STEP 2 · DEEP DIVE · ONE WEEK AFTER THE REPORT

Four accounts explain almost all of the excess discount.

The question the report left open: which customers received the discount in Industrial supplies (MRO), and what was obtained in exchange?

Example Industrial Supply Co. · US$ thousands

Discount by account · Industrial supplies (MRO) · March

	Sales at list price	vs. plan	Discount	Disc. %	Above the 4% standard	Gross margin
Account A	118	+31%	19	16.0%	14	20.1%
Account B	86	+39%	12	14.0%	9	21.9%
Account C	61	+39%	7	12.0%	5	23.7%
Account D	44	+38%	4	9.0%	2	26.2%
The four accounts	**309**	**+36%**	**42**	13.7%	30	22.2%
All other accounts	339	+7%	14	4.0%	0	30.1%
Line total	**648**	**+19%**	**56**	8.6%	30	26.6%

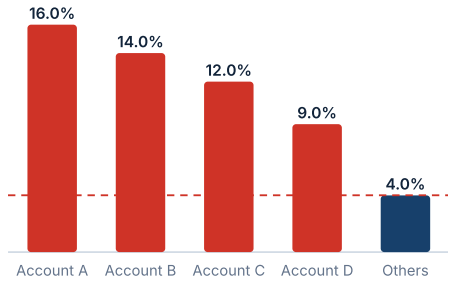
Sales at list price: sales before discounts. The plan is stated at current list prices.

What we found

- **The discount is concentrated.** Four accounts make up 48% of the line's sales and received $42K in discounts, a rate of 13.7%. All other accounts remain at the 4% standard.
- **The extra volume was bought with margin.** Those four accounts bought $81K more than planned, 78% of the line's growth. Even so they left $59K of gross profit; at planned volume and the standard discount they would have left $66K.
- **There is no rule.** Each discount was decided order by order, with no ceiling and no approval. Three of the four accounts are handled by the same sales rep.

Discount rate by account

Dashed line: budget standard, 4%.



What the numbers do not say

- Whether those accounts would buy the same with a smaller discount.
- Whether the discount answered a competitor's offer or was given out of habit.
- Whether any account has a volume commitment in exchange.

Question for the next conversation

How much volume are we willing to put at risk to recover margin on these four accounts?

STEP 3 · OPTIONS · ONE WEEK LATER

Three ways to recover margin, and what each one puts at risk.

Estimated effect on the monthly gross profit of Industrial supplies (MRO), based on March figures.

Option	If volume holds	If volume reacts	What it takes	When it shows
1. A 6% discount ceiling, with approval above it	+$24K a month	+$11K if 15% of the four accounts' volume is lost. Better than today as long as less than 28% is lost.	A rule, someone who approves exceptions, and a conversation with four customers.	From the first month
2. Raise the line's list prices by 2%	+$12K a month	Better than today as long as the line loses less than 7% of its volume. It reaches every customer, including those with no discount.	A new price list and notice to the whole customer base.	One to two months
3. Shift the mix toward better-margin lines	About +$12K for every $100K of sales that moves to the highest-margin line	Depends on the customer buying something else. It does not fix the discount.	A sales plan, incentives and sales team time.	Three to six months

Option 1: monthly effect by volume lost

Gross profit against today. On the axis: share of the four accounts' volume that stops being bought.



Recommendation

Start with option 1. It acts where the problem is, it has the largest effect, and it is the only one that can be reversed within a week if volume falls. Options 2 and 3 stay under study.

Before deciding

- Confirm with sales whether any of the four accounts has a competitor's offer.
- Define who approves an exception, and on what basis.
- Agree what drop in volume would reopen the decision.

STEP 4 · FOCUS · ONE WEEK LATER

One decision, one owner, and how it will be measured.

DECISION

A 6% discount ceiling on Industrial supplies (MRO). Any discount above it requires approval and a written reason.

Owner	Starts	Exceptions	Review
Sales manager	The Monday after this conversation	Approved by the general manager	In every monthly report

How it will be measured

Measure	March	Target	Alert
Discount rate on the line	8.6%	4.9% or less	Above 6%
Discount rate on the four accounts	13.7%	6% or less	An order above the ceiling without approval
Sales at list price, four accounts	$309K	$263K or more	Below $221K: the decision is reviewed
Gross profit of the line	$157K	Between $168K and $181K	Below $157K

Also agreed

- Ask each of the four accounts what volume it will keep at the new discount.
- Options 2 and 3 are on hold. They come back once the ceiling has been in place for two months.

What comes next

Next month's report opens with these four measures: what happened to the discount, to volume and to gross profit. If volume falls below the alert, the decision goes back on the table.

About this example

These three documents illustrate what accompanies the conversations that follow the monthly report. The company, the accounts and all figures are illustrative and tie to the sample report. In a real engagement, the subject of each document is set by the month's findings and management's priorities.