COIN OPERATED

Audiobook Visual Companion

Bill Canady

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31 figures, the reading plan and worksheet map,
Put It to Work, The Instruments, and Continue the Work.

These are exact pages from the approved book.
Their printed folios refer to that edition. The PDF
bookmarks provide direct access to each figure.

This companion is included with the audiobook.
The separate Field Guide contains all 36 worksheets.

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Painted over the door of the old shipping office was the founder's rule: *Every wheel carries its share.* Each chapter has a section headed Halvorsen, in which the company does what the chapter teaches, people named and days dated.

The Field Guide

Every instrument the chapters use is in *Coin Operated · The Field Guide*, a separate book. It holds thirty-six worksheets, three for each chapter, printed letter size with Halvorsen's completed version facing each blank, and made to be filled in at the conference table, with the plan, the ledger and last year's invoices spread out beside it.

Chapter	Worksheets
1 — Coin Operated	1–3
2 — Follow the Money	4–6
3 — One Number, Every Lever	7–9
4 — The Right Team on the Field	10–12
5 — Pay on Margin	13–15
6 — Pay Every Seat for Its Job	16–18
7 — The Seats That Matter	19–21
8 — Lock the Team to the Number	22–24
9 — Equity for the Difference Makers	25–27
10 — Expect the Game	28–30
11 — Bring the Add-On Over	31–33
12 — Keep the Promise	34–36

Shortened versions of five of them come after Chapter 12, under *Put It to Work*, together with a plan for your first month, and the Instruments page lists every one of the thirty-six.

The First Hundred Days

The table below shows one way to work through the book in your first hundred days. If a plan is paying for damage right now — a cap about to push orders into next year, a discount nobody approves — fix it before anything in the table.

When	Read	What you'll have
Week one	Part One, alongside your chief financial officer	The pay audit under way: every plan, every exception, every person on variable pay
Weeks two to four	Chapters 2 and 3	The everyone-hits-it test on every plan, the Quads with people cost, commission per dollar of margin, a draft of the bridge
Days 31 to 60	Chapters 4 to 6, then 10	The bridge agreed with the board, the coverage map and the zeroed-up team, every rep's rerun, the pre-mortem and the guardrails
Days 61 to 100	Part Three and Chapter 12	The critical-seat map and the capability audit, the leaders' curve and its cash gate, the pay calendar, one signed page for every person on variable pay
After Day 100	Chapters 9 and 11, and Chapter 12 again	The bands, the grant table and the value table, the add-on's pay audit, the first annual reset

Which chapters matter most to whom? The chief executive should read all twelve and come back to Chapters 1, 3 and 8. An operating partner can start with Chapters 1, 3, 8, 9 and 12. A chief financial officer needs Part One and Chapters 8, 10 and 12, and owns the arithmetic in every one of them. A head of people needs Chapters 6, 7, 9 and 11. And a VP Sales should read Part Two twice, then Chapter 10 before the first plan goes out.

The Rules and the Law

Nothing in this book is legal or tax advice. Nor is it a manual of either. Pay is governed by federal, state and local law — on commission agreements, overtime, pay ranges, independent sales representatives, equity and deferred compensation — and that law differs from one state to the next and changes. Where a chapter describes a rule, it means U.S. federal law or the law of the state it names, as the text read in October 2026.

Plan	People	Paid on	Paid in Year 0	Steps to EBITDA
Leaders' scorecard	8	Ten measures, EBITDA one of them	$496K	Crooked
VP Sales	1	Company revenue vs budget	$91K	Revenue only
Regional managers	4	Region revenue vs budget	$144K	Revenue only
Key account managers	5	0.6% of account revenue, capped at $45K	$225K	Revenue, capped
Territory managers	24	2.0% of territory revenue, uncapped	$1,580K	Revenue only
Inside sales spiffs	16	Product pushes	$24K	None
Plant leads	28	Units shipped vs standard, attendance	$94K	Volume only
86 people			**$2,654K**	

61 exceptions beneath the seven plans. EBITDA fell $1.1M the same year.

Fig. 01-01: Seven plans at Halvorsen, Day 30: $2.65 million of variable pay, and not one plan with a short, straight line to EBITDA.

I didn't know, and I said so — I told him I would find out, and that it would take a month. Then he asked the question he asked at every meeting I ever had with him, which was how much cash the business had made, and that one the controller could answer to the dollar.

Larry Dunagan did most of the finding. He was the controller, though he held the CFO title when I arrived, and he had run Halvorsen's commission statements for years. I asked him for every person paid a dollar of variable pay in the last twelve months, taken from payroll, with the plan or the exception behind each dollar. Some of it took digging. The plant leads' bonus wasn't in the personnel files at all — it lived in a spreadsheet in the plant office, and it took Larry two days to find out who had approved it. He came back with seven plans, and on one page they looked like this.

Beneath the seven plans sat 61 exceptions. There were 22 house accounts credited to territory managers who never called on them, and 14 split-credit agreements on shared accounts. There were 11 guaranteed minimums or draws that nobody had reconciled, and 8 spiff programs started for one push and never stopped. And there were 6 personal side letters (a special rate, a car allowance in place of commission, a cap

The plan	If everyone hit it exactly…	Better off?
Territory managers: 2% of revenue	Revenue up, margin down, more Quad 4 orders	Only by accident
Key account managers: capped at $45K	Orders slide into January once the cap is hit	No
Leaders: ten measures	Five or six measures hit, bonus paid while EBITDA falls	No
VP Sales and regional managers: revenue vs budget	Paid above target in a year profit fell	Only by accident
Inside sales: spiffs	This month's product pushed, whatever the customer needs	Only by accident
Plant leads: units shipped	More of everything shipped, including orders that lose money	Only by accident

The question: if everyone achieved exactly what this plan rewards, would the company be better off?

Fig. 01-02: The everyone-hits-it test, run on Halvorsen's seven plans: none of them passed on purpose.

waived once). None of it was hidden — each exception had been signed by someone who meant well, for a reason that was good at the time.

Larry was embarrassed by the count, and he had no reason to be. Most of those exceptions were signed before he ran the statements, and he had paid every one exactly as written, every quarter, for years. In all that time no one had asked him to add them up. "I knew they were all in there somewhere, but I'd never seen them on one page," he said.

In all, 86 people were on variable pay of some kind, about one in six of Halvorsen's 540: 50 in sales, the 8 leaders outside sales and 28 plant leads. Between them the plans paid $2,654,000 for Year 0, about a seventh of Halvorsen's EBITDA, in a year EBITDA fell by $1.1 million. Territory managers alone took $1.58 million of it, at 2.0 percent of every revenue dollar, with no cap and no question about the price. Nobody I asked could remember when the 2 percent had been set, or by whom.

On Day 28 I taped the seven plans to the wall of the old conference room, one sheet each, and ran the everyone-hits-it test with the leadership team. Clay Kroeger, the VP Sales, was there, and so were Milo Eckert from operations, Larry, the VP Engineering, the plant manager and Andrea Sorrell, our HR director. Larry read each plan's sentence aloud and we marked it together. We argued over two of the marks, and by the end of the morning the wall looked like this.

	A products	B products
A customers (212)	**Quad 1** Revenue **$97.0M** Gross margin **34.0%** People cost (TEC) **$24.0M** Right to Grow ratio **2.26**	**Quad 2** Revenue **$31.0M** Gross margin **27.1%** People cost (TEC) **$11.0M** Right to Grow ratio **1.41**
B customers (2,860)	**Quad 3** Revenue **$24.0M** Gross margin **30.0%** People cost (TEC) **$7.0M** Right to Grow ratio **1.86**	**Quad 4** Revenue **$16.0M** Gross margin **11.3%** People cost (TEC) **$10.0M** Right to Grow ratio **0.62**

Company: $168.0M · 30.0% · $52.0M · RTG 1.71.

Quad 4: 9.5% of revenue, 3.6% of gross margin, 19.2% of people cost.

Fig. 02-01: The Quads at Halvorsen, Day 0: the fourth box carried a fifth of the people cost for less than 4 percent of the margin.

$2.26. Which box should your next hire work in? The ratio has already answered.

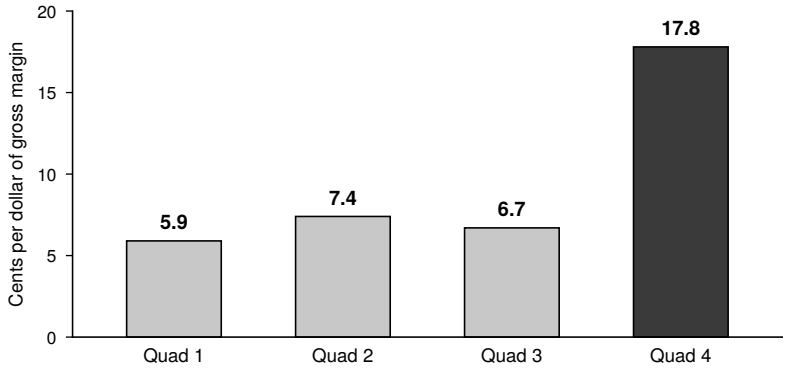
Commission per Dollar of Margin

Now put the pay itself into the boxes. The instrument is commission per dollar of margin: for each Quad, the commission paid divided by the gross margin earned. It answers a question no plan document asks — how much do you pay to earn a dollar of margin, and where?

Work it out in four steps.

1. Pull last year's commission by account, by hand or with the tools you have, from the statements actually paid rather than from the plan.
2. Pull the gross margin on the same accounts at standard cost.
3. Roll both up by Quad.
4. Divide commission by margin, and print the answer in cents.

Use standard cost for the margin, not actual cost. Actual cost moves with the plant's month (the scrap, the overtime, a bad week on a press), and none of that is the salesperson's doing. Standard cost holds still long enough to show what the sale itself was worth.



Territory managers paid 2.0% of revenue. Quad 4 drew $240K (15.2% of territory commission) for about 6% of territory gross margin.

Fig. 02-02: Commission per dollar of gross margin: a revenue plan paid three times as much for a margin dollar in the tail as in the Fort.

On a revenue plan the answer is predictable, and it still surprises people. A revenue commission pays the same rate on every dollar of revenue, so it pays the most per dollar of margin wherever the margin is thinnest. At 2 percent of revenue, business with a 34 percent margin costs you about 6 cents of commission per margin dollar. Business with an 11 percent margin costs you about 18 (the arithmetic is just the commission rate divided by the margin rate).

Run on Halvorsen's territories for Year 0, the four bars looked like this.

In the tail, a dollar of margin cost three times as much commission as it did in the Fort. Quad 4 drew $240,000 of the territory commission, 15.2 percent of it, for about 6 percent of the territories' gross margin. Did anyone at Halvorsen ever decide to pay three times as much for a dollar of Quad 4 margin as for a dollar of Quad 1? Nobody did. The plan decided it, every quarter, for years, and nobody ever held a meeting about it.

Read your own bars the same way. Wherever one bar stands far above the others, your plan is paying a premium for the margin you want least — and the people on the plan have been collecting it in good faith. Leave the premium alone for now. Write it down, and take it into the rerun.

A second cut is worth making while the data is open. Divide commission by margin for each rep, not just for each Quad. The reps with the tallest bars are seldom the weakest people on the team. More often they



Since the close: revenue +5.7%, gross-margin dollars +$0.5M, SG&A +$1.6M, EBITDA −5.6%.

Fig. 02-03: What the slip is worth: 1.4 points of margin, about $2.4 million a year, about $21 million of value at 9 times EBITDA.

wins. When both move the right way together, the team is earning its keep, and when they split apart, look at the plans first.

What the Slip Is Worth

The last step turns everything you have found into the two units your owner reads: dollars a year and dollars of value. It takes three lines of arithmetic.

1. Points of gross margin lost since a date your owner remembers (the close is the usual one).
2. Times this year's revenue: the profit you're missing, every year.
3. Times the multiple your owner expects to sell at: what the slip costs at the exit.

Why measure from the close? Because that is the day your owner's money went in, and every point lost since then is a point the owner is paying for and didn't price into the deal.

At Halvorsen the gross margin had slid from 31.4 percent at the close to 30.0 percent by Day 0. On $168.0 million of revenue, 1.4 points comes to about $2.4 million of EBITDA a year. At an illustrative 9 times, that's about $21.2 million of enterprise value — roughly an eighth of what Marrowstone had paid for the whole company.

Will fixing the plans win all of it back? Probably not, and you shouldn't promise that it will. Margin moves for a dozen reasons — material costs, mix, the plant, a big customer lost to a competitor — and the plans are only one of them. But they are the one you can change on

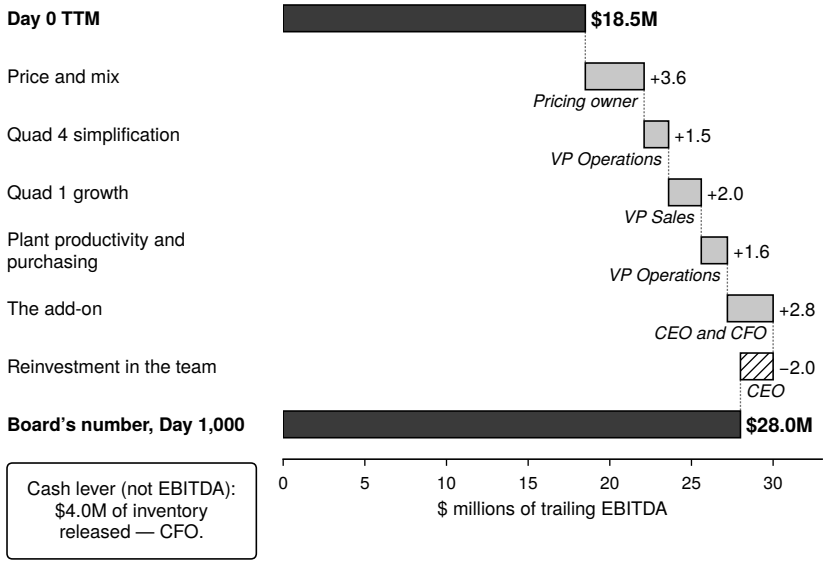


Fig. 03-01: The bridge to the Board's number: six levers, each with a named owner, from $18.5 million to $28.0 million.

And why does cash sit beside the bridge instead of on it? Because EBITDA isn't cash. Inventory you release and receivables you collect put money in your owner's hands without adding a dollar of EBITDA, and a bridge that mixes the two will never foot. Give working capital its own line, its own target and its own owner, usually your CFO.

What counts as a milestone? Something a stranger could check on a given day: a price list in force, a contract signed, a product line moved to a minimum order, a supplier changed. Neither "progress on pricing" nor "ongoing" is a milestone. If you can't picture your CFO putting a check mark beside it on a particular date, rewrite it until you can.

Here is the bridge to the Board's number that I took to Halvorsen's board on Day 35.

A bridge is not a forecast. It's a list of promises with names and dates on them, and somebody reads it every month. Your CFO builds that page — each lever's dollars to date, each milestone done or not, and who checked it — and it becomes the monthly bridge report. Once you have it, nobody waits until December to find out whether the year is working.

Seat	Paid on at Day 0	Paid on from Day 92
CFO	Ten-measure scorecard	Company EBITDA
VP Sales	Company revenue vs budget	Half company EBITDA, half Quad 1 growth
VP Operations	Ten-measure scorecard	Half company EBITDA, half Quad 4 simplification and plant productivity
Pricing owner	Seat did not exist	Half company EBITDA, half price and mix
VP People	Ten-measure scorecard	Company EBITDA
Plant manager	Ten-measure scorecard	Company EBITDA
VP Engineering	Ten-measure scorecard	Company EBITDA
National accounts lead	Did not exist	Key account plan: 2.0% of account gross margin, uncapped

The comp-to-bridge test at Day 0: coverage 0% of the bridge. From Day 92: 100%.

Fig. 03-02: The pay line for eight critical seats: from a scorecard and a revenue budget at Day 0 to one number and one lever from Day 92.

title, had tied the trailing twelve months to the ledger the night before, and he had brought the printout in case anybody asked.

Douglas had sent me the page of the investment memo that mattered the week before, and he opened his copy to it now. It said $28.0 million of trailing EBITDA on Day 1,000, against $18.5 million that morning. Nobody argued with it, and before lunch it was the Board's number, written at the top of a page with its date beside it.

Then Douglas asked the question I had been waiting for. "If we hit it, who gets paid?" Nobody in particular. Under the plans in force, the leaders would collect whatever the ten-measure scorecard said, and it had paid them 88 percent of target in a year EBITDA fell. Sales leaders would collect on revenue against budget, territory managers on 2.0 percent of revenue, plant leads on units shipped. Reach $28.0 million or miss it by $5 million, and the checks would look much the same.

So I put the bridge on the table. I had drafted it the weekend before with Larry and with Milo Eckert, the VP Operations, and it had six lines. Price and mix, $3.6 million, belonged to the pricing owner, a seat Halvorsen didn't have yet (Vera Hruska, nine years on the quoting desk, would be named to it on Day 120). Quad 4 simplification and cost to serve, $1.5 million, belonged to Milo, with the VP Sales in support. Quad 1 growth, $2.0 million, belonged to the VP Sales — Clay Kroeger

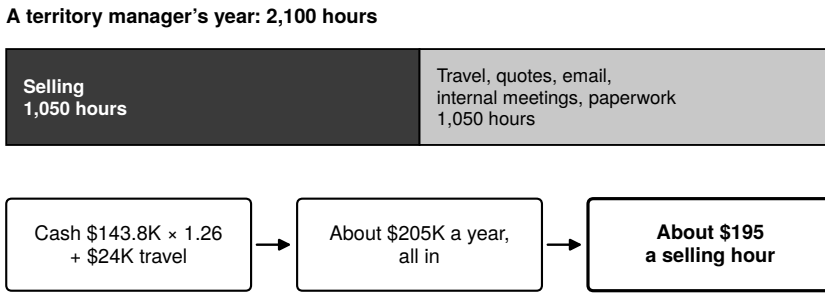


Fig. 04-01: The selling hour: half a territory manager's year is selling, and each selling hour cost Halvorsen about $195.

them (the next section shows how), and only then start putting names in them.

Why insist on that order? Because the moment the names come first, the map bends around the people. Your longest-serving seller keeps the accounts he has always kept, and the rep everybody likes keeps the distributor everybody likes. Then your zero-up turns into last year's chart with a new date at the top.

A zero-up is not a cut, either: some channels grow and some shrink, and the coverage map decides which, not a percentage handed down from finance. At Halvorsen, inside sales and the key accounts grew while the territories shrank.

The Selling Hour

Now put a price on the hours, starting with how many a territory manager works: about 2,100 a year. At Halvorsen, when we colored the calendars, about half of them, 1,050, were selling hours. Driving, quoting, email, internal meetings and paperwork took the rest. None of that is waste, exactly — somebody has to quote. But none of it is an hour in front of a customer, either.

And what does that territory manager cost? Halvorsen's averaged $143,800 in cash, and adding 26 percent for benefits and payroll taxes puts you at about $181,000. Another $24,000 for the car and the travel brings the all-in cost to about $205,000 a year. Divide by 1,050 selling hours, and one hour in front of a customer costs about $195.

Role	Day 0	Plan Year 1
VP Sales	1	1
Regional sales managers	4	3
Key account managers	5	8
Territory managers	24 (all mixed)	21 (13 gatherers, 5 hunters, 3 in former agency territories)
Inside sales	16	19
Customer service	12	11
Application engineers	4	6
People	**66**	**69**
Independent agencies	6 ($16.0M)	3 ($5.8M)

Accounts per territory manager: about 123 → about 47 on the 18 original territories, after 2,100 small accounts moved to inside sales.

Fig. 04-02: The sales team, zeroed up: three more people, organized around the customers instead of the map.

one moved inside as Inez's senior rep. One retired at the end of the year, and one left in December. The Southeast and the Mountain West were filled from outside.

Our biggest single move was the small accounts. On Day 92 the territories handed 2,100 Quad 3 and Quad 4 accounts to inside sales, and the inside team grew from 16 to 19 under its lead, Inez Quintero. Inez did not ask for a new system, only for the account histories and the territory managers' notes. "We'll call every one of them before they've got a reason to call us," she said. Each of the 2,100 got a letter in December, signed by the territory manager who had covered it and the inside rep who would, with a direct line at the bottom. By the end of January her team had called them all.

What was left in the field was a book one person could cover. On the 18 original territories, the average book fell from about 123 accounts to about 47. In a book that size an A account can get its 40 hours, and a gatherer still has time to grow it.

Five of those 18 seats were for hunters, and the first person to ask for one was Jada Hollins. Our draft coverage map had gone up in the old conference room with five hunting seats on it and no names. Two

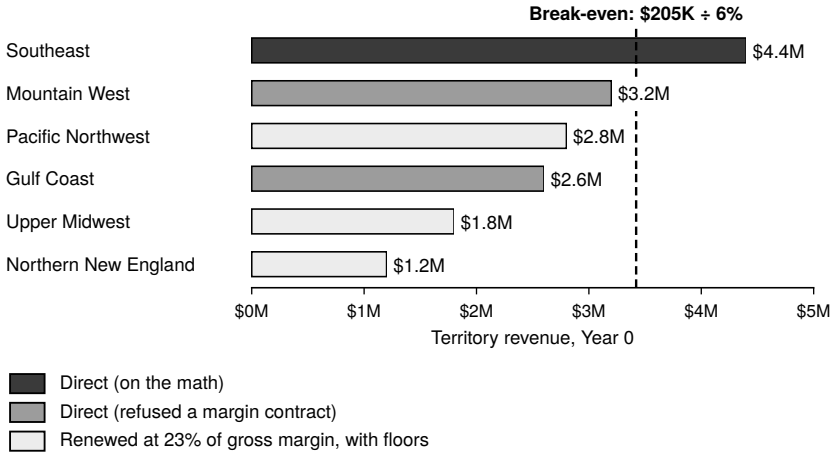


Fig. 04-03: Agency or direct: one territory went direct on the math, two because their agencies wouldn't be paid on margin, and three stayed on new terms.

holding any. I would make the same bet again. An agency that refuses to be paid on margin has told you how it intends to price.

On Day 92, three territories became direct territories, with $10.2 million of revenue between them, and three agencies stayed on new terms.

In all, the team went from 66 people to 69. Three more people is a cost, and it sat on the bridge's reinvestment line, the one with a minus sign and my name beside it (Chapter 3). But for the first time, our people were standing in front of the customers who paid for them.

From the Record

Until January 1994, Safelite Glass paid the people who installed its auto glass by the hour. During 1994 and 1995 it moved them to piece rates. In the working-paper version of his study, the economist Edward Lazear described a plan that paid installers, on average, about $20 for each unit installed. It came with a guarantee of roughly $11 an hour, and it was phased in over eighteen months.

Lazear worked from Safelite's own data, before and after the switch, and his study appeared in the *American Economic Review* in December 2000. Output per worker rose 44 percent. Profits rose as well, which led him to a dry conclusion: the firm had apparently been using a pay system that did not suit it.

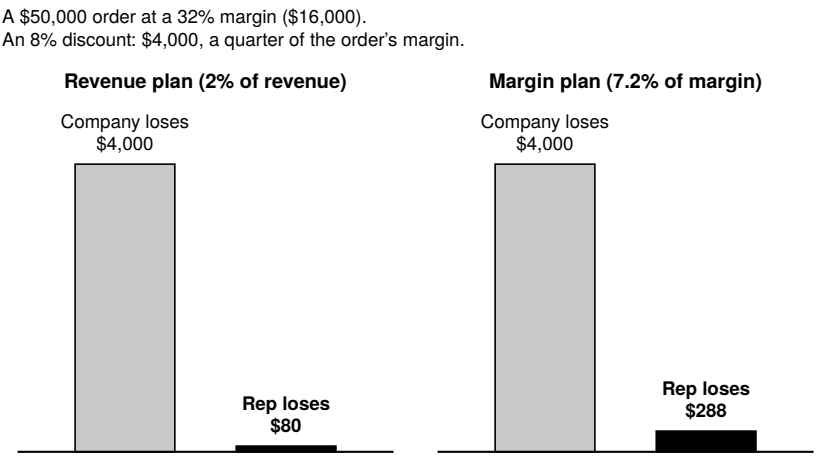


Fig. 05-01: What a discount costs: the company loses the same $4,000 either way, and on a margin plan the rep feels more than three and a half times as much of it.

Does $288 stop the discount? Sometimes — not always, and it shouldn't. Some discounts win an account worth having, and a rep who can never give one will lose orders you wanted. A margin plan doesn't forbid the discount. It makes your rep a partner in the price, at 7.2 cents of every dollar he concedes. A rep carrying that arithmetic negotiates differently. He asks for something back (a larger order, better terms, the rest of the product line), and when he gives the discount anyway, he can tell you why.

Over a year the plan does something it can't do on a single order — it moves the rep's time. A revenue commission pays the same on a dollar from the Fort as on a dollar from the tail. Chapter 2 showed what that did at Halvorsen: 5.9 cents of commission for each dollar of margin in Quad 1, and 17.8 cents in Quad 4. On a margin plan your rep's day pays best where your margin is richest, and his day is the scarcest thing you buy from him (Chapter 4 put a selling hour at about $195).

Expect an objection in the first week. Purchasing sets the cost and the plant sets the waste, so how can margin be the rep's? Half of that is right, and paying on standard cost answers it. Where the objection goes wrong is the part that counts — what he charges, what he sells and whom he calls on will move your margin more, month after month, than anybody in purchasing ever will.

Halvorsen Caster & Wheel — Territory Manager Plan, Plan Year 1

Base: $80,000

Commission: 7.2% of gross-margin dollars at standard cost on your accounts, Quad 4 at 3.6%

Hunters: 14.4% on new accounts (no purchases in 24 months) for 12 months

No cap

Earned on invoiced margin, paid monthly, statement by the 10th

No commission on an order below floor unless approved by the pricing owner

Returns and bad debt within 90 days reverse the commission

Margin net of rebates, credits and freight given away

Standard cost frozen for the plan year

If you leave: commission on margin invoiced through your last day

Territory manager *VP Sales*

Fig. 05-02: The one-page plan: everything a territory manager needs to know about how he or she is paid, on one signed page.

And when is a commission earned? Your written plan decides first. New York's Court of Appeals, in the Pachter decision of 2008, put the parties' agreement first and fell back on the common law only where they had agreed nothing. Illinois's statute for independent sales representatives ranks things the same way: the contract, then the parties' past practice, then the custom of the industry. So write your trigger down, whether it is booking, shipment, invoice or cash. If anyone on a commission plan is eligible for overtime (inside sellers usually are), federal regulation puts the commission into the regular rate the overtime is figured on, however often it is paid (29 CFR 778.117). Have counsel read your page before anyone signs it.

Halvorsen

Laid out on one page, Larry's twenty-four sheets looked like this.

What separated the two groups? Reps who fell had thin margins and a heavy tail. Reps who rose had held price on the accounts that mattered and spent little time below them. Vera Hruska, nine years on the quoting

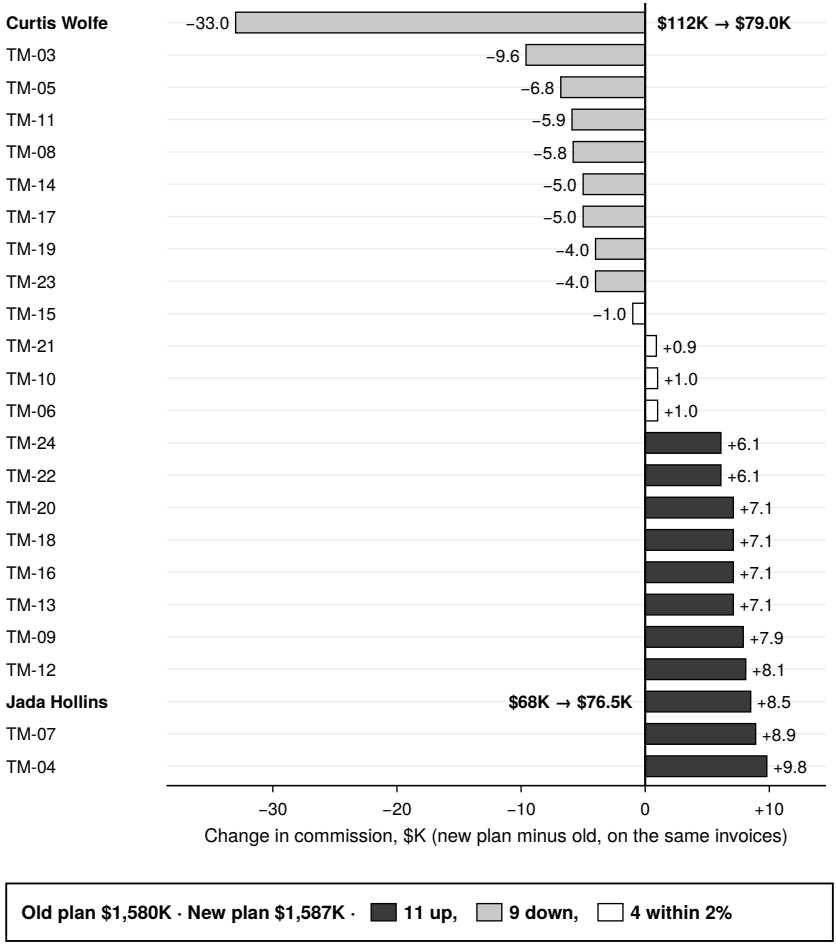
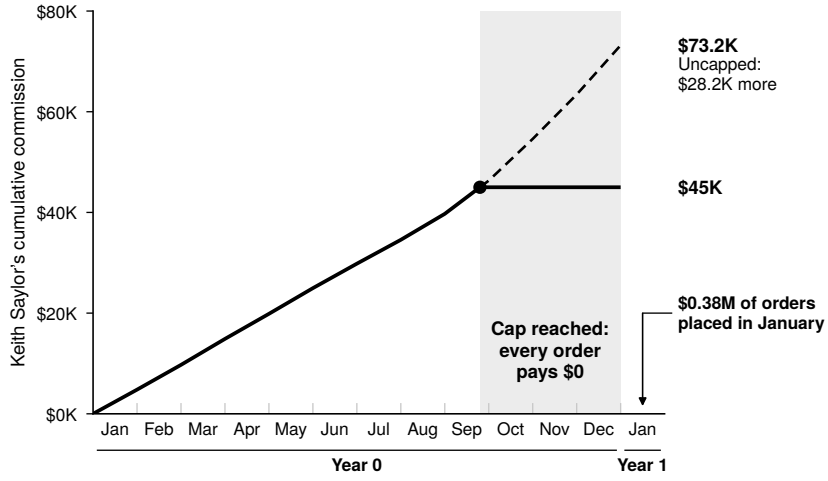


Fig. 05-03: The rerun: the same invoices, the new plan, $7,000 more in total — and $33,000 less for the top producer by revenue.



0.6% of account revenue, capped at $45K. The cap binds at $7.5M of revenue.

Fig. 06-01: The cap and the calendar: once the cap bound in September, the plan paid nothing for the rest of the year, and $380,000 of orders waited for January.

December, and I didn't, because a plan rewritten in October teaches everyone to wait for the next rewrite. So the cap stayed until the year ended — and came off on Day 92.

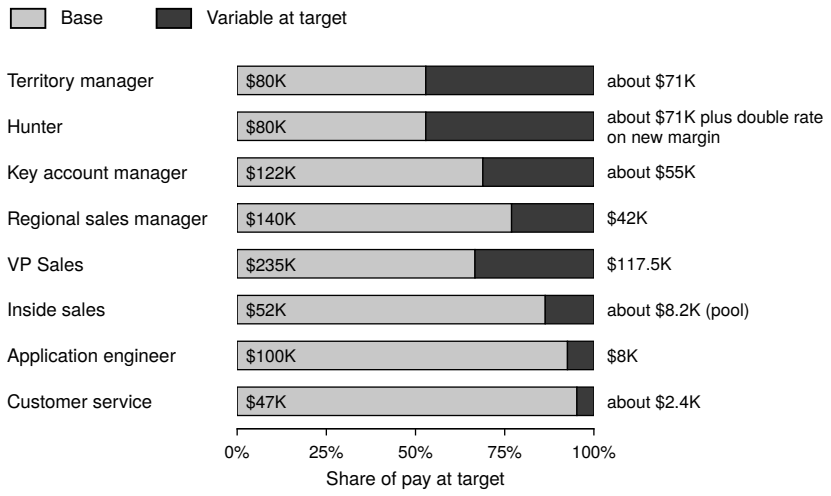
Here's the rule: every seat gets a plan that fits its job. That means no caps on the people who make money, more for new money, a pool where the work is shared, and no commission on advice.

Take Off the Cap

Draw Keith's year on one chart and you can see the problem from across the room.

A cap sends your best people one message, and it is always the same: stop. It goes to exactly the people you would least like to hear it, the ones who have already made you the most money this year. And it reaches them in the fourth quarter (it usually does), just as they hit their stride.

Why would you cap commission at all? You will hear three reasons. You fear a windfall, an order nobody worked for that pays somebody a fortune. You want your budget to be predictable. And at some point one of your salespeople earned more than the executive who approved the plan, and it bothered somebody.



Published surveys: most quota roles 60/40 to 70/30 (WorldatWork, 2010).

Fig. 06-02: Pay mix by seat: the more a seat's job is to win margin, the more of its pay rides on it.

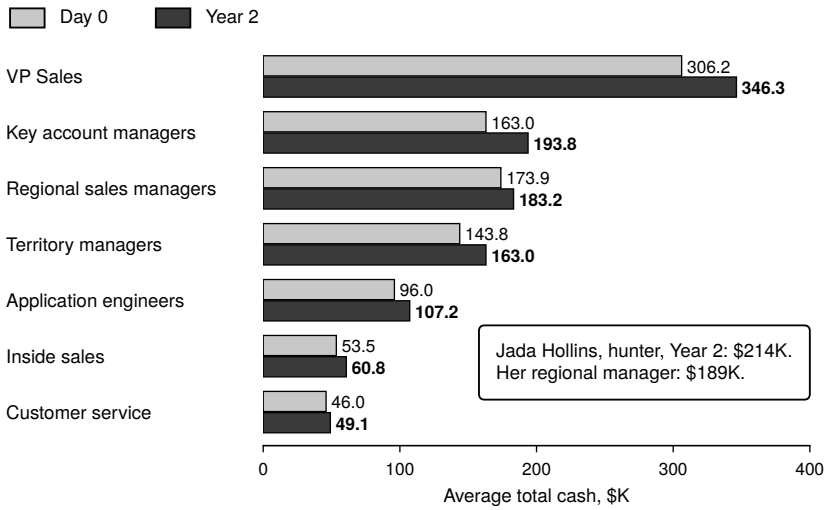
least. Halvorsen's territory managers ran richer in variable than that, at about 53/47. That doesn't worry me, because a margin commission pays for itself. At 7.2 percent, nobody earns a dollar of it until you have made about $14 of gross margin, while a salary is paid whether the margin comes in or not.

Sooner or later one of your sellers will earn more than the manager she reports to. When it happens, look at why before you react. If the reason is margin, your plan is working, and the manager deserves part of the credit for building a region where it could happen.

Halvorsen

Every one of these plans went into force on Day 92, the first day of Plan Year 1, but most of the hard conversations about them happened in the weeks before.

The one I remember best was about the application engineers. Late in the design work (Clay Kroeger was still VP Sales then), Clay came to my office with a proposal. Halvorsen was launching a new engineered line, and the application engineers were the people in the room when a customer's new cart or rack was still a drawing. Clay wanted to pay



Sales and customer-facing people cost $8.9M (66 people) → $10.3M (69).
Cost of sales 21.3% → 19.8% of gross margin.

Fig. 06-03: Pay by seat, Day 0 and Year 2: every seat earned more, and selling cost less per dollar of margin.

described it in the *Harvard Business Review* in 1994, each adviser carried quotas for particular products — a set count of springs, shocks, alignments or brake jobs in a shift — and earned commission on the sales.

California's Bureau of Automotive Repair started looking in December 1990, after complaints nearly doubled. Its investigators took cars in undercover, 38 times at 27 different shops through December 1991, and about 90 percent of the time they were sold work they didn't need, $223 of it on average. On June 11, 1992, California moved to suspend or revoke the repair registrations of every one of the 72 Sears auto centers in the state. State officials said the staff had been told to sell a fixed number of repairs and services in each eight-hour shift.

Eleven days later, on June 22, Sears announced it would end commissions for its auto-service employees and drop the goals for selling particular products. Edward Brennan, its chairman, said the program had "created an environment in which mistakes did occur," while Sears went on denying the state's allegations. That September it settled with California and 19 class actions, paying $8 million and offering customers

Seat	Holder at Day 0	Lever	Decision
CFO	Larry Dunagan (controller with the CFO title)	The add-on and cash	Change: Claudia Vance, Day 90. Larry stays as controller
VP Sales	Clay Kroeger	Quad 1 growth	Change: Monica Albrecht, Day 150. Clay to national accounts
Pricing owner	Seat did not exist	Price and mix	New: Vera Hruska, Day 120
VP People	Andrea Sorrell (HR director)	None — supports every lever (company EBITDA)	Re-scope: VP People, Day 120
VP Operations	Milo Eckert	Quad 4 simplification and plant productivity	Keep
Plant manager	Held	Supports plant productivity (company EBITDA)	Keep
VP Engineering	Held	Supports Quad 1 and Quad 2 specials (company EBITDA)	Keep
National accounts lead	Seat did not exist	Quad 1 growth (four largest OEMs)	New: Clay Kroeger, Day 150

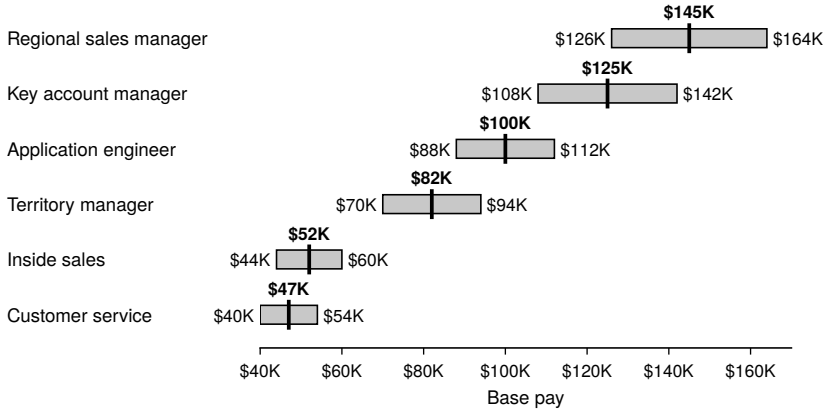
Critical seats priced at the 75th percentile of market, every other seat at the median.

Fig. 07-01: The critical-seat map at Halvorsen, Day 60: two new holders, two seats that hadn't existed, one re-scoped and three kept as they were.

A good one whom the seat has outgrown is harder, because everything you have seen says he or she has earned a place, and the bridge says this place needs someone else.

When that happens, change the seat and keep the person, provided there's a seat where he or she can win. Four things make it work.

1. A real seat. Not a title invented to soften the news. It has to matter to the bridge, and it has to use what the person does best. If nobody can say what the new seat will deliver by Day 1,000, you have invented a title, not a seat.
2. The base protected. Never cut the base pay of someone you moved for the company's reasons. Red-circle it: hold it where it is, frozen, until the band for the new seat catches up. Bonus and commission keep paying on the new seat's plan.



9 people above the maximum: red-circled, base frozen.
14 below the minimum: raised in two steps, $186K a year when complete.

Fig. 07-02: Pay the seat: a band for every sales seat, with the people outside it brought in over time, not overnight.

2. Below the minimum, raise to the minimum in two steps, a few months apart. One raise looks like you found a mistake. Two on a schedule you announced look like a rule, and they let the cost land across two budgets instead of one.

That page — every seat's band, with every person in the seat plotted against it — is the band, and it is the instrument people feel in their paychecks. Refresh it once a year, when you reset the plans (Chapter 12).

Pay the seat, not the history. The history is what someone was paid before — the deal struck at hiring, the raises since, the market the year he or she walked in. None of it tells you what the seat is worth today.

Halvorsen's sales bands, built by Andrea Sorrell between Day 120 and Day 200, looked like this.

The Seat That Didn't Exist

Some of your critical seats appear nowhere on the org chart. You find them when you build the bridge and a lever has nobody to own it.

At Halvorsen that lever was price. Price and mix was the largest lever in the bridge — $3.6 million of EBITDA — and nobody owned it. There were no floor prices. Of the $6.2 million of discounts given below list in Year 0, $3.8 million had been approved by nobody but the rep who gave

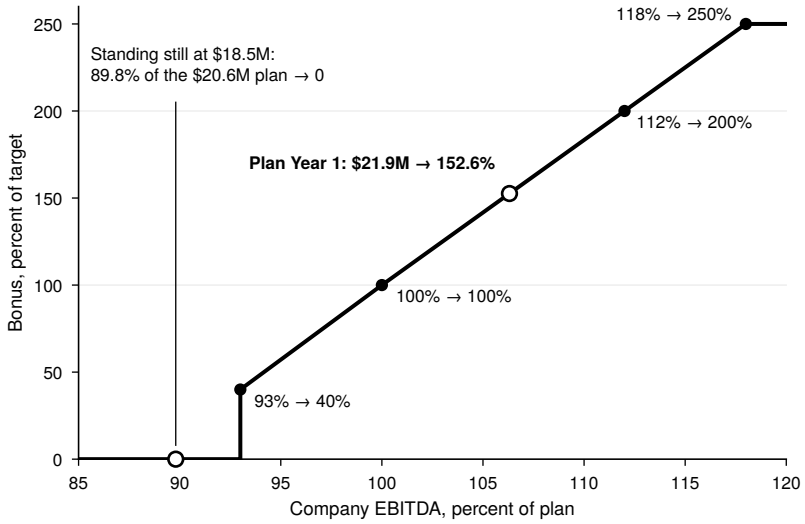


Fig. 08-01: The leaders' curve: nothing for standing still, full target at plan, and twice target at 112 percent.

Four minutes, start to finish. Under the old scorecard, the same conversation would have been about somebody's rating of his leadership — and neither of us could have proved a thing.

Here is the rule: pay the leaders on company EBITDA and their own lever, on a steep curve with a cash gate, and pay it the month the year closes. Every part of that rule serves one end. You want a number nobody can argue with, evidence nobody has to remember, and a payment that arrives while the year that earned it is still fresh.

One Curve at the Top

Each of your leaders is paid from one curve, and the curve reads one thing: company EBITDA against plan. It has four points, joined by straight lines.

1. Below 93 percent of plan, nothing.
2. At 93 percent, 40 percent of target.
3. At plan, 100 percent of target.
4. At 112 percent of plan, 200 percent of target — then on up at the same rate until it stops at 250 percent, at 118 percent of plan.

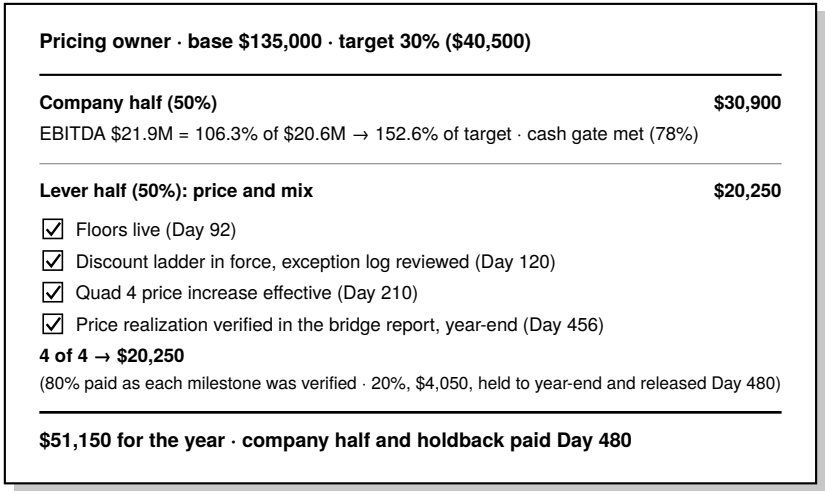


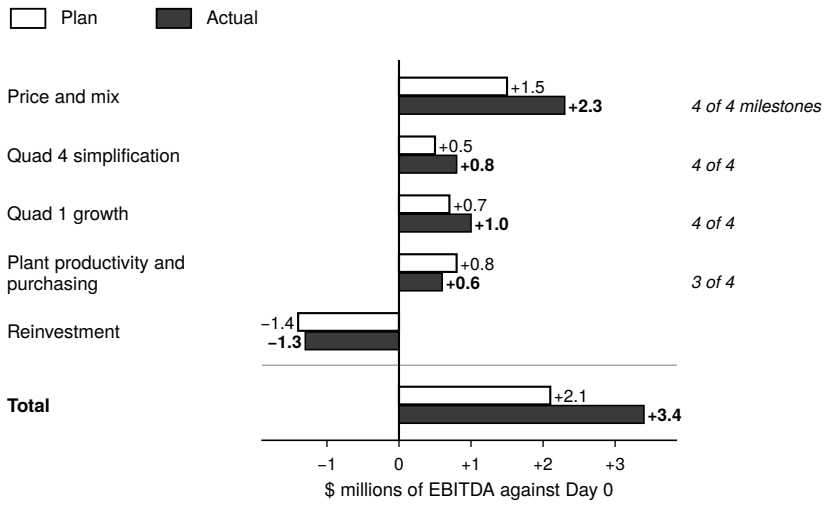
Fig. 08-02: The lever-owner scorecard: half on the company's year, half on four dated milestones of the lever she owned.

The Cash Gate

EBITDA that never turns into cash can't fund a full bonus. Your owner is repaid in cash, your lenders are paid in cash, and a year that books its earnings in inventory and receivables has only made a promise. So your leaders' plan carries a gate: if free cash flow comes in under 70 percent of EBITDA, the company part of every bonus is cut by a quarter.

Notice what your gate doesn't do. It adds no third number to anyone's plan, because it measures nothing new — it tests whether the number already there was real. A year that earns 140 percent on the curve pays 105 percent with the gate shut, and your leaders who built inventory to make the year know exactly why.

Define free cash flow in the plan document, line by line, before the year starts. At Halvorsen it was EBITDA less capital spending and less any increase in working capital, so every leader could see which of his decisions moved it. Your VP Sales moves it with the payment terms he agrees to — sixty days instead of thirty is a choice, not a courtesy. Your VP Operations moves it with every pallet of inventory he builds, and your engineering leader with every tool he orders. Then set your gate where a normal year clears it easily and a year that hoards inventory or lets receivables stretch does not. Halvorsen's first year came in at 78 percent, comfortably through.



EBITDA $21.9M against a $20.6M plan.

Fig. 08-03: Plan Year 1 by lever: four levers delivered, one fell short, and the bridge report showed which.

million, with $1.4 million of reinvestment against them. Here is what each lever planned and what it delivered.

Four lines came in better than planned, and one fell short. Plant productivity and purchasing delivered $0.6 million against $0.8 million, and the bridge report had flagged it in the third quarter, when the resin contract slipped. Reinvestment cost $1.3 million, not $1.4 million. Add it up and the levers brought $3.4 million, and $18.5 million plus $3.4 million is $21.9 million.

That was 106.3 percent of plan. Free cash flow came in at 78 percent of EBITDA, so the gate stood open, and the company part paid 152.6 percent of target to every leader on the plan, me included. My own page was as short as a page can be — one line, company EBITDA, with the arithmetic under it. I sent the full set to Douglas Kinnaird three days before they went out, mine on top. He called with one question, about cash, and approved them, and Claudia had the statements out on Day 480, the morning Milo came to see me.

Vera Hruska's page is the one I'd show a chief executive who asks what a lever half looks like. Her base was $135,000 and her target 30 percent, $40,500, in two halves of $20,250. Her company half paid 152.6 percent: $30,900. Her lever half paid four milestones out of four, $20,250,

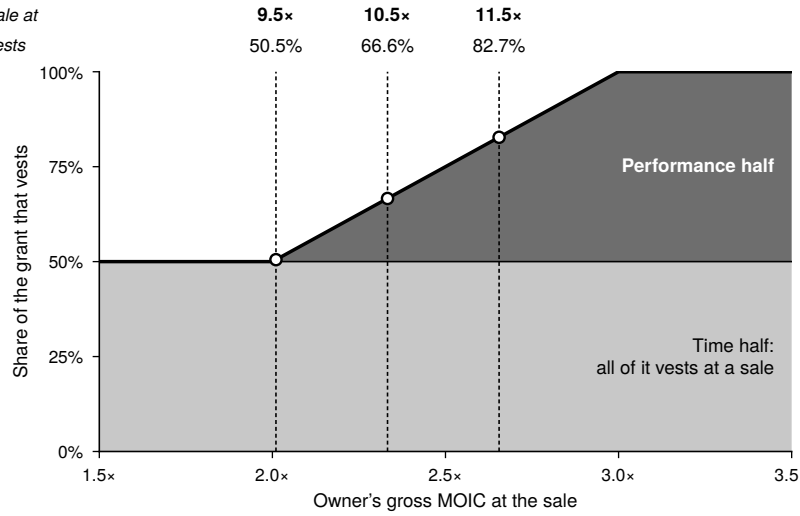


Fig. 09-01: The vesting design: half for staying, half for the owner's multiple, nothing on that half below two times.

Vest on Time and on the Owner's Multiple

A grant turns into something the holder keeps by vesting, and the way it vests decides what the grant actually pays for. Split it in two.

Half vests with time. At Halvorsen, 20 percent of the time half vested each year from the grant, and all of it vested at a sale. That half pays people for staying through the thousand days, which is most of what you need from them.

Half vests with the owner's multiple. MOIC, the multiple of invested capital, is what the owner takes out at the sale divided by what it put in, and the gross multiple counts it before the management pool is paid. At Halvorsen the performance half vested on Marrowstone's gross multiple: nothing below 2.0 times, rising in a straight line to all of it at 3.0 times. That half pays nothing unless the owner comes out well ahead, so the holder wants exactly what the owner wants.

On one chart, the whole design looks like this.

Why the multiple and not the IRR, the owner's annual rate of return? Because a hold can run long, and the IRR punishes time even when the money is made. Lawyers at Gibson Dunn put numbers on it in a May 2026 webcast. A 20 percent IRR over four years is about 2.07 times the money. Earn the same 2.07 times over eight years and the IRR falls to

Holder	Points	Granted
The author (CEO)	2.5	Day 0
Larry Dunagan (controller, granted as CFO)	0.8	At close, kept
Clay Kroeger (national accounts, granted as VP Sales)	0.9	At close, kept
Milo Eckert (VP Operations)	0.9	At close
VP Engineering	0.5	At close
Andrea Sorrell (VP People)	0.6	0.4 at close, 0.2 on Day 120
Claudia Vance (CFO)	0.9	Day 90
Vera Hruska (pricing owner)	0.3	Day 120
Monica Albrecht (VP Sales)	0.9	Day 150
Arturo Cantu (Bexar)	0.4	Day 540
Plant manager	0.2	Day 700
Allocated	**8.9**	
Never granted (stays with the investors)	**1.1**	
Pool	**10.0**	

One point = 1% of the gain above the $87.5M invested.
The former CEO's 2.5 points returned to the pool on Day −30.

Fig. 09-02: The grant table: 8.9 points of a 10-point pool, every pre-Day 0 promise kept and 1.1 points never granted.

EBITDA and net debt in it, and on Day 1,000 it carried the numbers a buyer would see. That day, trailing EBITDA was $28.2 million, past the Board's $28.0 million. Net debt was $86.0 million — the $92.0 million of term debt plus $9.0 million borrowed for Bexar, less $15.0 million repaid. Sale costs were estimated at $6.0 million.

At 10.5 times, the middle column, enterprise value was $296.1 million. Less $86.0 million of net debt and $6.0 million of costs, the equity was $204.1 million. Less the $87.5 million invested, the gain was $116.6 million, and Marrowstone's gross multiple was 2.33 times. A tenth of the gain, $11.66 million, made the pool. All of the time half vested at a sale, and 2.33 times earned a third of the performance half, so 66.6 percent of every grant vested. Together the holders would be paid $6.91 million. (That counts every point from the money invested. The two grants made after the business had gained value, Arturo's and the plant manager's, carried thresholds at the company's value on their grant days, as a profits interest must, so those 0.6 points would come to a

$ millions	Sale price, times $28.2M of TTM EBITDA		
	9.5×	10.5×	11.5×
Enterprise value	267.9	296.1	324.3
Less net debt	86.0	86.0	86.0
Less sale costs	6.0	6.0	6.0
Equity	175.9	204.1	232.3
Gain above $87.5M invested	88.4	116.6	144.8
Gross MOIC	2.01×	2.33×	2.65×
Pool (10% of gain)	8.84	11.66	14.48
Share of each grant that vests	50.5%	66.6%	82.7%
Paid to all holders	3.97	6.91	10.66
The author (2.5 points)	1.12	1.94	3.00
Pricing owner (0.3 points)	0.13	0.23	0.36

At 10.5×, the investors' net MOIC after the pool: 2.25×.

Fig. 09-03: The value table: what the equity was worth at three prices on Day 1,000, and what the owner kept.

little less, and Marrowstone's share a little more.) My 2.5 points came to about $1.94 million, and Vera's 0.3 to about $0.23 million. Marrowstone kept $204.1 million less $6.91 million, or $197.2 million — 2.25 times its money after the pool. It also kept the other $4.75 million of the pool: the unvested part of the performance half, and the 1.1 points nobody was ever granted.

At 9.5 times, Marrowstone's multiple was 2.01, barely over the line, and the performance half paid about one percent of itself. Half of each grant plus that sliver vested, 50.5 percent, and the holders would share $3.97 million — my points about $1.12 million and Vera's about $0.13 million. At 11.5 times the multiple was 2.65, 82.7 percent vested, and the holders would share $10.66 million, with mine at about $3.00 million and Vera's at about $0.36 million. Two turns of the multiple moved what the holders would share by more than two and a half times. That's what a performance half is for, and it's the answer to Monica's question in arithmetic: a holder's money is made or lost in the price.

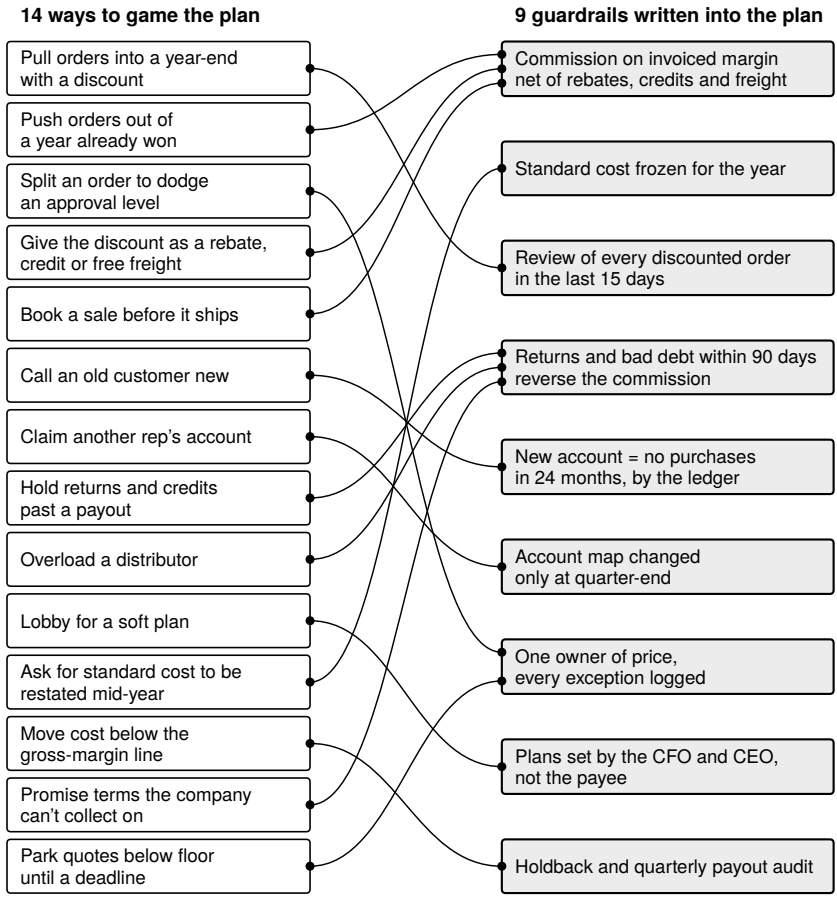


Fig. 10-01: The pre-mortem and the guardrails: fourteen ways to game the plans, answered by nine rules written into them.

Game	How it was found	What happened
December pull-in, $0.14M at a discount	Year-end discount review (Vera's exception log)	Discount out of the margin, rep paid on what was left
$0.21M of rebates agreed outside the system	Q3 payout audit	Rebates accrued, commission recalculated under the plan, accrual made a system step
Request to restate standard cost mid-year	Asked in the open	Refused: standard cost frozen for the plan year

Payout audit, Year 1: 10% of statements each quarter · 3 errors, $11K · 2 underpayments, 1 overpayment

Fig. 10-02: What Year 1 found: three games, each answered by a rule written before the year started.

manager asked whether free freight counted as a discount. It did, and the plan already said so.

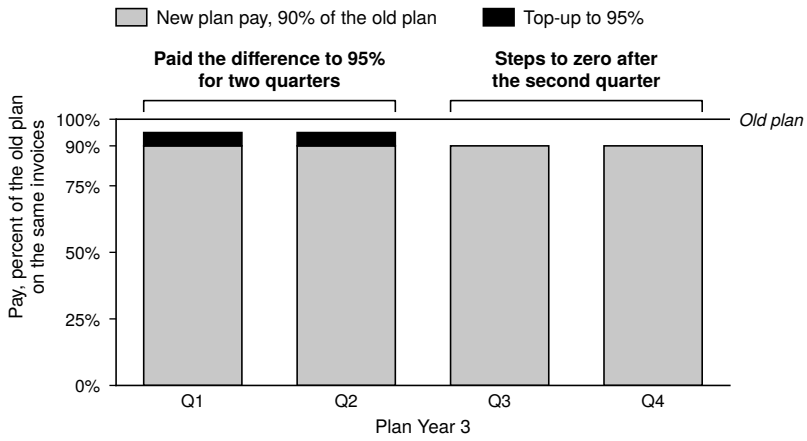
The holdback, the same discipline applied to the leaders, never had to bite. Every fifth that had waited on Year 1's results was released on Day 480, because the results held (Chapter 8).

From the Record

In 1902 the French colonial government of Hanoi, worried about plague, put a price on the city's rats. It paid a small bounty for every rat tail turned in — often reported as a cent, or in the words of the historian Michael G. Vann, "what amounted to a penny." Vann tells the story at length in *The Great Hanoi Rat Hunt* (2018).

The city's own kill records for that spring and summer, which Vann worked from, read at first like a success. A month in, the count for a single day passed 7,000. Days of 7,000 to 14,000 were not unusual, and the high point, in June, was more than 20,000 rats in one day. Tails were coming in by the thousands.

Then, after about three months, officials began to see rats on the outskirts of the city that were alive and running around without their tails. A health official found a rat farm in a village at the city's edge. Villagers had done the arithmetic: a tail was worth money and the rest of the rat was not, so they cut off the tails, collected the bounty and let the rats go to breed more. Vann also describes a smuggling network bringing rats into Hanoi from across Tonkin.



Bexar, Plan Year 3: $6.6K paid in all, to the two reps below 95% who stayed past Day 822.

Fig. 11-01: The hold-harmless: two quarters to change the book, then the plan pays what the book earns.

invoices. If yours comes to less than 95 percent of the old, pay him the difference up to 95 percent. After the second quarter the top-up steps to zero, and the plan pays what the book earns.

For a rep whose rerun comes in at 90 percent of the old plan, it looks like this.

Three choices in that design matter, and each has a reason.

Why 95 percent and not 100? At 100 percent you would pay for the old behavior, at full price, for six more months. A rep has to feel the change to make it, and five points is enough to feel without being a cliff.

Why two quarters? That is long enough to change a book — reprice the thinnest accounts at the next price change, hand the smallest to inside sales, win back margin on the ones worth keeping. It is also short enough that nobody mistakes the top-up for a second plan. A hold-harmless with no end date is a permanent subsidy with a temporary name.

Why the same invoices? Because the guarantee covers the plan, not the market. If a rep's customers buy less, the old plan would have paid him less too, and the top-up doesn't make that up. It pays for one thing only: the difference your plan made.

Treat the hold-harmless and the conversation plan as one instrument, and plan the conversations as carefully as the money. Two months before the switch, every rep sees his or her own rerun on one page, in person,

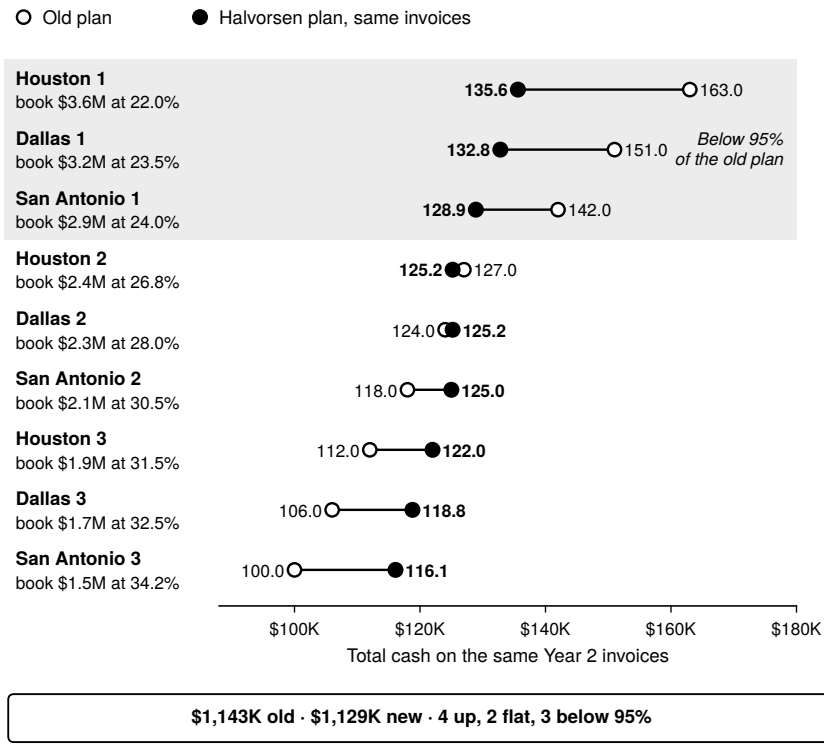


Fig. 11-02: Bexar's nine reruns: the reps with the thinnest margins lost, the ones who held price gained, and the total barely moved.

and me. Larry's team had run every rep's Year 2 invoices, annualized, through the Halvorsen territory plan: the same $80,000 base and the same 7.2 percent of gross-margin dollars as Findlay's territory managers, with Quad 4 at half rate. Across the nine, our plan paid $1,129,000 against the old plan's $1,143,000, or 1.2 percent less. Close enough to use one plan, rate and all.

What moved was inside the total. Every rep's base rose $25,000 — $225,000 across the nine — and the commission fell from $648,000 to $409,000 to pay for it. That raise was overdue. Our band for the seat started at $70,000, so Bexar's reps had been sitting $15,000 under its minimum and making it up in revenue.

Four reps came out ahead, two came out flat and three fell below 95 percent of the old plan. Those three had the biggest books at the thinnest margins: Houston 1 at 22.0 percent, Dallas 1 at 23.5, San Antonio 1 at

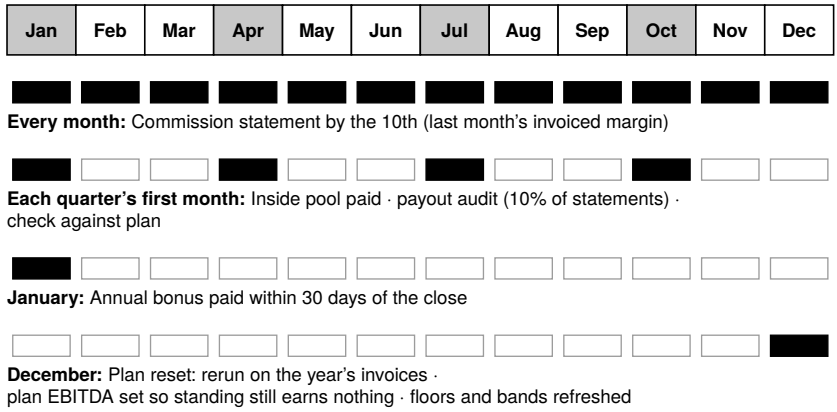


Fig. 12-01: The pay calendar: monthly, quarterly and once a year, every date published in January.

Maybe it was. Pay it anyway, write down what you learned and use it in December.

When the year runs cold, the same people who would have defended the target in a hot year will ask you to lower it. Don't. Your threshold exists for bad years. A curve that pays nothing below 93 percent of plan has already told everyone what a bad year pays, and it told them in January.

Why be so rigid? Because your people make decisions on the plan all year long. A rep chooses which accounts to call on and which quotes to fight for. A plant manager chooses where to put his best engineer. Each of those choices was made against the rules in force when it was made. Move the target in July, and you have changed the odds on bets your people placed in March.

Three things look like moving a target and aren't.

1. Closing a loophole under the plan's own terms. When a key account manager's rebates turned up outside Halvorsen's margin calculation, the plan already said margin was net of accrued rebates, and the controller applied it (Chapter 10). Same plan, read correctly.
2. Bringing an acquisition in by the rule you already wrote (Chapter 11). It moved because the plan said it would.

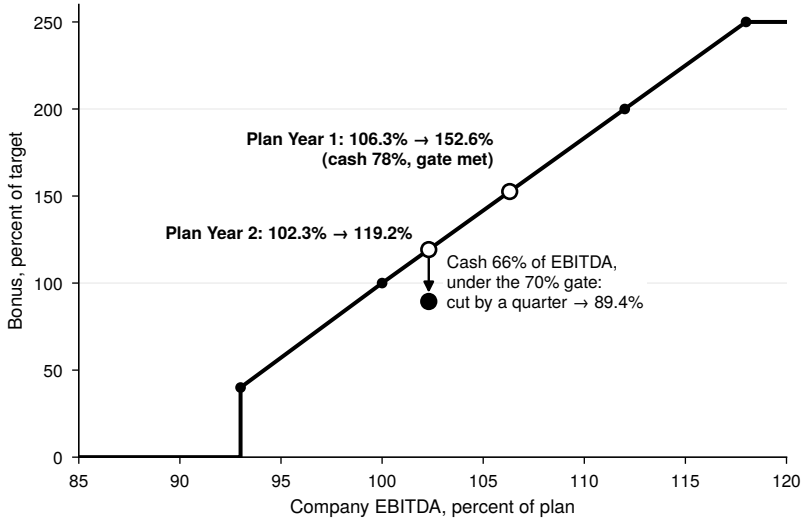


Fig. 12-02: Two years on the curve: in the second, the cash gate cut a bonus above target to one below it.

and counted in full above it. That fixed the rule for the next year — and only for the next year. The same reset put Bexar's reps and branch managers on Halvorsen's plans from Day 822 (Chapter 11 tells how).

Claudia had put the first board's pay page in front of Douglas Kinnaird in the spring of Year 1, seven lines with a Day 0 column, and from then on he read the cash line before anything else on it. Through the autumn of Year 2 that line had shown the inventory building and the gate in doubt. So when Year 2's bonus came in a quarter lighter than the curve, nobody on the board was surprised, and nobody asked to move anything.

Our calendar held all the way through. Every commission statement since Day 92 went out by the 10th. Both annual bonuses were paid inside 30 days, 24 days after the close in Year 1 and 25 in Year 2. Payout audits ran every quarter and resets every December, and nothing moved in between. The first year's audits had found three errors worth $11,000 — two of them underpayments — and each was put right the next month (Chapter 10).

By Day 1,000 the board's pay page held all thousand days.

Read it a line at a time. EBITDA rose from $18.5 million to $21.9 million in Year 1 and $26.6 million in Year 2. Cost of sales fell from 21.3

Measure	Day 0	Year 1	Year 2	Day 1,000
EBITDA ($M)	18.5	21.9	26.6	28.2 (TTM)
Cost of sales, % of gross margin	21.3%	—	19.8%	—
Right to Grow ratio (organic)	1.71	1.78	1.83	—
Average territory manager cash	$143.8K	$151K	$163K	—
Leaders' bonus, company part	88% (old scorecard)	152.6%	89.4% (gate)	—
Pay plans	7	—	—	8, one page each
Exceptions	61	—	—	4, all written

Board's number: $28.0M of TTM EBITDA at Day 1,000.

Fig. 12-03: The thousand days on one page: more paid to the people who made the margin, less spent per dollar of it, and the Board's number reached.

percent of gross margin to 19.8. We spent $1.0 million more a year to sell, and gross margin rose $8.9 million — almost nine dollars of margin for every added dollar of selling cost. Pay wasn't the only reason (Vera's floors, Milo's plant and the Quad 4 work all pushed the same way), and I won't claim the whole of it for the plans. But not one plan pulled the other way.

Halvorsen's organic Right to Grow ratio went from 1.71 to 1.78 to 1.83. That is the right direction, and it isn't 2.0. By the zones in *The 80/20 Company*, Halvorsen was still in the band where complexity weighs a company down, nearer the edge than when I arrived but not past it. We hadn't yet earned the right to grow.

Average territory manager cash went from $143,800 to $151,000 in Year 1 and $163,000 in Year 2. Those who made the margin were paid more for it.

If a skeptic asked me for one line, I would show him the leaders' line: 88 percent of target at Day 0, on a scorecard, in a year EBITDA fell, then 152.6 percent in the best year and 89.4 in the year the cash didn't follow. For the first time in years, the bonus moved with the owner's number.

Seven plans with 61 exceptions underneath them at Day 30 became eight plans of one page each. Most of the exceptions ended in the first year, when every account went onto a written map and every person onto a signed page. A few came back as rules — the split-credit agreements became one written rule for two shared OEM accounts — and

Put It to Work

Pages from The Field Guide

Halvorsen's thousand days are over. Yours begin where its did: pay plans nobody can fully explain, and a sales team paid for something your owner doesn't value the company on.

Answer the questions on these pages before anyone drafts a new plan, sitting in one room with your chief financial officer, your head of people, your VP Sales and the controller who runs the commission statements. Work from your own ledger and last year's invoices, flag every guess, and give each gap an owner and a date.

Begin with the pay audit. Halvorsen ran seven plans with 61 exceptions beneath them, and nobody had ever listed them on one page.

This is only a start. *Coin Operated · The Field Guide*, sold on its own, carries all thirty-six worksheets with Halvorsen's completed version beside each blank, and adds Day Zero, the hundred-day plan and notes for whoever leads the room. The full list of instruments follows directly.

Three things the first meeting decides

1. The pay audit as of today: every plan, every exception and every person on variable pay, with what each was paid last year.
2. The test: for every plan, the honest answer to whether the company would be better off if everyone hit it.
3. The dates: when the bridge goes to the board with an owner for every lever, and when the first rerun is due.

Do the first count by hand, then let your tools carry the rest. No number drives a decision until it ties to the ledger or the commission statements, pay records stay in approved systems, and the person who owns the plan makes the call.

Thinking is required.

The method on one page

In practice the parts overlap. Each number below is its chapter, and each line is the chapter's rule.

Part One · Read the Pay

1. **Coin Operated.** People do what they're paid to do, so the pay plan is your real strategy. Make it say what you mean.
2. **Follow the Money.** Before you change a plan, find out what it actually pays for, customer by customer and dollar by dollar.
3. **One Number, Every Lever.** Put the owner's number at the top of every plan, and give every lever in the bridge one owner with a pay consequence.

Part Two · The Sales Team

4. **The Right Team on the Field.** Build the sales team from zero against the customers you want to keep and win, and cover each Quad at the cost it can carry.
5. **Pay on Margin.** Pay salespeople on the gross margin they control, at a rate that costs nothing new, with a floor under every price.
6. **Pay Every Seat for Its Job.** No caps on the people who make money, more for new money, a pool where the work is shared, and no commission on advice.

Part Three · The Key Team

7. **The Seats That Matter.** Find the few seats that move the number, put proven people in them, and pay the seat, not the history.
8. **Lock the Team to the Number.** Pay the leaders on company EBITDA and their own lever, on a steep curve with a cash gate, and pay it the month the year closes.
9. **Equity for the Difference Makers.** Give a real piece of the gain to the few who will deliver it, vest it on time and on the owner's multiple, and show them the arithmetic.

Part Four · Make It Hold

10. **Expect the Game.** Every plan gets gamed. Find the games before the plan starts, write the guardrails into it, and audit the payouts.
11. **Bring the Add-On Over.** Move an acquired company onto your plans on a date, with a rerun and a hold-harmless, and keep every promise made before you arrived.
12. **Keep the Promise.** Pay on time, by the rules you wrote, even when the rules cost you, and reset the plans once a year, never in the middle.

The first thirty days

In this month you read the pay and draft the bridge before anyone sees a new plan. If the audit turns up a plan that is paying for damage this month (a discount nobody approved, a cap about to push orders into next year), stop that first and push the dates back.

Days 1 to 10: find every plan. Ask the controller for every plan document, every side letter and the name of everyone paid anything variable, with last year's commission and bonus registers. Read the plans yourself, not a summary of them. Ask three people on each plan how they think it pays, and write down every place their answer differs from the document.

Done, and what's still open: _____

Who owns the rest, and by when: _____

Days 11 to 20: run the test and ride along. Run the everyone-hits-it test on every plan with your staff, one plan at a time. Spend a day in the car with a territory manager and watch what the plan pays for in a customer's parking lot. Pull a year of discounts below list, and find out who approved each one.

Done, and what's still open: _____

Who owns the rest, and by when: _____

Days 21 to 30: follow the money and draft the bridge. Build the Quads with people cost beside the margin, and commission per dollar of margin in each Quad. Agree the Board's number with your owner, and draft the bridge to it, lever by lever, with one owner for each. Put the whole pay audit on one page.

Done, and what's still open: _____

Who owns the rest, and by when: _____

On Day 30, bring the room back together with the pay audit and the test, the Quads, the discounts and the draft bridge, and set the dates for the board meeting, the rerun and the pre-mortem. Larry Dunagan finished Halvorsen's audit inside my first month. I spent Day 9 in the car with Curtis Wolfe, the Quads with people cost were on my desk on Day 21, and the board agreed the number and the bridge on Day 35. The rerun came on Day 45 and the pre-mortem on Day 52, and the new plans took effect on Day 92, the first day of the plan year. Use those dates as a guide, never as a reason to rush a count.

The board meeting, its date and the number you'll propose: _____

A. The pay audit — every plan, every exception

One page: every plan, the people on it, what it pays on, what it paid last year and how many steps it takes to reach EBITDA, with every exception listed beneath. The controller builds it from the plan documents and the payroll registers. You read every line.

As of, and built by: _____

Plan	People	Paid on	Paid last year	Steps to EBITDA
Total				

Exceptions beneath the plans	Count	Approved by
House accounts credited to a rep		
Split-credit agreements		
Guarantees and draws		
Spiffs that never stopped		
Personal side letters		

Variable pay last year, beside the change in EBITDA: _____

Halvorsen's audit, in my first month: seven plans, 86 people on variable pay and $2,654,000 paid in Year 0, a year in which EBITDA fell $1.1 million. The territory managers' plan paid $1,580,000 on 2 percent of revenue. The leaders' scorecard paid $496,000 on ten measures, with EBITDA one of them. Beneath the plans Larry Dunagan found 61 exceptions: 22 house accounts credited to territory managers who never called on them, 14 split-credit agreements, 11 guarantees and draws nobody had reconciled, 8 spiffs started for one push and never stopped, and 6 personal side letters. Not one plan had a short, straight line to EBITDA.

If nobody can list the exceptions, nobody is managing the plan. Count them before you change anything.

Full Field Guide: Worksheets 1 to 3.

B. The bridge and the comp-to-bridge test

From the EBITDA you have today to the number the board has set, lever by lever: a dollar value, one owner and a pay consequence for each. Then test the pay plans against it for coverage, double counting, orphans and evidence. The chief financial officer builds the bridge with you, and the board agrees the number.

Today's trailing EBITDA, the Board's number and its date: _____

Lever	Owner	EBITDA	How the owner is paid on it
Total			

The comp-to-bridge test	Today	Under the new plans
Coverage: share of the bridge with an owner whose pay moves		
Double counting: dollars two people are paid for		
Orphans: levers with no owner		
Evidence: levers with dated milestones in the monthly report		

Agreed by the board, with the date: _____

Halvorsen's bridge reached the board on Day 35: $18.5 million of trailing EBITDA to $28.0 million at Day 1,000. Price and mix, $3.6 million, went to a pricing owner, a seat nobody held yet. Quad 4 simplification, $1.5 million, and plant productivity and purchasing, $1.6 million, went to Milo Eckert. Quad 1 growth, $2.0 million, went to the VP Sales. The add-on, $2.8 million, went to the chief financial officer and me, and reinvestment in the team, minus $2.0 million, to me alone. Run against the old plans, the test found a coverage of zero, because not one lever had an owner whose pay depended on it. From Day 92 coverage was 100 percent, with no dollar paid twice and no orphan.

Every dollar in the bridge needs one owner whose pay moves with it. A lever two people are paid for is a lever nobody owns.

Full Field Guide: Worksheets 7 to 9.

C. The rerun — the new plan on last year's invoices

Every rep's last year, invoice by invoice, paid under the new plan before anyone sees the plan. Set the rate so the total costs the company nothing new, then look at who gains and who loses, and why. The controller runs it, the chief financial officer checks it, and the VP Sales takes each rep through his or her own page.

Invoices from and to, and the rate that makes the total cost nothing new: ____

Rep	Old plan	New plan	Change	Why
Total				

How many reps	Up more than 2 percent	Within 2 percent	Down more than 2 percent
On the rerun			

Each rep's meeting, and its date: _____

Halvorsen's rerun came on Day 45: 24 territory managers on Year 0's invoices at 7.2 percent of gross margin, with Quad 4 at half that rate. The new plan paid $1,587,000 against the old plan's $1,580,000. Eleven managers gained, nine lost and four stayed within 2 percent. Jada Hollins, at a 31.5 percent margin, went from $68,000 to $76,500. Curtis Wolfe, the top producer by revenue, at 21 percent, went from $112,000 to $79,000. Between Days 62 and 70 each of the 24 saw his or her own rerun, on one page, before the plan went out.

Rerun every rep before anyone sees the plan. The rerun tells you whom the plan will lose while you can still decide whether that's the point.

Full Field Guide: Worksheets 13 to 15.

D. The bonus curve, the cash gate and the holdback

One curve for the leaders, set where standing still earns nothing, with full target at plan and a cap high enough that nobody coasts. Around it, a gate that cuts the bonus when EBITDA doesn't turn into cash, and a holdback on every lever payment until the year closes and the result holds. You and the chief financial officer set them before the year starts. Nobody paid on them does.

The plan year, the plan EBITDA and last year's actual: _____

Point on the curve	EBITDA, percent of plan	Bonus, percent of target
Threshold		
Target		
Stretch		
Cap		

The rules around it	Your plan
Standing still: last year's EBITDA as a percent of this year's plan	
Cash gate: free cash flow as a share of EBITDA, and the cut below it	
Holdback: the share of each lever payment held, and the release date	
Paid within this many days of the year's close	

Signed by the chief financial officer and you, before the year starts, on: _____

Halvorsen's curve paid nothing below 93 percent of plan, 40 percent of target at 93, full target at 100, twice target at 112 and its cap of 250 percent at 118. Standing still at $18.5 million would have been 89.8 percent of the $20.6 million plan for Plan Year 1, and paid nothing. The gate asked for free cash flow of at least 70 percent of EBITDA, or the company part of every bonus was cut by a quarter, and 20 percent of each lever payment waited for the year to close. Plan Year 1 came in at $21.9 million, 106.3 percent of plan, with cash at 78 percent, and paid 152.6 percent of target on Day 480, 24 days after the year closed. In Plan Year 2, $26.6 million earned 119.2 percent on the curve, but cash came in at 66 percent, and the gate cut the company part of every leader's bonus to 89.4 percent, mine included.

Put the threshold where standing still pays nothing. A curve that pays for last year's result is a raise, not a bonus.

Full Field Guide: Worksheets 22 to 24.

E. The pre-mortem and the guardrails

Before the plan starts, the people who will be paid on it imagine that a year has passed and the plan has been gamed, and work out how. Every game they name gets a guardrail written into the plan, checked from a record by someone who isn't paid under it. Your chief financial officer keeps the list. You ask the question.

Who was in the room, and the date: _____

How this plan will be gamed	The guardrail that answers it	The record that shows it	Who checks it

The payout audit, each quarter	This quarter	Last quarter
Statements rechecked, as a share of all		
Errors found, and their dollars		
Games found, and how		

Guardrails written into the plan, and the page they're on: _____

Halvorsen's pre-mortem met on Day 52, eight of us in the old conference room with the territory plan and the leaders' plan in front of us. It listed 14 ways to game the plans, and 9 guardrails went into them: commission on invoiced margin net of rebates, credits and freight, standard cost frozen for the year, a second look at every discounted order in the last 15 days of a quarter or a year, returns and bad debt within 90 days reversing the commission, and five more. Plan Year 1 still turned up three games: $0.14 million of orders pulled into December at a discount, $0.21 million of rebates agreed outside the system and a request to restate standard cost in the middle of the year. Each one met a rule that had been written before the year started. The quarterly payout audit rechecked 10 percent of the statements and found three errors worth $11,000.

Ask how the plan will be gamed before the people paid on it find out. Every game they can name is one you can still answer in writing.

Full Field Guide: Worksheets 28 to 30.

The Instruments

Each instrument in these chapters appears at full size in *Coin Operated · The Field Guide*, sold on its own, with Halvorsen's version beside every blank. Shortened versions of five appear in *Put It to Work*, which comes right before this list. Your tools can gather most of the numbers. The judgments belong to the people who will sign the plans.

Ch.	Worksheets
1	**1** The pay audit — every plan, every exception, every person on variable pay · **2** The everyone-hits-it test · **3** What we hope for and what we pay for
2	**4** The Quads with people cost · **5** Commission per dollar of margin · **6** The cost of sales and the Right to Grow ratio
3	**7** The bridge to the Board's number · **8** The comp-to-bridge test — coverage, double counting, orphans, evidence · **9** The pay line for every critical seat
4	**10** The coverage map — who covers which Quad · **11** The selling-hour math · **12** Agency or direct — the break-even
5	**13** The rerun — the new plan on last year's invoices · **14** The floor price and the discount ladder · **15** The one-page plan
6	**16** The cap check · **17** The hunter's plan — what counts as new · **18** The plan for every customer-facing seat
7	**19** The critical-seat map · **20** The capability audit · **21** The band — pay the seat
8	**22** The bonus curve — threshold, target, stretch, cap · **23** The lever-owner scorecard — company half, lever half · **24** The cash gate and the holdback
9	**25** The pool and the grant table · **26** The vesting design — time and the owner's multiple · **27** The value table — what the equity is worth at three prices
10	**28** The pre-mortem — how this plan will be gamed · **29** The guardrails · **30** The payout audit
11	**31** The acquired company's pay audit · **32** The harmonization rerun · **33** The hold-harmless and the conversation plan
12	**34** The pay calendar — statements, payouts, resets · **35** The annual plan reset · **36** The board's pay page

Continue the Work

The Field Guide. The work itself happens in *Coin Operated · The Field Guide*, sold on its own: thirty-six worksheets, each instrument on its own page, with Halvorsen's version beside every blank. The pay audit, the everyone-hits-it test, and what we hope for set against what we pay for. The Quads with people cost, commission per dollar of margin, and the cost of sales beside the Right to Grow ratio. The bridge, the comp-to-bridge test and the pay line for every critical seat. The coverage map, the selling-hour math, and agency or direct. The rerun, the floor price with its discount ladder, and the one-page plan. The cap check, the hunter's plan and the plan for every customer-facing seat. The critical-seat map, the capability audit and the band. The bonus curve, the lever-owner scorecard, and the cash gate with its holdback. The pool and the grant table, the vesting design and the value table. The pre-mortem, the guardrails and the payout audit. The acquired company's pay audit, the harmonization rerun, and the hold-harmless with its conversation plan. The pay calendar, the annual reset and the board's pay page. Print it for the conference table or work in it on screen, with last year's invoices close at hand.

The Institute. For more of the Profitable Growth Operating System, go to the8020institute.com, where the courses, books and Field Guides are made for the people who lead industrial and distribution companies.

A note to me. When your company has run a full year on its new plans, write to me at bill@the8020institute.com. Send me two numbers, your cost of sales as a share of gross margin before the new plans and after them. Then tell me which chapters paid their way, and what your top producer said when you showed the rerun.

Where to go next.

If this sounds like you	Read next
Nobody has ever read your pay plans side by side	Start here, then the Field Guide
You'd like the money mapped before anyone's pay changes	*The 80/20 Company*
Your salespeople chase every account, whatever it earns	*The 80/20 Salesman*
Price is set by whoever stands closest to the customer	*Get Paid*
The seats are filled, but not with the people the plan needs	*Something to Prove*
The plan is written, and the monthly rhythm to deliver it isn't	*The Strategy Deployment Process*
You own the company, and one day a buyer will ask how your people are paid	*The Owner's Edge*
You're new in the chief executive's chair	*Take Control* (The 1000-Day CEO, Book One)
You want the operating system under every one of these books	*The 80/20 CEO*
You want the story before the method	*The Art of Making Honey*

Read every plan yourself before you change one. Rerun every rep before anyone sees the new plan, and pay what you promised on the day you promised it. Next month, ask what your plans paid for before you ask what they cost.

Thinking is required.