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Distribution & Pricing Techniques

THE EXECUTIVE SUMMARY

Decision Making

Few aspects of business have been studied as thoroughly as the management decision making process. Harvard, Stanford, Wharton, et al have studied this subject extensively and published their findings.

When reviewing their findings and those of organizations that have studied military decisions, two critical issues emerge; the importance of knowledge/information and the role that emotions play in the decision making process.

Knowledge and information reduces the risk in decision making. That's easy.

The influence of emotion on decision making is much more complex. Emotions are hard to control. Worse yet, many executives are skeptical that emotions really influence their business decisions.

The personal investment behavior of most executives reveals the influence that emotions have on the decision making process. For example, executives know that the best time to buy stock is when the market is in a "panic" mode. That's when the share prices of good companies are driven down far below their real value. This knowledge, however, rarely changes their investment behavior. This is because the negative environment that surrounds a downturn in stock prices typically produces fear. It's simply hard to make a rational decision when influenced by fear. Recognizing and controlling one's emotions, primarily fear and greed, are critical to good decision making.

Today food, energy, and many commodity prices are at all time highs. Additionally, the subprime mortgage debacle is still haunting the U.S. economy. There is certainly plenty of bad news including the apocalyptic scenarios offered daily by TV analysts. Controlling one's emotions in this environment is very difficult and requires perspective. To put today's environment of "bad news" in perspective, let's examine several "real" problems from the past.

- **1963 Cuban missile crises.** Ships carrying Russian nuclear missiles were headed for Cuba

and the threat of a nuclear war appeared eminent.

- **1968 Martin Luther King riots.** Major portions of Chicago, New York, Newark, Cleveland, and Los Angeles were burned to the ground by rioters and stores looted. National Guardsmen patrolled the streets in armored vehicles and federal troops were deployed at the airports.
- **1963 – 1973 Vietnam War.** 55,000 Americans were killed. The Democratic National Convention degenerated into a bloody riot. University ROTC buildings across the nation were bombed by anti-war radicals.
- **1973 OPEC oil embargo.** Oil to the U.S. was embargoed for six weeks creating lines at gas stations, economic dislocation, and eventually wage and price controls.
- **1980-81 Hyperinflation.** The U.S. prime rate reached 20.5%, a 30-year fixed mortgage averaged 15.5%, treasury bills and notes paid 16% to 17% interest, and the CPI reached 14%.
- **1988-89 S&L crises.** Hundreds of savings & loans were shuttered in many states. In the Southwest (New Mexico, Arizona, etc.) not a single savings & loan remained.
- **2000 Stock market crash** (yes crash). The Dow plunged 46%. The NASDAQ lost over 50% of its value, much of which it has never recovered.
- **Oh yes, 9-11, Katrina, etc.**

The Point. Emotions, even fear, can be healthy at times. Putting them into perspective, however, is critical to good decision making.



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