

“Innovation is not a democracy. How consumer concept testing impacts the capability of fast moving consumer goods companies to generate truly innovative products”

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ARTICLE INFO	Gregor Gimmy and Mònica Casabayó (2008). Innovation is not a democracy. How consumer concept testing impacts the capability of fast moving consumer goods companies to generate truly innovative products. <i>Innovative Marketing</i> , 4(2)
RELEASED ON	Thursday, 03 July 2008
JOURNAL	"Innovative Marketing "
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

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Innovation is not a democracy. How consumer concept testing impacts the capability of Fast Moving Consumer Goods companies to generate truly innovative products

Abstract

Great companies often exist because a visionary invented something really new that was really useful. As companies grow they eagerly continue to look for more truly novel offerings to stay on top of the “delight scale” of the people they serve. In the Fast Moving Consumer Goods (FMCG) sector, truly novel offerings are a rarity. Product innovation is key, extremely hard to achieve and getting harder every day. To help ease the hardship of innovation, consulting and research normally extend over an entire system or process of innovation, i.e. the idea discovery or execution process. In contrast, in this article we will drill into a single, yet mission-critical moment within the innovation process that has received little in-depth attention: the decision about which truly innovative product ideas or concepts to fund.

Keywords: consumer behavior, product innovation, marketing research.

Innovo ergo sum / Introduction

Great companies often exist because a visionary invented something really new that was really useful. Nowadays, it's the likes of Messrs. Jobs and Brin; decades ago, it was Messrs. Gillette, Eastman and Kellogg which inventions became the pillars of global enterprises. As companies grow they eagerly continue to look for more truly novel offerings to stay on top of the “delight scale” of the people they serve¹. For this reason they spend heavily on R&D and new product marketing, depending on the industry, from 2% to over 15% of revenues². In the Fast Moving Consumer Goods (FMCG) sector, these billions³ however seem to have little impact. Truly novel offerings are a rarity. Or, when have you last seen a life changing innovation on the shelves of your supermarket? More specifically, of over 33 thousand new consumer packed goods launched in the US in 2004, less than 7% were classified as “innovative”. In 1986, 18% were.

These figures are only a small excerpt from numerous studies that highlight a well-known fact: product innovation is key, extremely hard to achieve and getting harder every day. To help ease the hardship of innovation, consulting and research normally extend over an entire system or process of innovation, i.e. the idea discovery or execution process. In contrast, in this article we will drill into a single, yet mission-critical moment within the innovation process that has received little in-depth attention: the decision about which truly innovative product ideas or concepts to fund.

It may come as a surprise, but what we have discovered⁴ is that the consumer, not the company, is the real ultimate decision-maker of innovations. And this innovation democracy causes serious problems. In our view, it represents the Achilles heel of innovation, particularly when aiming for the most valuable degree of innovation: new products or those that are new for the company and the consumer⁵. To illustrate the gravity of the issue, we will explore the following considerations: How does testing and decision-making for product innovation work in today's FMCG? Is that decision process sound and inline with management principles, and adequate for today's market situation? What is the impact of innovation democracy on a company's innovation capability, in particular, to accomplish truly new products? To conclude, we will present actions to improve decision-making.

The idea and changes discussed here will certainly not become the panacea of innovation. They however may very well become the tipping point⁶ or represent these little things, which can make a big difference to the innovation engine of a FMCG company.

1. The paradox of idea selection

It is taken for granted that managers are the ultimate idea selectors and decision-makers in product innovation. Who if not the senior manager should be in charge of the millions of dollars needed to take an idea to market. However, it is common practice in FMCGs and has long been established in marketing and new product management theory that a negative consumer test should stop new product projects⁷.

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¹ For the importance of innovation with high level of newness, also see Kotler (2005), Leonard (1997).

² Global R&D Spend, Cientifica Survey 2005.

³ FMCG spends on between 1 to 5% of turnover on R&D. Source: Global R&D Spend, Cientifica Survey 2005, and Sennse Innovation Consultants research of financial statements of leading FMCG companies.

⁴ Based upon consulting project experience and ongoing research conducted by Gregor Gimmy and Mònica Casabayó.

⁵ For definitions of newness categories, see Booz, Allen & Hamilton (1982).

⁶ See Gladwell (2002).

⁷ See Kotler (2005).

Isn't this a paradox? Executives decide, but a negative consumer test stops the project! Hence, is the company really in charge? We find, when considering how test results are used, that the final decision is actually delegated to consumers. Executives no longer actively take the decision. They have transformed into passive lawmakers and judges: they create test procedures (the law), they make sure these are followed, and they approve the final test results. If a test is negative, the project stops. Period. Now, some high ranked judge may overrule the vote, but the practical decision power remains with the consumer.

In conclusion, the consumer, not the company has in practice the final say. The decision power is with the common people, just like in a democracy.

2. How consumer tests, sorry!, referendums, work

Before exploring how consumer democracy impacts innovation capabilities, let's take a closer look at why and how FMCGs test new product ideas, and how they take decisions based upon the test results.

Testing is a mere tactical action-item on the innovation to-do list, just like patent research or new product cost analysis. It is however an indispensable task. All FMCGs test new product ideas with the ultimate goal of deciding if a new product idea or concept is worth the funding required to take it to market. In particular, they test the ideas for new products, those that are new for the company and the consumer¹. This is because these demand the highest investment in new technology, production ramp-up and branding while bearing the highest consumer adoption risk².

During the product innovation process, FMCGs conduct multiple types of tests of multiple objects, such as the product idea or concept itself, the new production line, the marketing campaign and so on. We concentrate here on testing that happens during the core innovation process, which starts with idea generation and ends just prior to market testing or after product development. More specifically, we center on concept testing (see Fig. 1). Concepts are representations of a product idea describing its function, features and characteristics through sketches and or prototypes³. After idea generation, an internal screening determines which ideas to transform into concepts. To detect the best, FMCGs conduct two major kinds of concept tests: functionality and preference tests.

Functionality tests aim to validate the technological, production, legal and financial feasibility and quality of a concept. We will not discuss these beyond stating that concepts that are not feasible or do not reach a minimum level of quality will generally be disqualified. Preference tests are to decide if a concept will satisfy a consumer need in alignment with the objectives of the innovating company. Preference tests fall into two groups: partial attribute and entire concept tests. Concept attribute tests are to guide and select feature and design alternatives. Entire concepts tests are to decide if a concept is worth pursuing. From here onwards, we will discuss entire concept tests only, to which we refer to for simplicity as concept preference test. These are the cause of our concern.

Concept preference tests come in form of internal assessments and external consumer tests. Internal assessments are of an informal or formal nature, and performed by the idea generators, a new product committee, the innovation project team and or general staff. Informal tests refer to self-evaluations or ad-hoc review activities. Formal tests involve standard procedures during which a committee reviews the concepts. Internal assessments can be voluntary or mandatory, and aside from mere feedback seeking, their ultimate intention is to make a pre-selection of various concepts to determine which, if any, is worth the resources required for the mission-critical preference testing with consumers⁴.

Concept preference tests with consumers – also known as consumer acceptance tests – are formal and standardized quantitative tests⁵. For new products, and unless the outcome of the internal assessment (or of a functional test) is clearly negative, a consumer preference test is mandatory⁶. For ideas with a very low level of newness, such as minor changes in packaging, it may be skipped. During the test, an empirically representative number of target consumers evaluate concepts by responding to multiple-choice questions regarding several criteria, such as the level of need, perceived value and purchase intention⁷. Depending on the innovation process stage and the product type, consumers appraise the new product by reviewing a sketch, by using a functional prototype, and or by comparing it with other concepts or existing products. Typically, a test takes 15 to 30 minutes per consumer.

A test has failed if it does not reach a minimum percentage of positive votes for all or certain test

¹ For definitions of newness categories, see Booz, Allen & Hamilton (1982).

² Kotler (2005).

³ For concept definition, see Ulrich (2001), Kotler (2005).

⁴ A consumer preference test costs from \$15.000 to \$25.000 per new product idea (Kotler 2005; Sennse Innovation Consultants 2005).

⁵ For detailed description of concept tests, see Dolan (2001).

⁶ See Crawford (1994).

⁷ See Dolan (2001), Ulrich (2004), Kotler (2005).

criteria. The requested minimum varies, and is in general around 50%. Of particular importance is the criterion purchase intention. For example, at a global manufacturer of household products a preference test has failed if less than 70% of consumers

vote that they would probably buy the product. Now the company may decide to stop the project, or to refine the new product idea, concept attributes or test protocol. If the referendum remains negative, the project is cancelled (see Fig. 2).

In the complex world of testing ...

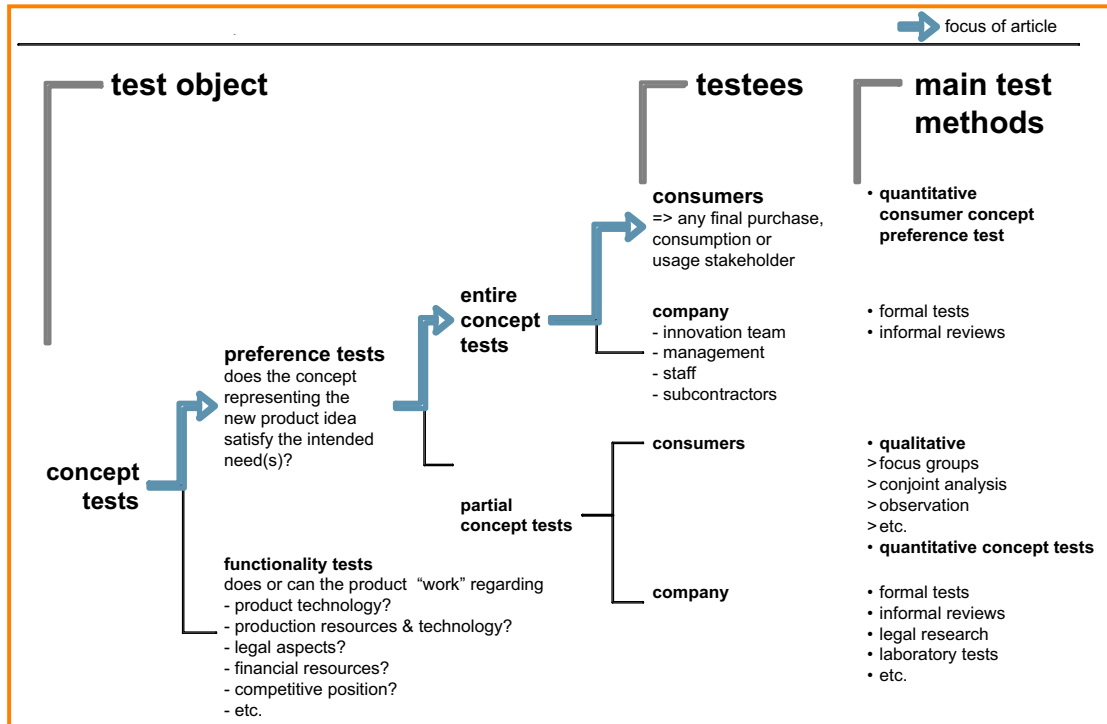
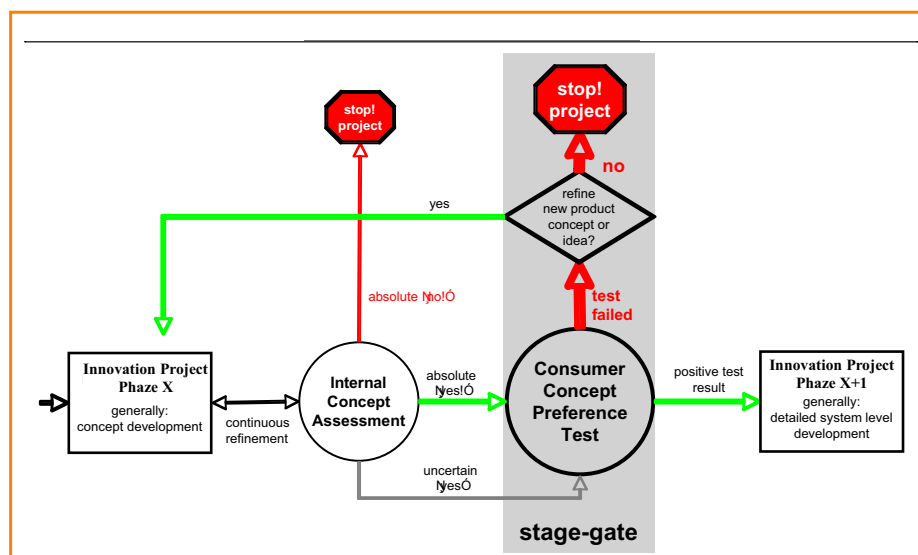


Fig. 1. Overview of concept tests

... what ultimately counts is the approval of consumers



Source: own research & based upon Ulrich and Kotler.

Fig. 2. Concept selection decision process

For example, an innovation team has 100 ideas, originating from a variety of sources, such as brainstorming, idea contests, etc. It will eliminate a large number of

ideas, normally around 70 to 90, through internal screening and create 3 to 10 concepts for each remaining idea. From these, and through internal functional

and preference assessments, the team will further reduce the number of ideas, and pre-select around 5 to 10 worth the investment for consumer concept testing. Being worth the investment means the team is truly positive about an idea and its corresponding concepts.

Occasionally, it will also tests ideas it is uncertain about. For each idea, the consumer votes on 3 to 5 concepts. Concepts that don't reach a minimum test score are rejected. Should all concept alternatives representing an idea fail, the entire idea is dismissed.

Consumers give the green light for innovation

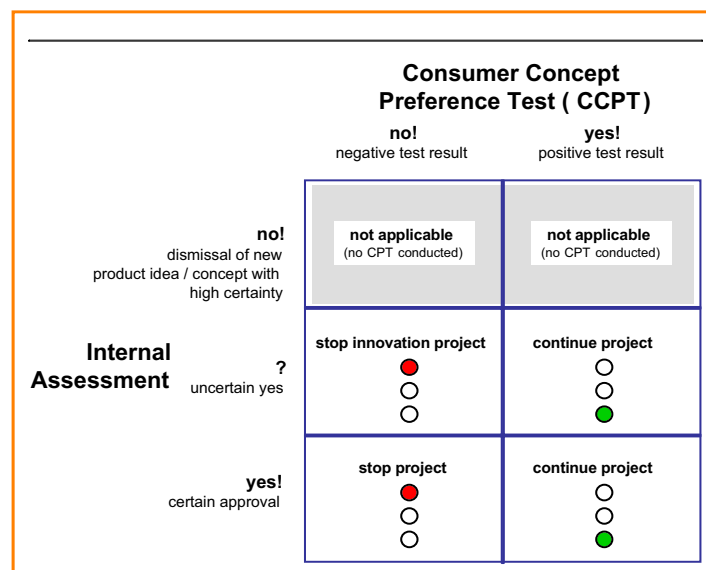


Fig. 3. Concept selection decision matrix

The green light for innovation hence comes from consumers (see Fig. 3), which means that they are in practice the decision maker for new new products. FMCGs therefore treat innovation like a democracy, as the above described decision scenario is analogous to a democratic election process: a democracy defines a decision system whose decision makers are the common people (= consumers). In a democracy, political parties (= the innovation teams) pre-select one or more candidates (= the ideas) through internal selection (= internal assessment). They then communicate (= test session) the character, skills and program of the candidates (= the product attributes) to the people whom the candidate will serve. Following established laws people then vote (= the test protocol) to decide for a candidate. Judges (= executives) validate that the law was followed correctly, so the candidate is legitimated to assume her position (= authorization of further innovation funds). In quite rare occasions, the top judges (= the c-level executives) may overrule the vote. Though this does not alter the fact that the system is a democracy.

3. Why innovation democracy can't work for innovation

The described decision process is firmly established at the core of new product marketing, and has been taught over the last 30 years by academics¹. Neverthe-

less, we strongly recommend re-thinking the role of testing and offer four compelling reasons for change.

1. Consumers are remarkably unqualified decision makers regarding new new products.

"What consumers can't tell you might just be what you need to develop successful new products." With this conclusion Dorothy Leonard states what has become common knowledge over the last 10 years: To discover new products, FMCGs need to anticipate and identify what we like to call non-obvious needs. Non-obvious needs are those people are not aware of, either because they are latent, hidden somewhere in their sub-conscious or because they simply do not exist yet. Non-obvious needs are also those consumers believe are satisfactorily met by other products. As consumers cannot communicate, predict, understand or analyze her or his non-obvious needs, not even by looking at a sketch or using a prototype of a solution that may satisfy it, they are at best opinion providers. They are certainly not (and with all due respect) qualified decision makers. The relevance of non-obvious needs is particularly high in today's FMCG market. In comparison with for example the pharmaceutical sector, the need for new medicine of a so far incurable illness is obvious. However, whether consumers need to boost their defenses through L. Casei Defiensis in a yogurt-like drink instead of the vitamins in an orange juice is not obvious. The satisfaction of non-

¹ To drop innovation projects when consumer tests fail can be found as early as Klompmaker (1976) and Kotler (1984)

obvious needs is highly complex, and depends on many factors beyond the new product itself, and many times beyond the influence of the innovating company. Hence, a non-obvious need cannot be tested, regardless the quality of concept.

2. Consumers require adoption times.

For those not yet convinced, another argument against consumer referendums is the well-known consumer adoption period¹. Given the fundamental human characteristic to resist change, adoption times will always be higher for new products that respond to non-obvious needs than for those with a low degree of novelty and those that satisfy obvious needs. The actual length of an adoption period is meaningless: it is always longer than the duration of the concept test.

3. Even a perfect test will never be good enough.

Still not convinced? Now, let's think about another critical element of decision making: knowledge. Regardless of how perfect the test, consumers will always lack critical knowledge that influences their decision to buy a new product. Yes, a high-quality test conveys price and features, and maybe even an accurate design. However, testees do not know what their friends would do, how the press will write about it, what their favorite internet forum recommends, how the new new product combines with that other new product nobody knows about yet (not even the innovating company), etc. Also, new products change consumption patterns and behaviors, and thus require more learning than a line extension. A test cannot nearly accomplish the education needed to enable a well-informed consumer response.

Furthermore, do we always purchase the same basket of products? The personal situation of consumers has a direct impact on the test results. The same consumer may behave differently in reality than in a test situation depending on her situation. Then, whatever the data collection process used, one should recall that consumers are limited in their capability to predict their own future action or desire, because they do not understand the question, because they don't know how relevant it is, because they do not know the answer, because they are in hurry... etc. This generic weakness of tests becomes especially severe when testing new new products.

4. The manager has the essential business and social responsibility to decide, not the consumer.

As our last bullet, we will recur to the help of Peter Drucker, who in 1963 wrote: "*For his [the man-*

ager's] job the work is very hard, demanding, and risk-taking. And while there is plenty of labor saving machinery around, no one has yet invented a "work-saving" machine, let alone a "think-saving" one". In our experience, this is especially true for innovation, and even more so when attempting to innovate on a high level. Consumer testing cannot be the labor-saving machinery that spares managers from thinking and decision taking.

4. Innovation democracy – so what?

The next natural questions are if FMCGs have serious problems with innovation, and if yes, how much consumer referendums have fueled the problem? Though multiple research claims that there are severe issues, in particular at FMCGs (see Fig. 4), we have not found evidence that directly attributes consumer testing with significant (or any) liability. Executives, academics and consultants point to lots of organizational issues, among which, we have not spotted consumer testing. Actually, a majority of executives declare customer understanding as their strength. Though, not being aware of an issue does not mean it does not exist (executives also have latent needs :). In addition, we venture to state that these questions are rather irrelevant: if consumer democracy is wrong from a management theory point of view, then companies should stop doing it. If it has not caused a crisis already, it will.

Crisis, what crisis? Here some numbers about the state of innovation. Please judge for yourself if there is a crisis. In 1971, research determined that 40% of new FMCG products failed. Today, the failure rates oscillates between 80% and plus 90%². Also, the rate of truly new products among all new consumer packed goods has seriously declined from 18% in 1986 to barely 7% in 2004, according to ProductScan. The rest were mere me2s and line-extensions³. No wonder than that BCG's most current's executive survey finds that nearly 50% of executives are unhappy with the return on their innovation investment, the second most unsatisfied sector being FMCG⁴.

Fig. 4. The state of innovation

A root cause for a serious crisis is, according to Drucker, a change in the fundamental assumptions on which a business is built and run⁵. Such fundamental changes refer in particular to changes of customers' behaviors and values. Now, there is no doubt that people have changed significantly over the last decades. What has not changed is the innovation decision-making process⁶. It is still based upon the incorrect assumption that consumers are

¹ See Rogers (1983).

² ProductScan Report (2005) and Kotler (2005).

³ ProductScan (2005).

⁴ Boston Consulting Group (2006) Senior Executive Innovation Survey.

⁵ Drucker (1994).

⁶ Kotler (1984) provides the same decision process as Kotler (2005).

aware of their needs and that they can relate to a sketch or prototype during a brief and time-restricted test session.

5. Innovation democracy – the Achilles heel of innovation

In our view, innovation democracy has at least five seriously damaging effects on a company's ability to generate successful new new products on a continuous basis:

1. Innovation democracy is an antidote for truly novel innovation.

Providing consumers with democratic decision powers is like throwing sand into your precious billion-dollar heavy R&D and marketing machinery. It drastically reduces an FMCG's ability to accomplish high degrees of novelty, because normal consumers will tend to dismiss a new new product that potentially satisfies a need they don't know they have. If they don't dismiss the idea, they are making a random assumption because, as shown, consumers do not comprehend their own non-obvious needs. Consumers will however tend to vote positively for new things that they can relate to, and these are slightly new products that are close to the current needs that they are aware of. Thus consumer referendums are a recipe for nurturing line extensions, and for keeping your development portfolio free of true novelties, or at best, full of pricey shots into the dark.

2. Innovation democracy fosters innovation lethargy and reduces self confidence.

In addition, consumer referendums generate innovation lethargy in marketing and R&D departments, and reduce the innovation self-confidence required to move wild ideas forward. Energetic innovators – like the energetic brand manager who is full of fresh ideas – will soon notice that the consumer test becomes an important hurdle for really new new ideas. She will soon notice that testing out that crazy idea is probably a waste of her precious budget, due to the risk of not achieving the consumer approval score that management requires. So, why push for that crazy idea in the first place? Who wants to risk scarce resources on consumer tests or collect “no!”s? Consequently, marketing and R&D will drift towards innovating with the current needs of the normal consumer in mind. Or, the focus remains on solving obvious needs, and hence on technological innovation. To untap and to anticipate those latent needs that produce world changing novelty is no longer the central objective; the focus of attention may now shift towards achieving positive test results.

3. Innovation democracy fosters decision lethargy.

Yes, a lot of hard decisions are still to be taken by managers, but the mission-critical go/no-go decision is delegated to consumers. Thus consumer tests become liabilities that hide other causes for new products' failing. Accountability gets diluted.

4. Innovation democracy unnecessarily lengthens time-to-market.

With consumer tests establishing a stage-gate, an innovation project cannot advance without consumer approval. In our experience, this delays critical activities such as engineering, design or production ramp-up for many precious weeks, and sometimes, months. For example, to develop 2 to 4 concepts of an idea of a household product may take between 6 to 12 weeks. The consumer preference test takes around 4 to 10 weeks. The project practically stops during that period, as management will not fund further relevant innovation activities. If the test fails, but the manager believes in the idea, additional weeks will be wasted by re-doing the test without being able to make significant modifications in the product design. Not surprisingly, the average new product development time in FMCG is 27 months, which is high when compared for example to high tech products, such as printers that take on average 24 months to develop¹.

5. Innovation democracy brews dishonesty.

Some managers won't be deterred by any means to push through ideas they blindly believe in. Even if consumers vote “no”, they will attempt to trick the system. We have learnt about ploys as small as manipulating test protocols and as important as making false statements about test results. Even though it is a basic duty of any employee to be truthful, it is also an essential responsibility of senior management to foster systems that enable honesty.

6. The low hanging fruit of fostering innovation capabilities: change your approach to testing

Boosting organizational innovation capabilities is normally a complex and expensive endeavor. Now here is a chance to boost your innovation engine without the need for high investment in R&D or complex organizational restructuring: use your consumer preference tests primarily a source of feedback and inspiration, but never to compel or determine a go/no-go decision. To achieve this, we provide four lines of action.

1. Eliminate consumer preference test results from your decision system for new new products.

¹ See Ulrich (2004).

First and foremost, eliminate consumer preference test results from your decision and stage-gate system. Testing remains important, but its results must not drive the decision. Consumer test results are probably not only an integral part of your innovation process and resources but also your culture. It is thus important to explicitly eliminate test results from forms, protocols and information systems, as well as from people's minds.

2. Define different test protocols and decision processes for different degrees of newness.

Another action item is to create differentiated testing approaches for different degrees of innovation. For m2s and line extensions, test protocols should be substantially different than those for new new products. Regardless the degree of newness, we do not recommend applying innovation democracy to any level of innovation. The test should above all render feedback, not a decision.

3. Boost your consumer knowledge by melting consumer research into testing.

Thirdly, boost your consumer knowledge by melting research into the core innovation process and enhancing your research tool-kit. Tests provide valuable feedback to shape and refine ideas (and to spark new ones) and produces helpful evaluations about concept attributes only if supported by deep understanding of your consumer. By melting we mean to make research an integral part of the innovation process by having R&D and marketing teams conduct it. Normally, the research department engages external agencies to conduct research. This poses serious limitations to the level of consumer understanding due to the difficulty of transferring tacit knowledge. The innovators themselves should define the research protocol, capture the user data and perform the analysis. For this, the innovation team will probably need new research tools, if focus groups and surveys are the standard at the company. This is key because these traditional techniques solely aid the discovery of conscious needs¹ that are – as shown – not relevant to accomplish high degrees of innovation. The new research methods have to produce deep understanding of the sub-conscious, such as ethnography², and be able to discover those needs that are not yet mainstream, i.e. lead user research³.

4. Test the team, not the idea.

Most importantly, the decision for a highly novel idea must be based on the evaluation of the innovation

team that “applies” for funding. Recall the founding fathers of your firm! How much consumer concept testing did they do? Well, probably none! Now, maybe there was no testing back then, or maybe there was no money for it? Yes, maybe, but these were surely not the relevant reasons. Entrepreneurs believe in their ideas, and even when everybody else says *these guys are crazy!* they still go ahead. They don't ask for permission to innovate, in particular, they don't conduct consumer referendums. Consequently, your innovation teams must be highly qualified intrapreneurs. Besides sturdy commitment and untamed enthusiasm for the idea, executives should assess the team's market and technology expertise, experience in past new product projects and innovation success history. Not unlike in the world of venture capital, senior management's focus should be on evaluating the team, not the idea or test. A team that justifies, to any degree, a request for funds with a consumer referendum should have its license to innovate withdrawn.

Innovation is not a democracy ... rather it is an aristocracy! / Conclusion

Consumers are Kings! Yes, absolutely, however, they only rule over the products that are on the market! And yes, the consumer also plays an ever more important role during the new product creation process, and we are all in favor of innovation systems to become more people driven. However, people driven innovation should not be confused with consumers owning or voting an innovation. It should spark creativity and boost the decision power of the innovation team through deep market understanding. Test results should solely serve as guidance and feedback, and should be eliminated from decision systems. Decision powers must reside within the company, and in the particular the innovation team that has proven its expertise. In this sense, innovation is rather an aristocracy, which founded on the Greek word *aristos* means “rule by the best”⁴.

Now, will innovation aristocracy generate better innovations? We are convinced it will, and so is many a founding entrepreneur...

“If I had listened to my customers, I would have given them a faster horse”

Henry Ford

¹ See Zaltman (2003).

² See Leonard (1997).

³ von Hippel (1986).

⁴ The theoretical foundation of Aristocracy begins with the political works of Plato and Aristotle, the two central figures in Greek philosophy. Both felt that Greek democracy had been a disaster; their fundamental problem with democracy was that it put government in the hands of people who were the least capable of making sound decisions. <http://www.wsu.edu:8001/~dee/GLOSSARY/ARISTOC.HTM>

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