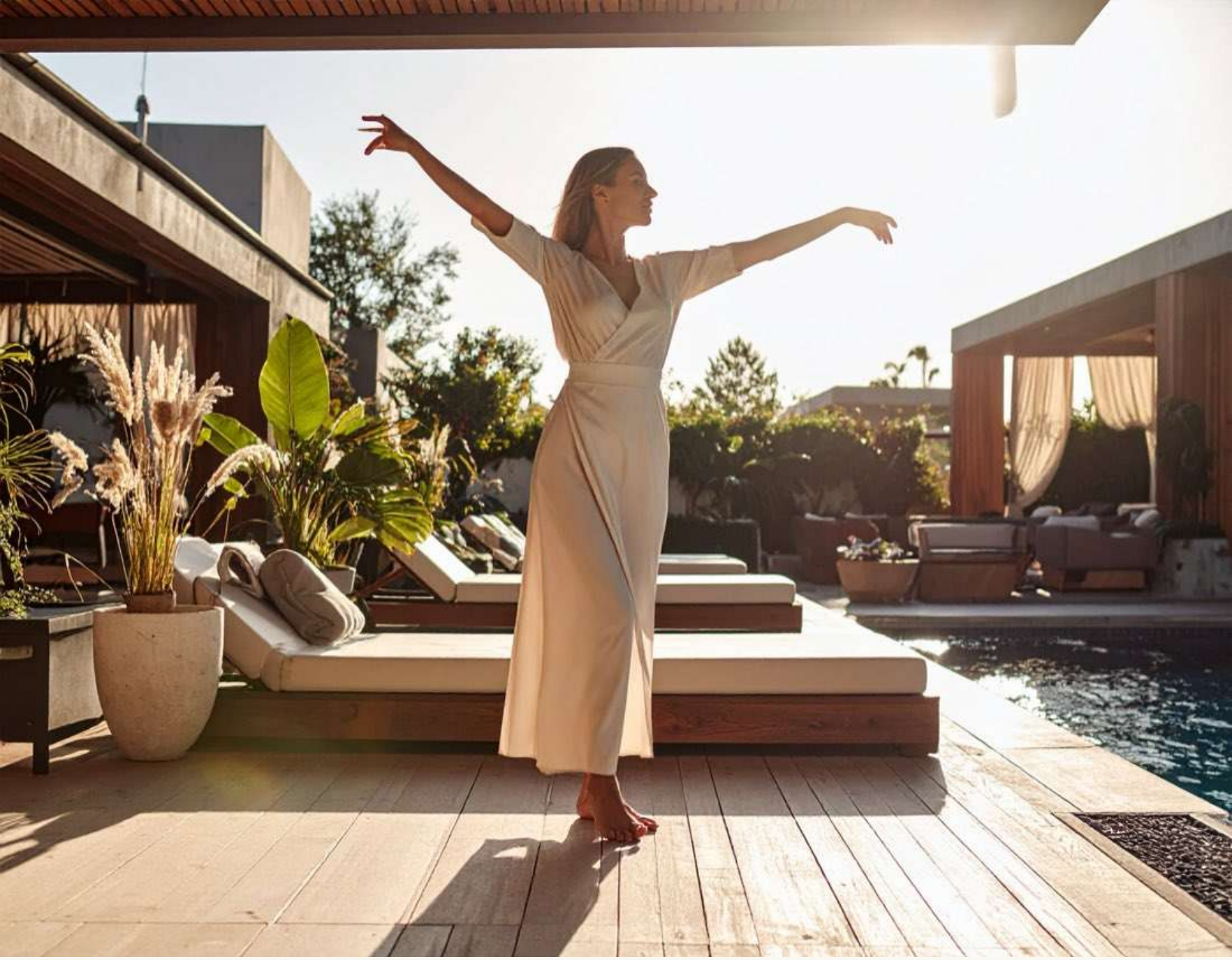


THE PRICE NOBODY CHARGED · CHAPTER FIVE

The Last Week of the Quarter

Discounts bought by the calendar, and how a recovered dollar is counted so that everyone believes it.

Ammanuel Santa Anna

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Chapter Five of The Price Nobody Charged. The whole book, with every chapter, is at business.hautelumiere.life/library/the-price-nobody-charged (DOI https://doi.org/10.5281/zenodo.23989120).

A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

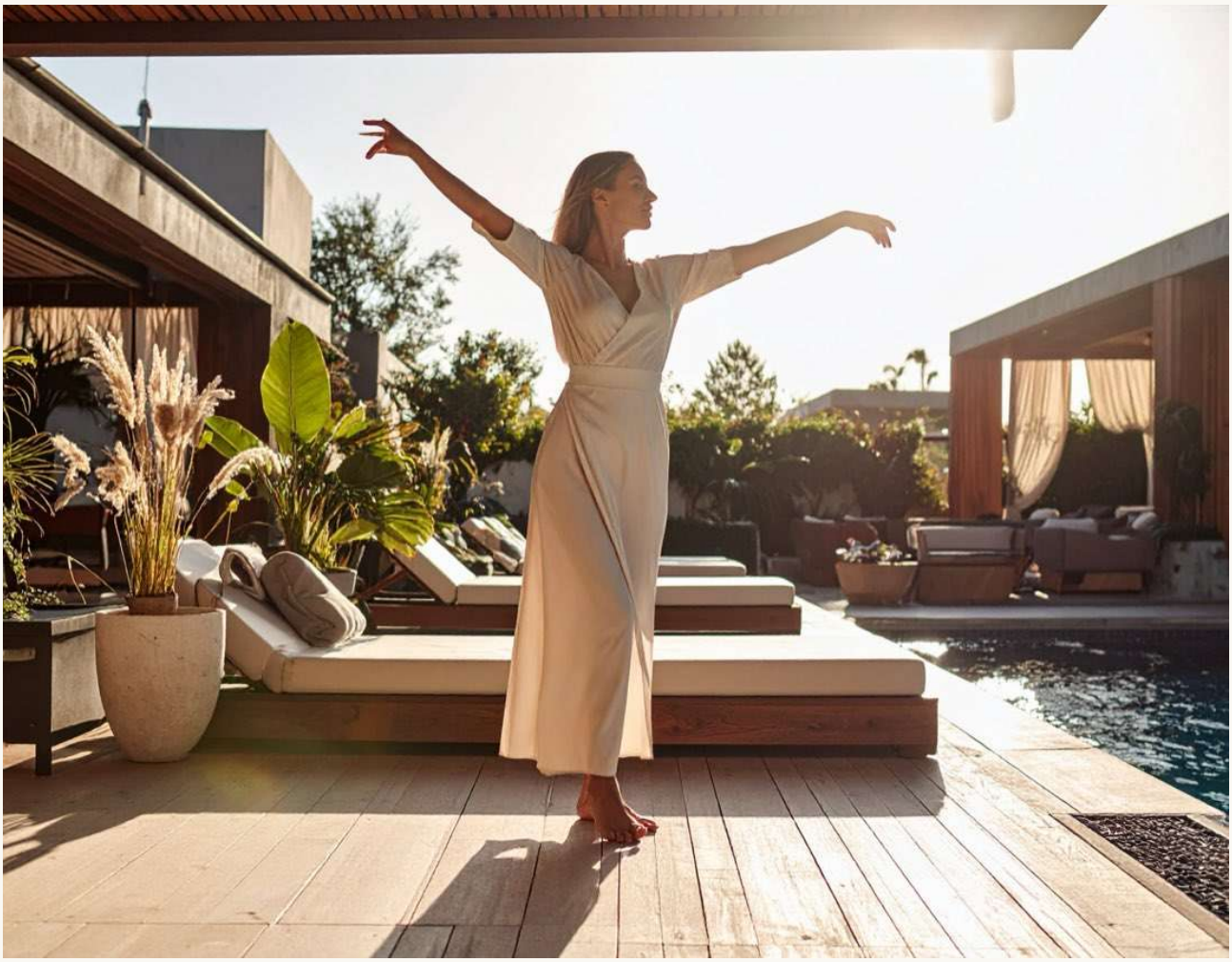
ABSTRACT

Discounts bought by the calendar, and how a recovered dollar is counted so that everyone believes it. It is nine o'clock on the last Thursday of the financial year, and the regional sales manager of a firm that makes industrial pumps is at her kitchen table with a laptop and a glass of water. On the screen is a deal for a water utility: eleven pumps, a three-year service agreement, and a discount a good deal deeper than the firm's guidance allows. The representative who owns the account rang an hour ago. If the order is signed tomorrow, he reaches the threshold in his commission plan at which every further sale pays at a higher rate, and the region makes its number. If it is signed on Monday, it falls into next year, and neither does.

CHAPTER FIVE

The Last Week of the Quarter

Discounts bought by the calendar, and how a recovered dollar is counted so that everyone believes it.



The Last Week of the Quarter

HAUTE LUMIÈRE · THE PRICE NOBODY CHARGED · CHAPTER FIVE

Nine o'clock, the last Thursday

It is nine o'clock on the last Thursday of the financial year, and the regional sales manager of a firm that makes industrial pumps is at her kitchen table with a laptop and a glass of water. On the screen is a deal for a water utility: eleven pumps, a three-year service agreement, and a discount a good deal deeper than the firm's guidance allows. The representative who owns the account rang an hour ago. If the order is signed tomorrow, he reaches the threshold in his commission plan at which every further sale pays at a higher rate, and the region makes its number. If it is signed on Monday, it falls into next year, and neither does.

The utility's buyer knows this. He has had the quotation for three weeks. On Tuesday he told the representative that he could get it approved this week if the price moved, and not otherwise. The sales manager has seen the same conversation at the end of every year she has run the region. Her throat is tight. She approves the discount, writes *year-end* in the reason field, and closes the laptop.

She is a composite, drawn from the way these evenings are described in the research below and in the house's own practice, and no firm is meant. In the morning the order will be signed, and the firm will report a strong final week. Nobody will report what the final week cost.

Ammanuel Santa Anna's canon, writing about the gap between what organisations say they value and what they reward, puts her evening in two sentences.[18] "The real performance system is the one that determines promotions, bonuses, and career trajectories. And that system teaches people, with devastating efficiency, exactly what the organization actually values." The firm's guidance on discounts is on its intranet. The commission plan is in every representative's head. She has just watched the second defeat the first, and she helped.

This chapter makes one claim, and it closes the argument the four chapters before it have made. A great deal of the revenue a firm loses below the invoice is not lost to customers. It is bought by the firm's own calendar, through incentives that make the last week of a period the cheapest time to sell, and it can be recovered only if the people who give the price are paid on what the firm keeps. And any revenue recovered, from this leak or the other four, can be shared only if it is measured in a way that both the firm and the people who found it believe, and that the customer could see without feeling robbed.

A pulse in the calendar

The first careful evidence that the calendar moves prices came from an economist looking at whole industries. In 1998 Paul Oyer published a study in the *Quarterly Journal of Economics* on the effect of fiscal-year ends.[19] His starting point was the shape of ordinary pay. "Salesperson and executive compensation contracts typically specify a nonlinear relationship between firm revenues and pay," he wrote, which gives the people paid under them reason to "manipulate prices, influence the timing of customer purchases, and vary

effort over their firms' fiscal years." If that were happening, he reasoned, it would show in the data. It did. Manufacturing firms' sales, he found, are higher at the end of the fiscal year and lower at the beginning than in the middle, over and above the ordinary business cycle, and he found further evidence in how prices moved through the fiscal year.

It is evidence at the level of industries and accounts, and it cannot show what any one representative did on any one Thursday. What it shows is that the pattern the sales manager sees in her region is not a local habit. It is visible in the published sales of manufacturing firms across an economy, timed to their own years rather than the calendar's. When thousands of firms pay their people in a way that rewards finishing a period strongly, the whole economy acquires a pulse.

The pulse has a second consequence that the data cannot show directly, and every buyer who has negotiated with a supplier knows it. Customers learn the rhythm. A purchasing manager who has seen a supplier's price soften in the last week of its year three years running does not need a study to tell him when to place his order. He waits. His waiting is not cynical; it is his job, and he is often measured on the savings he finds. So the supplier's incentive plan and the customer's procurement targets lock together, each making the other's behaviour more rational, and the price at which the two firms actually trade drifts down towards the one available in the last week, while both firms' reports describe the deal as normal business.

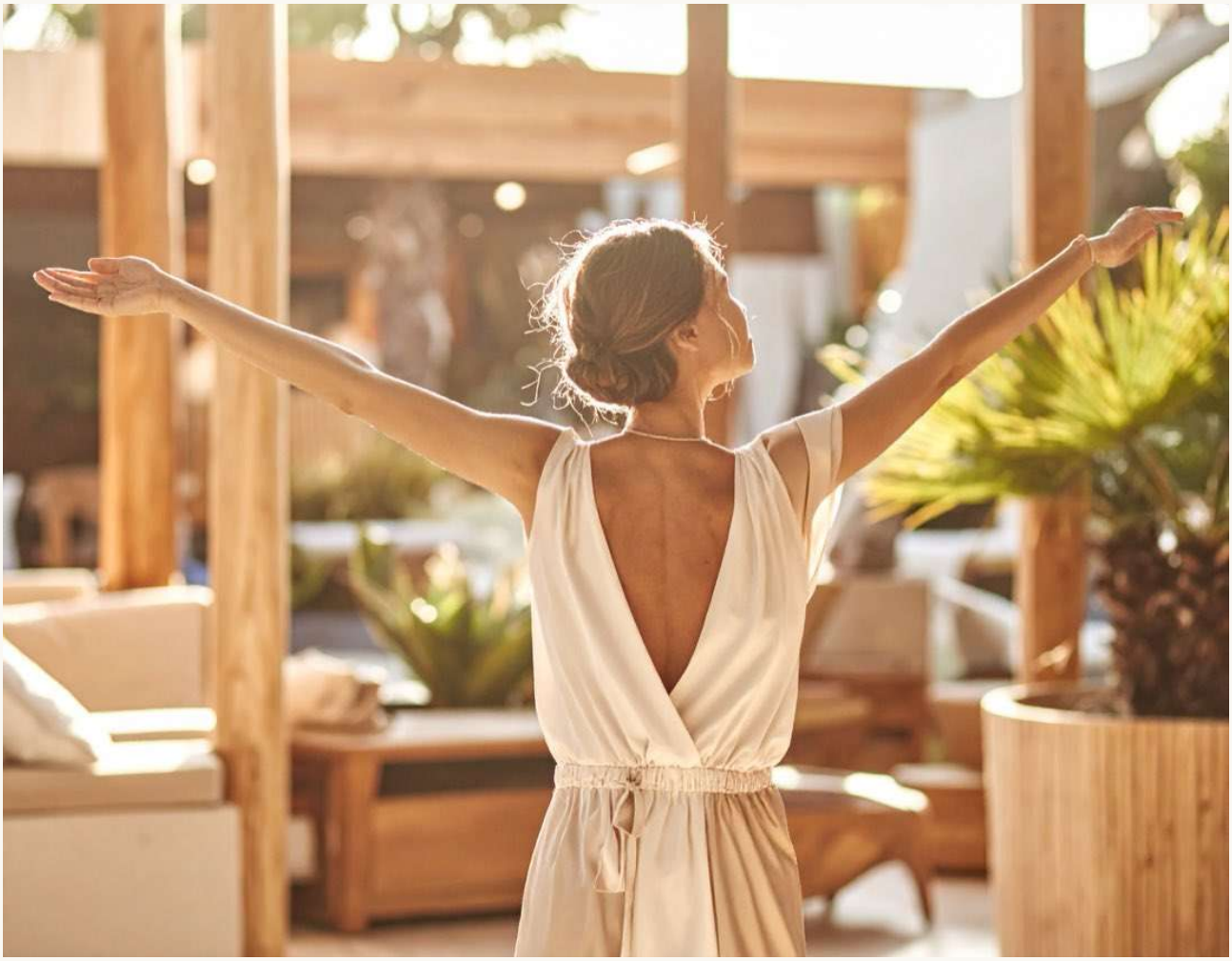
Oyer's paper showed the pattern. A study published sixteen years later showed its price.

In 2014 Ian Larkin published an analysis, in the *Journal of Labor Economics*, of the deals done by the sales force of a leading enterprise software vendor.[20] The vendor paid its salespeople under a common kind of plan, in which commission rates accelerate as a salesperson's sales for the period rise. Larkin found, in his words, that "salespeople are adept at gaming the timing of deal closure to take advantage of the vendor's accelerating commission scheme." In quarters in which a salesperson had a financial reason to close a deal, salespeople agreed to significantly lower prices. The resulting mispricing, he estimated, cost the vendor six to eight per cent of its revenue. He checked whether the lower prices might simply have been the vendor discriminating, deliberately, between customers, and found that they were not.

It is one vendor, in one industry, with a particular plan. But the finding is unusually direct. It does not say that salespeople are dishonest. It says they are rational, and that a plan which pays more for a deal closed this quarter than for the same deal closed next quarter will buy the deal this quarter, at whatever price is needed. The cost does not appear as a cost anywhere. It appears as revenue that was smaller than it would have been, which is the hardest kind of loss to see.

Read the sales manager's evening through it. The representative was not being greedy. He was being paid. The utility's buyer was not being cynical. He was reading the same calendar. And the firm, which wrote the plan, had in effect offered its customers a discount for buying in the last week of the year, and taught them, year by year, to wait for it. The canon puts the mechanism in a sentence about measurement that applies with full force to pay: "When an organization's reward system is built entirely on quantifiable outputs,

people naturally redirect their energy toward what is counted." What was counted was the order. What the firm kept was not.



The representative's Friday

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The representative's Friday

It is worth spending a moment with the representative, because the research is easy to read as a story about people who game a system, and he does not experience it that way.

He has a family and a mortgage, and his pay is made of a salary and a commission that, in a good year, is the larger part. For eleven months his plan pays him at one rate. Past a threshold, it pays at a higher one, for everything he sells until the year ends. In the last week of the year he is a few orders short of the threshold, and the difference between reaching it and missing it, on the deals already in his pipeline, is a large share of what his family will live on. The utility's order is the one that would take him over.

He does not think of the discount he asked for as costing the firm anything. He thinks of it as the price of getting a deal done that the firm wants done. He has been told, at every sales conference, that the firm wants volume, and the plan he is paid under agrees. Nobody has ever shown him what the firm keeps from a deal, and his plan does not ask. If the firm wanted him to hold the price, he would say, if anyone asked him, it would pay him to hold the price.

He is right, and that is the whole difficulty. The research does not describe salespeople behaving badly. It describes people paid to do one thing doing it well. Larkin's salespeople were adept, which is a compliment. The sales manager who approved the discount at nine on Thursday was doing the same thing at the next level up: her own plan rewarded the region's number, and the number needed the order. A firm that finds its pocket price eroded at every quarter's end has not found a discipline problem in its sales force. It has found its own pay plans, working as designed.

That is also why exhortation does not change it. A sales director who tells the team at the start of the year that discounting must stop, and leaves the plans as they are, will hear the same phone calls in the last week. The behaviour is not a habit to be broken. It is an answer to a question the firm keeps asking.

Who holds the pen

There is an older question beneath the calendar, and it is the question of who is allowed to set the price at all.

In 1979 the marketing researchers P. Ronald Stephenson, William Cron and Gary Frazier published a study, in the *Journal of Marketing*, of a question that the textbooks of the day answered one way: should salespeople be given authority to set prices? The theory said yes, because the salesperson knows the customer best. Their data, from a sample of a hundred and eight firms, said otherwise. Among those firms, the ones "giving salespeople the highest degree of pricing authority generated the lowest sales and profit performance."[21]

It is an old study and a correlational one. It cannot show that the authority caused the poor performance; firms that were struggling might have handed their salespeople more room to discount, and the relationship might differ in other industries and decades. It is cited here not as a law but as a caution with a long history. The person who knows the customer best is often also the person most exposed to the customer's pressure, and most rewarded for giving way to it. Giving that person the whole of the pen, and paying them on volume, puts both forces on the same side of the table.

Nothing in this argues for taking pricing away from the people who sell. They do know the customer, and a firm that prices from a distance prices badly. It argues for something simpler: that the person who grants a discount should see, at the moment of granting it, what the firm will actually keep, and should be paid in a way that cares about the answer. The discount the sales manager approved at nine on Thursday went into a

field marked *reason*. Nobody at the firm will read it, and the commission plan does not know it exists. The house's guide to selling, in a chapter on the conversation about price, lists among the skills it teaches: "When to walk away: recognizing that price is a genuine barrier vs. a negotiation tactic". The utility's buyer was using a tactic. The firm's own plan made it impossible for the representative to recognise one.

The design shapes the deal

Santa Anna's *Ecstatic Economics*, writing about the gift economies it reads as models for a living firm, describes wealth in terms that fit a quarter-end surprisingly well: "In the gift economy, wealth is a flow — a current of energy that must keep moving to remain alive." The quarter-end is a dam. Orders that would have arrived steadily through the year are held back until the last week, then released all at once, at a lower price, by customers who have learned that holding them back pays. The firm's production plans see a wave. Its service teams see a wave. Its margins see a trough. None of this was anyone's intention. All of it was designed.

The house's guide for customer-service teams makes a related point in two short sentences that a sales director could keep above her desk: "The metrics flow from the states. Not the other way around." It was written about the state of mind in which people serve customers, and it holds at a quarter-end. A representative in the last week of the year is in the state of someone chasing a threshold, and the price follows the state.

The canon is careful to say that the remedy is not to stop measuring. The same chapter that describes the real performance system lists, among the harms of a reward built on short-term counts, the habit of "prioritizing short-term metrics over long-term relationships". The quarter-end discount is that habit in its most concentrated form. It trades the price of a three-year relationship for a number in one week.

It is worth naming who bears the cost, because it is not only the firm. The representatives carry the last week of every quarter in their bodies, and the best of them leave for firms where the year does not end in a scramble. The customers who do not know the calendar, often the smaller and more loyal ones, pay more than the ones who do. And the band that a commercial analyst draws for a single product (Chapter 1) widens a little every quarter, as the customers who wait move to the bottom and the customers who do not stay at the top.

What changes it, in practice, is smaller than a new commission plan, though a new plan may follow. At the pump firm the sales director makes three changes for the following year. Every discount beyond guidance is written on the deal record with its reason, and the record shows the pocket price the firm will keep, worked out from the same ledgers the waterfall uses, before the discount is approved. Discounts granted in the last fortnight of a period are reviewed by someone whose own pay does not depend on that period. And the representatives' commission is counted on what the firm keeps from each deal as well as on what it ships, so that a deal signed on Monday at the right price is worth as much to the representative as the

same deal signed on Friday at the wrong one. How any of that is designed for a particular firm, the rates and the thresholds and the timing, is a decision for that firm and its people, and it is not described here.

The first year is uneven. Two large customers wait for the old year-end and are surprised when it does not come. One of them signs in the first week of the new year at the guided price. The other takes its order to a competitor, and the sales director lets it go, which is the hardest decision of the year and the one the representatives notice most.



A number the sales team believes

HAUTE LUMIÈRE · THE PRICE NOBODY CHARGED · CHAPTER FIVE

A number the sales team believes

Every leak in this book ends in the same place. The commercial analyst finds a waterfall, the engineer a ledger of favours, the commercial manager a drawer of clauses, the billing coordinator a pile of denials that began at the front desk (Chapter 4), the sales director a calendar. Each finds revenue the organisation has already earned and has not collected. And in each case the finding becomes a gain only if it can be counted

in a way that the people who found it, the people who must pay for it and the customers who are affected by it would all accept.

Where the Flow Stops reads a measurement agreed before anyone knows the answer, and the principles are the same here. A baseline both sides lock at the start, drawn from records the organisation already keeps, over a period long enough to show its ordinary variation: for revenue, the pocket price per unit and the share of work billed, read from the waterfall's ledgers and the timesheets over a year or two rather than a single bad quarter. Adjustments named in advance for the things that move revenue for reasons nobody in the firm controls: the mix of products sold, the volume, a published index of input costs, the market's own movement in price. A calculation done or checked by someone with no stake in the answer. And the result shown to the people whose work produced it.

Revenue adds one requirement that the measurement of costs does not, and it is the most important line in this chapter. A revenue gain must carry a second measure beside it that would reveal if the gain were merely taken from customers. Anderson and Simester's customers, whose purchases fell when they learned they had paid more than others, are the warning.[22] A firm that recovers its pocket price by squeezing the customers least able to argue will see it first in their volumes and their departures, a quarter or two later. So the recovered revenue is read beside customer retention, the volumes of the firm's smallest and most loyal accounts, and the number of disputes. If those hold steady while the pocket price rises, the firm has recovered what it was owed. If they fall, it has moved its costs onto other people and called it a gain, and the measurement should say so.

Consider how this would work at the pump firm, told as the sales director and the finance director agree it in the first week of the year, before anything changes. They take two years of the firm's deals for its main pump lines, from the deal records and the waterfall's ledgers, and work out the pocket price per pump, month by month, so that the ordinary swing of the year, including every past quarter-end, is visible. They name the adjustments in advance: a published index of steel and copper prices, because the firm's list prices move with it; the mix between large and small pumps, because the large ones carry different discounts; and volume, because a slow year changes what customers can demand. They name the balancing measures: the number of active customers in each region, the volumes of the smaller accounts, and the deals lost at the quotation stage, recorded with the reason the customer gave. The management accountant, who reports to finance and is paid on neither sales nor margin, will run the figures each month, and the sales team will see them in the same form the finance director does.

At the end of the year the pocket price has risen against its two-year range, after the adjustments. Active customers have held. One large account has been lost, and is shown, with the revenue it took with it, beside the gain, so that nobody can claim the gain without seeing the loss. The figure that results is smaller than the sales director's estimate in the spring. It is also a figure the representatives believe, because they watched it built from records they recognise, every month, and saw their own deals in it.

This is not decoration. It is the difference between recovering revenue and extracting it. Every practice in this book recovers money from places where the organisation was simply failing to collect what it had agreed or earned: a rebate paid against volume that was not reached, a site visit the client was never told about, an indexation clause in a signed contract (Chapter 3), a claim for care already given, a discount bought by the calendar. None of them requires a customer to pay more than it agreed. Several of them, the installer's price, the released years of indexation, the named gift, return something to the customer. A gain measured with its balancing measure beside it can show that, and a gain shared on that basis can be defended in public.

Chapter 7 carries the measurement conversation for revenue as a run sheet, with the questions in order, the adjustments to name and the balancing measures to set beside each kind of leak, and the section below takes its finer points further. It does not describe how a measured gain is divided, which belongs to each organisation and the people it covers.

The house's interest in this is stated once, plainly. Luminous Prosperity works with organisations to find the revenue and the gains they already hold, and to share in what is found. Sharing is only honest when the measurement is, which is why the measure is agreed first, and read last.

The measurement conversation, for revenue

The measurement of recovered revenue follows the same order as the measurement of any gain, and *Where the Flow Stops* sets that order out in full. Revenue has finer points of its own, and they are the ones that decide whether the number is believed.

The first is the unit. Revenue rises and falls with volume, and a firm that measures recovery in total revenue will credit itself with a good year and blame itself for a bad one. Measure the thing each practice changes. For the waterfall and the incentives, the pocket price per unit of a product line. For the scope ledger, the share of hours worked on a project that were either billed or deliberately given. For the register, the revenue billed under each clause against what the clause provided. For the denial walk, the share of claims or invoices paid in full at the first attempt.

The second is the history. Copy and date at least a year of the records that bear on each unit before anything changes, and two years where the business is seasonal or the quarter-end distorts it. The history shows the ordinary range, and nothing is counted as recovered until it falls outside that range or moves steadily in one direction for several months.

The third is the adjustments, and they are named before anyone knows the result. For price: a published index of the firm's main input costs, if its prices move with them; the mix of products; volume; and the market's own price movement, where a source for it exists. For billed hours: the mix of fixed-fee and time-based work. For denials: changes in the payers a practice works with and in their rules. Each adjustment

names its record and how it will be calculated. An adjustment proposed after the results are known is not an adjustment. It is an argument.

The fourth is what is not counted. Revenue released on purpose, the missed years of indexation, the named gift, is counted as zero, never as a gain foregone. Revenue that comes from charging a customer more than it agreed is not counted at all. Changes to incentive plans are not gains in themselves; they are counted only through the pocket price they move. And recovered amounts are counted from the date the change was agreed, not backwards.

The fifth is the balancing measure, which revenue needs more than any other gain. Beside every revenue measure sits a measure that would rise or fall if the gain were taken from customers rather than recovered. The number of active customers. The volume bought by the smallest and most loyal accounts. Quotations lost, with the reason given. Disputes, complaints and, in a practice, bills sent to patients. If these hold while the revenue measure improves, the firm has collected what it was owed. If they deteriorate, the result is reported beside the gain, in the same table, so that nobody can read one without the other.

The sixth is who calculates. Someone whose pay depends on neither the sales figure nor the margin, with a second person able to check the work. The result is shown monthly to the people whose practices produced it, the account managers, the engineers, the front desk, in the form finance sees.

And the seventh is what this conversation does not settle, which is how a measured gain is then shared: the proportions, the timing, the thresholds and the terms. Those depend on the organisation, its people and its history, and for an organisation working with Luminous Prosperity they are the substance of the engagement, not of a book. What the conversation can do is make that later decision honest, by producing a gain that the firm, the people who found it and the customers it affects could all look at. Chapter 6 places the conversation at the end of the ninety days, with its history fixed at the beginning, and Chapter 7 gives the questions in order and a one-page agreement.

Nine o'clock, a year later

It is nine o'clock on the last Thursday of the financial year, and the regional sales manager is at her kitchen table with a glass of water. The laptop is closed. The region made its number in the second week of the month, without the last week, and two of the deals that would once have waited for Friday were signed in August at the guided price. The water utility signed its renewal in July. The buyer asked for a discount, and was shown, on one page, what the firm would keep and why the price was what it was. He agreed to the price, and asked for a longer service agreement instead.

The representative who rang her last year at eight is on holiday this week. The reason field on the region's deal records holds sentences now, not words.

She drinks the water, and goes to bed early.

A NOTE FROM THE HOUSE

A recovered dollar is a gain only when everyone believes how it was counted: the history fixed before anything changes, the measure signed before the answer is known. Luminous Prosperity Inc. does this work inside organisations as a gainshare, and is paid as a share of the gain it helps find.

REQUEST A CONVERSATION

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The Last Week of the Quarter

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