Marketing Against the Odds"--I don't think you could have picked a timelier theme for this conference. While marketers have always faced odds, the odds have drastically changed character in the past few years. It is this change I would like to discuss today, for the new shape of the odds faced by marketers brings us face to face with a new kind of danger. We risk falling into what I will call the "McNamara fallacy." I'd like to state what this fallacy is, why it has suddenly become a major threat, and how it might be avoided.

In naming a fallacy after Robert McNamara, I intend no disrespect for one of our most distinguished citizens. Mr. McNamara is a brilliant and dedicated man who brings a vital intensity to bear on his work. Thanks to his intelligence, he had developed a particular managerial method to its fullest possible potential. This is the method of formalizing and refining quantifying data for decision making.

When a method is developed to its logical extreme, both its strengths and limitations stand out sharply so that one can see them clearly. The many strengths of the McNamara method of quantification have been justly celebrated in business and in government. But the method has also revealed some notable weaknesses.

It is one of these weaknesses that I refer to as the McNamara fallacy--a fallacy that poses a particularly acute threat today to many aspects of American life, including marketing.

A number of years ago when Mr. McNamara was president of Ford, we conducted a number of marketing research projects, one of them relating to the small car market and its future. This research was, of course, carried out in the pre-Kennedy period when small car imports were just beginning to make their impact and Ford quite prudently wished to assess this impact to take it into account in their future planning.

Our research reported a blend of quantitative and qualitative measures. On the quantitative side, we described the demographic characteristics of people who were then buying the small imports and we reported on their present and past ownership of other makes of cars. On the qualitative side, we explored what a small car meant to the average automobile buyer, identifying some nine different meanings. Interestingly, only one of the nine meanings of what a small car meant to people signified reduced size. Some of the other meanings included the desire for cars that were economical to operate (irrespective of their size), cars that stressed functional quality rather than dreamboat styling, cars that were more like sports cars, cars that expressed the owner's personality and individuality rather than his status, and so forth.

Sales Executives Club of NY, 11th annual conference - The New Odds 1971 October 15

Compositely, these nine meanings revealed widespread dissatisfaction with the cars of that period and a deep-seated desire for new car concepts. Some years later, through the marketing genius of Lee ~~Iacoso~~ Iacocca, Ford introduced the Mustang and began responding in other ways to the increasingly overt dissatisfaction of car buyers--with notable success.

But in that earlier period, when we presented our research findings on the small car, the section of the research measuring the nine meanings of what small cars meant to people was discarded, on the grounds that they could not be quantified as rigorously as the car ownership and demographic data. The numbers on ownership and demographic characteristics--the useful but less relevant part of the research--was retained. Later events, of course, have shown that the qualitative numbers on what small cars meant to people, discarded as being too intangible, pointed to an important future direction of the car market--and a reason for the success of the imports. But at that time, a strict ideology prevailed. Data that was not quantified and documented according to approved methods were eliminated from all presentations. The only data top management was permitted to see were those that had passed through a rigorous screen.

There is sense and logic to this procedure, and I go along with it--up to a point. Decisions which involve millions of dollars should not be based on hunch, intuition, sloppy thinking, loose

Sales Executives Club of NY. 11th annual conference - The New Odds 1971 October 15

generalization and personal interpretation of data. Discipline must be imposed on the huge masses of data produced by research. The great mass of information must be reduced to its essential significance. Moreover, the discipline must favor the quantitative side. Many years ago, the philosopher and mathematician A. N. Whitehead said about the ancient Greeks, "If only they had measured instead of classified," science would have advanced by 2,000 years. Markets are aggregates of people and the information about them important to marketing decisions are often quantitative. Indeed, the cornerstone of our profession is measurement. We earn our bread and butter by quantification and statistics. So I speak not as a mystic or an intuitionist but as a professional purveyor of numbers, and from that standpoint I am, perhaps, in a good position to criticize the one-sided use of statistics.

Here is what happens when the McNamara discipline is applied too literally: The first step is to measure whatever can be easily measured. This is okay as far as it goes. The second step is to disregard that which can't be easily measured or give it an arbitrary quantitative value. This is artificial and misleading. The third step is to presume that what can't be measured easily really isn't very important. This is blindness. The fourth step is to say that what can't be easily measured really doesn't exist. This is suicide. Among the many bitter lessons that our

Sales Executives Club of NY, 11th annual conference - The New Odds 1971 October 15

experience in Vietnam with its body counts and village pacification ratios has driven home, is the conclusion that it is a short, fatal step from the statement, "There are many intangibles and imponderables that we can't put on our computers," to the statement, "Let's measure what we can and forget about the intangibles." It is this step that poses an even greater danger to us in the future than in the past.

The current success of B. F. Skinner's best selling book, Beyond Freedom and Dignity, is one more indication that this deeply ingrained fallacy continues to thrive, Skinnerism being to academic psychology what McNamaraism has been to the business/government world. The essence of Skinner's position is that many intangibles, such as the freedom and dignity he refers to in his title, do not really exist. This position is the logical conclusion of Skinner's life-long commitment to a school of psychology that, in its extreme Skinnerian form, maintains that only the overt, tangible, measurable aspects of man's behavior are real. Skinnerism is a variant of the same mind-set I am describing.

More precisely, the fallacy at issue is this: if you are confronted by a complex problem full of intangibles and imponderables and you decide to measure only those aspects of the problem that lend themselves to ready quantification, either because you find the other aspects difficult to measure or because you assume that they can't be very important or don't exist, then you have fallen into the McNamara (or Skinnerian) fallacy.

Sales Executives Club of NY, 11th annual conference - The New Odds
1971 October 15

ii

One may ask, "Why bring this matter up now, why rake over past history at this particular moment?" This question brings me to the essential point I would like to make. We are living through a period of immense qualitative change. In business and in marketing we currently have many marvelous tools for responding to measures that were important to marketing in the 1950's and 1960's. Our mind-set is geared to the 1950's and 1960's. We have learned to quantify what was important to marketing in the last two decades. But the new odds we face in the 1970's, odds which are the subject of this conference, are not the kind that our conventional tools measure, that our mental habits respond to, and that our methods of implementation adapt to. In other words, when we fell into the McNamara fallacy in the 1950's and 1960's, it merely caused us to lose time,--maybe one or two or three years before our measurements picked up the important issues. But, the nature of the changes that confront marketing today are such that to fall victim to the McNamara fallacy in the years ahead could easily be fatal.

Let me elaborate:

First, most marketing measures are measures of customers--ours and our competitors. But a great deal of the action these days is coming from people who are not customers. The cigarette

Sales Executives Club of NY. 11th annual conference - The New Odds 1971 October 15

companies gave smokers pretty much what they wanted, in the form of filters of various types, sizes, flavors, etc. But it wasn't the cigarette smokers who threw cigarette advertising off of the home screen. It was the nonsmokers and the organizations who represent their point of view.

By and large, marketers today are wonderfully sensitive to the needs of customers, their own and competitors. But they are less sensitive to the claims made upon them by the general public,-- the nonsmokers as it were. And today, we are all nonsmokers in one or another respect. If consumer dissatisfactions can be registered within the framework of the competitive marketing mechanism, the chances are that we will take them into account and be responsive to them. Within its own limits, the competitive marketplace works superbly well. But evidence is piling up that these limits are perhaps more restrictive than most of us have believed them to be. The wide public support which consumer advocates enjoy today comes mainly from the accumulated backlog of dissatisfactions that, for one reason or another, have not registered in the competitive marketplace. When performance rather than safety increased share of market, the car companies were performance-minded, not safety-minded. Safety never has registered very strongly in the market mechanism; it was the political mechanism that brought it to the fore. The same is true for pollution.

Sales Executives Club of NY. 11th annual conference - The New Odds 1971 October 15

Step one in avoiding the McNamara fallacy in the 1970's is, therefore, to pay more heed to the voice of the noncustomer as well as to the consumer choosing between yours and your competitor's brand.

There is a second assumption we make that adds to the marketing odds of the 1970's. We tend to assume that the meaning of what we measure does not change. For example, for many years corporate image studies assumed, and correctly so, that a company's reputation for research and development is a positive value signifying new and improved products and services to the public. In recent studies, however, we have found that a reputation for R&D can also imply higher prices and unnecessary features to the consumer. We have also found that "big" sometimes means bad rather than good. After many years and many millions of dollars, General Electric deemphasized its slogan "Progress is our most important product," in good part because of the ambiguities that have come to surround the idea of progress today. Similarly, DuPont no longer emphasizes the motto "Better living through chemistry," because in some quarters this phrase is endowed with meanings DuPont is not intending, and because the basic premise that better living can come through chemistry is no longer accepted unquestioningly. Recently, Union Carbide dropped the advertising theme, "There is a little Union Carbide in everyone's home." This theme was promoted at a time when the company had become

Sales Executives Club of N.Y. 11th annual conference - The New Odds 1971 October 15

embroiled in public battles over its antipollution policies and the theme conveyed a double meaning to parts of the public. Indeed, the advertising provoked some critics to accuse Union Carbide of practicing eco-pornography.

The second cautionary step we must consider, therefore, involves constant reappraisal of the meaning of terms we measure. Measurements which conveyed one meaning in the 1950's and 1960's may convey a completely different set of meanings in the new era of the 1970's.

A third change: marketers who gained their experience in the past 20 years take for granted an encouraging, accepting climate for business. Unless they were around in the 1930's, they know no other climate. But now, unfortunately, a very different public climate for business prevails.

For a number of years, our studies showed that the majority of the public consistently gave business the benefit of the doubt and therefore responded to business's marketing efforts with sympathy and credibility. Now, that benefit of the doubt has eroded. Up to last year, a majority of the public, averaging around 56 per cent, felt that business achieved a good balance between its profit-seeking and service to the public. For years, this key indicator of public attitudes toward business remained stable. In 1970, however, it took a nose-dive, falling to 29 per cent.

Sales Executives Club of NY. 11th annual conference - The New Odds 1971 October 15

Today, therefore, only a minority of the public believe that business achieves the proper balance between profits and service to the public. The majority has lost a great deal of its confidence in business. Such a wide swing of the public mood is full of danger. Here is another sign of trouble: Over the past year the desire for more government regulation of business has increased from 50 to 69 per cent. Moreover, in our studies in recent months, self-regulation by business comes out at the bottom of the list of various possible methods for dealing with business-related problems in which the public has confidence.

A third step, therefore, in avoiding the McNamara fallacy involves taking into account the intangibles and imponderables created by this widespread shift in the public environment for business.

Closely related to growing public doubts about business, are certain specific doubts about important marketing tools such as advertising. For a number of years, Young and Rubicam has been conducting studies on public attitudes toward advertising. This year they report a massive deterioration in the public's confidence in advertising.

The public's heightened skepticism about advertising is, therefore, yet another intangible set of odds we must learn to take into account. In the past, people used to say, "Sure we know advertising exaggerates. Companies like to put their best foot

Sales Executives Club of NY. 11th annual conference - The New Odds 1971 October 15

forward. But it doesn't bother us, we take it with a grain of salt." The public expected advertising to exaggerate, took it cheerfully into account, and did not feel in any way threatened or misled. Today, the public's attitude toward advertising is far less cheery. What for many people was acceptable exaggeration has now become misleading, deceptive, manipulative and untruthful advertising. The advertising itself hasn't changed, except possibly for the better, but people's attitudes toward it have changed...for the worse.

Let me mention one final set of intangibles that must be taken into account. These relate to social trends taking place outside of any one marketer's backyard.

Typically, the marketer operates at two levels of decision making. One is concrete and immediate, having to do with his product, his market, his competition. Here the marketer draws upon information relating to his share of market, position of competition, his pattern of strong and weak markets, and the effectiveness of his pricing, sales effort, distribution, advertising and promotion programs.

The second level of decision making is more general. It relates to the environment outside of the marketer's own backyard. At this more general level, the marketer must take into account overall changes in the economic climate, population shifts, and new

Sales Executives Club of N.Y. 11th annual conference - The New Odds 1971 October 15

technological conditions. For the most part, the marketer is well supplied with data at both levels.

For information on the forces operating in his own backyard he calls upon sales data, store audit data, test market data, consumer research and other kinds of marketing research. For the more general level of information he has the Bureau of the Census to call upon for population data, a wide variety of economic services to provide information on the economy, and various R&D sources to bring to light advances in technology. But at this second level, there is a gap. The marketer has no satisfactory source of information to draw upon for relevant changes in the social environment, that is, changes in the public needs, values, attitudes and life styles. And yet, increasingly in recent years, this type of information has become more important.

To paraphrase John Donne, "No company is an island unto itself, but each is part of the mainland." In the past we could treat our markets as islands separated from the mainland. But we can no longer. The impact of events taking place in the mainland outside of our own little marketing island is felt ever more swiftly with each passing year. The best example of the interrelatedness of seemingly unrelated issues is the connection between consumerism and pollution. Companies see these as two independent matters, and from a logical point of view they are unrelated. "Truth-in-lending," for example, has no ostensible

Sales Executives Club of N.Y. 11th annual conference - The New Odds 1971 October 15

relationship to sulphur-oxide emissions from chemical plants. Yet, in the public mind, these kinds of issues form a single whole. They are seen as evidence of business putting its profits ahead of the public. A consumerist issue such as additives for food preservation may provide a cause for consumerist advocates who then give their attention to antipollution legislation without anyone except the companies involved distinguishing between the consumerist and the pollution issues. Indeed, the public does not know what the word consumerism means. Nor is the public aware of many of the specific demands consumer advocates are making. But they support the movement. They may not know all of the words, but they like the music.

A fifth step we must take, therefore, is to make systematic provisions for understanding the major social trends taking place in the country and the changing demands of the public on business in order to relate them to our own particular concerns. We need, in other words, a map of what is happening on the mainland as well as on our own particular island. The map of the mainland need not be as detailed, but the trends and new public demands on business and marketing must be defined, watched and interpreted on an ongoing basis.

Sales Executives Club of NY, 11th annual conference - The New Odds 1971 October 15

iii

I could add to these illustrations, but I think they are sufficient to make the point that we face a whole new set of odds, odds which are not being taken into account in our standard measurements. Measurements suitable for the 1950's and 1960's may in the 1970's be measuring the wrong things, and the wrong constituencies, and we may be misinterpreting the meanings of what we are measuring.

My colleague at N.Y.U., psychologist Isadore Chien, likes to tell the following story which he picked up from a vaudeville routine on Broadway in the 1930's: A drunk is groping around on the ground under a street lamp. A fellow walks by, watches him for a minute, and then asks him,"What are you doing?"

The drunk answers: "I am looking for my wallet."

The passerby says: "Oh, is this where you lost it?"

The drunk answers: "No, I lost it across the street, but the light is better here."

This story captures the essence of the McNamara fallacy. We may all be comfortable with our old measurements and our old assumptions because the light is so good. But the real battleground may be somewhere else where the light isn't as good, at least not yet.

Sales Executives Club of N.Y. 11th annual conference - The New Odds 1971 October 15

One place where the light is not yet very good is that vague domain known as the Social Responsibility of Business. Indeed, this phrase has become the catch-phrase of the day, and I am sorry to say that it is misleading many corporate executives.

Some chief executives think that the issue is whether or not business should give a little more or less money to solving some non-business social problem or hiring more hard core minorities. This interpretation assumes that the decisions are optional and that they don't have much to do with the nitty-gritty of running a profitable business. Nothing could be further from the truth. Increasingly, the decisions demanded are not optional but are a matter of tough government legislation and enforcement. Increasingly, the demands conflict directly with traditional methods of achieving profits, growth and market share.

It should be noted that corporations are being granted no relief on meeting their traditional social responsibilities. Companies are still expected to make profits, provide jobs, produce goods and services and improve productivity. But superimposed on these traditional demands are many new demands that range from taking into account the effects of technology on the environment, to the four-day work week, the movable pension, and time off for executives to work on community affairs. When Frank Abrams was Chairman of the Board of Standard Oil, New Jersey, he defined the major responsibility of the chief executive as maintaining an

Sales Executives Club of N.Y. 11th annual conference - The New Odds 1971 October 15

equitable balance among the claims of the corporation's various constituencies--including stockholders, employees, customers and the general public. From the end of World War II until the end of the 1960's, both the public and the country's leadership groups felt that the corporation by and large succeeded in achieving this equitable balance. Today, however, the conviction is widespread that the corporation favors the claims of stockholders and the competitive marketplace over the legitimate claims of other constituencies, including the consumer, employees and the general public.

Many executives reject the view that the corporation is not adequately responsive to the demands of the consumer. But right or wrong, the belief that the consumer has legitimate claims other than those which show up in the competitive marketplace is widespread and growing. The public support for consumer advocacy is a fact of life, one set of odds we must confront and take into account.

The new demands of employees for work rewards over and above salary do not yet form a coherent social movement or have a single charismatic spokesman. But the symptoms of widespread discontent with work are everywhere, expressing themselves as dissatisfaction, absenteeism, high turnover, strikes, demands for early retirement, retirement on the job, concern among executives with management obsolescence and other symptoms apparent at every

Sales Executives Club of NY. 11th annual conference - The New Odds 1971 October 15

level of the corporation--blue collar, white collar, and management itself.

The general public's claims on the corporation are a more complex matter. At the present time, these claims are expressed mainly in the areas of preservation of the environment. As sociologist, Dan Bell has observed, no one, however wealthy he may be, can buy his share of clean air on the open market. The environment is, by definition, something we all share. The combined effects of air pollution, water pollution, noise pollution, the despoiling of the landscape, the mounting garbage and litter, the press of population density and the scarcity of natural resources have compositely created an increased awareness of, and concern with, ecology. The concern has grown significantly each year for the past four years, and I project that it will continue to grow in the years ahead.

These various claims of the consumer movement, the ecology movement, the social responsibility of business movement, and the incipient movement for enhancing work conditions, create a new business environment for the 1970's and a new set of odds for marketing. The 1950's and 1960's were great decades for business and great for the country. The country made heavy demands on business and business came through--with a huge GNP, a booming economy, full employment and, for the first time in history, affluence for the majority of people. What the country wanted and

Sales Executives Club of N.Y. 11th annual conference - The New Odds 1971 October 15

what business delivered formed a perfect fit and a perfect balance. Now the country is making many new demands on business, some of them conflicting and even contradictory. Business can't respond to all of them, nor does it have to. But to those of us who have been closely following the political climate of the past few years, it is clear that the major task confronting the corporation in the 1970's will be to achieve a new balance in response to the claims on the corporation of its stockholders, its customers, its employees and the public. To achieve this new balance, we need some new sources of light. As marketers, our strongest light has been focused on the competitive marketplace. This is where the light is brightest and best. But now we must begin to spread the light to the broader social environment.

iv

In conclusion, let me mention two programs our company is launching to move the light a little closer to where the action is. At an investment cost to us of almost a half million dollars we have developed two new multisponsored research programs. One is called the Yankelovich Monitor. This program has been operational for just one year, and today more than 50 companies are sponsors, including many of the companies present today. The Monitor program identifies and measures over 30 broad social trends that have an impact on consumer marketing.

Sales Executives Club of N.Y. 11th annual conference - The New Odds 1971 October 15

The second research program is just about to be launched. It will, in fact, be fielded several weeks from now. We call it Corporate Priorities, the New Demands on Business. In contrast to the Monitor program, it involves interviews with leadership groups such as Congressional committees, state legislatures, institutional investors, trade unions, media and activists as well as with the general public. Its purpose is to help client corporations weigh and balance the various new demands that are being made on them in the name of consumerism, pollution, work, new rights and the social responsibility of business. Both research programs are continuing in character so that trends and shifts can be registered annually. Both of them look at the changes taking place in the country that affect business. The Monitor program looks at changes bearing on consumer marketing; Corporate Priorities examines changes that affect corporate policies in general. Both seek to come to grips with intangibles and imponderables, quantifying where quantification is possible and interpreting where quantification is as yet premature. For us personally, both programs represent the highest expressions of what we as a professional research firm think it is possible to do with the tools at hand. We, too, are struggling to achieve a new balance. We are trying to measure changes in the country that are important to business and to the public and to quantify

Sales Executives Club of NY. 11th annual conference - The New Odds 1971 October 15

these changes, while at the same time steering our way around the McNamara fallacy. For our own sake, for your sake, and for the sake of all those who are working in this same vineyard, I wish all of us success against the new odds. Thank you.