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CASE STUDY

THE MILLION-DOLLAR DISCOUNT PROBLEM

Real Operating Decisions. Real Capability Failures. Real Business Outcomes.
An Executive Case Study in The O'Brien Method Series

COMPANY PROFILE

Industry: Finance: equipment finance and leasing company

Approximate revenue: $18–22 million

Business model: B2B equipment financing; sales team negotiates deal terms directly with borrowers

Growth stage: Mature, flat-growth business; CFO flagging margin compression

EXECUTIVE SUMMARY

Gross margin had eroded steadily over the trailing twelve months, and sales leadership's explanation was a more competitive market requiring larger discounts to win. Cumulatively, more than a million dollars in margin had been given away through discounting, which had quietly become the default lever for closing deals. A diagnostic found that the discounting was concentrated almost entirely on transactions that were poor fits from the start, including thin-margin borrowers and non-core equipment categories the company should not have been chasing, and that the discount was not solving a pricing problem at all. It was compensating for a qualification failure, deal by deal.

THE SITUATION

The sales team's pipeline coverage looked healthy on paper, and leadership had not questioned the pipeline's composition, only its conversion. When deals stalled on price, the team's habitual response was to discount rather than reconsider whether the deal should have been pursued in its current form. From inside the sales organization, discounting felt like responsiveness to a competitive market. From the CFO's chair, it looked like margin bleeding out, one deal at a time, with no clear floor.

THE INVESTIGATION

The diagnostic pulled every discounted transaction over the trailing twelve months and scored each against the company's documented ICP criteria: borrower credit profile, equipment category, and deal size. A large majority of the discounted deals were poor-fit transactions that the qualification process should have filtered out or flagged for different, non-discounted handling well before the negotiation stage. Instead, they had been qualified in on the strength of pipeline-coverage optics, then discounted to close because reps and managers were being measured on closed volume, not deal quality.

Well-fit deals, by contrast, closed at list or near-list pricing at a meaningfully higher rate. Discounting was not evenly distributed across the book of business. It was a symptom concentrated almost entirely in the deals that should never have reached a pricing conversation in their existing form.

ROOT CAUSE

The root cause was a qualification gate that was too loose to filter out non-ICP deals before they consumed sales effort and reached pricing negotiations. Discounting had become the coping mechanism for a pipeline the company had allowed to fill with the wrong deals, not a legitimate response to a genuinely more competitive market.

THE INTERVENTION

The qualification gate was tightened to filter out non-ICP transactions before the proposal stage, using the same borrower-profile and equipment-category criteria the diagnostic had used to score the discount pattern. Discount authority was explicitly tied to a documented ICP-fit score: deals below a threshold required VP-level approval and were reserved for genuinely strategic exceptions rather than routine practice. Sales compensation was adjusted to weight margin contribution alongside closed volume, removing the incentive to close a low-fit deal at any price simply to hit an activity number.

BUSINESS RESULTS

The discount rate as a percentage of deal value dropped substantially over two quarters. Overall closed revenue held roughly flat while gross margin recovered, because the deals that disappeared from the pipeline had been consuming discount dollars without contributing proportionate profit. The sales team's pipeline shrank in volume but improved in quality, a trade-off leadership had not previously considered acceptable until the diagnostic made the economics visible.

THE O'BRIEN METHOD INSIGHT

A discounting problem is rarely a pricing problem. It is, far more often, a qualification problem that has learned to disguise itself as a pricing conversation, because discounting is the tool a rep uses when a deal should never have advanced this far in the first place. Fixing the price will not fix a qualification failure; it will only make the failure more expensive.

KEY TAKEAWAYS FOR CEOS

- Before treating margin erosion as a pricing or competitive-market issue, score every discounted deal against your ICP criteria. The pattern usually reveals itself immediately.
- Discount authority should be tied to documented fit, not left to individual rep or manager discretion at the time of negotiation.
- Compensation that rewards closed volume without weighting margin will quietly train a sales team to discount its way through a poorly qualified pipeline.
- A shrinking pipeline is not automatically a bad outcome. A smaller pipeline of well-fit deals can outperform a larger one padded with transactions that were never going to be profitable.
- Qualification rigor is the cheapest form of margin protection a sales organization has, and it is usually cheaper than any pricing strategy proposed to address the same problem after the fact.

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