Using Adaptive Decision-Making in Customer Management

Key Concept
How do managers make decisions related to customer relationship management? This Idea looks at research that shows that the majority of managers are adaptive in their decision-making, and those that demonstrate the highest accuracy in their decisions also employ “fast and frugal heuristics” – i.e. rather than using careful analysis of information, they use experience-based techniques for problem solving.

Idea Summary
Customers are considered a firm's most important asset, and acquiring and retaining them is a vital concern for managers. But how exactly do managers make customer management decisions? According to the University of St. Gallen’s Dr. Johannes Bauer and his fellow researchers, little is known about the decision-making processes of individual managers when they are faced with important questions concerning how to hold on to customers. In a paper published in the Journal of the Academy of Marketing Science, Bauer et al suggest that managers are adaptive in their decision-making and some also successfully use “fast and frugal heuristics.”

The latter is the idea that people use simplifying rules to come up with smart decisions quickly (fast) and with a limited amount of information (frugal). Previous research has suggested that the accuracy of this simplified way of making decisions is in fact worse than predictions made by chance. However, in this study, the researchers found that making fast decisions and perhaps ignoring seemingly irrelevant pieces of information increases predictive accuracy. The more experience managers have, the more likely they are to use such fast and frugal heuristics.

They also found that managers who underestimated the quality of their decisions were the most accurate.

Methodology: Bauer et al conducted their study with 49 sales managers working in the retail banking division of a German bank. The managers were directed (via email) to a self-programmed website where they were presented with three typical customer management prediction tasks. They were randomly assigned to either a low or high complexity condition, and each task examined the managers’ searching and problem-solving strategies. Managers in the high complexity group experienced less ease with the tasks than managers in the low complexity group. More than half were adaptive in their decision-making, but this did not impact predictive accuracy; however, usage of fast and frugal heuristics was associated with higher predictive quality and accuracy.
Business Application
By understanding the factors that drive good decisions in customer management, executives can improve decision-making which can ultimately increase the lifetime value of their customers.

The findings of Bauer and fellow researchers suggest that being too confident can negatively affect decision quality and thus harm customer relationships. In order to reduce overconfidence, timely and precise feedback is suggested as an effective tool, as well as asking managers to think of reasons why their opinions or estimates might be wrong.

Though this study focused on customer management decisions, the researchers believe their findings may also have implications more generally for managerial decision-making. Complex investment decisions, for example, also demand the processing of a large amount of information from sources such as financial statements, annual reports, etc.; here, fast and frugal heuristics could be beneficial in helping executives trust their intuition about which information is important, rather than process all the available financial data.

Further Reading

Further Relevant Resources
Johannes C. Bauer’s profile at the University of St. Gallen
Vicki G. Morwitz’s profile at Stern School of Business
Russell S. Winer’s profile at Stern School of Business
University of St. Gallen Executive Education profile at IEDP
NYU Stern School of Business Executive Education profile at IEDP

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