

Projection vs. Prediction

6 July 2009 by Matthew Manna

Basing future expectations on past events is silly. Why? Because the future is a certainty but what happens in the future is not. Everyone who has watched their favorite basketball player score 18 points in the first quarter of a game, only to wind up with a total of 23 points at the end, understands this.

In business, basing the future on the past is more than silly. It's dangerous. The word that most exemplifies this danger is projection. There is another similar sounding word often equated with projection. That word is prediction. But projection and prediction do not refer to the same thing. In fact there is a vast difference between them. Let's take a look.

Projection is about applying mathematical analysis to past customer behavior. That's easy. Prediction is about parlaying with anticipated customer behavior. That's hard.

Suppose you are in control of an established luxury car company with steady but stagnant sales.

Statistical research indicates that cars above a particular price point sell in quantity X. Below the price point X+ number of cars sell. You decide to go for the X+ price point. Because of your mathematical adroitness you "know" the increased number of cars sold will make enough real profit dollars to compensate for the projected decrease in profit margin. Perhaps your company builds a less expensive car, one that keeps costs in line with the current profit margin and provides the magical X+ units sold price point. Either way the math path seems clear - offer an inexpensive luxury car and you're on the road to good times. It won't happen. In fact it didn't happen - just ask Jaguar. Why? Because customers are motivated by stories not mathematics and a low price point is in direct conflict with the luxury car story.

That one was easy. What kind of remodeling needs to be done to keep up with changing environments? Hint: math can't provide the answer.

Suppose you are the owner of a specialty picture frame

store. Statistical research confirms an exponential increase in the number of pictures taken due to the existence of disposable and digital cameras. A decrease in the cost of making prints and the ubiquity of self-serve print making kiosks has [predictably] increased the number of prints made each year. Yea - it's good times ahead! If X specialty frames were sold before the digital self serve era then X+ will be sold after. Wrong! The stuff that tickles a customers "special" gene changes when pictures are taken as commonly as breathing and printed as plainly as pushing a button.

Digital cameras and self-serve print making has changed the environment. Disposable pictures require disposable frames, (frames that are readily available for use and re-use as required), specialty they ain't.

To be sure, there are still pictures recognized as something distinct and permanent in comparison to others. But the environment in which pictures are taken and frames are sold has changed. If you limit your offering to specialty frames, customers will go elsewhere. And they will stay there until the next environmental change.

The key to prediction is to recognize that success is determined by customer behavior not mathematics. In the case of luxury cars, that means a price that supports a luxurious story. In the case of picture frames, that means frame stores that parlay with the digital self-serve era.

Authors note: Ron White is a funny and famous comedian that does a bit on the difference between an antidote and an anecdote. "If I knew the difference between an antidote and an anecdote my camping buddy would be alive today." The idea for this column came from White.

Confusing similar sounding words with very different meanings is funny when presented in a comedic environment. In a marketing environment, confusing similar sounding words is tragic.

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