DATA, MODELING AND DECISIONS

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Abstract

Past experience with models—and related methods of analysis—may be an inadequate guide for managers considering a use of new tools now available. The latter viewed as multiple-variable systems models, may differ in their data requirements and decision possibilities in comparison with predecessors that could handle only a few variables at a time. In approaching these new tools it is desirable to consider using the models as guides to data collection as well as decisions. This refers not only to data variety but also to data quality as judged by reference to the model itself. It may then be possible to eliminate needless expenditures of time and money on collecting or refining data.

It is also desirable to consider integrating the modelling and decision making. Evaluations may then be secured which can guide alterations to the model and also open new decision possibilities which would otherwise not be apparent. The value of such a joint approach to data, models and decisions is examined and illustrated in the following article with special reference to media mix and new products marketing applications.

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INTRODUCTION

Management science, operations research, systems analysis, and related computer-aided applications, have already demonstrated their value in many areas of management. Production scheduling and inventory control, procurement and transportation scheduling as well as facilities evaluation, financial planning and accounting, and capital budgeting are instances that come readily to mind.

It is not the purpose of the present paper to extend and document the ever growing list of such applications. Instead, we propose (a) to draw upon this background of prior experience (b) join it with like (but relatively recent) experiences in marketing in order (c) to delineate some general propositions which might be of value for guiding or assessing further uses of these ideas in marketing.

When concreteness is regarded as a desideratum two sets of marketing examples will be called upon for specific illustrations: (1) uses of "linear programming" to determine optimum media mixes as these have been developed from the work originally undertaken by D. B. Learner and Milton Godfrey and their associates at BBDO and CEIR, respectively; 1/ and (2) extensions and use of the ideas of "chance-constrained programming" such 2/ as are now embodied in DEMON, a model designed for use in marketing new products.


2/ See the papers by T. Dillon and by D. B. Learner and J. K. DeVoe for further remarks that are pertinent to DEMON and its areas of application. Underlying technical reports have been submitted for publication in future issues of Management Science and, pending such publication, these reports may presently be secured from BBDO's research division in New York.
No attempt will be made to supply simplified examples such as might be contrived to provide conceptual insight into management science constructs such as chance-constrained and linear programming. The latter is not the purpose of the present paper. Its purpose is, rather, to suggest a variety of propositions that bear on the activities of data gathering, modeling and decision making as these might be undertaken with the systems models that are at issue here. For instance, insofar as it is accurate to say that current practice distinguishes sharply and separates these three activities and, more particularly, insofar as data gathering (including forecasting) is accorded a first priority in time, then we shall want to argue that this separation is itself a reflection of a given managerial technology. This is not to say that existing divisions between these activities are not warranted and perhaps even necessitated by the managerial technologies now being utilized. It is only to say that recourse to a different managerial technology may well be accompanied by different needs or opportunities.

In summary, then, the purpose of the present paper is to supply some general guides for consideration when actual uses of management-science, systems constructs are being considered. It is not supposed to serve as an introduction to such concepts per se. Its main concern is with the

3/ E.g., as set forth in company manuals designed to guide or govern the conduct of their market research.

4/ A more precise characterization would distinguish these as "systems models with explicitly stated optimizing objectives." See, e.g., A. Charnes and W. W. Cooper, Management Models and Industrial Applications of Linear Programming, New York, John Wiley and Sons, Inc., 1961, Ch. 1.

activities of data gathering, modeling and decision making. The DEMON and media mix models will be used for illustration, where possible, and further support will be obtained, where necessary, by reference to experiences distilled from other (non-marketing) applications.

SOME "MANAGERIAL" PROPOSITIONS

It is doubtful, of course, that a complete separation is ever effected in actual practice relative to data collection, modeling and decision making. It is also doubtful that data assembly (including forecasting) is always accorded a first-in-time priority. Nevertheless, there are important issues of emphasis as may perhaps be seen by considering propositions such as the following:

1.1 When systems models are to be utilized, data assembly, modeling and decision making should be treated as an interacting and continuing integrated process.

1.1.a. Pertinence to the model's requirements should be established before extensive programs of data assembly and treatment are undertaken. Pertinence should, in general, be judged relative to overall model properties rather than with reference to components in isolation from the total model.

1.1.b. Model synthesis should be guided by reference to the economy and feasibility of securing the data that are really essential for its implementation. In particular, sensitivity testing and like devices should be employed as part of the process of model development.

1.1.c. Decision consequences should also be constantly explored as new possibilities emerge in the process of model synthesis. Initial problem statements and existing statements of policy, company objectives, etc., should be regarded as binding only after their consequences have been explicitly evaluated in the light of model developments.

6/ Perhaps we should emphasize that much of this is based on our own personal experiences.
1.1.d. Data gathering, modeling and decision making should be regarded as a continuing dynamic process rather than as a process which can be completed or perfected once and for all at some scheduled time.

Remarks: Consider some of the experiences with media mix. Initially, all efforts devoted to these models were directed only to securing a mechanism that could effect a best (or optimum) selection among alternative media combinations. Computational byproducts in many cases, however, came to be viewed as having great significance in their own right. Such byproducts made it possible to locate areas or ranges of data refinement which might be pertinent and to distinguish these from many of the other possibilities where alteration or improvements in the underlying data were not likely to affect the decisions that were at issue. They also made it possible to evaluate the consequences of particular policies and requirements that had been previously formulated and imposed without considering in all detail how they might interact and produce untoward results in other parts of the total system. Cases in point involved such things as (a) the same total advertising budget would produce better results if "massed" rather than "flighted" expenditure spreads between periods could be utilized and (b) overall increases in both reach and frequency could be obtained by only slight relaxations in policies that stipulated minimal uses of configurations of some media vehicles. Still other illustrations could be cited and, as might be expected, these uses have also supplied insight which is guiding the model alterations and data assembly programs that are now under way.

1.2 Allowance should be made for extending models beyond the confines of an originally specified area of problems. Such considerations should enter into both the choice of problem areas and the modeling techniques to be employed especially when a series of management science applications is first being initiated. Otherwise the

7/ E.g., as measured in REU's = Rated Effectiveness Units.

8/ See, e.g., J. K. DeVoe, op. cit.

9/ It is perhaps of interest here to cite a recent report on the use of linear programming for determining the joint costs of refinery products whereas, at the outset of such applications, some oil companies formerly required these costs to be figured by other means prior to effecting a linear programming implementation of their refinery schedules. Cf. Business Week, May 29, 1965, pp. 135 ff.
power of these techniques for integrated approaches over a total problem complex may be lost. Also, needless expenditures may be incurred as a result of having to initiate completely fresh starts in each new area of application.

Remarks: New products marketing was selected as a focus for the DEMON developments because it was believed that the phenomena and problems that were likely to be encountered in this area would also be common to many other areas. The methodology embodied in DEMON was also developed so that it could be readily adapted for use in other contexts as well. If, for instance, a dynamic media mix model could be justified by extending measures such as reach and frequency to their likely consequences on sales and profit then the DEMON methodology could be used to improve current approaches to media mix in these dimensions as well.

SOME "TECHNICAL" PROPOSITIONS

In order to clarify the import of what has now been covered it is necessary to consider some further technical propositions which are also pertinent to issues of data gathering, modeling and decision making. Here again references are to systems-optimization models of a management-science variety—but in a loose, rather than strict, sense as will perhaps be evident from the following formulations:

2.1 It is often useful to distinguish between the problems at issue and the models to be employed. For instance, merely because a problem is "nonlinear" it does not necessarily follow that the model must also be nonlinear. On the other hand, an undue emphasis on distinctions between "qualitative" and "quantitative" aspects of a problem can be misleading and possibly even frustrate creative possibilities for dealing with important aspects of a total problem.

2.1.a. Reference to auxiliary principles such as optimization guides and constraint alterations, along with a suitable array of artifacts may be all that is required to accommodate the supposed nonlinearities. 11/ Approximation

10/ I.e., their "probabilistic consequences."

techniques should, of course, also be considered and so should the choice of solution methods. In particular, due care should be given to the properties of different solution methods for their bearing on the models that might then be utilized. 12/

2.1.b. Various indirect methods have been developed for dealing with intangibles such as "goodwill", "customer" or "employee morale", etc. One method proceeds via a backward development. These items are first omitted from the model. Subsequently, the consequences of altering the solution in order to accommodate such intangibles are then explored. 13/ In this way the known quantitative aspects of the model may be used to evaluate the possible ranges of values that might be assigned to such qualities as "goodwill," "morale," etc.

2.1.c. It is desirable to bear in mind the distinction between figures of merit and the programs with which they are associated. 14/ This will then invite exploration of possible model equivalences as alternative routes for securing solutions to problems with nonlinear or qualitative features. 15/

12/ This has elsewhere been called "algorithmic completion of a model" in order to emphasize that solution methods may best be considered as an integral part of model development—at least when actual applications are at issue. See the reference cited in the preceding footnote.

13/ This was, in fact, the method used in the first reported application of linear programming to the problems of an American industrial firm. See A. Charnes, W. W. Cooper and B. Mellon, "Blending Aviation Gasolines—A Study in Programming Interdependent Activities," Econometrica 20, No. 2, April, 1952, pp. 135-159.

14/ Recall, for instance, that the same program may be optimal for many different figures of merit. See, e.g., the reference cited in footnote 4 , supra.

15/ A case in point was the use of sequences of "linear rules" to minimize unknown and difficult-to-measure costs of production and these same rules possessed the property of stabilizing employment. To state the matter differently, if the objective had been to evolve schedules that would stabilize employment "as much as possible" then these same cost minimizing rules would (equivalently) have accomplished this. See, e.g., Chapter XI in the reference cited in footnote 4 , supra.
Remarks: The problems dealt with by DEMON are, in general, nonlinear. Nevertheless, a suitable combination of the above devices can be used in ways that make it possible to deal with these via ordinary linear programming models and methods. 16/

2.2 The need for distinguishing forecasting as an activity that is separate from other parts of modelling and decision making should be carefully reconsidered.

Remarks: This is not merely a matter of weighing costs against assumed benefits. In some circumstances improvements in a forecast may worsen the attendant decisions. 17/ Even when this -- perhaps extreme--possibility is not present, improvements in decision rules may yield net benefits which exceed those that are attainable from better forecasts. 18/ A "good" decision rule should, of course, take error possibilities into account. In any event, forecast improvements and decision rule possibilities should be jointly and simultaneously considered and for this purpose it is well to consider their simultaneous incorporation into the models that are being synthesized. 19/


18/ Cf., e.g., the paint factory study discussed in C. C. Holt, F. Modigliani, J. F. Muth and H. A. Simon, Planning Production, Inventories and Work Force, Englewood Cliffs, N.J., Prentice-Hall, Inc., 1960, pp. 23 ff: "It is worth noting that the cost saving attributable to use of the [mathematically formulated] decision rule is greater than the additional cost saving that would be secured by the complete [italics supplied] elimination of forecast errors. Perhaps forecasting future orders accurately isn't as important as has commonly been thought.... Judging by this particular factory and period, making best use of crude forecasts is more important than forecasting perfectly."

19/ This was, for instance, an explicit consideration in the DEMON designs.
SOME FURTHER OBSERVATIONS

Other features of model assembly, data treatment and decision making might also be commented upon for their bearing on ways of using some of the newer developments in managerial technologies. Thus, in a less formal vein, it may be useful to consider the following quotation from the writings of one company president:

"...I have learned that the quality of our decisions is in direct ratio to the quantity and quality of assimilable data--with the emphasis on the word assimilable because, if the volume of data is so great that it cannot be assimilated, then the data are useless."

From another standpoint, this might be rephrased as a challenge to develop improved ways of exploiting data that might otherwise not be assimilable. This, presumably, is the task undertaken by management scientists, and others, concerned with improving the existing machinery of management.

Consider, for instance, the area of new products marketing as the context in which DEMON was developed. Often there is a plethora of data which might be used in different ways. The results of one study may, for instance, point to the need for a further study. When the latter is executed--or at least when a whole sequence of studies has been executed--there is no machinery conveniently available for assembling and exploiting all of the accumulated study results. Another way of making the same point is to say--with only slight exaggeration--that the limitations of currently employed methodologies make it necessary to ignore the results of previous studies in order to focus on assimilation of the last one that has been executed.

Note, then, that it should be one task of a well designed model to assimilate and exploit all pertinent features of such previously executed studies. Further study possibilities should then also be examined from the standpoint of what they might cost as well as what they might add to the decisions that are at issue. Similar remarks apply, of course, to the choice of estimators, forecasters and other such statistical devices. All such choices and possibilities should be judged relative to the main objective. On the other hand, as already noted, initially stated objectives and other kinds of stipulations should be reviewed and evaluated as new possibilities are opened since these, too, might not have been fully considered for all of their interaction consequences.

These were the kinds of considerations that were used as explicit guides for the DEMON design—viz., the development of a decision model which could guide data choices and treatment as an integral part of the decision-making and review machinery. At this point it is necessary to say, however, that DEMON is only now emerging from the laboratory tests that were deemed to be a desirable preliminary to its use in actual practice.

SOME CONCLUDING REMARKS

The models examined here may be characterized as members of the class of systems models with explicitly stated optimizing objectives. Recourse may

21/ F.g., the limitations of an initially imposed study budget.

22/ For instance, the reductions in profit possibilities that attended the use of very tight "paybacks" were found to be quite serious in certain past cases that were studied with DEMON.
also be had to other approaches such as those which are sometimes referred to as "heuristics" or "simulations." These might be considered as possible alternatives to the approaches suggested here and, of course, there are even further possibilities which can be formed by appropriate weddings of optimizing and other types of models.

The existence of such possibilities is itself a good omen for the further growth and development of management science in the future. It also offers wider opportunities to management. At a minimum it offers management an opportunity to challenge and improve (without necessarily abandoning) its existing practices. A really prudent management will not only seize this opportunity for challenge and improvement at the present time, but also continue to utilize the new opportunities that the further developments of management science may continue to supply.

23/ Examples and further discussion may be found in A. Charnes and W. W. Cooper, *Management Models and Industrial Applications of Linear Programming*, New York, John Wiley & Sons, Inc., 1961. See, for instance, the example of an N-person game (optimization) model to guide traffic simulations for use in the design of a city street network as discussed in Volume II, pp. 785-798.