

Octoberish, 2004

## We Don't See Things As They Are. We See Things As We Are.

By

Steve Miller

**The Adventure LLC**

253-874-9665

<http://www.theadventure.com>

**(Note from Steve:** In my last Rambling, “*The Death of Float*,” I said that this one would talk about the future event. Well, darn, it turns out it will probably be a three-parter. I started writing this one and it got too long, so this is Part Two of Three. I hope.)

In a presentation at the University of Washington, Warren Buffet said, “*The chains of habit are too light to feel until they are too heavy to break.*”

Buffet was directly referring to the way people handle their finances, but it would be a very short leap to say he was also referring to the way we behave in all aspects of our lives. We get so ingrained in the way we do things, how we see things, and what we expect that we don't realize our habits have actually narrowed our way of thinking and seeing the world.

Like all of us with kids, I've learned great lessons from my daughter, Kelly. Growing up she looked at **everything** through her “New Eyes.” A squishy ball held her fascination for what seemed like hours. A dahlia growing in Kay's garden totally delighted her. The sunbeam threading through the window blinds brought a huge smile as she couldn't figure out why she couldn't grab it.

Kelly had no habits back then. But as she 's grown into a twelve-year-old, I can already see perceptions, attitudes, opinions, expectations, and habits beginning to form. It's only natural.

These habits will also influence Kelly's thinking and behavior as she grows older. It's called heuristics.

Heuristics are decision-making shortcuts everyone develops over time and use to deal with the myriad of daily decisions. They are a method of solving problems or situations for which no formula exists. Without heuristics, we would be lost. Imagine going through each day having to think really hard about every

single decision! What should I wear today? Well, what am I doing today? What would be the appropriate attire for this activity? Do I look good in blue? If I wear a heavy coat in 90° will I be cold? Without heuristics, nothing would get done.

Heuristics are a good thing – most of the time. The bad side of heuristics is when they lead us astray. This is when heuristics influence our judgment to the point of bias.

In the late 1960's and early 1970's, a series of papers by Amos Tversky and Daniel Kahneman revolutionized academic research on human judgment. These papers were eventually published in a 1982 book, ***Judgment Under Uncertainty: Heuristics and Biases***.

If you WANT, you can buy the book for \$35.55 on Amazon.com. But trust me on this – it's not *Bill & Ted's Excellent Adventure*. It's tough reading. Let's just say these two guys are the rock stars of heuristic study.

In Amos and Dan's landmark study, they identified three different heuristics (another was added later by a gentleman named Jonathan Evans.) Two of the heuristics are the *Availability Heuristic* and the *Anchoring & Adjustment Heuristic*.

I could explain these myself, but heck, let's let a true student of Amos and Dan's explain them for us. In a paper titled, *BEHAVIORAL RESEARCH AS AN ACADEMIC PURSUIT: LESSONS FROM OTHER DISCIPLINES AND IMPLICATIONS FOR REAL ESTATE*, William G. Hardin III, Ph.D., Department of Finance and Economics, Mississippi State University, defines them as (stick with me here, there's an important point to all this):

*The **availability heuristic** states that individuals assess probabilities based on their familiarity with a certain task, idea, or environment. Humans attempt to frame a decision based on prior situations confronted and successfully negotiated. Bias occurs because once a task or situation has been perceived in a certain way such a perception is difficult to change. Furthermore, bias occurs because of data retrievability, salience, and illusory correlation. The availability heuristic restricts the formation of more effective heuristics unless feedback demonstrates that bias has been created.*

*The **anchoring and adjustment heuristic** is the last major heuristic defined by Tversky and Kahneman. This heuristic simply means that individuals start at one place in a decision matrix and adjust from that initial point. Individuals try to get "close" and then make adjusts from an initial point by obtaining and using additional information. Bias occurs when the initial anchor is incorrect, insufficient adjustment is made, or there is an overly optimistic estimation of the conjunctive probability. Much of the literature on the decision making process concerns the anchoring and adjustment heuristic as it is the most easily operationalized.*

I couldn't have said it better!

But all seriousness aside, this is important stuff. Essentially Warren Buffett's *Chains of Habit* comment was stating very simply how heuristic bias can cross the line from being a good thing to being a bad thing.

Look ... this is universally applicable to all businesses and industries, but most of you reading this are in some way connected to the events industry – trade shows, exhibitions, conventions, meetings, etc. And I would venture to say most of you have a lot of experience in this world. I often say the events industry is a lot like the circus. We have our own little, insulated community. Everybody knows we're here. Everybody attends some type of exhibition. But until we come to town, not many people pay much attention to us.

And because we aren't front and center on people's minds every single day, we have a problem. As I wrote in my previous Rambling, "*The Death of Float*," trade shows and conventions have historically enjoyed a unique advantage. For a LOT of events, life was easy. If our event was the industry's annual marketplace, then we were the Big Dog. Exhibitors and buyers HAD to be there. People and corporations geared their whole year around the annual event. We could keep overhead low, maintaining margins and cash flow that would make Kenneth Lay drool.

As a result, we developed a heuristic bias about all aspects of events – how they are produced; how they are marketed; how the P&L statement should look; ... all that stuff.

And guess what? Our stakeholders also developed their own heuristic biases. Service providers. Attendees. Exhibitors.

Think about it. What's the big complaint from exhibitors today? "We're not writing orders anymore!" That's coming from a heuristic bias.

What's the #1 reason why attendees come to shows? It's to see **WHAT'S NEW!** That's a heuristic bias.

Service providers and show producers want their annual rate increase (no matter what the industry is doing – after all, aren't trade shows recession-proof?). And the vast majority of service providers and show producers have business models built on operational efficiency. Historically, the supply side of events didn't have to worry about relationship strategies, strong promotion and marketing, delivering superior customer service, customized solutions, database management, brand strategies, personalized communications, and so on, and so on.

The absolute truth of the matter is that many of our Big Dog events are **HAPPY ACCIDENTS**. They are beneficiaries of the opposite of the Perfect Storm. These Big Dogs enjoyed not just the luxury of being the best option for suppliers and customers to get together in one location under one roof once a year ... in many cases they were the **ONLY** option.

Life was good for the events industry. Oh sure, there were notable exceptions – the National Home Center Show, the National Computer Conference, are two ex-

Big Dogs who died quick deaths, for example. There are always exceptions. For the most part, though, we sailed along enjoying the ride.

We even went through a period of Irrational Exuberance in the 1990's. Not only were we enjoying growing attendance and space sales, we experienced our own circus world's version of dotcom mania. Events were being sold for amazing multiples, led by the Biggest Dog of all - COMDEX. In my September 2000 *Convene* column, I expressed heavy concern about the effect this goldrush mentality would have on our industry by comparing this period with the tulipmania craze in Holland in the early 1600's. I felt a legitimate concern and the results showed my concern to be well founded (*despite* what a certain Mr. H had to say). Too many big publishing companies and show management firms who paid those insane multiples are now having real problems. One reader of mine recently sent his own rant about this situation: "*Have you ever rambled about the publishing companies and their CEO geniuses' who bought trade shows for their big margin, took credit for their success, became overnight trade show guru's and then ran like hell when things went bad?*" I have now.

So what does this have to do with heuristic bias and what does this have to do with the FUTURE EVENT?

Plenty.

As I and many other people a lot smarter than me have said: the business model must change. The days of easy money are over and I don't see any reason why they should come back any time soon. The *Death of Float* has seen to that. The new reality is:

***Because of the Death of Float, exhibitors and attendees don't NEED the old trade show model anymore.***

I think a number of very smart industry leaders logically understand this, but because of heuristic bias, it's extremely difficult for us to develop a new business model. To put it simply:

---

**WE DON'T SEE THINGS AS THEY ARE.  
WE SEE THINGS AS WE ARE.**

---

As a result, it's really, really hard for the old guard to write new rules.

This is not exclusive to our industry:

- IBM owned the computer industry before the PC market exploded. They tried to incorporate PC's into their main frame-based business model, but it didn't work. Who's the Big Dog in that industry today?

Dell. When Michael Dell started building PC's out of his dorm room in college, he wasn't hampered by any heuristic bias about how it should be done.

- It wasn't Barnes & Noble who saw the potential for an Internet website. It was Jeff Bezos. Bezos launched "Earth's Biggest Bookstore" in July 1995 after building hedge funds as a money manager.
- Starbucks's original founders didn't see the viability of stand alone coffee bars, so Howard Schultz started Il Giornale. Two years later he bought Starbucks.

The list goes on and on, but these are very well known stories. The common thread, though, is that it wasn't the industry incumbents who changed the rules. It was the outsider.

This is *really* important for all of us to get, including me. Any of us who have been around the meetings & exhibition industry for a while are all potential targets to an end-around by some upstart who's not even on our radar screen. It is imperative for our boards of directors, senior officers, and old guard who are so accustomed to insane cash flow, mind-boggling margins, and assumed annual growth to understand that we are vulnerable. Period.

Yet because of our heuristic bias, it will be really, really hard to change. It takes a serious whack on the side of the head. Many events (both for-profit and non-profit) have already made major, sweeping changes. Others have changed their lipstick and called it reinvention. Most are staying the course and waiting for the pendulum to swing back. (Guess what. They've got a *loooong* wait.)

Don't think you've got heuristic bias? If you're still trying to figure out how to increase attendance at your events as a primary goal, then yes you do. I've been screaming for years that if you live by attendance, you'll die by attendance. Many other industry pundits are finally getting on that bandwagon. Skip Cox, President of Exhibit Surveys, Inc., wrote in his whitepaper, [\*It's Not Your Father's Exhibition\*](#)

"The challenge to organizers (and exhibitors) is to change the mindset that heavy traffic is synonymous with success. It is unlikely that many shows will return to the attendance or density levels of the past even with an improvement in the economy and absence of any major incidents like 9/11 or SARS. Most industries are facing significant long-term structural changes in the channels of trade for their industries that are impacting their ability to attract attendees ..."

It wasn't so many years ago we were all wondering if the Internet would kill the trade show industry. Not only was that the wrong question, we were looking in the wrong direction. We were looking outside ourselves, when we should have been looking inside. Outside changes are inevitable. The *Death of Float* was inevitable. It's our own heuristic biases that prevent us from seeing and accepting the new reality.

---

## About Steve Miller

Steve is Kelly's Dad, a really good consultant, and Senior Men's Golf Champion of Twin Lakes Country Club. He thinks putting Pedro Martinez in the 7<sup>th</sup> inning of the 7<sup>th</sup> game against the Yankees was the stupidest move a manager ever made.

You want help with operations? Call someone else. There are plenty of those consultants around. You want innovative strategies, personally attached customers, and insight? Contact Steve. His elite client list (associations & show management companies, and corporations) includes only the most successful and most innovative organizations.

### **The Adventure LLC**

32706 39<sup>th</sup> Ave. SW

Federal Way, WA 98023

T 253-874-9665

F 253-874-9666

E [info@theadventure.com](mailto:info@theadventure.com)

-