



THE DOWNSIDE OF END-OF-QUARTER DISCOUNTS

Most savvy car buyers know the trick—to get the best deal on a new vehicle, go to a dealership on the last day of the last month of the quarter, preferably late in the afternoon. Pressed to meet their monthly targets, many representatives will pull out all the stops to close the sale, throwing in added features gratis and offering rock-bottom prices. It's a win-win situation for all parties involved—or is it?

Telecommunications equipment maker Lucent Technologies learned the downside of the end-of-quarter push for profits the hard way. As a result, the U.S. Securities and Exchange Commission has opened an investigation into the accounting on some of the company's last-minute deals. Shareholders have filed multiple lawsuits over their claims that the high-tech giant failed to inform them about anticipated revenue shortfalls in a timely manner. And a former sales executive has initiated an action against Lucent under New Jersey's whistleblower statute, alleging that she was forced out of the company for questioning unrealistic sales goals.



Frenzied Deal-Making

A recent article in the *Wall Street Journal* recounts the frenzied deal-making that took place as salespeople struggled to reach ambitious revenue targets at the end of Lucent's fiscal fourth quarter last September. After Lucent's CEO "went ballistic" at a meeting in which the North American sales chief announced that her team would likely fall short of their sales goals for the quarter, the sales force redoubled their efforts to pull in business—at almost any price. By offering generous customers dis-

YOUR WORKOUT CHALLENGE

Systems Thinking Workout is designed to help you flex your systems thinking muscles. In this column, we introduce scenarios that contain interesting systemic structures. We then encourage you to read the story; identify what you see as the most relevant structures and themes; capture them graphically in causal loop diagrams, behavior over time graphs, or stock and flow diagrams; and, if you choose, send the diagrams to us with comments about why the dynamics you identified are important and where

you think leverage might be for making lasting change. We'll publish selected diagrams and comments in a subsequent issue of the newsletter. Fax your diagrams and analysis to (781) 894-7175, or e-mail them to editorial@pegasus.com.

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counts, credits, and other incentives, the company ultimately fell less than 2 percent short of its target.

But when the dust settled, it became painfully obvious that the company had mortgaged its future for immediate returns. When the North American sales chief tallied up all of the incentives Lucent had offered its customers, she found that the last-ditch effort at the end of Q4 2000 would cost the company \$1.8 billion dollars in fiscal year 2001.

Based on these grim projections, the sales chief resigned; the CEO was gone a few days later.

Although the pattern of offering last-minute discounts peaked late last year, customers had come to predict Lucent's tendency to offer special deals at the end of each quarter. Fiscal year 2000 proved to be especially challenging for the company, as the economy began to slow and large customers scaled back on their investments in telecommunications technology. Still, by some accounts, the CEO kept the pressure on for the sales team to make the numbers.

Some employees even went as far as to falsify documents to book revenue during one quarter that legally belonged in the next.

Borrowing Against the Future

It may be that companies can "borrow" against their future earnings—in the form of giving discounts to customers for closing deals now rather than later—for just so long before the practice proves unsustainable. By pushing end-of-quarter discounts to meet sales goals, businesses train their customers to time their purchases. As customers pay less for products, sellers find that they need to sell more and more to earn the same amount of revenue as they did when they sold the majority of their inventory at full price. ■

—Janice Molloy

Source: "Behind Lucent's Woes: All-Out Revenue Goal and Pressure to Meet It" by Dennis K. Berman and Rebecca Blumenstein, March 29, 2001

YOUR THOUGHTS

Does a systemic analysis of these trends suggest alternatives to offering last-minute discounts for meeting sales goals and boosting a company's revenue? Let us know what you think!