WHITEPAPER

THE GREAT SELF-DECEPTION: HOW COGNITIVE BIAS IMPACTS SALES

AND WHAT YOU CAN DO ABOUT IT

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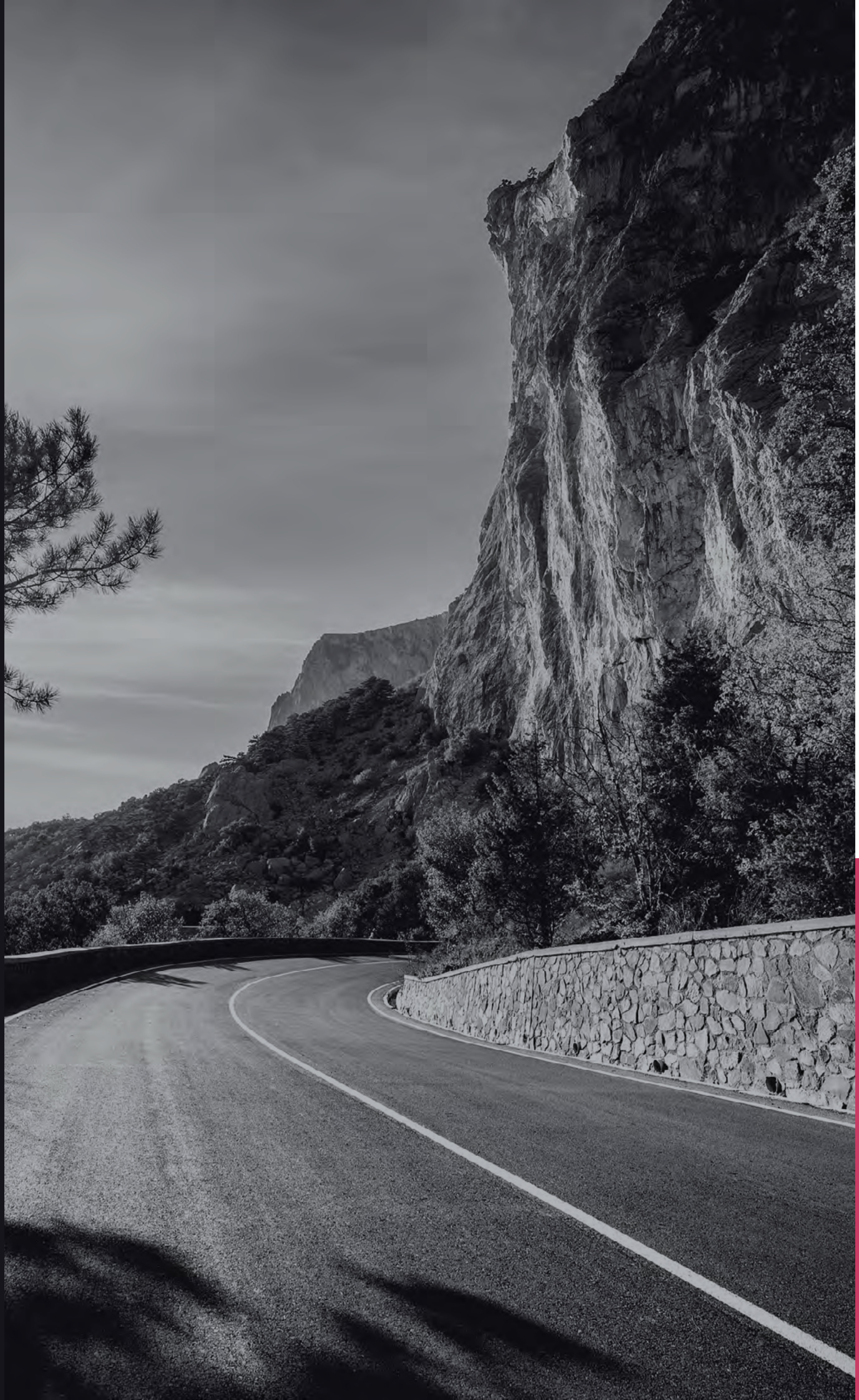

INTRODUCTION

As human beings, we often pride ourselves on our rational approach to the world. We consider ourselves superior to other animals for the way we evaluate evidence and make reasoned decisions based on logical conclusions.

But is this really what we do?

Sadly, science says no.

As humans, we are driven as much by emotion, unconscious beliefs, and cognitive errors (aka cognitive bias) than we realize or like to admit.

The good news is that when we examine our cognitive biases, we can use our knowledge of them to counteract them and even turn them to our advantage.

In this whitepaper, we:

- Define cognitive bias
- Introduce the 4 main categories of cognitive bias
- Discuss 5 of the most common cognitive biases that impact sales
- Examine their impact at four levels: Buyers, salespeople, sales leaders, and sales executives
- Demonstrate how to apply this knowledge to improve sales effectiveness

WHAT IS COGNITIVE BIAS?

In his groundbreaking book, *Thinking, Fast and Slow*, best-selling author Daniel Kahneman presents the case that thinking–real thinking–is much harder than we realize. In fact, it's so hard that most of the time, our brains simply don't do much of it.

Instead, we rely on a system of cognitive shortcuts that do the "thinking" for us, and free up cognitive resources for those occasions when we need to analyze new information and make decisions.

For instance, when you get to work in the morning, turn on your devices, and log in to your accounts, you may think you're "thinking" about what you're doing, but if you had to actually think about it, you would probably make a mess of it. A simple task like opening up a laptop requires a series of complex movements, orchestrated among multiple muscle groups. The decision to open the laptop is likewise driven not by a conscious analysis (for instance, weighing the pros and cons of opening your laptop versus any of a thousand other activities you might engage in this morning), but rather by an automatic impulse laid in place by your habit of coming into work and opening your laptop.

Each of these behaviors is driven by a cognitive shortcut that makes it possible for your brain to think about something other than what each muscle is doing or which of a thousand possible options you might choose for each moment of your life.

These cognitive shortcuts are immensely helpful, and without them, we'd be desperately lost and ineffective, as revealed by research by Antonio Damasio, which is discussed in greater detail here. However, sometimes these shortcuts misfire, and become cognitive biases.

A cognitive bias is a mental shortcut that leads to a decision or conclusion that is not based in logic. It can often lead us to bad decisions and harmful conclusions, such as when we decide to invest in a bad stock because everyone else is doing it or because it was recommended by someone we like.

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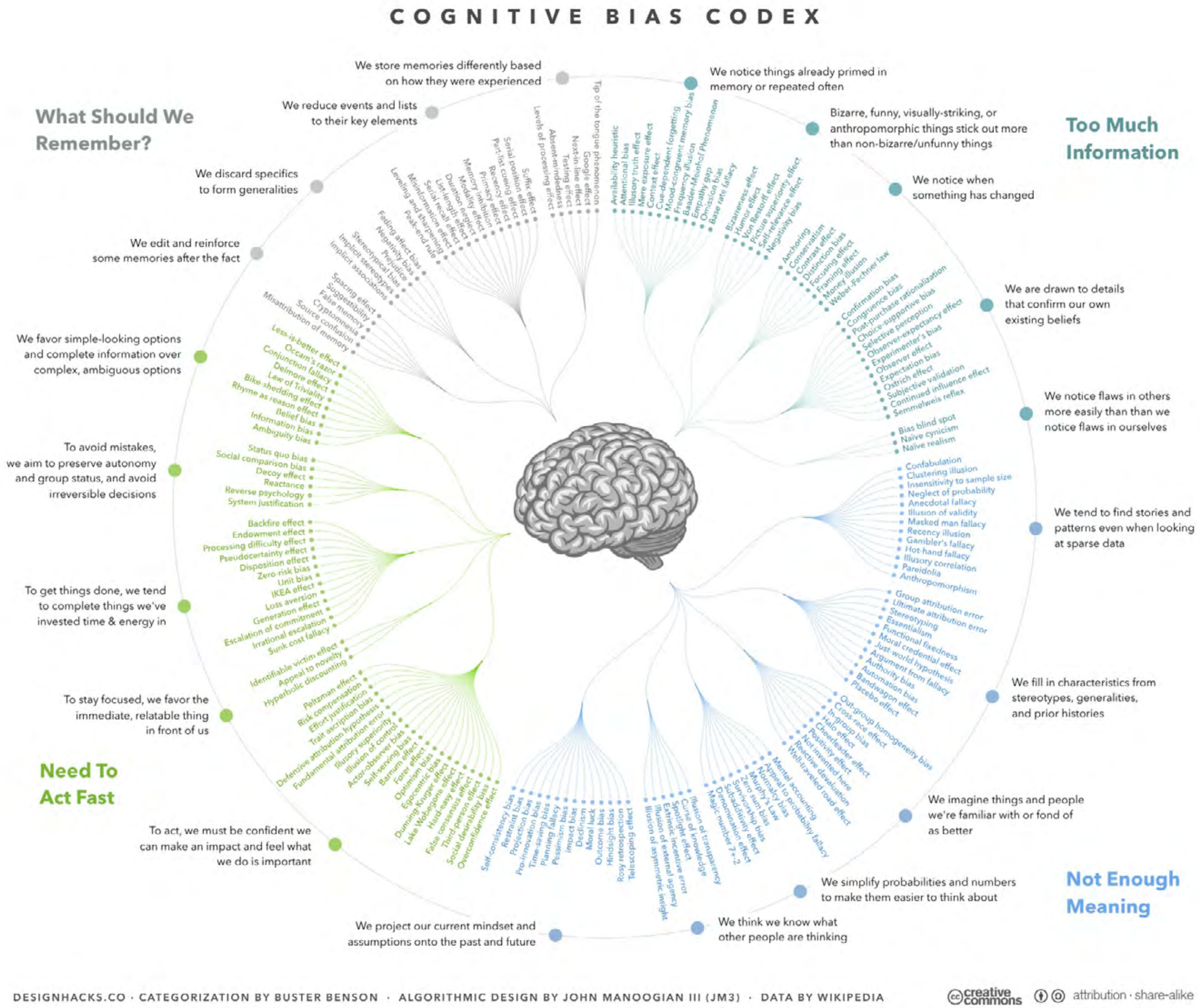
The list of cognitive biases so far identified by researchers is extensive, and far too large to examine within the context of a single whitepaper. However, we can begin to understand cognitive bias by categorizing it according to the purpose each type of bias serves, and then identifying the key biases that most often affect buying and selling.

THE FOUR CATEGORIES OF COGNITIVE BIAS

Researchers have identified hundreds of cognitive biases so far. It would take lifetimes to understand and fully address every single one.



To get a practical handle on this enormous field of work, the author of *Why Are We Yelling?*, Buster Benson, developed a system for categorizing cognitive bias into four "buckets." His categories are based on the thinking "problems" that each bias "solves" for the thinker.

These problems are:

- The need to act fast (not spending hours on every little decision)
- Too much information (a constant condition that has gotten worse in the digital age)
- Lack of meaning (an eternal human problem)
- The question of what we should remember (important for making good use of cognitive resources)

Each cognitive bias can be sorted into one or more of these categories, making it easier to understand how they relate and how they impact our decisions.

While almost any cognitive bias can be a factor in any sales decision, there are a few that are most common and problematic in sales. Here are 5 that sales professionals and their leaders should be paying attention to. To make them easier to remember and understand, along with each bias, we identified which category they fall into.

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01. THE SUNK COST BIAS

Category: Need to Act Fast

The sunk cost bias is a common frustration for salespeople. It shows up when a customer says, “I like your proposal and I can see how it would save us a lot of money, but we’ve already invested a great deal in this other solution, so we’re going to keep trying (even though it hasn’t been working for us).”

This is one way that the brain deals with the need to act fast. It’s a useful shortcut to thinking in many cases. For instance, when you come into the office and decide to finish a project you began the day before, you may not spend a lot of time considering whether it would be more efficient to start a new project instead. You just automatically begin. Most of the time, this saves you time and makes you more efficient.

But it becomes a problem when it causes people to make bad decisions based on how much they have already invested, rather than what would be best for them now. It’s the classic “throwing good money after bad” fallacy.

"Organizations misled by sunk cost may continue to pour millions of dollars into initiatives and strategies that aren’t working."

George Brontén

The Sunk Cost Bias Among Buyers

Among buyers, the sunk cost bias shows up when they choose an inferior solution that they’ve already invested in over a better, more effective solution that they have not yet invested in. If you’re the incumbent, this can work in your favor; not so much if you’re competing against an incumbent.

You can harness it by getting buyers to invest in conversations and interactions with you. The more time they willingly spend working with your sales team, the more invested they will feel in your solution.

The Sunk Cost Bias Among Salespeople

Among salespeople, the sunk cost bias shows up in bloated pipelines and wasted time. Having already spent time with a prospect, most sellers are reluctant to let them go, even long after they logically “should” have.

They leave these bad prospects in the pipeline, and they continue to spend time on them that would be better redirected elsewhere.

The Sunk Cost Bias Among Sales Managers

Leaders who have invested in software, process, methodology, training, and other resources may be reluctant to switch to something better even if it would save them time and money. Instead, they may add plug-ins, customization, new training investment, and so on, in an attempt to get the old, broken solution to work.

They also may over-invest in coaching high performers, when logically the time would be better spent on mediocre performers. Or, on the other hand, they may become over-attached to coaching a poor performer in the hope that they’ll improve, long after it’s become logically clear that the salesperson is not working out.

The Sunk Cost Bias in The Executive Suite

The sunk cost bias can be painful and expensive at the salesperson and manager level. But when it hits the executive suite, it can be devastating.

Organizations misled by sunk cost may continue to pour millions of dollars into initiatives and strategies that aren’t working. They may be reluctant to try a new option because they’ve already spent so much on the losing strategy (or consultant or initiative or technology).

02. CONFIRMATION BIAS

Category: Too Much Information

Confirmation bias, also called “myside bias,” is an umbrella term for several related biases. Together, these biases cause people to seek to confirm existing beliefs, rather than challenge them, regardless of the logic of the situation.

Confirmation bias is a type of “too much information” bias, and allows us to avoid the intellectual paralysis of having to constantly reassess our entire worldview every time we encounter new information.

Confirmation bias is common in political arguments, in which neither side is listening to the other. Both sides will tend to search for, interpret, favor, and recall information that confirms rather than denies their existing beliefs.

Confirmation Bias Among Buyers

If a buyer comes into the sales process with an existing preference, they will tend to interpret any information from your sales team as confirmation of their existing preference. They may, for instance, prefer a highly advertised or popular solution over yours, even if yours is better, simply because they already have a preference.

On the other hand, if your marketing department is doing a great job, buyers may come to you predisposed to like you. When they do so, they will tend to interpret the things you say and the information you share in a positive light. The opposite is also true.

Because of the sunk cost bias, it’s critical that your salespeople know how to establish rapport quickly. First impressions matter to buyers–if they like the first person they speak to, they’re more likely to respond positively to future interactions, and vice versa.

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Confirmation Bias Among Salespeople

In salespeople, confirmation bias often shows up in overly optimistic pipelines and time wasted on unqualified opportunities. A salesperson naturally develops a feeling about a prospect early in the process. When confirmation bias is in play, an early “good feeling” about an opportunity may turn into too much time spent with the wrong prospect after the logic has shown that the opportunity is unqualified.

On the other hand, a “bad feeling” may lead a salesperson to dismiss an opportunity too early, despite logical signs that it might turn out well. It can also lead salespeople to resist changes to process, or to reject training if it doesn’t “make sense” to them based on their existing beliefs about “what works.”

"Confirmation bias often shows up in overly optimistic pipelines and time wasted on unqualified opportunities."

George Brontén

Confirmation Bias Among Managers

Managers can exhibit the same problems as salespeople in becoming overly attached to bad opportunities or processes, and detaching from potentially good opportunities and processes.

Additionally, managers fall prey to confirmation bias when they develop an early idea about individual members of their team, and unconsciously evaluate them through the lens of existing beliefs about what that salesperson needs and is good and bad at.

When a manager believes one salesperson to be especially effective, they may interpret both failures and successes more generously than another salesperson with the same track record, but whom the manager has a poorer opinion of. This can also show up when managers discriminate based on gender, race, and other factors about which the manager has a conscious or unconscious pre-existing belief.

Unfair coaching and management policies rooted in confirmation bias have a negative impact on morale, and can cause management to spend time and energy on the wrong people.

At the process and strategy level, confirmation bias comes to play when a manager has a bad feeling about a change, and they interpret any snag or complication in implementation as confirmation that they were right to dislike the change.

Confirmation Bias in The Executive Suite

As with other biases, confirmation bias has the potential to be devastating to the entire organization when it infects the executive suite. At best, it reduces effectiveness and creates a poor selling environment. At worst, it can lead to catastrophic failure.

An executive may become attached to a specific go-to-market strategy, sales approach, or technology platform, based on the fact that they have previously championed it or just because it "feels right" to them. They will interpret any problems with a new approach through a negative lens, while overstating the benefits of their preferred way.

03. BANDWAGON EFFECT

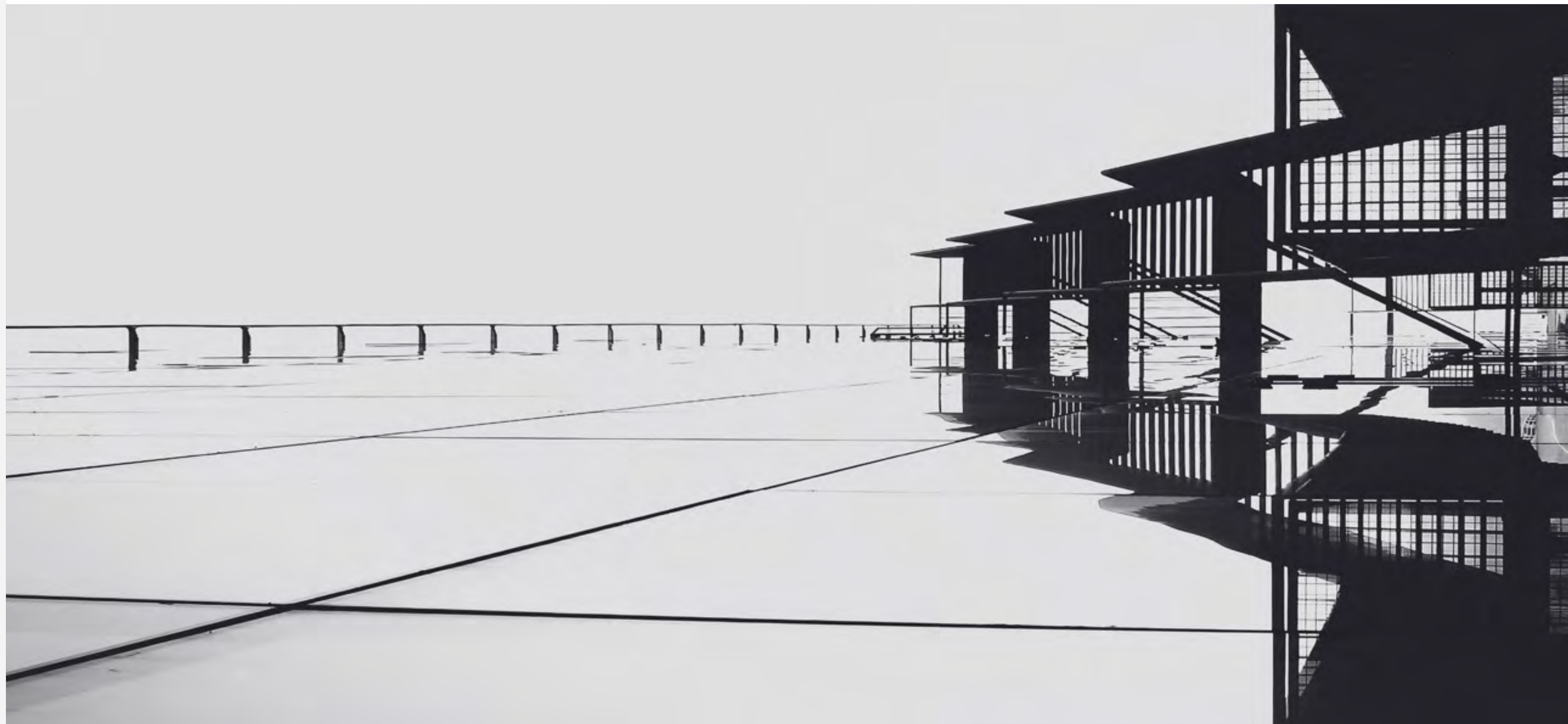
Category: Not Enough Meaning

In a famous episode of a classic show, Candid Camera, volunteers were recruited to stand in an elevator, facing the wrong direction. When unsuspecting strangers entered the elevator, they encountered an elevator already half-full with people facing the "wrong" direction.

The majority of people, encountering this situation, chose to conform to the odd behavior of their fellow elevator passengers, without questioning it.

This stunt was later repeated and expanded upon by rigorously designed experiments that confirm the conclusion that most people will make a "wrong" decision if they perceive that everyone else is already doing it.

This behavior is driven by a cognitive bias called the bandwagon effect. The bandwagon effect is a result of a combination of built-in human preferences, including the preference to be on the "winning" side (and the assumption that if more people are on one side, it's more likely to be the winning side), and the preference to "fit in." It's also influenced by the assumption that "if everyone else is doing it, it must be right."



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The Bandwagon Effect Among Buyers

The bandwagon effect has a strong influence on a buyer making a purchase in an industry where there is a clear "800-pound gorilla" in the room. This is exemplified by the old phrase, "Nobody ever got fired for buying X" where "X" is the industry giant.

The effect also comes into play when a buyer's peers are investing in a particular solution, or a new solution on the market has heavily invested in marketing that makes it look like everyone is doing it.

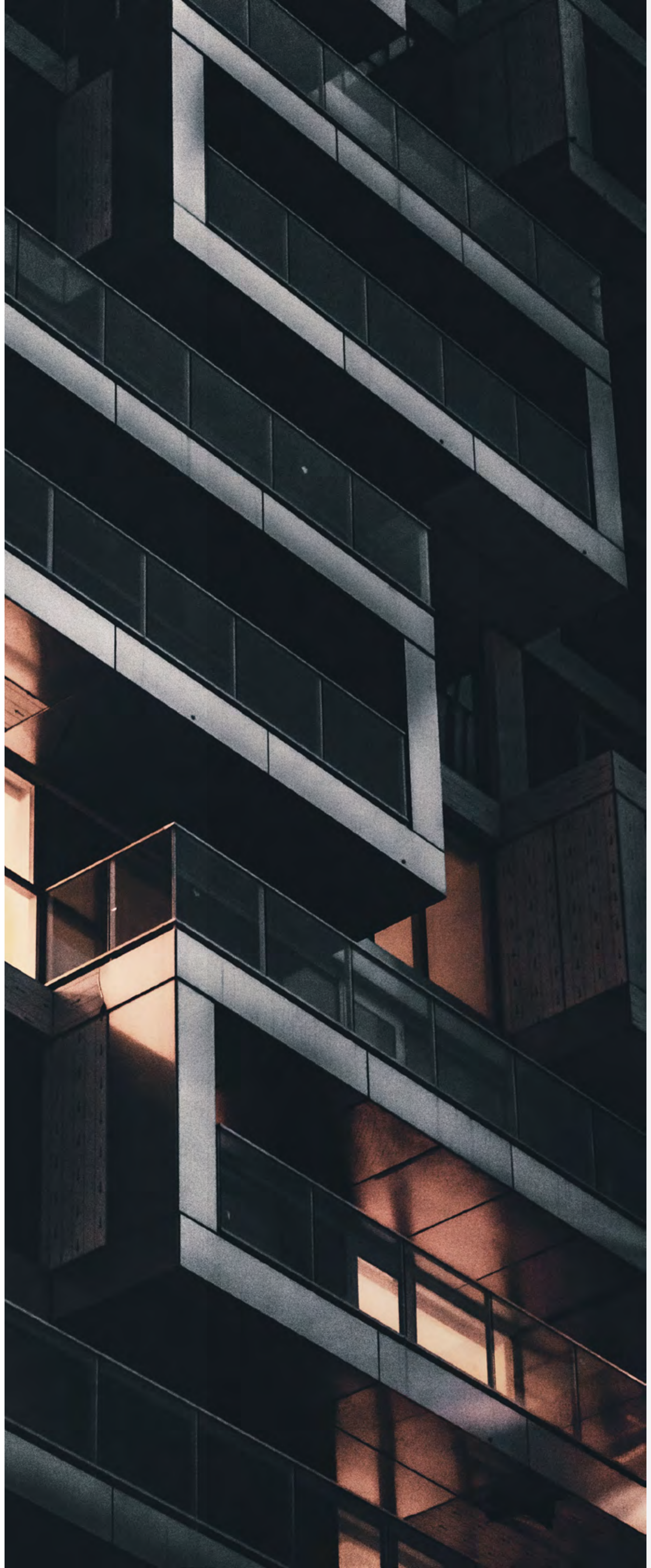
Every year, new bandwagons appear in the marketplace, and people jump on them–from viral videos to media-hyped "discoveries" and new, highly anticipated technologies, Bandwagons can strongly influence buyers to invest in solutions based on what happens to be popular right now, rather than what is most likely to serve their needs.

The Bandwagon Effect Among Salespeople

The bandwagon effect shows up on sales teams when sellers copy what their colleagues are doing, without regard to the effectiveness of the behaviors. This can include behaviors as obviously unproductive as leaving work early, spending most of the day at the water cooler, and inflating pipelines.

It also includes behaviors that may seem productive but aren't, such as sending out proposals too early in the process or expending lots of energy on the golf course with existing clients when the time would be better spent nurturing new and developing clients.

A poor sales culture contributes to this problem by encouraging and propagating bad behaviors, while failing to nurture good ones.



The Bandwagon Among Managers

Managers, like salespeople, can copy bad behaviors from their colleagues and others in the industry. The bandwagon effect also shows up when managers buy "trendy" new technology or jump on a new methodology that has received a lot of press, without carefully evaluating whether it solves their most pressing problems.

It can also impact how they lead and coach their salespeople, and the advice they offer their teams. If everyone is praising one person's success, the manager may spend disproportionate amounts of time investing in that salesperson. Or if a particular piece of advice seems popular, they may offer that to their people, regardless of whether it's the advice their people actually need.

The Bandwagon Effect in the Executive Suite

In the executive suite, the bandwagon shows up when companies adopt trendy strategic and employee policies that ultimately harm productivity. For instance, the "open office" trend of the past decade has been consistently shown to decrease employee productivity, yet it is still a popular model for cost savings, and often sold as a benefit to the employees (who almost uniformly hate it).

The bandwagon effect also shows up in executives jumping on "enablement" or "sales and marketing alignment" without attention to whether these particular matters are the highest priority for their organization, or how they line up with the company's way of doing business.

04. THE SPACING EFFECT

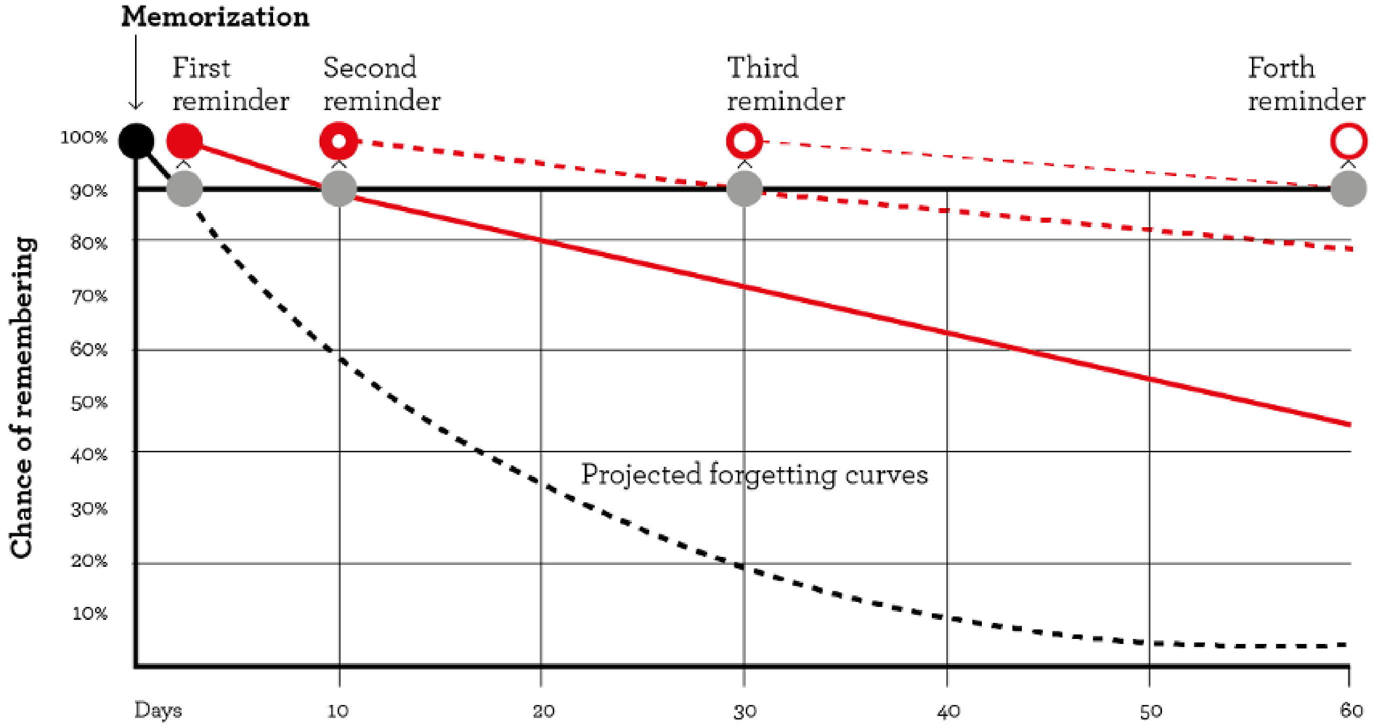
Category: What We Should Remember

If you have ever stayed up all night to “cram” for a test, passed it with flying colors, and then forgotten everything you learned once the test is over, you have experienced the Spacing Effect.

The Spacing Effect is a cognitive bias that causes us to remember information better over the long term when it is repeated at intervals across time, rather than crammed all at once. It’s one way that our brains deal with the onslaught of constant information and the need to make decisions about what to remember.

In general, information that we encounter regularly at intervals is more likely to be important than information that we only encounter once, and in this way the Spacing Effect is a useful cognitive shortcut to remembering the right things.

The problem is that it makes it difficult for us to learn and apply new skills and knowledge when it is presented to us in a classroom or concentrated training environment, no matter how important the information is.



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The Spacing Effect Among Buyers

The spacing effect impacts buyers when a salesperson attempts to “cram” a lot of information into one or two sessions, and doesn’t reliably follow up in a structured way. This common mistake makes it difficult for buyers to remember the key points your sales team wants to communicate.

It’s also a problem when the salesperson jumps to presentation too soon. A presentation without adequate discovery and problem-solving with the customer will feel like a flood of information, which the buyer will quickly forget.

The Spacing Effect Among Salespeople

Salespeople who attend weekend sales training events, motivational speeches, or week-long immersive training, may experience a temporary boost in productivity, only to later “rubber-band” back to old habits and behaviors.

Without consistent reinforcement and spacing of the information over time, it’s unreasonable to expect that they will retain everything.

This is because the spacing effect tells their brains not to bother with the information that was crammed, and instead pay attention to information they’ve learned steadily over the course of their career–even if some of that “information” isn’t supportive of their success.

The Spacing Effect Among Managers

Managers and coaches are culprits of “info dumping” on salespeople when they only provide feedback during quarterly or annual reviews, or they provide a list of everything a salesperson is doing wrong, all at once. This destroys much of the benefit of the feedback, because salespeople won’t remember most of it, even if they try.

Managers themselves may receive a weekend of “manager training” that they also mostly forget if the spacing effect is not taken into account. It’s much more effective for training and coaching at all levels to take place over time, rather than all at once, and to focus on a few issues at a time, rather than info-dumping.

The Spacing Effect in The Executive Suite

It's common for organizational leaders to expend a great deal of time and energy on annual planning and strategy, only to let it fizzle out over the course of the year. This is another example of the spacing effect at work.

This happens because during the annual planning phase, it's easy to focus on what will drive the organization forward. But when it fails to be reinforced with regular check-ins, all the expensive strategy and process becomes just another book on a shelf, mostly forgotten.

05. THE IKEA EFFECT

Category: Need to Act Fast

The Ikea Effect is named for a multi-billion-dollar global phenomenon, the Swedish furniture company Ikea.

The business model behind Ikea is, from a logical standpoint, absurd. They manufacture furniture components and hardware. They sell these components directly to consumers, unassembled. The components themselves are generally fabricated of poor quality materials, and sometimes packaged without all the pieces necessary for construction.

Assembling Ikea furniture can be so frustrating that entire Internet meme factories are dedicated to making fun of the process and complaining about it.

Yet, people love Ikea. They love it so much that Ikea is a household name in almost every developed country, and people pay more for the Ikea brand than for similar items of similar materials that are already constructed and available through discount stores.

Why?

Three researchers from Harvard Business School, Yale University, and Duke University set out to answer that question. Their conclusion was that we all have a little mental quirk that makes us fall in love with things that we made ourselves, or helped to make, often out of proportion to the item's actual logical value.

"Labor alone," the researchers concluded, "can be sufficient to induce a greater liking for the fruits of one's labor: even constructing a standardized bureau can lead people to overvalue their (sometimes poorly constructed) creations."

The Ikea Effect is closely related to the sunk cost bias. It is based in the fact that most of the time, something we have spent a lot of time on, probably has a high value. It becomes dysfunctional when we assume that something has a high value specifically because we have spent time on it.

The Ikea Effect Among Buyers

Buyers like things they've built themselves better than things they perceive as built for them. For this reason, buyers will be more likely to prefer a solution for which the salesperson involved them in the development, over one that the salesperson simply presented information about.

This is why the discovery process is so important to the sales process. When a buyer feels that they have assisted the salesperson in creating the solution, they will automatically value the solution above an otherwise similar solution that they perceive was simply crafted and then handed to them.

Unfortunately, it also means that buyers will sometimes be overly attached to things they've built "in-house" such as software applications, processes, and strategies, even if those things aren't objectively performing well.

The Ikea Effect Among Salespeople

The Ikea Effect shows up on your sales team when salespeople resist training because they are already doing something different, following a process or approach that they decided on for themselves. It also shows up when they resist coaching because they are attached to a way of doing things that they have developed over time.

The Ikea Effect Among Managers

Managers can be overly attached to the way they did things as a salesperson, and insist on their teams using their approach over more effective options.

Also when a new manager takes over, they may want to “put their fingerprints on everything,” which can result in changing things that are better left as they were.

The Ikea Effect in The Executive Suite

Promotion into the executive suite is a dream come true for the Ikea monster inside us all. What could be better than having the authority to make big changes that impact the very structure of the organization? To build it in your image?

Unfortunately, when allowed to run wild, the Ikea monster can have massively destructive impacts at the executive level. You see this when a new executive comes in and tears down everything and rebuilds according to their own plan, without regard for what was already working.

You also see it when a seasoned executive becomes overly attached to strategies and structures that they helped to build, which may no longer be appropriate in a new market.

LOGIC IS THE GREAT JUSTIFIER

The 5 cognitive biases described in this paper are only a small sampling of all the possible cognitive biases that buyers and sellers can fall prey to. Plus, in addition to cognitive biases, human decision-making is impacted by a host of other non-logical factors, beyond the scope of this white-paper, including hormones, core beliefs, and emotions.

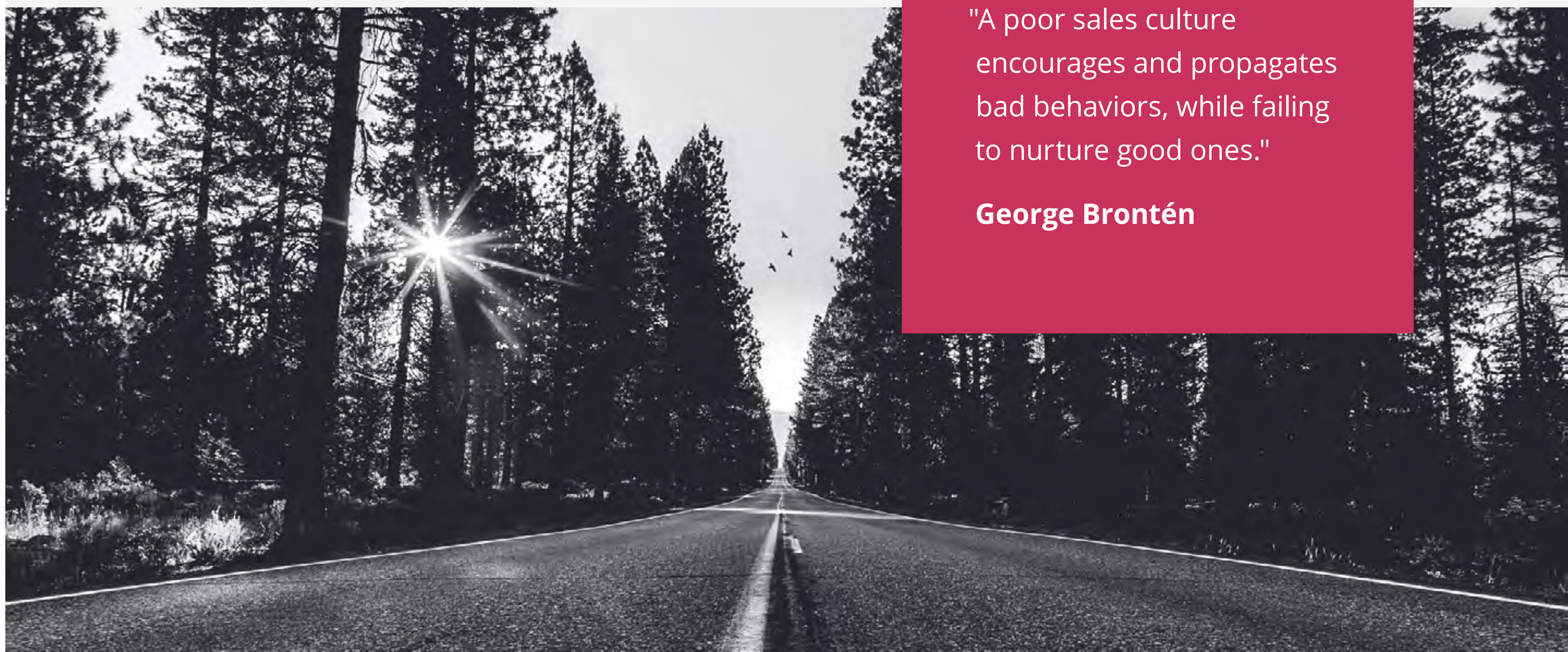
Given this, how is it that we experience ourselves as logical creatures?

Because we use logic to justify the decisions we make, and lie to ourselves (usually without realizing it) about the real reasons for our decisions.

For example, a buyer choosing to continue with a solution that isn’t working due to the sunk cost bias may justify it by saying, “We’ve already learned a lot about how to make this old solution work, so it doesn’t make sense to give up on it now in favor of a bigger unknown.”

A sales leader who jumps on a bandwagon won’t say, “I’m going to jump on this bandwagon.” They’ll tell themselves that “since it’s working for so many of my peers, it doesn’t make sense to miss out on its benefits.”

These unconscious self-lies allow us to believe that everything we do is logical, and can make it hard for us to truly evaluate the roots of our decision-making. But once we recognize the non-logical factors that drive decisions, we can learn to make them work for us, instead of against us.



"A poor sales culture encourages and propagates bad behaviors, while failing to nurture good ones."

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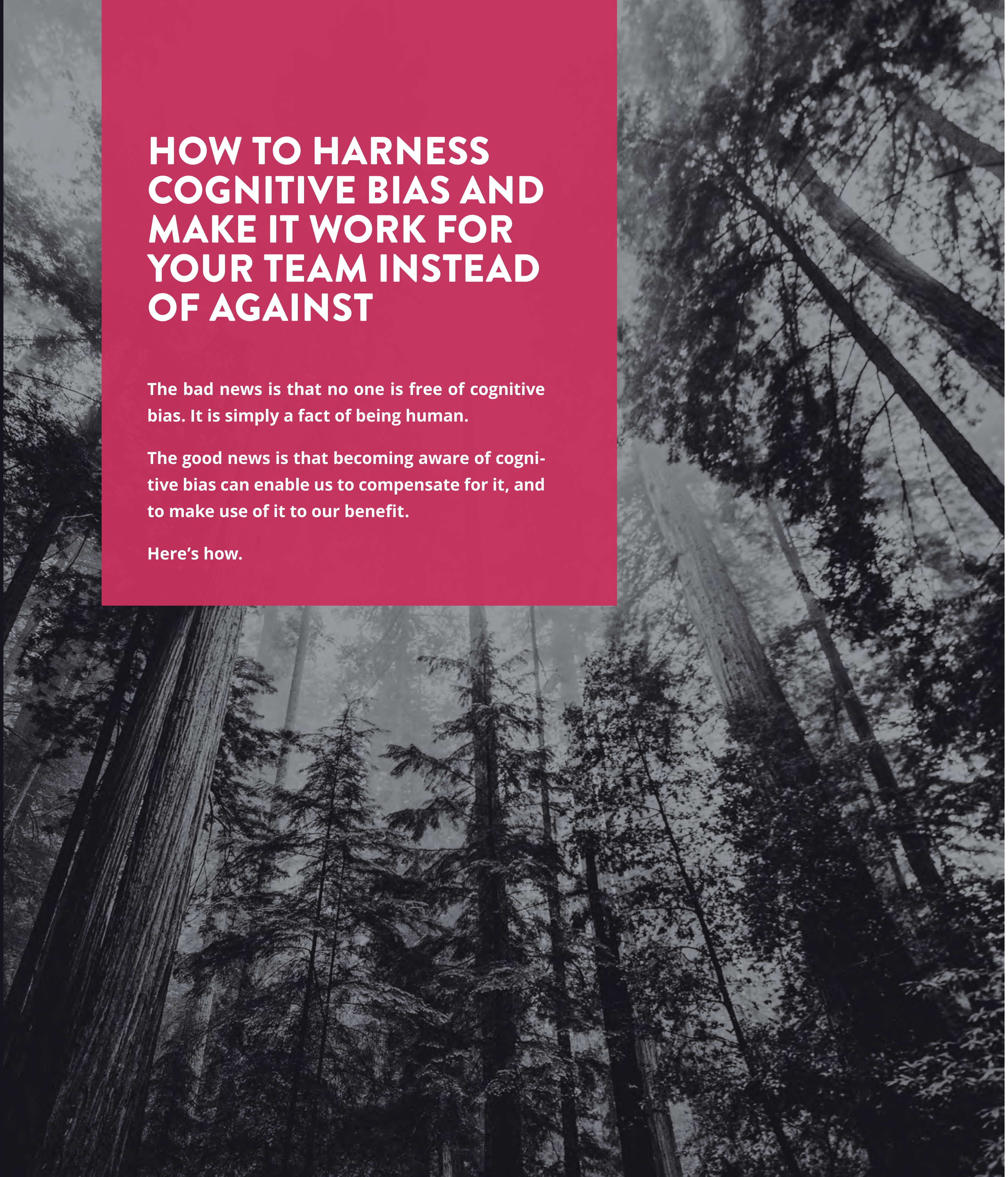

HOW TO HARNESS COGNITIVE BIAS AND MAKE IT WORK FOR YOUR TEAM INSTEAD OF AGAINST

The bad news is that no one is free of cognitive bias. It is simply a fact of being human.

The good news is that becoming aware of cognitive bias can enable us to compensate for it, and to make use of it to our benefit.

Here's how.

ACKNOWLEDGE IT IN YOUR SALES CULTURE AND TRAINING

Cognitive bias is most powerful (and damaging) when it goes unrecognized. Train your teams to recognize the major types and examples of cognitive bias that impact sales. Simply by acknowledging it and becoming informed, the people on your teams can begin to compensate for it.

Print this whitepaper and share it with your team. Include it in training and coaching. Make a habit of talking about the cognitive biases that may have impacted each win and loss.

ESTABLISH FRAMEWORKS TO COMPENSATE FOR COGNITIVE BIAS

Effective training and enablement frameworks can help your team compensate for cognitive bias by reminding them of correct actions to take (for instance, completing the discovery process before jumping to presentation), and helping them complete those tasks according to best practices (for instance, qualifying and disqualifying according to best practices rather than "gut feeling").

HARNESS COGNITIVE BIAS TO YOUR ADVANTAGE

Harness the cognitive biases that will prejudice buyers in your favor. For instance, use the sunk cost bias to expand on your discovery process and engage buyers more effectively and fully in the solution design process. Use your understanding of confirmation bias to improve your team's rapport-building skills, and predispose buyers to like them. Build correct techniques into your framework to keep salespeople on track and help them improve performance by working with, instead of against, cognitive bias.

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CONCLUSION

Cognitive bias is an unavoidable reality of being human. It has measurable impacts on our sales success. Choosing to recognize, compensate for, and harness cognitive bias represents an opportunity to provide our sales teams with substantial competitive advantage.

To learn more about the human factors that impact sales, and how to establish frameworks that work with instead of against them, read the book, *Stop Killing Deals*, by George Brontén.

Download the First Chapter for FREE

HOW YOU SELL MATTERS

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