How tools & technology can help manage and track pricing performance

by Brian Elliott, Nicolas Magnette, and Stuart Schardin

A construction-materials company sells exclusively through distributors, and sales reps were incentivized based on volume. Prices were set, however, by a central team. To protect margins, the team increased prices across the board; volumes fell, which hurt the company and alienated sales reps.

Too often, staff—and sales reps especially—struggle to see how their own goals match those of the organization. Companies introduce all manner of performance-management systems, but they can become complex, cumbersome tools that leave employees less motivated than before. More worrying is the research showing that a large share of employees simply don't believe that performance-management systems actually help companies achieve strategic objectives[1].

The biggest challenge is usually that the outcomes on which sales reps are rewarded sit too far beyond their control. Compensation is often tied to volume rather than value. As a result, sales reps can feel especially frustrated because their incentives aren't aligned with what the company values. The sales reps at the construction-materials company certainly thought so.

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The challenge for companies is to develop a performance-management system that benefits both the sales reps and the company. That requires both a system that works and a way to track performance. In our experience, companies that outperform their peers do the following three things well:

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1 "Study on the State of Performance Management;" 2010, World at Work and Sibson Consulting

1. Uncover data on performance

Measuring performance requires transparency into data that matters, such as profitability. Without that data, managers can't tell whether sales rep pricing activities are helping or hurting. A European steel producer had data, for example, on how overall profitability was broken down according to the levers that were most important in the sales process, such as different types of rebates, transportation costs, and direct-marketing costs. Sales managers, however, lacked the tools to drill down to the individual customer or product level, which meant that they could never measure the profitability of any given transaction or take actions to improve it.
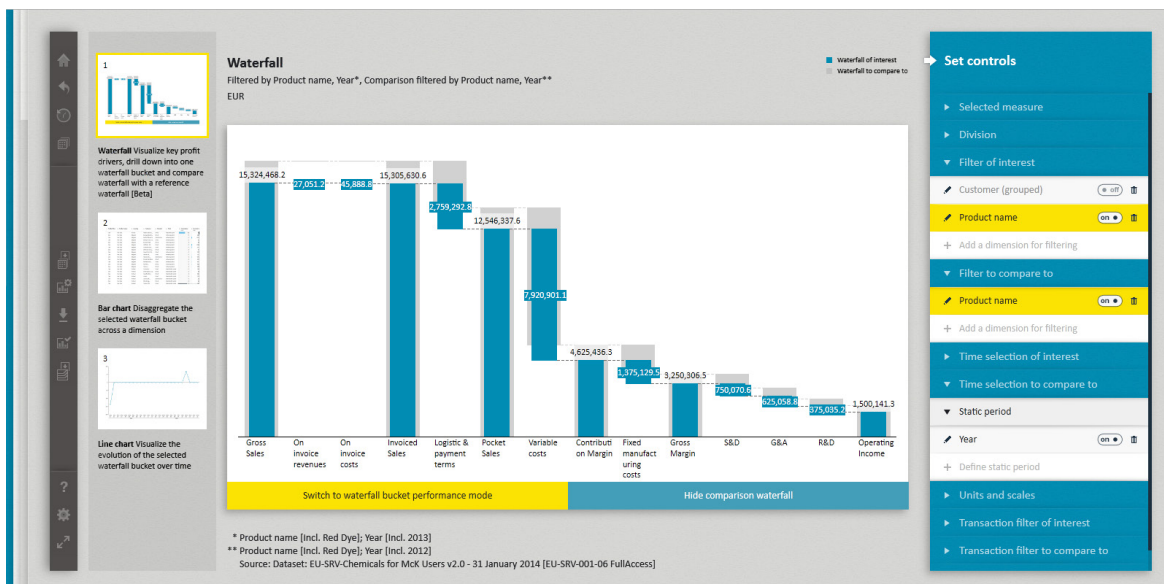
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What was lacking was a system that brought together relevant data at the level that sales reps cared about and that was critical to understanding performance—that is, at the level of their individual customers.

Setting up dashboards that analyzed data on a weekly basis at the customer level provided a new understanding of where profits could be won and lost. They pinpointed, for example, customers who were frequently unprofitable but had passed under the radar because they were small. Perhaps the customer always asks for express shipments, the cost of which isn't factored into the price. That type of insight is critical for performance management, because it allows leadership to understand where to direct their salespeople. But reps who perform well in attracting customers who are ultimately unprofitable clearly aren't helping the company overall.

2. Design the system with the sales rep in mind

Putting a pricing dashboard system in place can be useful, but it's meaningless if the salesforce doesn't use it. A system should be both easy to use and relevant to the sales rep. Data visualization, simple outputs, and an ability for a rep to easily run queries against the data is a prerequisite for the success of any technology (see exhibit).

When done well, creating a useful system is profoundly motivating to sales reps, who find they can not only increase their win rates and margins—and thereby their own financial rewards—but also do their job better. Getting reps to use the system then also creates data about the decisions they make and the outcomes of their work with customers. Systems and tools can generate useful insights, but sales reps themselves need to provide them as well. As Linda Crawford, EVP and GM for salesforce.com's Sales Cloud, says, "The people who win here are those who can get the field team, the inside team—everybody—using the system to input more data. Then you can apply Big Data analysis to support salespeople and boost business."

One company in the chemical sector delivered granular data to the salesforce through a conventional business intelligence dashboard. Unfortunately, the sales reps found it too complex. They could look at the data, but they didn't know how to draw conclusions from it or how to build it into their dealings with customers. The company tried to simplify the system by only showing revenue measures and leaving out key profitability metrics. Now the salesforce felt even less engaged!

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The solution was to create a pragmatic set of analyses of profitability data that is refreshed monthly and delivered to the salesforce in predefined templates. In practical terms, each sales rep gets a scatter graph that shows the profitability of all their customers over the previous month and lets them see in more detail, through interactive charts or tables, why some customers are unprofitable. The company also built "insight" apps that enabled sales reps to estimate the value-based price of a product for a specific client. Together, these built up the reps' confidence about increasing a price and helped them prepare for negotiations.

Salesforce performance rocketed, and more than $25 million worth of margin improvement opportunities were identified in the pilot business unit. One year later, both use of the dashboards and salesforce motivation remain high, and the company has improved its profitability by more than two percentage points. None of this required expensive changes to IT systems. It was simply a case of using pragmatic data-upload scripts from existing data sources and implementing the analysis dashboards.

Building skills is also critical to improving performance and building motivation. One company launched a continuous training program that addressed both the concepts of value creation and how to use the tools. One team was given advanced analytics training, which enabled it to carry out more sophisticated analyses such as elasticity or scenario drawing. This meant the team could generate new insights on a regular basis, turn the insights into targets, and make structural changes to the sales process. Letting some reps undertake this more advanced training has also helped keep motivation and engagement levels high.

3. Set the right targets and track actions

The final piece in the puzzle is active management and tracking. That starts with defining clear targets for sales reps based on a systematic analysis of all the facts and factors relevant to price, then identifying the pricing opportunities. When those are established, the best pricing leaders put in place metrics that help track progress.

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It's important to balance metrics between revenue targets and pragmatic measures of margin that are relevant to the business but also practical for the rep, e.g. "pocket" price, which is the net price after all costs to serve are factored in.

With targets and metrics set, it's then up to the sales rep to develop the ideas and actions to meet the target. A good system will support him/her by providing progress information and prompts to follow up with clients based on new information (e.g. change in market conditions affecting price). Once a sales rep takes action, it's critical to log it somewhere, along with the expected impact and a due date. If the impact isn't realized in time, a good system sends the rep a reminder and alerts the manager to a potential issue as well.

This approach gives sales reps a lot more ownership of their actions, which they can adapt as their customers' circumstances change and as new data becomes available. It also gives managers more confidence in the process, because they can get a view across the many initiatives to track their impact over time.

One company went a step further and customized an app that recommends pricing actions based on a transparent analysis of transactional data. Its sales reps get monthly updates of recommended actions, such as opportunities for increasing prices or cross-selling products, which they use to adapt plans. This ensures the salesforce maintains ownership of pricing and that individual performance management is easy and flexible. To ensure sales reps deliver value, managers look at gaps in overall improvement targets, rather than at the impact of every action, the choice of which is left to reps themselves.

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Effective performance management is not a one-time event; it requires a commitment to continual interactions with sales reps. Frequent performance dialogues between managers and sales reps, for example, have ensured that high performers are noticed and eventually rewarded. The best performance management in pricing and commercial performance is about both improving margins and building the capabilities of your people.

This article was based on insights and experience from client work with Periscope, a McKinsey Solution. Periscope is an integrated set of solutions designed to deliver sustainable ROS improvement through better pricing, promotions, assortment, and performance management.