A question that students at Business Schools often ask is – How can a manager accurately predict the probability of success of a new product in the market place? Two observations suggest that a simple answer to this question does not exist. First, even senior business managers, with several decades of management experience under their belts, ask the same question. Second, according to one estimate, over 70% of the more than 33000 new consumable products introduced annually in the United States do not succeed in the long run [1]. Unsuccessful marketing decisions seem more commonplace than successful ones. In this note, I draw on the judgment and decision-making literature to explain why making a good marketing decision can be often a tricky challenge even for very smart managers.

Nobel laureate Kahneman and his colleagues [2] suggest that many of the failures in managerial decision making occur on account of the inside view to business projects. The inside view is a singular case-specific judgment. It entails making a prediction or a judgment based largely on the strengths and weaknesses of the specific project. The outside view to the problem, in contrast, is not based on the strengths and weaknesses of the particular project. Instead, it is based on the known outcomes for a class of similar projects undertaken in the past. The outside view is distributional because it entails laying out a rough distribution of outcomes for similar projects, and then making a managerial judgment for the current project based on that distribution.

The following example presents a lucid illustration of the distinction between the inside and the outside views to a judgment task. In the first class, I often ask my students to predict their chance of getting an “A” in the course. Students are asked to anonymously indicate their judgment of a piece of paper with score between 0% and 100%, where zero percent indicates that the student is certain that he or she will not be able to get a “A” in this course, and 100% indicates that the student is certain that he or she will be able to get an “A” in the course. A vast majority of the students overestimate their grades. This over estimation occurs because their grade predictions are based on an inside view of the judgment task. They overweight individual specific factors like the amount of hours that they plan to devote to this course, the extent to which they like the subject matter, etc. Such cognitive biases in judgments are not restricted to students. Empirical research on the psychology of judgment and decision making suggests that inaccurate predictions based on such inside views are pervasive in all walks of life. For example, one study found that 94% of college professors say they do above-average work, which is a statistically impossible claim [3]. How could the students in my class have made a more accurate prediction of their grades? Well, instead of relying on their optimism, they could have based their predictions on the distribution of their grades in similar courses offered in the past. For example, if a student had received 5 B’s, 1 A’s and 1 C in the past year in similar courses, then based on this distribution it would be safe to predict that his likely grade will be “B.” Such an approach would be an example of a judgment based on the outside view to the judgment task.

I chose the above example because it makes apparent the limitation of the outside view. The outside view assumes that the status quo will prevail. It is based on a passive view of the task at hand. Visionary leaders who attain unprecedented success are not fettered by the status quo. In fact, it is their ability to drive innovation and change past trends that makes them visionary leaders. Leaders like Bill

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1 Professor Manoj Thomas (Cornell University) prepared this note to facilitate conceptual clarity and stimulate class discussion. Please do not circulate without the author’s prior permission
Gates, Steve Jobs and Richard Branson owe their successes to the fact that they dared to go against the prevailing trends. In a similar vein, a motivated student can disregard statistical extrapolations based on historical averages, and can achieve an “A” in any course if he or she is passionately committed to the goal.

However, it might be useful to start with a realistic prediction based on the outside view, and then see how to attain the more optimistic prediction that is based on the inside view. The ubiquity of optimistic biases in judgments and the concomitant mispredictions of the chances of success indicate a general propensity to ignore or neglect the outside view. One reason for the widespread propensity to neglect the outside view and overweigh the inside view could be unawareness of the bias. Managers often are unaware of the influence of the cognitive biases induced by the inside view. Even when they are vaguely aware of the wishful optimism in their decisions, they might not know how to overcome the bias. Some of them might erroneously believe that relying on external agencies such as market research organizations and business consultants can free them from the cognitive biases imposed by their inside view.

While formal models of prediction and quantitative analyses can reduce the optimistic bias induced by the inside view, they might not always generate accurate predictions. The accuracy and relevance of the quantitative analyses provided by market research agencies and business consultants are contingent on the astuteness of the questions posed by the manager. If the manager does not identify the appropriate distributional reference, then even judgments based on quantified market research findings could be limited by the shortcomings of the inside view. An instance of such a judgment would be a recommendation to launch a new product based on the finding that 75% of the sampled respondents indicated that they like the product, and that they will consider buying the product. An outside view to this judgment task would require that this information be evaluated based on the distribution of success rates for products with similar purchase intentions in the past market research studies. For example, if the research firms’ experience with similar product reveals that around half the products with purchase intention of 75% or above failed to achieve their targeted market share, then the managerial decision to launch or not launch the product should be based on the information about the reference class of events, rather than on the fact that 75% of the sampled respondents indicated that they like the product.

A good marketing decision relies on both the perspectives – the inside (singular) as well as the outside (distributional) views - to the business problem. The outside view offers a realistic estimate of chances of success, and prompts the manager to ask the right questions, and to take all preventive measures to avoid failures. It can help managers to weed out projects that thrive on emotional attachment and hubris. However, effective leadership also calls for the inside view. The inside view draws on intuitive wisdom and charisma to create an inspiring vision for the organization. Just as the inside view could encourage some students to actually perform better than their historical average, in the organizational context it can induce creativity and can encourage managers to introduce path breaking innovations. The challenge, then, is to find the right balance between the two approaches – distributional and singular – to probabilistic judgments.

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1 www.ProductScan.com