Moneyball Selling

Using Behavioral Economics to solve some of the most vexing problems in sales

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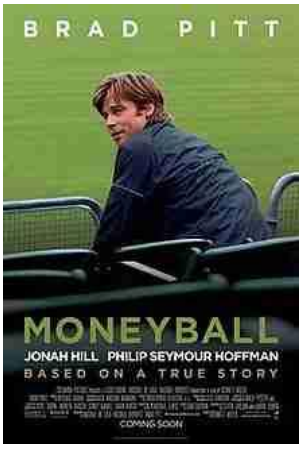
I first got interested in Behavioral Economics two years ago. I started doing some reading and thought, wow, this is really appropriate for the world of selling. I tried to find papers and articles and found a lot of stuff but nothing on sales.

Interesting that once I got into this stuff I began seeing articles on it all over the place. Like when you get a new car and start seeing the same car you have all over the place! I learned that this is Confirmation Bias, the ability to see things that validate your thinking. We'll talk about that bias in this talk a bit.

Interesting that when I was in college a guidance counselor recommended that I go into psychology, she said that because I was good in math and insightful that it was a good fit. I couldn't figure it out, I didn't want to sit and talk to people! She was talking about experimental/behavioral psychology, all the stuff that's in here. And, sure enough, the better you are at math the easier this stuff is to understand (don't worry, there is no math here!)

Moneyball changed baseball…



…because it exposed BIAS

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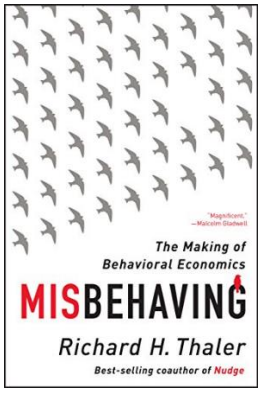
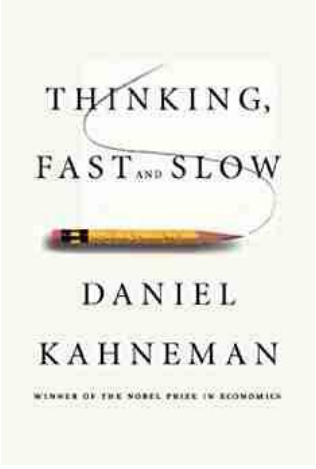
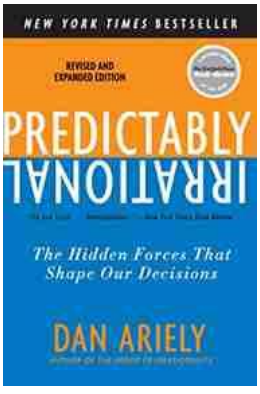
They didn't understand that people are biased, Billy Beane was the first to recognize that and instead use statistics.

Michael Lewis acknowledged that in an interview on CSPAN that he had completely missed the mark. He thought that the story was about statistics when it was really about bias. **Removing bias is a big deal!**

Books that influenced my life…



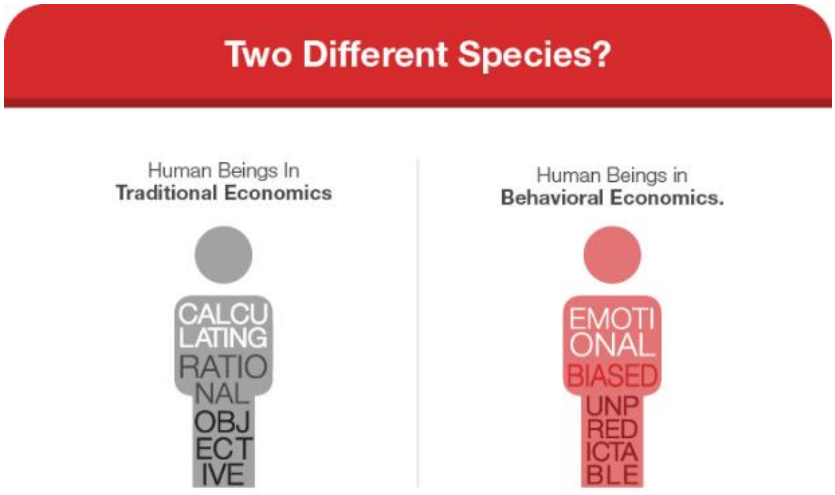




- **Introduced to Kahneman and was enthralled.**
- **I read a lot of books and papers.**
- **This explained a lot of great stuff**

- **Google/Amazon search provided little in the world of sales – that's when I decided to focus on it. Obsessed**

The economists were (partially) wrong…



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People make emotional decisions for rational reasons! They use the rational to explain the emotional. House buying.

We're going to see how emotion, bias and unpredictability affect selling. What you should be aware of (and deal with) and how you can leverage it to your advantage.

For example,

1. People will drive ten minutes our of their way to save $10 on a $50 item but would never do that for a $1000 item. Ten bucks is ten bucks, right?

2. Why would 80% of people sell a stock that had a gain versus a similar stock with a loss? They don't want to admit they took a loss.

3. People will be willing to sell something they value for a certain price, but never buy it back at that price. Traditional economics says those prices should be the same.

Warning, Warning, Warning!

- The theories presented here are not universal, they are primarily for big-ticket sales
- They are **not guaranteed** to work. They will simply improve your odds of success

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Beware – we are only trying to improve your odds of success

Improving your odds goes a long way!

In 2017, improving by one stroke per round improved your winnings by a factor of four to ten!

Brian Harman, scoring average 70.12 won $147,000 per event
Graeme McDowell, scoring average 71.12 won $37,000 per event

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But, improving your odds of success can reap big benefits

Today we'll talk about two things…

Section One

How humans perceive and judge value

Section Two

Why people hate losing to "Do Nothing"
(and, what to do about it.)

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Section 1 will include a workshop. Many find it very eye-opening – we'll focus on how you present yourself to the marketplace and your clients. The goal will be to refine it and to work on presenting it in a way that will win you more business at a better price

Section 2 is very practical. Most people don't lose to another firm/company nearly as much as they lose to "do nothing" or the status quo. "Just kidding" we're not ready to buy.

Section 1

How humans perceive and judge value

Decision-making involves making judgments. To most the judgment phase is invisible, but we all do it.

An initial exercise…

Take our a piece of paper and write down your value proposition, the way you present yourself or the reason people buy from you...

Insight: Decision making involves judgment. How do people judge things?

Start with this exercise. Your current VP is the starting point. Let's discuss how people perceive value and see if we need to modify it.

Boy, would I love a beer!

Pass out the questions – ***make sure you have the right questions!***

Emphasize that for those who don't drink beer, play along, make it a nice refreshing beverage/water.

What's going on here?

- The need is identical
- The consumption location is identical
- No ability to negotiate
- No ability to soak up the ambience!

- ***Why with the same need will people be willing to pay different amounts?***
- ***What's the difference in the two scenarios?***

Insight: Decision making involves judgment. How do people judge things?

The question is, how can the same thing (product) be viewed in two different ways? Talk about the three bowls of water and how the same room temperature bowl feels warm in one hand and cold in the other. Where does it come from and what does that represent?

What judgment do they make when buying from the resort versus the grocery store?

There are two things everyone does when making judgments: They think about the applicability and they think whether it's a good deal or not.

Two things happen in the customer's mind…

1. Am I getting the right product/service?
2. Am I paying a fair price?

Two things are happening, ACQUISTION Utility – am I getting the right product – Am I satisfied with the product? Am I confident it will solve my problem? This is the traditional world of selling, we try to appeal to them that what we have will solve their problem.

In both cases, the beer provided the right product, but where it came from is different.

$10 from the grocery store sounds like they are trying to rip us off. We know their costs are lower so their prices should be lower.;

TRANSACTION Utility – **am I happy with the transaction**? But, what is FAIR?

What does Fair mean?

1. Fair, relative to what? What's the baseline? What's the reference point?
2. If the price is above your reference point it's a bad deal
3. If the price is below your reference point it's a good deal

4. Fairness is in the eye of the beholder – have they done this before? Things that are bought rarely are subject to sticker shock. Do you have a frame of reference? Have you done it (bought it) before? Do you have a friend who's bought it? Have you read an article on it? Are there "comps"?

5. This can have two negative affects
    1. If you decide it's unfair - You may not buy something you really need because you think you're getting ripped off
    2. If you decide it's very fair - You may buy something because "but, it's so cheap?"

6. How about the circumstances? If a vendor raises prices on water ahead of a hurricane, it is unfair? (Supply and demand would say it's okay)

1. When you spend $10 for a beer at a resort, is that unfair?

1. If Home Depot raised prices on snow shovels during a storm we'd think that was unfair because we'd think they were gouging us. But, if their cost went up and they passed the increase on to us, we'd be okay with it. HOW CAN YOU PRESENT A SCENARIO FOR HIGHER PRICES WHERE THEY ARE OKAY WITH IT? Scarcity is one reason. What else?

2. "My clients don't resent the price hike because they know my costs have gone up, too. They accept my right to stay profitable

3. Anchoring – plant the price quicker. It can be very subliminal. Give the example of the redwoods,
   Is the height of the tallest redwood more or less than 1,200 feet? What is your best guess about the height of the tallest redwood? The "high anchor" in this experiment was 1,200 feet. For other participants, the first question referred to a "low anchor" of 180 feet. The difference between the two anchors was 1,020 feet. As expected, the two groups produced very different mean estimates: **844 and 282 feet**. The difference between them was 562 feet. The anchoring index is simply the ratio of the two differences (562/1,020) expressed as a percentage: 55%. The anchoring measure would be 100% for people who slavishly adopt the anchor as an estimate, and zero for people who are able to ignore the anchor altogether. **The value of 55% that was observed in this example is typical. Similar values have been observed in numerous other problems.**

4. You're selling SaasS, you could ask for a 3-yr deal for $x (sets the anchor in both contexts) but you retreat to 12-month deal at .4X, now they seem more reasonable.

5. Is your budget more or less than $100k?

That leads us to the Halo Effect

What is it about you, your practice, your offer that will get you the higher price?

Resort versus grocery store – which are you?

Image counts - He drives a Ferrari so he must be rich - Celebrity endorsements

Honking example

Stereotypes – “Crossfit for your brain”

How you frame things matter…

Framing is the art of persuasion

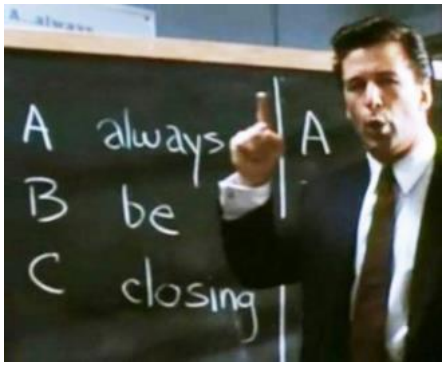
20% fat or 80% lean?

90% chance you'll be alive in five years versus 10% you'll be dead, 84% versus 54%

Did you anchor the price during the discussion?
Did you try to move their reference point?
Did you give them the perception of a loss?

Get examples of how they frame things

Whom do you like better?



- Jordan: intelligent—industrious—impulsive—critical—stubborn—envious
- Blake: envious—stubborn—critical—impulsive—industrious—intelligent

Both the same description but your mind places more emphasis on the first few words.

This is an example of the Halo Effect – the first few words mean more than the last. They have a bigger impact on your brain.

How have you presented your arguments? Did you present the most persuasive first? Did you get heads nodding? If you do, they are likely to believe what you tell them next.

K tells a great story about grading exams, even he didn't even realize he was being affected by it.

System 1 responds to visual stimuli – LOGOs

This can work for you or against you.

- For you - The order you present things – most impressive and persuasive stuff first
- Against you – First in or last in.

How will what we discussed change the way you sell…

1. Take your value proposition and think about what we just discussed and write down a few things you will do to get the premium price for the same service. FIVE MINUTES

2. Share with your neighbor. See if they can add value to what you've done. Add value to theirs. Be prepared to share with the group. FIVE MINUTES

3. Group discussion

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Fifteen minute workshop - optional

Section 2

Why we all hate losing to “Do Nothing” and what to do about it.

Is there anything worse than this?

People are reluctant to change. Change = Risk - Some embrace change but not many

Loss aversion sometimes is not subtle and can be physical. If you are a liberal, watching Fox News can evoke negative physical, as conservatives watching MSNBC. We perceive just the words being used as threats and we react to them.

Bad information is processed more thoroughly than good information. We are more wired to avoid the negative than to seek the positive.

Long term marriages are more correlated to avoiding big fights than on positive moments.

We've all been there before…

☒ Great prospect

☒ Market we know

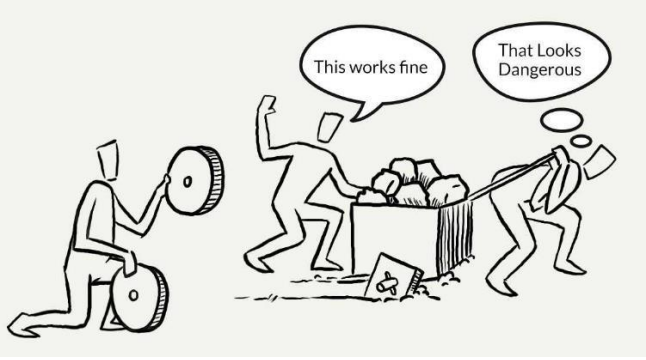
☒ Great references

☒ We did our homework

☒ We understood all the people involved in the buying process

☒ We understood their needs and their vision for the future

☒ We crafted a fantastic proposal at a very fair and competitive price



And, we still lost!

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Why when the stars are aligned can we still lose?

People are reluctant to change. Change = Risk Emotional and physical

Some embrace change but not many

Reason One – Loss Aversion – We Hate to Lose…

We were taught this…

Value = Benefits - Costs

Is that equivalent to:

They will buy if = Benefits > Costs

NO!

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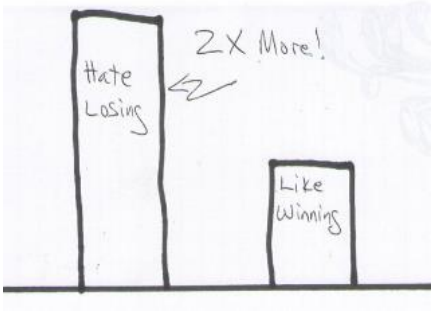
We were taught that as long as we delivered benefits that were greater than costs that we deliver value. But, does just delivering value mean they will buy? NO!!!

There is a lot more going on

There is one big assumption here, what is it? It is the REFERENCE point for measuring benefits and costs.

For example, when the customer looks at BENEFITS, what reference point will he use? The current state

Because, it's really this…



Loss aversion tells us that on average, costs/losses are twice as powerful as benefits/gains – (and get bigger as the stakes rise)

Value = Benefits – 2(Costs)

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People are reluctant to change. Change = Risk

Some embrace change but not many

While you are telling them how great you are…

How they view your offer	
Pros	Cons
Their product seems to do what we want	There is a steep learning curve
They have great customer support	My users won't like it
It will make us more productive	We've always done it that way!
They continually invest in the product	I'll have to spend money that I could use for another project

Subconsciously, these are twice as important as the pros

Value = Benefits – 2(Costs)

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You tell them how great you are, THEY are searching for the negatives to fill in this chart. And, in their minds all the negatives are adding up quickly. Of course, you're telling them they are not so bad and the positives outweigh the negatives.

Understand that decision-making is a function of how they assess the probability

WHAT'S GOING ON HERE AND WHAT MUST YOU DO???? (Discussion)

Halo bias allows us to make our Pros seem better. "Does this resemble another project that went well?"
People hold images of good and bad in their minds.

The more someone can be blamed for the loss the more loss averse they will be

Be aware! A non standard offer is perceived as riskier than a standard offer. The more "standard" the offer it is, the less risky
Beer Example, Sam Adams with and without Balsamic vinegar

You need to show them the trouble…

Rarely will they look at the status quo this way	
Pros	Cons
We'll save a lot of money	
We won't have to change the way we've always done things	
We're not that inefficient, we can live with it	
We can use that money for another project	

It's your job to show/tell/convince them of these

Value = Benefits – 2(Costs)

All the negatives for the status quo are benefits for your offer.

Goal is to make SQ seem riskier than your offer.

Reason Two – People think they can pull it off…

Endowment effect, we hang on even if it's a bad thing. We won't admit it was a bad purchase.

100 shares of ABC Corp you bought for $80 and the stock is at $100 – **a $20/share gain**.
100 shares of XYZ Corp you bought for $120 and the stock is at $100 - **a $20/share loss**. 90% sell this one!

Why, because admitting a loss is twice as bad as accepting a gain.

People will work very hard to avoid a loss: PGA example 3.6% better putting for par than birdie. Every stroke is not equal. Some provoke very negative reactions/emotions and we'll work hard to avoid them

In negotiations, when we give up something IT'S A LOSS, when get something in return, IT'S A GAIN. They are not equal and each side has these emotions.

Ownership is a big deal. Even if someone didn't sponsor the status quo the fact they are living it makes it more likely they will hesitate removing it.

Endowment is less about the appeal of owning something, it's about the pain/fear of giving it up. The devil you know is better than the devil you don't
The disadvantages of leaving the status quo are greater than the advantages.

Nudges and Recommended are two popular ways to move people from the status quo.

The reference point is important. They may think SQ is fine but what were they promised? Can you convince them that the SQ is a loser?

Why do people hang on too long?

Winston Churchill

"…never give in, never, never, never, never—in nothing, great or small, large or petty".

This sentiment is pervasive in society. Knowing when to change is more important.

Because they hate admitting they're wrong, they hang on too long.

Optimism Bias: We had a good reason to buy that stock. Let's give it another shot.
Most underestimate risks (**your job is to educate them)**. They will likely think they are being prudent when they're not. ***Most of us are blind to this bias.***

1. 91% of drivers think they are above average.
2. Lake Wobegon, where all the children are above average
3. Leads to under-estimating risks – for us, we tend to underestimate the competition

Inside view versus the outside view. Optimism bias, by definition takes the inside view. Ask them, "if you were advising someone in this very situation, what would you recommend?

Consultants take the outside view. That's what we're paid to do. (Sometimes they think hiring someone new will give them the outside

view but they will be risk averse in making recommendations.

Responding to someone who says “We’re just going to hire someone to do that for us”

1. Risk aversion, they won’t want to get fired
2. They will be looking for consensus

Loss Aversion: When presented with a loss, we’re more likely to take risks.

Optimism bias…

1. 91% of drivers think they are above average.
2. Lake Wobegon, where all the children are above average
3. Leads to under-estimating risks
4. That won't be too hard to fix

Customers who are living with the current system will be willing to take risks to fix the issue. They will be optimistic about their success.

Optimism bias affects us, too

1. We focus on us and our goal
2. We neglect outside forces
3. We have the "illusion of control"
4. We focus on what we know and neglect what we don't know

Those favoring the status quo are active competitors. We can't neglect them.

The combination of optimism bias and a bad situation is dangerous. You can turn a manageable situation into a disaster.

ACCEPTING A SURE LOSS IS A HARD THING TO DO!

Two things I hear a lot:
1. I waited too long to kill that product/project
2. I waited too long to fire that person

Recommendations…

For your customer:

- Be aware they view the world optimistically
- Find out who sponsored the current state
- Remember the T-chart? Keep pounding on the risks of staying put. Help them uncover risks they didn't know they had

For you:

- Considering who our competition is, and their history of products and services, what is our best course of action?
- Pre-mortem

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Those inside the organization lobbying for the status quo will be actively working against you. They will have access to people you may not. A good coach can help you here.

Pre-mortem is a search for unknown threats and unanticipated consequences. This is very hard, but well worth the effort.

That's when we're the most susceptible to optimism bias. Thinking we are better than we are we might take shortcuts and the easy way out rather than putting in the time and effort that we'd normally use.

Be careful coming off a win

Reason Three – People are willing to pay a price for status quo

Your choice:

1. $500 guaranteed, or
2. Flip a coin and either $1,000 or $0?

1. Pay me $500
2. Flip a coin and either pay me $1,000 or $0?

Go through the two scenarios. Explain gain=risk averse, loss=risk-seeking

How can you deal with people who are willing to pay money for staying put? ANSWER: making staying put seem riskier than changing.

When you do that, you can ask them "are you willing to accept the risk?"

The bottom line…

You ***must*** make them see that the status quo is riskier than your proposal

This is the bottom line. REGARDLESS of who your competition. All else being equal they will select the less risky option that will produce the required results.

Summary

We've gone through two situations…

How humans perceive value:

- For the same need and the same solution, why would they pay more for one vendor than another?
- How to make you seem like the best solution even if you're twice the price

Selling against the status quo:

- People hate to lose and hate admitting a loss
- People still think they can pull it off
- People are willing to pay for the status quo

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Summary

- Bias affects us all. Most of the time we are unaware. Raise your level of awareness.
- Loss-aversion bias dominates sales. Present your value proposition both ways, don't scare them.
- All biases affect not only the prospect, but they affect you. Be aware and minimize impact on you.

Thanks

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