

Accelerating revenue growth through tech-enabled commercial excellence

Industrial companies are transforming revenue growth by using digital technologies and analytics to tap into next-generation commercial levers.

by Minti Ray, Stefano Redaelli, Sidney Santos, Jared Sclove, and Andrew Wong



Industrial companies continue to look for the next horizon of growth. In our experience, a surefire way to boost revenues is to undertake a tech-enabled transformation across three areas—commercial excellence, portfolio and markets, and innovation and business building (see sidebar, “A comprehensive approach to revenue growth”). In particular, pursuing commercial excellence, which encompasses activities from e-commerce to on-the-ground sales, holds immense potential for industrials: McKinsey research found that applying technology to the activities of the commercial function could generate up to nearly \$300 billion in additional industry-wide revenues.¹ To date, however, the performance of industrials in the area of commercial excellence has lagged behind that of their B2B peers.

One reason is that, while the industrial sector has become a test bed for new technologies in supply chains and manufacturing, companies have been slow to apply digital and analytics within the commercial function. Business leaders recognize the clear benefits of these technologies: 55 percent of high-performing commercial organizations state that the use of analytics is “absolutely critical,” and 46 percent of high performers plan to increase spending on analytics by more than one-quarter over the next two years, compared with just 11 percent of low performers.²

Industrial companies cannot improve their commercial function with investments in digital technologies and analytics alone. Instead, they must use a comprehensive playbook to execute a tech-enabled growth transformation through commercial excellence. But, because the commercial function encompasses a range of activities, companies must tailor their playbooks accordingly. A number of organizations have already extracted significant value using this approach, which offers a clear path forward.

A comprehensive playbook for the commercial function

Based on our experience working with industrial companies, we have identified four sources of value for a tech-enabled transformation (Exhibit 1). The application of digital and analytics can help organizations achieve commercial excellence and, ultimately, sustainable organic growth.

When investing in analytics, organizations can increase their odds of successfully extracting value from these sources by following these core tenets:

- Analytics alone will not have meaningful impact absent broader change. Capturing value from analytics requires companies to change their approach to execution, decision making, and frontline processes.
- Analytics should be led by business needs rather than by IT, and analytics should be built one use case at a time.
- Companies don't need perfect data sets to get started; in most cases, they have enough data for immediate impact.
- Analytics need not be a major investment and can be built at a fraction of the cost of traditional IT projects.
- To increase the impact of analytics, the best-performing companies build small but highly skilled analytics teams that work closely with commercial leaders.

These tenets are embodied by a tech-enabled transformation playbook, which is a comprehensive approach to building the strategic road map and scaling the change necessary to achieve growth and commercial excellence.

¹“Tech-enabled transformation: The trillion-dollar opportunity for industrials,” November 2018, McKinsey.com.

²“2015 State of Analytics,” Salesforce, October 2015, salesforce.com.

A comprehensive approach to revenue growth

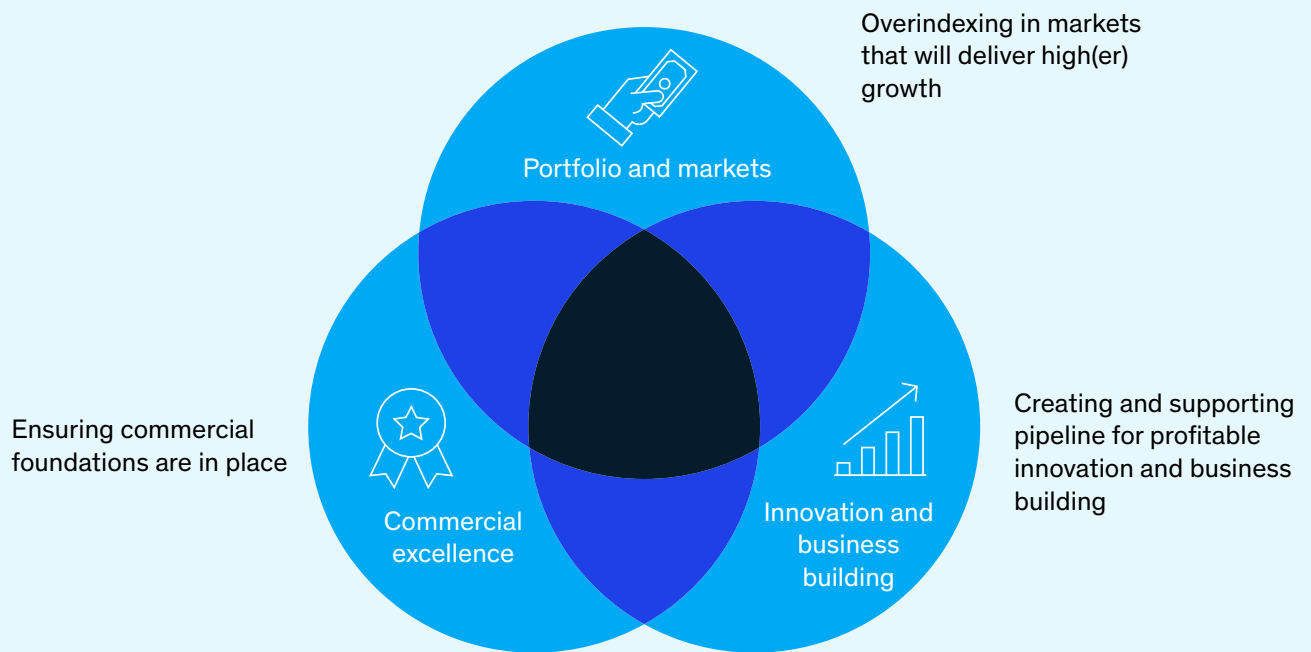
Sustaining growth is difficult for any organization, but the value of doing so is enormous: companies that outperform their peers on both revenue growth and economic profit create more than 6 percent in additional total return to shareholders a year.

Several factors make growth transformations an enduring challenge. Successful growth efforts require collaboration across functions, but organizations often fail to designate an end-to-end owner who is accountable for results. Attractive end markets shift continuously and create new opportunities, but few organizations are able to dynamically reallocate resources. Digital technologies and analytics have the potential to supercharge growth, but many companies lack the necessary talent and capabilities in functions such as analytics and general management to implement these solutions at scale.

In our experience, successful growth transformations require an integrated effort across three areas (exhibit).

Exhibit

Growth transformation requires an integrated, organization-wide effort.



















Taking a comprehensive approach to improving performance in these three areas can compound the topline benefits. In fact, organizations that successfully master one area have achieved annual growth rates one percentage point higher than the average growth rate of their sector. However, mastering two or all three areas can boost annual growth by 3.6 percentage points more than that of their peer companies.¹

¹“Mastery” is defined as survey respondents’ agreement that their companies are “effective” or “very effective” at 70 percent or more of practices in a given area (there are three areas: commercial excellence, portfolio and markets, and innovation and business building). For commercial excellence, the survey asked about eight practices; for portfolio and markets, seven practices; and for innovation and business building, six practices. For companies that have mastered no lenses, n = 765; for companies that have mastered one, n = 320; and for companies that have mastered two or three, n = 381. See Kabir Ahuja, Abhinav Goel, and Kate Siegel, “Debunking four myths of organic growth,” May 2019, McKinsey.com.

Exhibit 1

For a successful tech-enabled transformation, companies extract value from their commercial activities.

Sources of value	Examples of digital levers			
E-commerce and digital marketing	 Agile digital marketing	 Optimized paid search (SEM ¹)	 Maximized organic search (SEO ²)	 Next product to buy/personalization
Digitized sales and channel	 Coverage and channel optimization	 Field productivity analytics and talent development	 Intelligent lead generation	 Analytics for key account management
Advanced pricing	 Dynamic (at-scale) price setting	 Dynamic deal scoring	 Data-driven performance management	 Targeted category margin expansion
Analytics-driven marketing	 Lead scoring and microsegment targeting	 Personalization	 Dynamic creative and content	 Churn prediction and reduction

¹ Search engine marketing
² Search engine optimization

The playbook’s two phases and four enablers reflect the best practices of a tech-enabled transformation.³ However, the way in which the playbook should be applied must evolve based on the particular source of value for commercial excellence. The following sections walk through the playbook and share examples from e-commerce, a digitized sales force, and advanced pricing.

Phase 1: Assess

The first phase of developing the strategic road map involves making quantitative assessments to diagnose issues and evaluate the potential of value-creation opportunities. The assessment approach can vary significantly, depending on the source of commercial value. To calculate the potential of a digitized sales force, for example, companies should evaluate opportunities across a broad

³ For more detail on the comprehensive playbook, see Venkat Atluri, Aamer Baig, and Satya Rao, “Accelerating the impact from a tech-enabled transformation,” on p. 15 of this collection.

range of levers—from reducing pricing variance to standardizing policies for freight, returns, and rebates to thinking through a holistic book of business with customers. Analytics can help organizations understand the variance, figure out which lever has the most impact, and select the tools and capabilities that the field force needs to address margin leakage.

In addition, companies should assess how long it may take to capture the value. Some levers will need technological fixes. For example, restricting discounts may require updating the back-end sales system through the introduction of an advanced analytics capability. Other changes may lead to additional frontline sales training and education. For example, in the case of freight, salespeople must learn how to have difficult conversations with customers about why their companies will have to pay for a service that previously was free.

For e-commerce, the assessment first focuses on estimating the value of the opportunity and then examines each element that supports e-commerce. The revenue potential can be rendered as this formula:

When assessing device traffic, a company can measure the return on investment (ROI) of each of its digital-marketing programs (such as paid and organic search, email, display, product listing and local inventory ads, and loyalty) and benchmark its performance versus industry peers and cross-industry leaders. For user conversion, a company should conduct a teardown of all digital properties to establish a benchmark for user interface and experience (UI/UX), lead generation and automation, and other advanced levers.

Companies should ensure that the assessments review all relevant digital capabilities and then compare the results with industry benchmarks. The assessments should be complemented by expert-led walk-throughs to test initial results. A US logistics company, for example, failed to keep pace with the industry's adoption of digital-marketing technology as measured by investment, processes, and capability development. To address these weaknesses, the company performed an assessment, conducted a walk-through, and compiled a set of prioritized use cases that had the potential to increase annual revenue by about \$150 million. It also identified the required digital-marketing capabilities and technology needed to support this goal.

$$\text{Revenue} = \text{device traffic} \times \text{bounce rate} \times \text{user conversion} \times \text{average order value} - \text{cancellations and returns}$$

To capture opportunities in pricing, companies must first assess practices at all levels, from defining the pricing strategy to getting the desired price (Exhibit 2). This exercise highlights where performance lags behind best practices. For example, one large equipment manufacturer had traditionally priced add-ons to products on a cost-plus basis. However, a comparison between the sales and margins of base products and add-ons revealed that in several categories most customers preferred products with add-ons—which had smaller margins. By moving to value-based pricing, the company was better able to match prices to customer preferences and unlock incremental bottom-line impact.

Once companies have developed a solid understanding of the starting point, leaders can make informed decisions about which capabilities to prioritize and which activities of the sales organization need additional attention to capture more value. For example, one equipment distributor

increased margins substantially by empowering the sales force with real-time information about the profitability of different deals. It also made significant investments to train salespeople on pricing concepts. The result was a well-informed sales force that understood the consequences of trade-offs and could make better pricing decisions for every deal.

Phase 2: Build and implement

The second phase of the transformation journey involves executing the strategic road map. Companies must invest in and enhance the playbook’s four enablers: capability and talent, technology and data, performance infrastructure, and organization and mind-set. The requirements for each enabler will vary depending on a company’s vision, goals, and current baseline—that is, its existing infrastructure and organizational capabilities and skills.

Exhibit 2

Capturing value from pricing requires assessing pricing practices at all levels.

	Base practices	Nascent capabilities	High performer	Next frontier	
Assess core pricing practices	Define pricing strategy	<ul style="list-style-type: none"> • Price follower 	<ul style="list-style-type: none"> • Competitive pricing 	<ul style="list-style-type: none"> • Strategic pricing 	<ul style="list-style-type: none"> • Disruptive pricing models
	Set the price	<ul style="list-style-type: none"> • Cost-plus pricing 	<ul style="list-style-type: none"> • Portfolio pricing • Heuristics pricing 	<ul style="list-style-type: none"> • Value-based pricing • Life cycle pricing 	<ul style="list-style-type: none"> • Dynamic pricing
	Get the price	<ul style="list-style-type: none"> • Discount guardrails 	<ul style="list-style-type: none"> • Gross margin or discount management • Leakage management 	<ul style="list-style-type: none"> • Dynamic deal scoring • Dynamic pricing grids or dynamic contract management 	<ul style="list-style-type: none"> • Analytics 3.0: dynamic-price sales management

The comprehensive playbook was developed to help companies overcome common obstacles in the course of a transformation. During this phase, one of the main challenges is engaging all stakeholders and breaking down silos between the IT team and the rest of the organization. Collaboration and coordination of efforts across the commercial function are important elements of the playbook. One advanced electronics company, for example, created a multifunctional team that included leaders from learning and development, sales, finance, IT, and change management to build the full-scale implementation plan.

Another challenge is that, after initial gains, the impact of the transformation tends to plateau. This pattern can be traced to multiple causes, including a return to traditional ways of working, limited adoption of changes across the organization, and reduced focus on sustaining progress by management. To be successful in the long term, leaders must champion change and have a relentless drive to achieve initiatives and capture the value at stake.

The following sections examine the four enablers in detail and provide examples of how their emphasis changes by commercial activity.

Capability and talent

To build the necessary workforce and leadership capabilities to support a tech-enabled transition, many companies must upskill their entire sales organization—from the frontline sales team to managers to the executive office. Another key element of building capability and talent involves upskilling the members of the transformation office. These positions, which implement and scale changes, require unique skills and knowledge. Designating formal and informal leadership coaches for transformation-office leaders can enable the leaders to be more effective.

Building capability and talent must remain a continuous process for a company to meet its transformation goals, because the instillation of new skills and knowledge in employees can be challenging to maintain. Companies tend to lose

focus after an initial push, erroneously assuming that an updated onboarding process for new hires will be sufficient.

A digitized sales force

Incorporating technology into every facet of the sales force must be accompanied by a coordinated training effort. Sales leadership and a multifunctional team should work together closely to develop programs that cover the new sales processes and policies, sales vocabulary, negotiation strategies, and upgraded tools and dashboards used to monitor and improve performance. An advanced electronics company seeking to digitize its sales force, for example, created content and learning modules that were continuously refreshed, based on aggregated observations of sales-force performance in the field. The organization also invested in personalized coaching for selected leaders.

E-commerce

In e-commerce, it is often possible to accelerate development life cycles by applying an agile methodology. This approach requires organizations to shift from functions coordinated by project managers to truly agile teams that lead sprints toward improvements (Exhibit 3).

Technology and data

Data-driven decision making is a key ingredient of commercial excellence. To accelerate growth, the entire organization must have access to the latest information and analyses. Many companies will have to build an integrated data lake and dashboard. The dashboard's functionality need not be comprehensive at launch, because when it's developed in an agile fashion, an organization can add features every few weeks, based on the road map as well as feedback from the field.

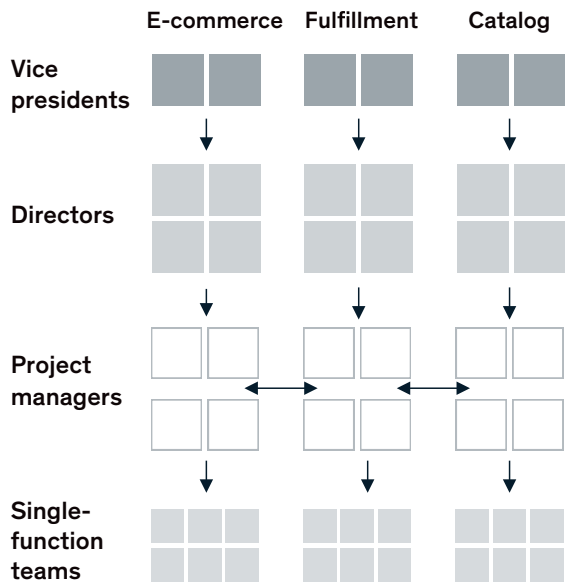
After the initial launch of technology upgrades and changes, infrastructure must be continuously modified to match the transformation's evolving requirements. Testing and feedback should be collected to improve the tools, data, and enabling technology. As the transformation scales across the organization, adoption of the technology infrastructure will increase.

Exhibit 3

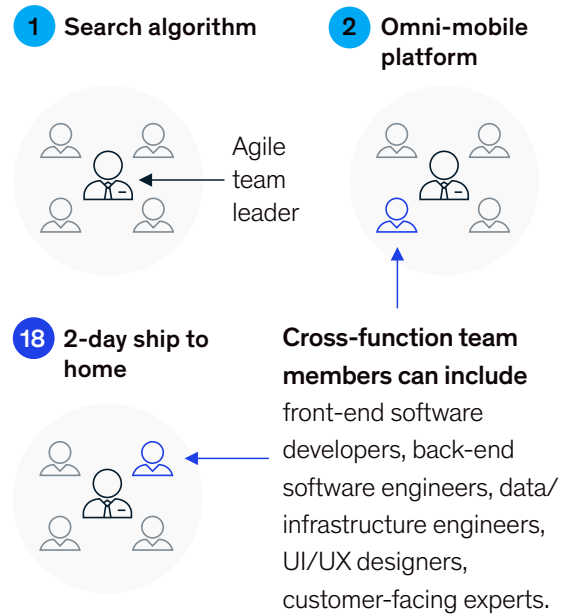
Accelerating capability and talent building requires an organizational to shift from functional teams to agile, cross-functional teams.

From siloed, project-management-driven teams...

... to agile, cross-functional, independent teams



Project managers interface across silos and translate to VPs.



Teams operate the business.

Each team has individual goals to achieve, metrics to track success, and profits and losses—all working toward overall digital goals.

A digitized sales force

The dashboard is a critical element for the sales force, because it functions as the single source of truth. Individual sales agents can use the dashboard as a baseline to improve their performance by reviewing their own past transactions and identifying missed opportunities. At the previously mentioned advanced electronics company, incremental upgrades to improve order-entry systems (for example, employees who repeatedly don't comply with business principles are locked out of the system), the data lake, and the performance-management dashboard (such as increasing the frequency of data updates, from weekly to daily to live) continued through the transformation journey.

System and technology changes were prioritized based on their expected impact and signed off by the full transformation office and C-suite.

The company also designed and launched multiple system enhancements to nudge the sales force to comply with the sales processes and policies and to increase the margins from every transaction—for example, by suggesting price floors to reduce discount variability and prompting agents to pass through freight costs. There was a targeted effort to identify high-value system enhancements based on the value that was at stake. These changes were launched in sync with a change-management and

communication plan, to ensure that the effort's goals were visible and clear to the organization.

In addition, analytics tools can be used to optimize the structure of the sales force by the type and frequency of commercial activity, territory and account loads, or the go-to-market model—which might be direct sales (key-account manager, field sales, inside sales, e-commerce) or indirect sales (partners and resellers, distributors). For example, the combination of attitudinal customer segmentation, total account potential, and historical response curves from outbound-sales activity can lead to an optimal sales-deployment model that aligns all activity against the highest-potential accounts to maximize returns. Using this approach, one B2B distributor was able to identify more than \$100 million in additional revenues while reducing sales-management head count by about 15 percent. A chemicals company deploying the same analytical approach was able to develop a commercial strategy that enabled it to grow at above-market rates.

Advanced pricing

Having a centralized data lake is critical to maximizing value from pricing actions. For one global manufacturer, changes in tax structures in Europe significantly affected the market. The sales teams responded by increasing discounts on certain products, which led to negative margins. Since information was scattered across several systems, it took months for management to identify and reprice those items. By establishing and accessing a single source of truth, made possible by the data lake, managers can now more quickly respond to changes in market and customer trends that might open up pricing opportunities.

However, many executives believe that they must have a comprehensive technology solution in place to start capturing value. We disagree. An automotive parts manufacturer, for example, developed standardized analyses and reports using data available in separate systems. While the comprehensive solution was being built, these data sources were sufficient to provide valuable insights to the pricing group, allowing

them to make more targeted pricing adjustments and, as a result, unlock significant value.

Performance infrastructure

A high-powered transformation office is critical to steering efforts and monitoring progress. Senior management should designate employees for the transformation office and then define individual roles and responsibilities. Establishing frequent meetings ensures that the transformation proceeds on an accelerated timeline.

The transformation office plays a pivotal role in achieving impact by moving beyond early-adopting employees to focus on promoting change among the organization's rank and file. The office's members should adopt a strong execution mindset, with clearly defined metrics for tracking. The design of the office should be fluid enough to allow members to be swapped in and out based on the requirements of specific initiatives.

Across all commercial activities, a digital war room can serve as a powerful way to track in real time the actions and results of those at all levels of the organization, including sales managers and frontline salespeople (Exhibit 4). Such visibility promotes a focus on execution.

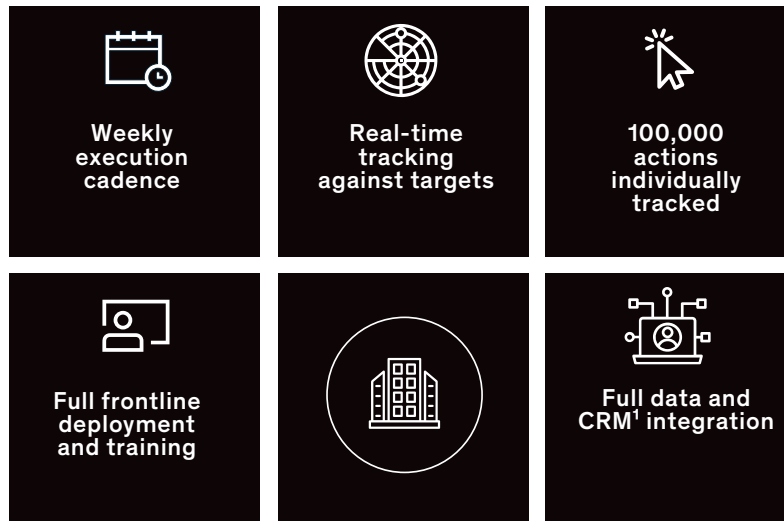
These elements are integral to an agile approach, which has demonstrated its effectiveness in achieving sustained improvements. Overall, agile organizations have a 70 percent chance of achieving top-quartile organizational health. With agile capabilities, companies can simultaneously increase customer centricity, accelerate time to market, generate higher revenue growth, and reduce costs.

A digitized sales force

At one company, the transformation office tracked four key performance indicators (KPIs) that had the most impact on margin expansion and identified low and high performers (by business segment, location, and individuals). This information enabled the company to recognize leaders and prescribe remedial action for some. The metrics and performance outliers were also incorporated into the company's regular internal reviews.

Exhibit 4

A war room installed at company headquarters is the central nerve center of a transformation.



¹ Customer relationship management.

Companies should also reevaluate incentives to ensure their alignment with the transformation goals. At an advanced electronics distributor, for example, the compensation and bonus structure were linked to the overall profit a sales agent generated for the company rather than to increased margins, which were the focus of the transformation. Once the company recognized this misalignment, it undertook a complete restructuring of the compensation and bonus plan, with a focus on rewarding increased margins.

E-commerce

In e-commerce, performance can be measured daily, because of the almost instantaneous nature of feedback from online transactions. For example, one aftermarket retail company established a digital-marketing war room to encourage performance-management discipline in all its campaigns. Owners of each campaign shared progress daily on performance as measured by return on advertising spending, aspects needing improvement, and additional investment required. Once a week, all initiatives were combined into KPIs to be tracked and managed by the chief marketing

officer. Vice presidents and initiative owners were assigned targets for each KPI, and the owners presented weekly progress reports against the targets. The CMO then helped uncover roadblocks and secure additional investment for campaigns that produced a positive ROI.

Advanced pricing

In pricing, the transformation office's function and cadence can provide a forum to resolve conflicts that arise from pricing decisions. These conflicts often involve trade-offs between margins and volume and might require quick action. At one large distributor, the sales force was compensated based on net sales. Salespeople were afraid to follow recommendations from the pricing team, which had used a new methodology to identify ongoing customer sales negotiations that might warrant higher prices. By creating a special initiative under the transformation office, the company was able to ensure that sales reps would not be penalized if some of the negotiations failed. This move freed the sales force to adopt the new approach and improve the bottom line without a complete overhaul of the sales-compensation structure.

Organization and mind-set

Sustaining organizational health and employee morale while carrying out transformation initiatives is a major challenge. Most organizations have a mix of adoption levels. Some employees become early adopters, while others are more resistant to change. The introduction of the data lake and dashboard requires substantial quality testing from designated “super users” as well as extensive training and communication to enable the organization to use the features effectively.

To keep the transformation from stalling, communication about the case for change, sufficient resources to support individuals, and proper incentives become even more important. Often, companies also form a dedicated change-management team as part of the transformation office. In addition, recognition beyond financial incentives plays an important part in promoting the desired mind-sets and behaviors throughout the organization.

A digitized sales force

At an advanced electronics company, senior management implemented financial incentives for improving margins (the overall goal of the company’s transformation). In addition, it held short-term competitions among different locations to improve specific metrics on the margin levers (such as how frequently freight costs were passed on to customers). The winners received nonfinancial rewards, such as recognition in CEO town halls. The company also provided employees with a “bonus calculator” that allowed them to quickly see the incremental bonuses they could earn by following the new business principles.

E-commerce

At the previously discussed aftermarket retail company, managers sought outside inspiration to help shift the mind-sets of their highly capable team

of data scientists and analysts. The team members had focused on 15 descriptive analytics cases whose impact was unclear. The company brought the team to an external AI experience center that worked with the team members to migrate their efforts from descriptive to predictive use cases. This mind-set shift allowed the company to identify and size predictive use cases, define an advanced AI data stack, and enable use-case development through improved data governance.

Advanced pricing

The transformation team at a large equipment manufacturer appointed initiative owners from sales to test and promote the adoption of new pricing tools. Because the owners were high-profile sales reps, collecting feedback and improving the tools was relatively easy, given the high levels of trust between the company and the sales reps. By constantly celebrating successes and using language that resonated with the sales reps to communicate the benefits of the tools, the initiative owners were able to quickly embed the new tools into sales processes and ensure that new pricing insights were applied broadly.

Using tech-enabled commercial excellence to accelerate revenue growth requires industrial companies to continuously adapt and respond to the changing digital, technological, and analytics landscape. Building the strategic road map and scaling the necessary changes according to the playbook help to lay a solid foundation for a tech-enabled transformation while providing the flexibility industrial companies need to excel across all the value-creation levers of the commercial function. The result will be an organization with the necessary capabilities and tools to make better decisions, pursue new opportunities more readily, serve customers more effectively—and accelerate growth.

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