'AMS Voices'

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Applied Marketing Science, Inc.

An Idea Sheet from Applied Marketing Science

The Problem With Pinball

While few will admit it, many firms manage their product and service development groups according to the pinball principle: if you win you get to play again. This strategy leads to actions that are short-term and are probably not in the best interests of the firm.

Pinball can come in many forms. The design team that developed the last successful product gets a new, exciting challenge. The salesperson who lands a big account gets a larger territory and more resources. The sales forecaster who successfully predicted a win gets the call for the next new product launch.

Of course, success should be rewarded. Those who succeeded in the past are likely to succeed in the future. Reward for past success creates loyalty and encourages hard work on future projects. These aspects of pinball are good and ought to be encouraged. But there are some downsides as well.

> *Unfortunately, pinball means that if I win, you lose—i.e., you have to wait while I get to play again.*

Short-termism. Consider two products. Product A is based on a fundamental change in the system's platform. It takes longer to develop, but once it is developed the potential payoff is huge. Product B is a minor change using the current platform. It will be obsolete in three years, but it will have an immediate payback. Even if Product A was better for the long-term profitability of the firm, "pinball management" may reward Product B. The developer of Product A may not even get to stay around long enough to see the completion of the product or, more likely, the developer of Product B may move up the promotion ladder faster.

Risk Avoidance. Employees have mortgages, car payments, and college tuitions to face each month. They cannot afford to bet their careers on risky products, even if those products have the potential for a major market success. On the other hand, firms can diversify their risk across many projects, and even if they do not, their stockholders can. Employees are, consequently, more risk averse than the firm. In an analogy to short-termism, they are more likely to choose the minor change using the current platform over a fundamental change to create a new platform.

Internal Competition. Unfortunately, pinball means that if I win, you lose—i.e., you have to wait while I get to play again. This does not engender cooperation—it fosters potentially destructive internal competition. Furthermore, it gives little reward for actions that help to improve another department's game.

Fortunately there *are* alternatives to pinball management. Incentives tied to effective ongoing measurement systems can make sure that employees are rewarded fairly. For example, it has been shown that short-termism can be reduced when customer-contact people are judged on sales *and* actions that address long-term customer needs, rather than on sales alone. This long-term market perspective can be pushed deep within a firm's culture by explicit customer satisfaction systems that recognize both the primacy of customers and the interdependence of employees. Explicit risk assessment and good forecasting systems can reward employees who take necessary risks. By linking *Voice of the Customer* and *Voice of the Employee* measurement, the firm can develop metrics and incentives that align employee motivations with those of the firm. Then employees acting in their own best interests will also be acting in the best interests of the firm. ■

—John Hauser