SIGNALJOURNAL-EXECUTIVE BRIEF

The 5-Step Margin Leakage Audit

Executive Question: *Where is margin leaking between the price the business intended to earn and the contribution and cash it ultimately realizes, and what should management examine first?*

Core Signal: Margin leakage begins in the gap between the economics a business expects and those it ultimately realizes. Quoted price, standard cost, and reported gross margin reveal only part of the picture; management must trace transactions through discounts, unbilled value, cost-to-serve, price–cost lag, working capital, and cash.

Step	Management Question	Evidence to Review	Action
1. Net-Realized Margin Baseline	What revenue and contribution did we retain compared with what we quoted?	Quotes and invoices; credits, rebates, concessions; free delivery/expedited service; customer-specific cost-to-serve data	Trace a sample of transactions from quoted price through net-realized price, gross profit, and contribution. Keep net-realized price and cash collected distinct.
2. Ghost Discounts & Unbilled Value	Did the gap come from an explicit discount, or from added work, service, rework, customization, or delivery given without revenue?	Discount approvals/exceptions; credit and rebate records; change requests; rework and time records; expedited delivery activity	Separate explicit price concessions from unpriced value never recorded as a discount. “Ghost discount” is SignalJournal’s term for value given away without appearing as an invoice discount.
3. Price–Cost Latency Clock	How long from a cost or pricing issue becoming detectable to the response reaching prices, purchasing, contracts, invoices, or delivery terms?	Cost-change dates; detection/review dates; decision/approval dates; contract or invoice effective dates	Measure detection, interpretation, decision, and implementation lag separately. Assign an owner to investigate and shorten the slowest stage.
4. Mix & Fulfillment Economics	Which customers, products, or order types generate strong revenue but weak contribution after cost-to-serve?	Revenue by customer/product; estimated contribution after cost-to-serve; delivery/support demands; returns; rush orders; customization	Compare revenue ranking against contribution ranking for major accounts or product groups. Investigate material differences — revenue rank is not profitability rank.
5. Reconcile Margin With Cash	Does cash performance confirm reported margin, or do receivables, inventory, credits, and terms show growing pressure?	Reported gross margin; operating cash flow; receivables days; inventory days; payment terms; credits and returns	Build a recurring margin-to-cash reconciliation. Set a company-specific review trigger and assign a named owner.

Caution: Do not respond to every margin gap with an automatic price increase. First determine whether the cause is discount leakage, unbilled value, cost lag, unfavorable mix, fulfillment intensity, or working-capital absorption.

One Owner | One Action | One Review Point

Owner: [Assign owner]

Action: Review one material customer or product group through Steps 1–4, then compare the resulting margin picture with the company-level cash signals in Step 5.

Decision to prepare: Which leakage source is materially reducing margin or cash, and what corrective action should management approve?

Review point: [Set review date]

Read the full article: https://signaljournal.com/margin-leakage-audit/

Source: *SignalJournal Research:* ***The 5-Step Margin Leakage Audit: Find and Stop the Hidden Losses Eroding Your P&L***