EIGHTY20 PUBLISHING

FREE SAMPLE

Coin Operated

Ebook preview

Chapter One: Coin Operated

Read the opening chapter.

This is a limited preview. The complete ebook is sold separately. Original page numbers are retained.

See the complete editions at
eighty20publishing.com/books/coin-operated

Copyright 2026 Bill Canady. Eighty20 Publishing.

CHAPTER 1

Coin Operated

> *"...the desire of reward is one of the strongest incentives of human conduct, or that the best security for the fidelity of mankind is to make their interest coincide with their duty."*
>
> — *Alexander Hamilton,* The Federalist *No. 72 (1788)*

Payroll's email lands in the last week of January, with a spreadsheet attached and a single line above it: last year's bonuses, for your approval. There's a row for each leader, with base pay, target, the percent of target earned and the amount of the check. Your head of operations earned 93 percent of his target, your controller 90 and your head of engineering 89. Your head of sales earned 103 percent of his, because revenue beat its budget by a couple of points.

Your chief financial officer's monthly package, sent the same week, carries the number your owner actually watches. EBITDA fell. EBITDA (earnings before interest, taxes, depreciation and amortization) measures what the business earns from operating, and it is the number a private equity owner will multiply to set the company's price when it sells. Your owner watched it slide all year and is about to see what the company paid its leaders while it did.

Nobody cheated. Every number on that sheet is correct, and your controller can walk you through each one. Your plan did exactly what it said it would do, which leaves one question worth asking. What did it say?

It said revenue counts, a list of other things counts, and profit is one item on the list. Your people believed it, because the pay plan is the only part of your strategy with money attached. People do what they're paid to do. So the pay plan is your real strategy, whatever the strategy deck says, and your job is to make it say what you mean.

Everyone Is Coin Operated

I'm coin operated. So is everyone who has ever worked for me, and so, I would bet, are you. That isn't cynicism. It is a description of what happens whenever a company tells people, in writing, what it will pay for: they do more of it, and they do it first.

Money isn't the only reason anyone works, and it is rarely the best one. People work for pride, for the crew beside them, for the customer who asks for them by name, for a family at home. Most of the best people I have known would have kept coming in after a small pay cut, though not one of them would have stayed through a large one. But of everything a company says to its people, pay is the loudest. It is the one part of the strategy that shows up every two weeks with a number on it.

Think about how each one gets read. Your strategy deck is read once, in a meeting, and filed. Your pay plan is read every payday, by the person it pays, with a calculator. Your territory managers know their plan to the decimal point. Could they recite the strategy? Ask them, and watch what happens.

Why the difference? A deck describes what the company hopes will happen, and a plan describes what will happen to the person reading it. One is a forecast. The other is a contract, and people read contracts carefully, especially the clauses about money. When a territory manager wants to know what you really want, he does not reread your speech from the sales meeting — he opens his last commission statement and looks at which line paid him. I have never met a salesperson who misread a commission plan. I have met plenty of chief executives who did.

In *Something to Prove* I wrote about the drive itself: how to find the people who bring their own, and how to keep it from fading once they arrive. That drive is real, and no plan can install it in someone who lacks it. But a plan points it. Hand a good pilot the wrong heading and he will fly it smoothly, on schedule and with real skill — and land somewhere you never meant to go.

So don't hear "coin operated" as a complaint about people. Hear it as a description of the instrument in your hands. A pay plan is the most precise instruction your company gives anyone (it says what, how much and when, to the dollar), and it is the only instruction people check against their own bank balance. Where it points is your decision, and nobody else's.

The Pay Plan Always Tells the Truth

A strategy deck costs nothing to print. A pay plan costs real money every quarter, and money is the one part of a company that doesn't bluff. When the two disagree, believe the plan — your people already do.

Your pay plan is the strategy the company actually funds. In almost every company I have been asked to run, it contradicted the deck in at least one of four ways, and often in all four.

A revenue commission in a margin strategy. Your deck says grow profitably, while your plan pays a salesperson the same 2 percent on an order sold at list as on the same order after a discount that took a quarter of its margin. What does the plan say? Win the order, and let somebody else worry about the price.

A ten-measure scorecard in a one-number business. Your owner values the company on EBITDA, and the leaders' bonus pays on ten things, EBITDA among them, each weighted about the same. What the plan says: hit the six you can reach, and the bonus will mostly take care of itself (it usually does).

A cap on the people you most want to sell more. Your deck says grow the biggest accounts — and your plan tells the account manager having the best year of his career to stop in September. What the plan says: past this point, your effort is worth nothing to us. He will believe it, and his customers' December orders will find their way into January.

A bonus that pays in a year the owner's number fell. Your deck says EBITDA, and your plan paid the leaders most of their targets while EBITDA went down. What the plan says: the number we tell you matters is not the number we pay you on.

Each of these tells the truth about what the company will tolerate. None of them was written by a fool or a cynic. Somebody wrote each one to solve a real problem in a real year (a push for growth, a list of good intentions, a fear of overpaying a star), and each one outlived the year it was written for. Plans are like that — easy to add and hard to retire, because every plan pays somebody well, and that somebody has every reason to defend it.

If you want a different result, change the plan, not the speech. A speech about margin, given to a sales team paid on revenue, earns applause on Monday and a discount on Tuesday. Your people aren't ignoring you when that happens — they are listening to the louder of your two voices.

The Everyone-Hits-It Test

Every plan you inherit, and every plan you write, has to survive one question. If everyone achieved exactly what this plan rewards — not more, not less, exactly — would the company be better off?

There are three honest answers: yes, only by accident, and no.

Yes is rarer than you would think, because a plan that passes has to pay for the result itself and not for something standing near it. Only by accident is the common answer, since most plans pay for something that usually travels with what you want, until the day it doesn't. Revenue travels with profit until the discounts start. Training hours travel with skill until people start attending for the hours. No is the plan that pays for something the company would be better off without, and most companies have at least one.

Why insist on exactly? Because exactly is how people will hit a plan once they understand it. A plan is not read for its spirit. It is read for its arithmetic, and the good people on it (the ones you most want to keep) are usually the first to work the arithmetic out.

Try it on a plan you will find in plenty of plants: a quarterly bonus for the leads on units shipped against standard. Suppose every lead hits it exactly. What happens? More of everything ships — the orders that make money and the orders that lose it, the best customer's rush job and the one-off special for an account that orders twice a year — because the plan counts a unit as a unit. Would the company be better off? Only by accident, if the extra units happen to be the profitable ones.

Run the test in four steps.

1. Write one sentence for each plan: "If everyone hit this exactly, we would …" Finish it with what would happen, not with what you hope would happen.
2. Read the sentences aloud to your leadership team, one plan at a time, with the people who designed the plans in the room.
3. Mark each one yes, only by accident, or no (there is no fourth mark), and write the reason beside it.
4. For each plan not marked yes, add one line: what it pays for that the company does not want.

Read them aloud. A plan that sounds sensible on paper often sounds different spoken in front of the people it pays and the people who wrote it. Nobody needs to defend anything, because you are describing what a plan does, not grading whoever drafted it. And the person who drafted it may be sitting across the table, doing the same arithmetic you are and reaching the same answer a little faster.

What do you do with a no? Nothing yet. This test tells you what each plan pays for. It doesn't tell you what to replace a plan with, or what the replacement would have paid last year, and that second number is the one every person on the plan will ask you for. That comes later, from the rerun — for now, write the marks down and keep them.

The Pay Audit

You can't test a plan you haven't found, and nobody has found them all. Plans on file are the ones somebody remembered to file. Everything else lives in payroll: in a guarantee signed for a new hire four years ago, in a split two reps agreed with a manager who has since left, in a spiff meant to run for one quarter and now in its third year.

So spend your first thirty days on the pay audit. It takes six steps, and every change you make later will be measured against what it finds.

1. List every plan and every person on variable pay. Take the names from payroll, not from the managers, because payroll knows who was paid.
2. Collect every side letter, guarantee, split and special deal. Ask the controller and the payroll lead, then read the actual payments, because a deal nobody wrote down still shows up as a check.
3. Write each plan's pay line: what it pays on, and how many steps separate that from EBITDA. Every step is a place where the plan can pay for something else.
4. Total what each plan paid last year, and set the totals beside what the company earned last year, on one page.
5. Run the everyone-hits-it test on every plan, including the small ones that look harmless (they usually aren't).
6. Mark each plan keep, fix or end — and change nothing yet.

Of the six, the third does the most work, and a territory manager paid on revenue shows why. Revenue turns into gross margin only after the cost of what he sold comes out (which is where his discounts and his mix show up), and gross margin turns into EBITDA only after everything below it. That's two steps, and at each one the plan can pay for something you never wanted. Pay him on gross-margin dollars and he is one step away. Pay a leader on company EBITDA and the line has no steps at all.

Pull the payments by hand or with the tools you have, then tie every total to the general ledger before you believe a word of it. A total that won't tie is a plan you haven't found yet.

What turns up? In my experience, the same things turn up in every company: house accounts credited to people who never call on them, splits nobody can explain, guarantees meant to run for six months that never stopped, and spiffs that outlived the product they were meant to push. None of them is a scandal — each was a sensible answer to a problem somebody once had, and each is still being paid.

Step 6 is the hard one. You will want to fix the worst plan by Friday. Don't. A plan changed before it has been rerun on last year's invoices is a guess about what it will pay, and you'll spend the next year explaining that guess to everyone it shortchanged.

When the audit is done, add one more page. Call it what we hope for and what we pay for. Down the left side, in the strategy's own words, list what the company says it wants: margin, the best customers, cash, new products. Down the right, beside each line, write what the plans actually pay for. Wherever the right side is blank, or says something else, you have found a hope that nobody is paid to deliver.

The Promise and the Price

Before you change a single plan, write your board a letter. Keep it to one page, in two halves, and send it before anyone asks for it.

Start with the promise. Within ninety days (not a year, and not "by the next plan cycle"), everyone on variable pay will have one signed page that says what he or she is paid on. Every plan will be rerun on last year's invoices before anyone sees it. And every commission and bonus will be paid when the plan says it will be, without a committee, a delay or a fresh interpretation.

Then name the price. Some of your best-paid people will earn less for the same work, because the same work was worth less to the company than the old plan paid for it. A few will leave. One of them may be your top producer by revenue — the person everyone has been told for years is the best you have.

Why put the price in writing? Because a board that has been warned reads a resignation as the plan working. A board that has not been warned reads it as a mistake, and someone at the table will ask you for an exception. You do not want to grant exceptions — you have just spent thirty days counting the ones your predecessors granted.

Should the letter promise a result? No. It should promise a process and name a cost. You do not yet know what the new plans will pay or how the people on them will respond, and a board handed a forecast

this early will hold you to the forecast instead of the work. Promise what you control: the dates, the reruns, the signed pages and the payments on time.

And remember that the people who are going to lose did nothing wrong. They did what the old plan paid for, and did it well, which is how they came to earn so much. It was the plan that failed them, not the other way around, and every conversation you have with them should start from that.

Halvorsen

On Day 0, the first business day of October, I walked into Halvorsen Caster & Wheel in Findlay, Ohio, through the old shipping office. Nothing had shipped through its door in years. Painted over that door, in letters a foot high that somebody had touched up more than once, was the founder's rule: *Every wheel carries its share*.

Arne Halvorsen, a Norwegian-born machinist, started the company in 1952, and he meant the rule literally. A cart rolls on four casters, and the one that doesn't carry its load wears out the other three. The old-timers said he meant it about people too (and that he never pretended otherwise).

By the time I arrived, Halvorsen made casters, wheels and leveling feet for equipment makers — medical carts, food-service equipment, material-handling equipment, industrial racks — and sold them to industrial distributors and a long tail of small accounts as well, standard lines and engineered specials both. It had 540 people and one plant, and it earned $18.5 million of EBITDA on $168.0 million of revenue, 11.0 percent. Marrowstone Capital had bought it from the Halvorsen family twenty months earlier for 8.5 times EBITDA of $19.6 million, $166.6 million in all, and had hired me after the former chief executive left.

Douglas Kinnaird, Marrowstone's operating partner and Halvorsen's chair, was waiting in the conference room with one sheet of paper. On it was the old scorecard for Year 0. Its eight leaders came in at 88 percent of target, $496,000 between them. On a plan of his own, the VP Sales came in at 106 percent of his target, $91,000, because revenue ran 101.8 percent of its $165.0 million budget. At the bottom of the page sat EBITDA: $19.6 million the year Marrowstone bought the company, $18.5 million now.

Douglas wasn't angry, though he had every right to be, and I have sat across from operating partners who would have been. He was curious. "What did we pay them for?" he asked me.

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.

Not one plan passed on purpose. When the territory managers' plan went up, Clay didn't wait for the mark. He had been at Halvorsen twenty-six years, the best salesman the company ever had. "We paid them to sell, and they sold," he said.

He was right, and there was no defensiveness in it. That plan had asked for revenue, and revenue came: $168.0 million, 101.8 percent of budget. His own plan had paid him 106 percent of target for exactly that. Clay was not defending the plans — he was describing them, more plainly than anyone else in the room had managed to.

Milo took the plant leads' mark the same way. His leads had been paid for units shipped, and they had shipped units, including the Quad 4 orders that the first cut of the numbers said were losing money. "Pay me for units and you get units," he said.

Andrea asked whether anyone had ever set the strategy beside the plans. Nobody had, so we did it that afternoon on a second sheet: what we hoped for down the left, what we paid for down the right. The left column said margin twice. The right column never said it once.

That was the day I understood what we were dealing with. Our plans weren't broken. They were working — on the wrong thing. Every one of them did what it said, and what it said was not what Halvorsen needed.

On Day 30, five days before the board met, I sent Douglas the letter. My promise took three sentences and the price took two: some of our best-paid people would earn less on the same invoices, and a few of them would leave.

Arne's rule was still painted over the door of the old shipping office. Every wheel carries its share. Our plans paid the most for the wheels that carried the least, and Chapter 2 follows the money, customer by customer and dollar by dollar, to find out which wheels those were.

From the Record

"We want to get to eight," Wells Fargo's 1999 annual report said of its banking households, which then held 3.4 of the bank's products on average. Eleven years later, John Stumpf's letter to the owners in the 2010 annual report explained the number. He wrote that people often asked him why the goal was eight, that the answer was it rhymed with "great," and that the new cheer might be for ten.

In the branches, the goal came with a payout. In the first quarter of 2012, the board's later investigation found, a banker who made about

nine qualifying sales a day could receive $250 for the quarter, and one who made 13 could receive $800.

On September 8, 2016, the bill arrived. A $100 million fine came from the Consumer Financial Protection Bureau and a $35 million penalty from the Office of the Comptroller of the Currency, and another $50 million went to the City and County of Los Angeles — three penalties, $185 million in all. By the bank's own count, about 2.1 million deposit and credit-card accounts "may not have been authorized," and between January 2011 and March 2016 it had fired about 5,300 employees over the practices.

When the independent directors reported in April 2017, they put pressure first and pay second. "Employees who engaged in misconduct most frequently associated their behavior with sales pressure, rather than compensation incentives, although the latter contributed," they wrote. By then the bank had ended product sales goals for its retail bankers, effective October 1, 2016, and had put in a new incentive program built around customer service. A wider review in August 2017 raised the count to about 3.5 million "potentially unauthorized" accounts. And in February 2020 the bank agreed to pay $3 billion to resolve criminal and civil investigations by the Justice Department and the Securities and Exchange Commission, the criminal part under a deferred prosecution agreement.

Nobody had to write anything improper into a plan. Wells Fargo set a goal, paid for daily sales and pressed hard for both, and the number came in. Pay for a number and press for it, and you'll get the number — what comes with it depends on everything the plan forgot to count.

Do This

1. Pull every plan, side letter and exception from payroll in your first thirty days, and count the people on variable pay.
2. Write each plan's pay line in one sentence: what it pays on, and how far that is from EBITDA.
3. Run the everyone-hits-it test on every plan with your leadership team in the room.
4. Put last year's variable pay beside last year's change in EBITDA on one page.
5. Change nothing until every plan has been rerun on last year's invoices.
6. Write your board the promise and the price before the first plan changes.