Analyze Lost Proposals to Increase Revenue

by Bob Kantin, President
SalesProposals.com

Do you know your *Proposal Close Ratio*? Is it 20%, 30%, or maybe 40%? Few companies closely monitor this number even though it provides an excellent measure of the effectiveness of its sales process and sales force. Let's say a company closes 25% of its proposals, which appears fairly good. However, conversely its *Proposal Loss Ratio* is 75%, which really looks bad.

In the following example a company has 25 sales professionals with an average deal valued at $240,000. Here's what the numbers look like:

- Proposals written: 400
- Proposals won: 100
- Proposal Close Ratio: 25%
- Revenue from won proposals: $24 million

Now let's look at this example from a lost proposal viewpoint:

- Proposals lost: 300
- Proposal Loss Ratio: 75%
- Revenue lost: $72 million

The bottom line in this example is each sales professional has to write ten (10) proposals to close just three (3) deals while losing seven (7). More important, the company loses nearly three times the revenue on lost proposals as it wins on successful proposals.

Analyzing why this company doesn't close 70% of its proposals should provide some insight into how it might improve its close ratio. Here are some typical reasons why many companies have high loss ratios and the resulting analysis:

Reason Proposals Lost	Percent	Number	Value
Poor quality proposals (no standards, everyone writes own)	**10.00**	**30**	**$7,200,000**
Price (not accurately defining value)	**10.00**	**30**	**$7,200,000**
Proposals not reflective of a consultative sales process	**14.00**	**42**	**$10,080,000**
Proposals took too long to write—missed deadline	**0.90**	**3**	**$720,000**
Competition	10.00	30	$7,200,000
Not qualified	2.00	6	$1,440,000
No budget	2.00	6	$1,440,000
No decision	**50.00**	**150**	**$36,000,000**
Other	1.10	3	$720,000
Totals	100	300	$72,000,000

Why All the No Decision Deals?

In this example, the company lost 150 proposals to "No decision." This represents $36 million in lost revenue, 50% more than won revenue. Without directly interviewing each of the decision-makers, it's difficult to determine why the prospective companies would go through the entire buying process only to decide not to buy when presented with a proposal. Maybe the buyers' situations changed and they no longer needed this company's proposed product. However, that would seem most unlikely and too coincidental for 50% of the lost deals. Maybe some of the "No decision" deals were the result of the company's failure to convince the decision-makers that their organizations needed to make a change.

Perhaps some of these decision-makers weren't present at the seller's sales calls, demonstrations, or presentations. Consequently their decisions would have had to rely primarily on the seller's proposals, which obviously weren't very convincing. In other words, some of the "No decision" deals might be attributed to deficiencies in the seller's proposals. This could lead one to conclude that some plausible reasons for a percentage of the 150 "No decision" deals might be because the seller's proposal didn't:

- Define the buyer's current situation and costs.
- Define the critical business issues and related needs facing the buyer—the pain.
- Establish the value the buyer would receive from the proposed product or service.
- Clearly explain how the seller would implement or install the product or service
- Convince the decision-makers that the seller had experienced staff and was qualified to deliver on the contract.

Certainly one can speculate about the company's proposals and the "No decision" deals; however, it's difficult to make accurate causal correlations without in-depth Win/Loss/No Decision analyses. However, an argument might be made that some of these deals could have been won if the company's proposals did a better job convincing the decision-makers to make a change.

Company-Approved Proposal Models Can Make a Big Difference

Let's look at the first four "proposal-related" reasons in the table, which resulted in 105 lost deals. It's likely the company can mitigate some of these loses simply by providing its sales professionals with winning, buyer-focused proposal models that:

- Reflect the company's brand and concern for quality.
- Clearly define the financial and non-financial benefits of its products.
- Integrate the findings of a consultative sales process into each proposal.
- Reduce the time needed to write a custom proposal for each prospect.

In our example, proposals lost because of the first four reasons account for 105 deals, which equals $25.2 million of lost revenue. Certainly the company can't expect to recover all 105 of these deals simply by providing its sales force with new proposal models; however, let's look at the numbers if it recovers a very conservative 10% or about 11 more deals each year to see the impact on revenues and pretax earnings:

- Proposals written: 400
- Proposals won: 111
- New Proposal Close Ratio: 27.63%
- Revenue from won proposals: $26,520,000
- Increased revenue generated: $2,520,000
- Increased earnings @15% pretax margin: $378,000
- Monthly cost of status quo: $31,500
- Daily cost of status quo: $1,050

In other words, with no significant increase in incremental costs, the new proposal models will help close 11 more deals each year. This doesn't seem like a lot but it does increase total sales revenue by 10.5%. In today's environment, how many companies would be happy with any increase or just being able to match current sales to last year's level?

One also might speculate about the impact of the company's winning, buyer-focused proposal models if they also could reduce the 150 "No decision" by deals by 10%. This would add another 15 more deals to the won column, which represents an additional $3.6 million in revenue and $540,000 in earnings.

The Case for Company-Approved Sales Proposal Models

Many companies let sales professionals write their own proposals. This typically represents unstructured cut-and-paste activities rather than writing sales proposals that are integral to consultative selling. More important, when sales professionals write proposals without any oversight, companies have no control over content, quality, or commitments made. Company-approved proposal models ensure quality and consistency and reduce production costs.

Companies should view their sales proposals as critical customer communications documents—not just a means to communicate price. When proposals lack professional form and substance they do little to help prospective customers make informed buying decisions. For some companies sales proposals might represent their most important customer communications because they're essential for closing deals—perhaps the most compelling reason for providing sales professionals with winning, buyer-focused sales proposal models.

Use Our Tools to Evaluate Your Company's Sales Proposals and Process

Want to evaluate your company's current situation. Send an email to sdb.inquiry@salesproposals.com and we'll send you two tools:

- **Sales Proposal RATER** to evaluate the quality of your company's proposals from a buyer's viewpoint.
- **Process Value Estimation Metrics** to determine the potential benefits that your company might realize by improving its sales proposal process.