



Sales Optimism, Pwin, Aha's, Forecasting Revenues and Other Paradoxes

December 13, 2022

Please participate



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#3294607**

First, a couple of simple questions to get us started



I am here because



I am here because

10



I clicked on the wrong link by mistake



My lunchmate cancelled on me



I needed CEU credits



I was amused by the topic and hope to learn something new



Some persistent paradoxes in our profession

Paradox 1. Why do we assign impossible win probabilities?

Paradox 2. What prevents us from discovering aha moments during a competition?

Paradox 3. Why are our projected new business revenues always wildly off from reality?

We only have time to explore the first paradox today; we'll save the others for future talks

Why do we assign win probabilities that are impossible?

On every competition, all bidders believe their win probability is some number greater than 50% (usually substantially greater) to demonstrate confidence that we can win, and justify the resources needed to win

... yet the sum of each bidder's win probability must equal 1 since there can only be one winner—this is a paradox!

Why are we so optimistic about our odds of winning?



In a typical day, how many questions do you ask?



In a typical day, how many questions do you ask?

12



0-1

0%

2-5

25%

6-10

33%

11-50

25%

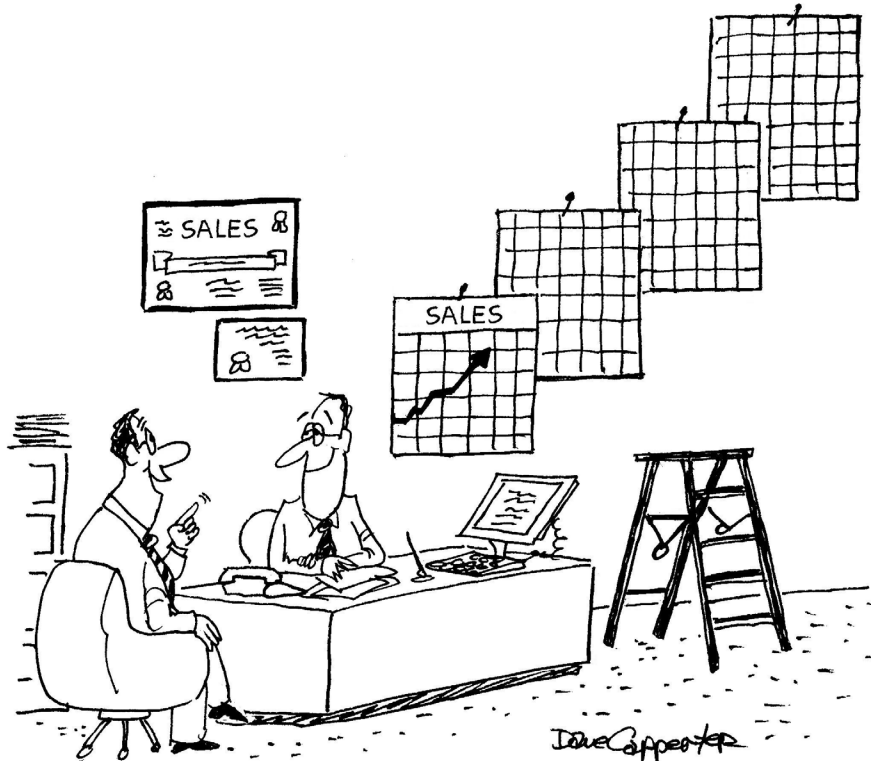
>50

17%

Optimists ask more questions

- And tend to ask questions inspired by curiosity with open-ended answers
- Whereas people who tend to be pessimists ask few questions from the mindset that there are limited opportunities to explore and no future to discover
- The average for children is 73 per day, which is exhausting
- Four-year old girls ask 390 questions daily!
- Adult optimists also ask many questions; rather than dismissing it as tiresome we should recognize it as a reflection of their curiosity and optimism

Optimism keeps us happy...



"I love your optimism."

and many studies have shown that it is the most important predictor of success for salespeople (and us proposal folk).

Sources: Phillip Boughton, *Harvard Business Review*, June 27, 2012; Peter Schulman (1999) *Applying Learned Optimism to Increase Sales Productivity*, *Journal of Personal Selling & Sales Management*, 19:1, 31-37, DOI: 10.1080/08853134.1999.10754157

Our brains are wired to look on the bright-side

Optimism is a “triumph of hope over experience” (Samuel Johnson)

- We are born curious
- We remain persistently optimistic regardless of experience—“we have the unique ability to make it so” despite the facts in front of us
- We always feel better when we have high expectations... not low expectations.
 - When people with high expectations succeed, we attribute it to our own talent.
 - But when we fail, it’s about other things and we remain confident that we will win the next time!
- But, when we have low expectations and fail... its because we are dumb, or when we succeed its because the win was easy
- Numerous studies indicate that optimism changes both subjective and objective reality: optimism is not just related to success but leads to success

Source: Tali Sharot https://www.ted.com/talks/tali_sharot_the_optimism_bias?language=en ; “The Optimism Bias: A Tour of the Irrationally Positive Brain”, Random House, 2011

Optimism and Anticipation are closely related

- What is anticipation: Regardless of the outcome... the expectation of winning makes us happy.
- A study looked at how much people were willing to pay for a passionate kiss from a celebrity
- They asked how much if the kiss was immediate, in 3 days, 24 days, 1 year or 10 years

Source: Tali Sharot https://www.ted.com/talks/tali_sharot_the_optimism_bias?language=en ; "The Optimism Bias: A Tour of the Irrationally Positive Brain", Random House, 2011

What would you pay?



You just paid \$1,000 to a charity for a passionate kiss from a celebrity. When do you want smooch?



You just paid \$1,000 to a charity for a passionate kiss from a celebrity. When do you want smooch?

12



Immediately



in 3 days



in 24 days



in 1 year



in 10 years



Optimism and Anticipation are closely related

- Did you want a kiss immediately, in 3 days, 24 days, 1 year or 10 years?
- They paid the most for the chance to wait 3 days, and the least for 10 years!
- The anticipation of the kiss over three days maximized their happiness, and no one wants a kiss from an aging celebrity
- Optimism and anticipation together is a powerful drug!
- Ask yourself the question if we would enjoy our wins as much if our customers decided the winner within an hour of receiving proposals?

Source: Tali Sharot https://www.ted.com/talks/tali_sharot_the_optimism_bias?language=en ; "The Optimism Bias: A Tour of the Irrationally Positive Brain", Random House, 2011

Optimism and Anticipation are powerful forces for winning!

You and only one other company is competing

for an important contract that both
of you are capable of performing



What is the Pwin for this opportunity in your sales pipeline?



What is the Pwin for this opportunity in your sales pipeline?

11 ...

0%-49%



50%



51%-100%



Now, it's you and two other
companies competing

for the same contract





What is the Pwin for this opportunity in your sales pipeline?



What is the Pwin for this opportunity in your sales pipeline?

11 ...

0%-49%



50%



51%-100%



A paradox that results from our optimism bias

- SMA did a survey: 71% of respondents said that their Pwin is greater than 50%
- Clearly, we are optimists
- Let's say we are competing for a contract where there is only one other offerable competitor
- We have a good relationship with the customer, we understand their requirements, our product features are a good match, and we are priced competitively
- We feel confident we can win because
 - Our analysis indicates that our product features meet all requirements
 - We can reprioritize our engineering and manufacturing to deliver 6 months early
 - We believe that our competitor's product does not significantly exceed the requirements
 - We believe that the competitor will bid their standard price that is 5% less than our price
 - We believe that the customer will value early delivery more than a possible 5% premium price
- We have convinced our bosses that our Pwin is 70% based on these facts and to invest the resources we need to prepare a high-quality proposal (our experience is that if we show less than 50% Pwin, our bosses will no-bid or not invest)

A paradox that results from our optimism bias

- But, if we believe that our Pwin is 70%, then we must also believe that our competitor's Pwin is 30% giving us a 2-to-1 advantage
- Yet, it is possible that our competitor is serious about the sales opportunity, are also wooing the customer, investing in product improvements and trying to convince their CFO to drop their profit target so they can bid more aggressively
- It's likely that they pegged their Pwin considerably above 50% in their pipeline based on their actions and beliefs
- We both can't have Pwin's above 50%!
- From the perspective of your customer, our Pwin is probably more like 55%, and 45% for the competitor:

Company	Table Stakes	Relative Advantage	Product KPIs	Schedule	Price	Raw	Normalized
US	50.00%	3.95	1	2	0.95	197.500%	56.4%
A	<u>50.00%</u>	3.05	1.05	1	1	<u>152.500%</u>	<u>43.6%</u>
	100.000%					350.000%	100.000%

We become even more optimistic when there are 3 bidders

- If there are two offerable competitors and we still believe that our Pwin is 70%, then we must also believe that our competitor's combined Pwin is 30%

Us	70%	
Competitor A	15%	Assuming that Competitors A and B are equally offerable
Competitor B	<u>15%</u>	
	100%	

- Do we really believe that we have a 4-to-1 (= 75%/15%) advantage?
- No, otherwise we'll all bet our next month's salary on winning
- The real situation is probably more like a 4-to-3 advantage:

Company	Table Stakes	Relative Advantage	Product KPIs	Schedule	Price	Raw	Normalized
US	33.33%	3.95	1	2	0.95	131.667%	39.3%
A	33.33%	3.05	1.05	1	1	101.667%	30.3%
B	<u>33.33%</u>	3.05	1.05	1	1	<u>101.667%</u>	<u>30.3%</u>
	100.000%					335.000%	100.000%

- Our optimism creates cognitive dissonance: we should use 40% in our pipeline for forecasting new revenues, but why do we still believe that our Pwin is 70%?

So what is Pwin?

- When we are thinking about our likelihood of winning (Pwin), we are implicitly stating a conditional probability
- The probability that we will win given that certain things are true (we'll call these win conditions)

P(win|when we believe certain things about the competition are true)

- Our competitors have their own beliefs about what conditions have to be true for them to win, also justifying a higher Pwin for them

*P(win|our list of certain things about the competition are true)_{US}
+ P(win|A's list of certain things about the competition are true)_A
+ P(win|B's list of certain things about the competition are true)_B
can be greater than 100%*

whereas P(win)_{US} + P(win)_A + P(win)_B must be 100%

Our mental model

- In our example, we believe that we will win if:
 - A1) our product features meet all requirements*
 - A2) we can deliver 6 months early*
 - A3) our competitor's product does not significantly exceed the requirements*
 - A4) the competitor will bid their standard price that is 5% less than our price*
 - A5) the customer values early delivery more than a possible 5% premium price.*
- Note that our mental model is deterministic: that if these five things about the competition are or can become true, then we will win
- We know that some of these conditions may not be true or only be partially true today, but our optimism leads us to believe that we can make them!
- Capture is about identifying what conditions have to be true to win, and then taking actions to influence them to become true by the time we deliver the proposal

How did we get to 70%?

- When you have multiple assumptions, then you have to consider the likelihood that each assumption is true: if the 5 assumptions in our example are largely independent, then the probability that the assumptions are true is

$$P(\text{conditions}) = P(A1) \cdot P(A2) \cdot P(A3) \cdot P(A4) \cdot P(A5)$$

- We are pretty certain that our product meets all requirements and that we can deliver early, i.e., $P(A1) = 99\%$ and $P(A2) = 99\%$ since these are knowable or under our control through analysis, investment and planning
- We are confident that we understand our competitor's product and know that they only slightly exceed the requirements, so we assign this as $P(A3) = 95\%$, but we recognize that this is not under our control, so we hire SMA to conduct a competitor assessment to confirm that they aren't investing to further improve their product

How did we get to 70%?

- We are less confident about what price the competitor will bid and will assign this as $P(4) = 80\%$, but we'll engage SMA to conduct a Price to Win to confirm our assumption that they will bid at their normal market price that is 5% less than ours
- We have been making a case for how the customer benefits from early delivery, hoping to prompt the customer to identify schedule as an important factor; so we assign this as $P(A5)=95\%$, but if it becomes a source selection factor in the RFP we will increase it to 99% at that time

$$\begin{aligned} P(\text{our assumptions are true}) &= P(A1) \cdot P(A2) \cdot P(A3) \cdot P(A4) \cdot P(A5) \\ &= 99\% * 99\% * 95\% * 80\% * 95\% = 70\% \end{aligned}$$

- Remember that we assigned a Pwin of 70% in our pipeline!
- We update this as we get new information; if the RFP comes out with a clear preference for early delivery, we adjust our win probability to $99\% * 99\% * 95\% * 99\% * 95\% = 88\%$
- This is the mental model that all of us use, sometimes subconsciously

A sleight of hand

- We always want to attribute causality when there is only a correlation
- Our mental models of the world are deterministic... if this, then that
- This is also a reflection of the optimism bias that most of us have
- In the prior example, I used a sleight of hand that reflects how our desire to explain the world with causality
- If we accomplished those five conditions, then we will win; and the uncertainty of accomplishing those five things is what drives our P_{win}
- This is what we want to believe and it focuses our energies in the right place, submitting a proposal that we believe the customer will view our proposal as the best offer
- The correct way to think about a conditional probability is that if we accomplished those five conditions as a priori events, then our likelihood of winning is 70%—not 100%
- We really want to examine, whenever we won (the a priori event) how often do the five conditions occur? But this isn't how we think about winning!



In our case of three competitors, do I use 40% or 70% as my Pwin?



In our case of three competitors, do I use 40% or 70% as my Pwin?

8 ...

40%



70%



Here's the difference

- Pwin as a conditional probability is about actively winning the contract
 - Understanding what conditions are needed to win
 - Taking the actions to influence necessary internal and customer conditions
 - Employing mitigation strategies for those conditions for which you can't evaluate or you know may not be true
- Pwin as an unconditional probability is the likelihood of winning ignoring any knowledge gained from previous or external events

The good judgement equation helps us

- When we assign a value to our conditional win probability, we are making a judgment
- Bayes theorem, proven true in the mid-eighteenth century and used by mathematicians, statisticians, scientists, actuaries, bookies and others ever since, gives us the answer:

$$P(\text{win}|\text{conditions}) = P(\text{win}) \cdot \frac{P(\text{conditions}|\text{win})}{P(\text{conditions}|\text{win}) \cdot P(\text{win}) + P(\text{conditions}|\text{lose}) \cdot P(\text{lose})}$$

What is our “real” win rate, without any conditions (assumptions)

How often did we execute this strategy (i.e., achieved similar conditions) whenever we won

How often did we execute this strategy, but lost

What is our “real” loss rate? = 1-P(win)

In our example of 2 bidders

$$P(\text{win}|\text{conditions}) = P(\text{win}) \cdot \frac{P(\text{conditions}|\text{win})}{P(\text{conditions}|\text{win}) \cdot P(\text{win}) + P(\text{conditions}|\text{lose}) \cdot P(\text{lose})}$$

55%
60%
30%
45%

We determined this earlier using the relative advantage model

Let's say our experience is that we used our strategy **60%** of the time whenever we won

Let's say our experience is that we used the same strategy only **30%** whenever we lost

1-P(win)

= 70%!

In our example of 3 bidders

$$P(\text{win}|\text{conditions}) = P(\text{win}) \cdot \frac{P(\text{conditions}|\text{win})}{P(\text{conditions}|\text{win}) \cdot P(\text{win}) + P(\text{conditions}|\text{lose}) \cdot P(\text{lose})}$$

40%
70%
20%
60%

We determined this earlier using the relative advantage model

Let's say our experience is that we used our strategy **70%** of the time whenever we won

Let's say our experience is that we used the same strategy only **20%** whenever we lost

1-P(win)

= 70%!

- You no longer have to rely on the experiential knowledge of the few gurus and oracles in your company—you can use the good judgement equation to develop a realistic estimate of your win probability
- Bayes theorem encourages us to think through the data, consider alternate models and clarifies our thinking... it even lets us believe in miracles!

What if there were 5 bidders?

$$P(\text{win}|\text{conditions}) = P(\text{win}) \cdot \frac{P(\text{conditions}|\text{win})}{P(\text{conditions}|\text{win}) \cdot P(\text{win}) + P(\text{conditions}|\text{lose}) \cdot P(\text{lose})}$$

24%

We can determine this using the relative advantage model

80%

Our experience must be that we used our strategy **80%** of the time whenever we won

10%

Our experience has to be that we used the same strategy only **10%** whenever we lost

76%

1-P(win)

= 70%!

- As the number of bidders increases, we have to be more confident in our strategy to achieve the same 70% win probability

Number of bidders	2	3	5
How often did we use our strategy and win	60%	70%	80%
How often did our strategy fail	30%	20%	10%

So what?

- Traditionally, win strategy has been viewed as an “art” based on individual experience practiced by gurus rather than something that is amenable to a collaborative disciplined process
- How do we transform “how we develop win strategy” from a case-by-case basis to a methodology that that can be practiced with reliable, predictable outcomes with measurable attributes so the process can be managed?
- We now understand that Pwin is about our experience of actively winning contracts by developing a win strategy based on identifying the *a priori* conditions required to win, taking the actions to bring those conditions into existence, and mitigating the impact of those that we cannot control
- If we use a consistent and robust methodology, then the right question to ask about Pwin is how often did we achieve the conditions, whatever they were, whenever we won, and whenever we lost
- SMA’s Winning Choices™ methodology is the answer to optimize your Pwin
 - Analytical approach that explicitly considers competitive dynamics and market uncertainties
 - Actionable by helping management make critical choices
 - Measurable attributes so that the process can be managed

The SMA approach to win strategy “zeros in” on what has to be true for the chosen strategy to win

	Win Strategy Development Approach	Pros	Cons
Traditional Industry Practice	Socratic – pre-defined questions in different categories used to decide Win Strategy	<ul style="list-style-type: none"> Predictable process based around standard set of questions 	<ul style="list-style-type: none"> Lacks adaptability for unique circumstances Lacks rigor – no clear burden of proof for making decisions
	Gaming – decide Win Strategy through role-playing actions of customer and competitors	<ul style="list-style-type: none"> Free-form approach gives flexibility and insight into competitor thinking 	<ul style="list-style-type: none"> Lacks rigor – key questions may not be addressed; no clear burden of proof
	Delphic – viewpoint of key player (e.g., former customer) drives Win Strategy	<ul style="list-style-type: none"> Avoids protracted decision-making process 	<ul style="list-style-type: none"> Individual’s views and imperatives may not reflect that of officials that will review proposal
SMA	Winning Choices – team-based approach to outlining available options and performing analysis necessary to choose between them	<ul style="list-style-type: none"> Rooted in the Bayes Theorem Analytical approach with clear burden of proof for key questions Adaptable to unique circumstances 	<ul style="list-style-type: none"> Significant commitment of time by leadership team

What about the other paradoxes?

Hindsight Bias and Proposal Noise—how do I discover those “aha” moments before they become “gotchas”

Forecast Bias—why are our new business sales forecasts wildly wrong?

Benefit, then Feature —or— is it Feature, then Benefit?

And other questions you always wanted to ask

Look for future events from APMP and the Western Chapter