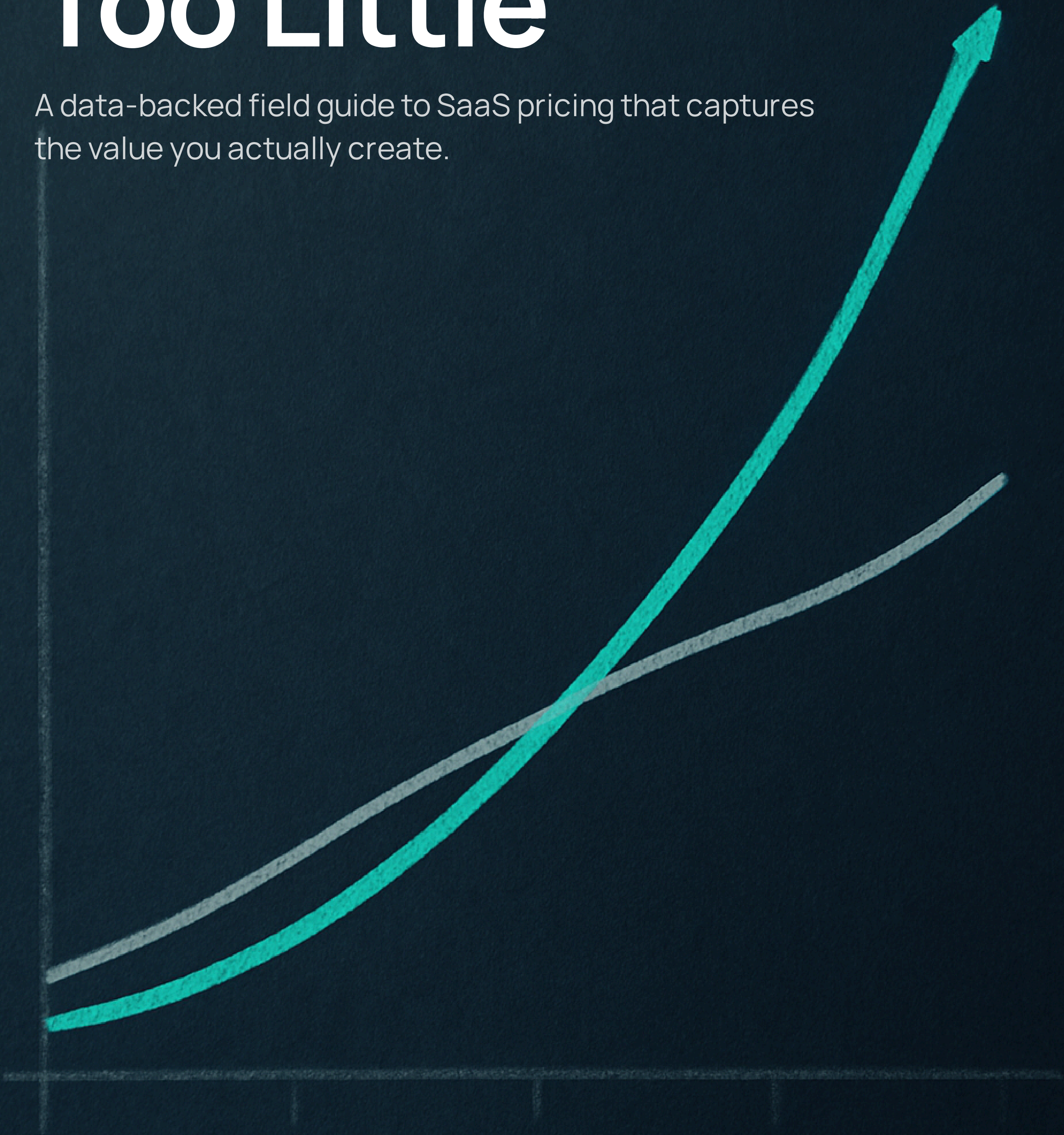
You're Charging Too Little

A data-backed field guide to SaaS pricing that captures the value you actually create.



FATHOM

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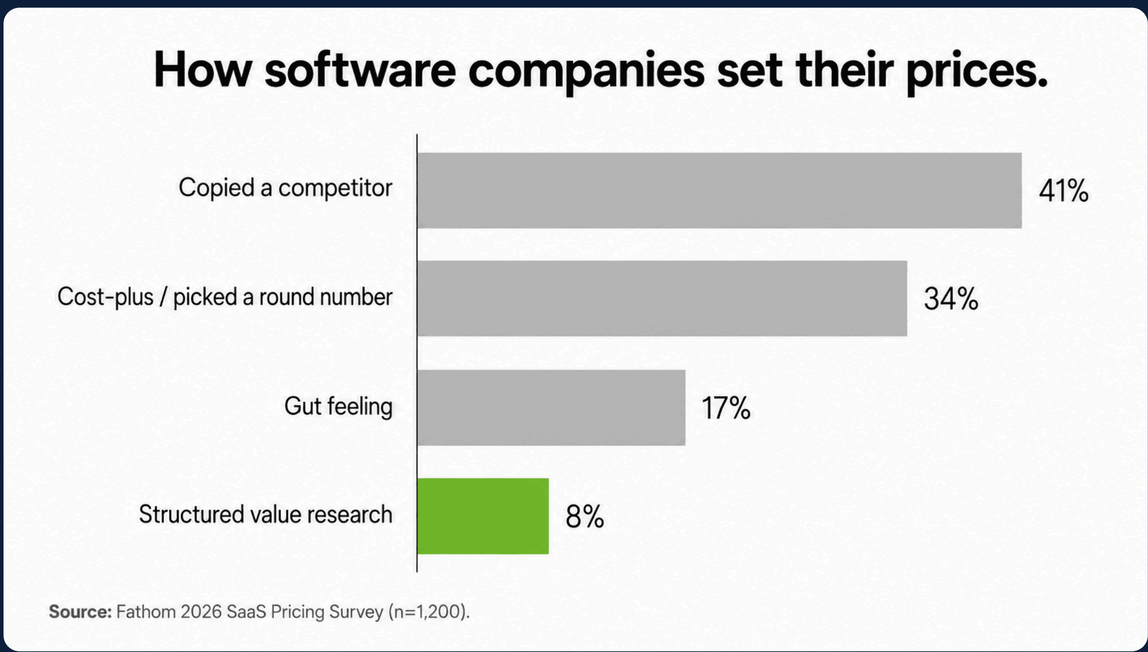
Chapter 1 — The Underpricing Epidemic

Most software is underpriced, and the companies that make it rarely find out. Underpricing doesn't announce itself. There's no error message, no angry customer, no line on the P&L labelled "money we could have had." The product sells, revenue grows, everyone congratulates themselves — and the gap between the price and the value quietly compounds into the largest missed opportunity most SaaS companies will ever have.

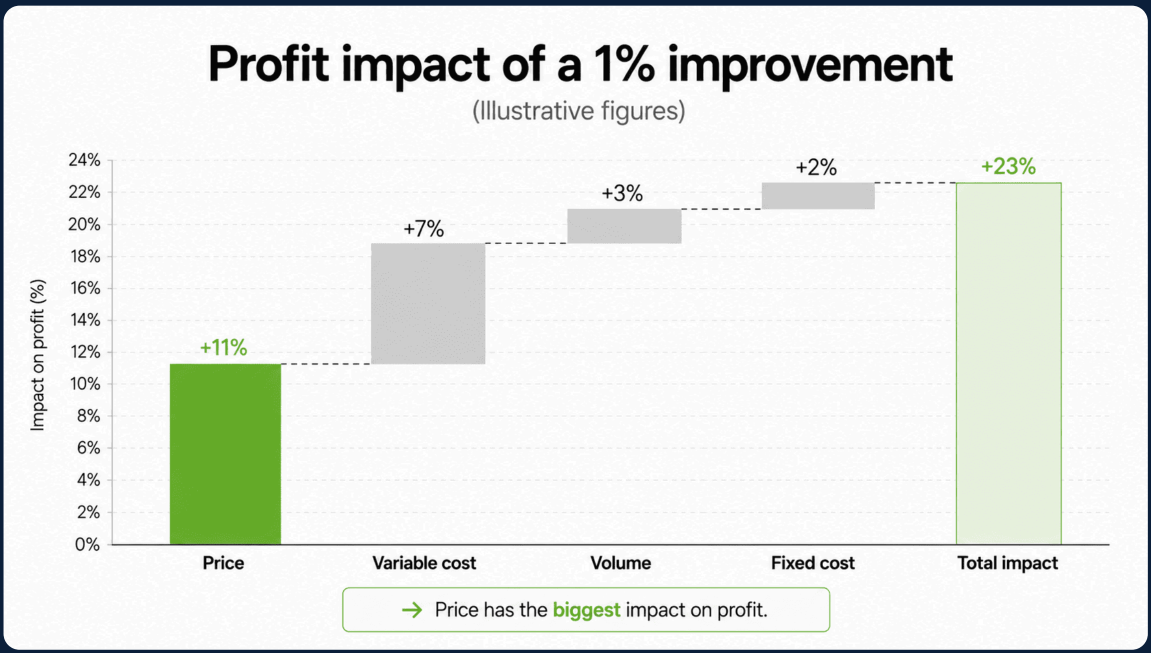


We surveyed 1,200 software companies in early 2026. The headline finding is stark: **92% set their prices without any structured research into willingness to pay.** They copied a competitor, added a margin to their costs, or picked a number that "felt right." Only 8% had ever run the kind of pricing study that would tell them what customers were actually prepared to pay.

Here’s why that matters more than almost any other lever you can pull.

Pricing is the highest-leverage number in your business

The economist and Harvard professor’s classic finding — replicated many times since — is that a 1% improvement in price drives more profit than a 1% improvement in volume, cost, or acquisition. The reason is mechanical: a price increase falls almost entirely to the bottom line, because you've already paid to build and sell the product. There’s no additional cost to serve a customer who pays 10% more.



The value metric is the thing you charge per. Get it right and the customer’s bill grows exactly as their success does.

> ***DEFINITION — Value-based pricing:*** *setting your price according to the economic value your product delivers to the customer, rather than what it costs you to build or what a competitor happens to charge. It is the only method of the three that connects your price to reality.*

And yet pricing gets a fraction of the attention that acquisition does. Companies will spend six months and a seven-figure budget optimising a signup funnel to lift conversion two points, while the price at the end of that funnel — the number that determines the value of every single conversion — was set in an afternoon and hasn't been touched in three years.

> *"Companies spend six months optimising a funnel to lift conversion two points, then hand every conversion to a price they picked in an afternoon."*

The leaky bucket

Pricing doesn't just set revenue per customer. It leaks into everything:

- **Acquisition:** price signals quality. Priced too low, you attract bargain-hunters who churn hard and generate the most support tickets. The cheapest customers are almost always the most expensive to serve.
- **Monetization:** obviously, the number itself.
- **Retention:** customers who pay a price aligned with the value they get stay longer, because the relationship makes sense to them. Underpriced customers, paradoxically, often value the product less.

Fix pricing and you're not turning one dial. You're improving the quality of your customer base, your margins, and your retention simultaneously. That's why we start every engagement here.

> ***INTERESTING FACT*** *— In our survey, companies that had raised prices in the previous 12 months reported higher net revenue retention on average than those that hadn't — not lower. The customers who leave over a price increase are disproportionately the ones who were going to churn anyway.*

Chapter 2 — The Three Ways to Set a Price

There are only three foundations you can build a price on. Two of them are traps that feel like safety.

Cost-plus: the accountant's trap

You add up what it costs to build and run the product, add a margin, and there's your price. It's intuitive, defensible, and almost completely wrong for software.

The problem: **your costs have nothing to do with your customer's value.** A tool that costs you €2 per user per month to run might save a customer €4,000 a month. Cost-plus pricing would have you charge €5 and feel clever about the margin, while leaving 99.9% of the value on the table. Software's marginal costs are near zero, which makes cost-plus not just suboptimal but actively misleading — it anchors you to the one number that matters least.

Competitor-based: the sheep's trap

You look at what competitors charge and price near them. This feels like market wisdom. It's usually the blind copying the blind.

Remember: 92% of your competitors set their prices without research. When you copy them, you're not inheriting insight — you're inheriting *their* guess, and compounding the error across the whole category. Entire markets underprice themselves this way, each company reassuring itself that the price must be right because everyone else charges roughly the same.

Competitor pricing is a useful *input* — it tells you where the market's mental anchors sit — but it's a catastrophic *foundation*.

Value-based: the only real answer

You price according to the value the customer receives. This requires actually understanding your customer's world: what problem you solve, what that problem costs them, and what they'd pay to make it go away. It's harder. It's also the only method that can be right rather than merely defensible.

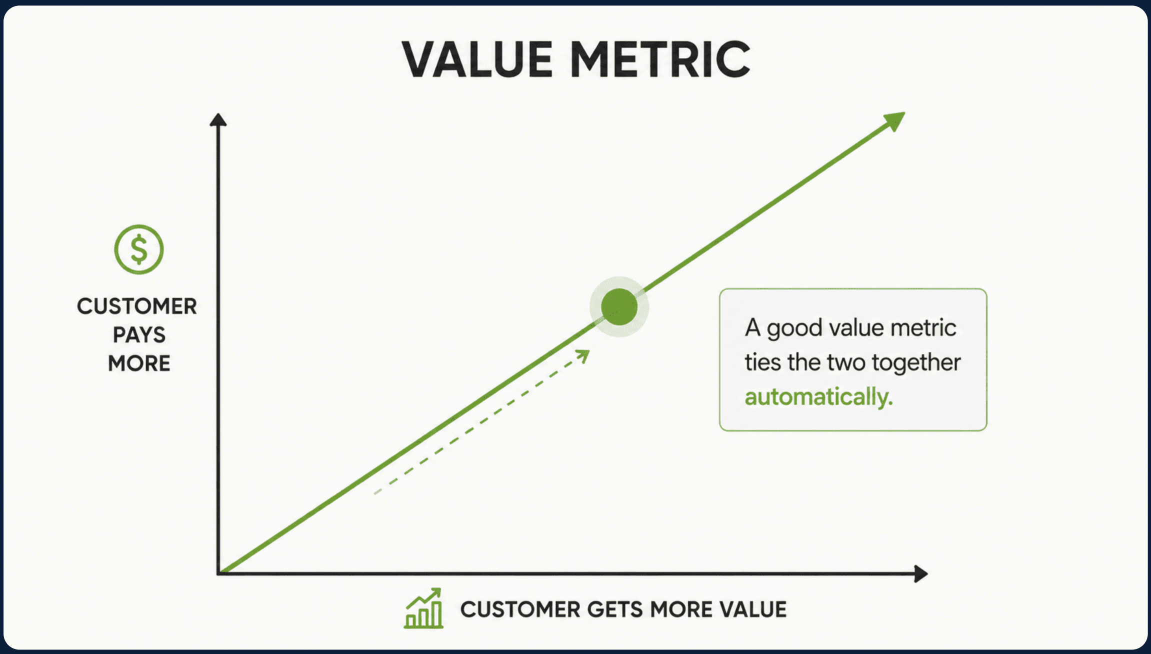
Method	Based on	Feels	Reality
Cost-plus	Your costs	Safe, rational	Ignores value entirely; usually far too low
Competitor	Their prices	Market-savvy	Inherits everyone's guesses
Value-based	Customer's value	Uncomfortable, effortful	The only foundation connected to reality

> ***COMMON MISTAKE — "But we need to be competitive."*** *Being cheaper is not a strategy; it's the absence of one. If your only differentiator is price, you've conceded that the product is a commodity — and commodities race to the bottom until only the lowest-cost operator survives. Value-based pricing forces the more useful question: why are we worth more?*

> *"Being cheaper is not a strategy. It's the absence of one."*

Chapter 3 — Find Your Value Metric

Before you decide *how much*, decide *what you charge for*. This is the value metric — the unit your pricing scales on. Per seat, per contact, per gigabyte, per transaction, per invoice sent. It is the most consequential and least discussed decision in pricing.



The value metric is the thing you charge per. Get it right and the customer's bill grows exactly as their success does.

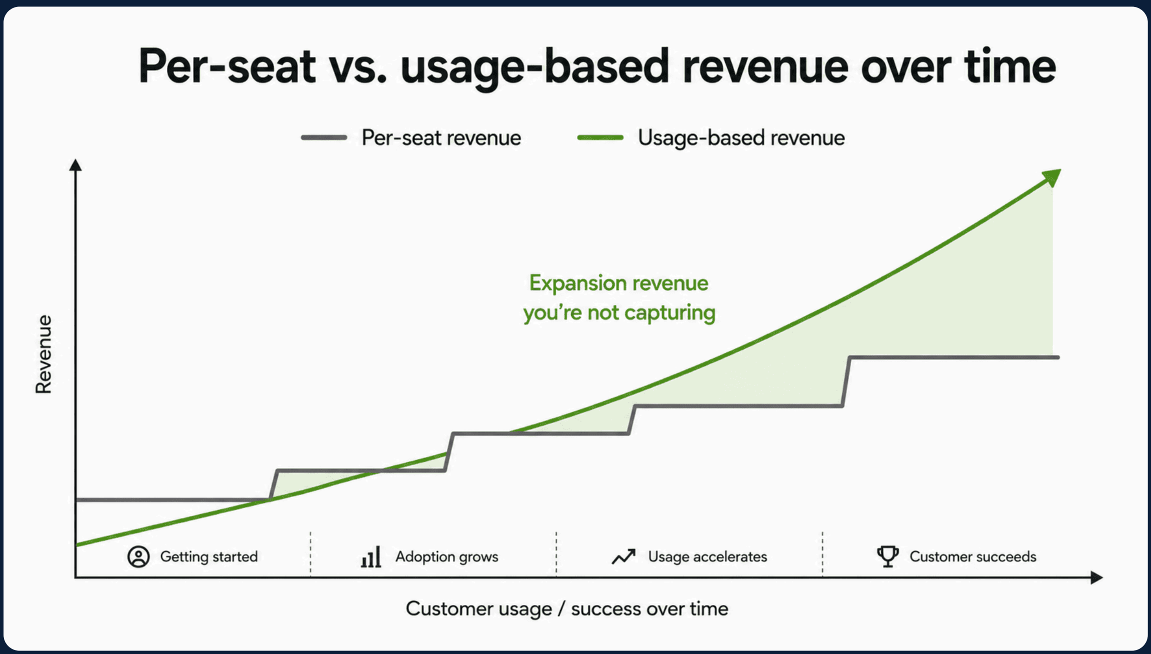
A great value metric has three properties:

1. **It aligns with the value the customer gets.** As they get more out of the product, the metric rises, and so does their bill — which feels fair, because they're paying more precisely when they're getting more.
2. **It's easy to understand.** The customer can predict their bill and see the logic. "Per contact in your database" is legible. "Per compute-unit-hour" is a support ticket.
3. **It grows with the customer.** As the account expands, revenue expands automatically, with no renegotiation. This is the engine behind net revenue retention above 100% — the holy grail where existing customers grow faster than others churn.

The per-seat trap

The default value metric in B2B SaaS is per-seat pricing, and for many products it's quietly wrong.

Per-seat pricing charges for *access*, not *value*. But your product's value often isn't proportional to how many people log in. A billing tool's value scales with the number of invoices processed, not the two finance people who use it. An email platform's value scales with emails sent or contacts reached, not with seats. When you price per seat on a product whose value scales differently, two bad things happen: customers ration seats to control cost (limiting your product's spread inside the account), and your revenue decouples from the value you deliver.



Per-seat revenue plateaus while the customer's value keeps climbing. A well-chosen usage metric closes that gap.

How to find yours

Ask: **when does this customer succeed, and what number goes up when they do?** That number is your value metric candidate. For a support tool, it's tickets resolved. For a payments product, it's payment volume. For a document tool, it might be documents published.

Then sanity-check it against the three properties. If a candidate metric aligns with value but is impossible to understand, it will fail — legibility beats theoretical perfection. Sometimes the answer is a hybrid: a per-seat base for access plus a usage component for value, which is why so much modern SaaS pricing has drifted toward "platform fee + usage."

> ***BEST PRACTICE*** *— Test a value metric with a simple question to your best customers: "If your usage of us doubled next year, would it feel fair for your bill to go up?" If they say "yes, obviously," you've found a metric aligned with value. If they wince, your metric is charging for the wrong thing.*

Chapter 4 — What Are They Actually Willing to Pay?

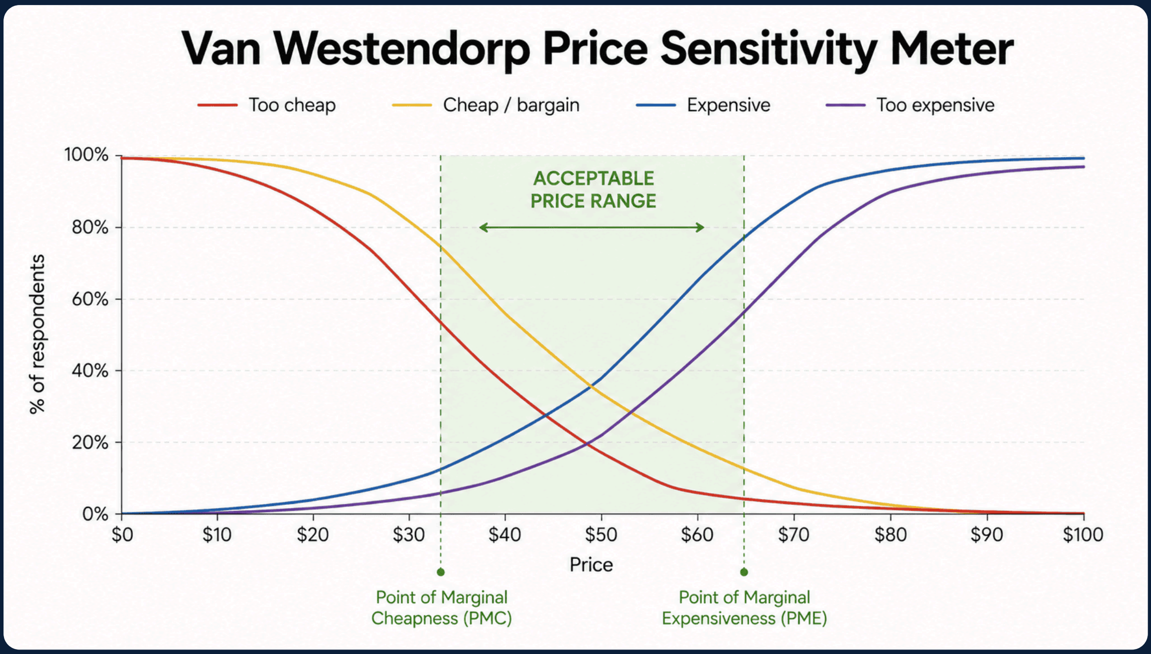
This is the step almost everyone skips, and it's the whole point. You cannot price to value without knowing what value the customer perceives — and you cannot know that by staring at a spreadsheet. You have to ask, carefully.

The four questions that reveal a price

The **Van Westendorp Price Sensitivity Meter** is a survey technique from 1976 that remains the fastest route to a defensible price range. You ask potential customers four questions about your product:

1. At what price would this be **so expensive** you wouldn't consider it?
2. At what price would it be **expensive, but you'd still consider it**?
3. At what price would it be **a bargain — great value**?
4. At what price would it be **so cheap you'd question its quality**?

Plot the cumulative responses and the curves intersect to reveal a range of acceptable prices and an optimal price point. It takes a few hundred responses and an afternoon of analysis. Most companies have never done it once.



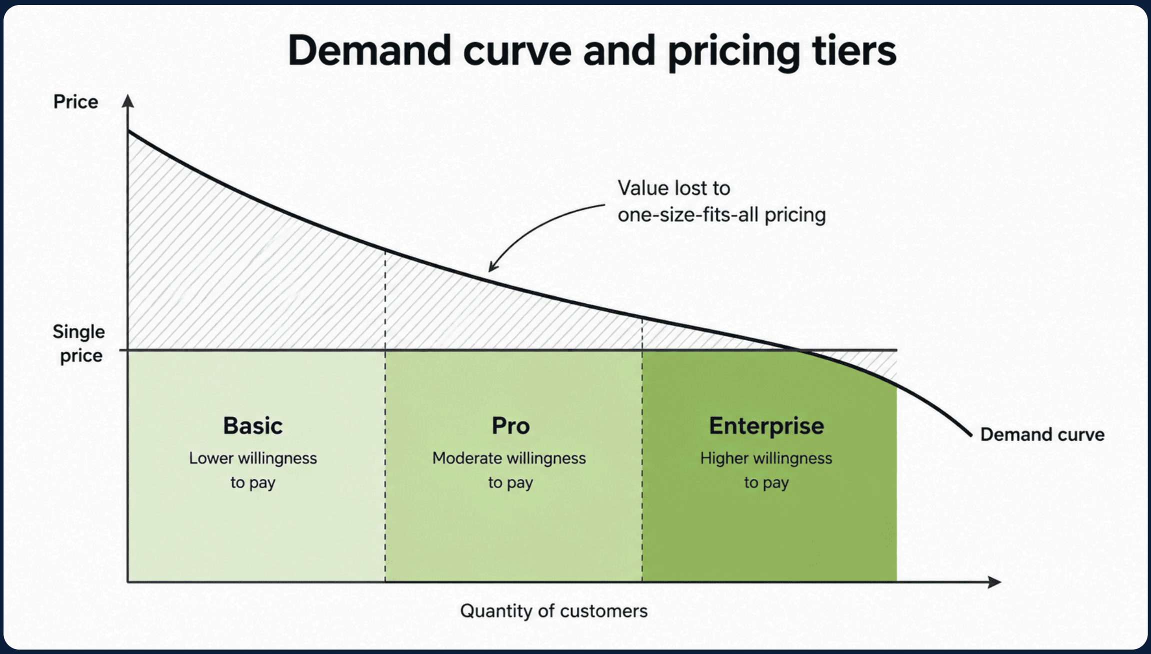
The Van Westendorp model turns four simple survey questions into a defensible price range. It's not perfect — but it beats a gut feeling by a mile.

Willingness to pay is not one number

Here's the insight that changes everything: **different customers value your product differently, and charging them all the same price is leaving money on the table at both ends.**

A solo freelancer and a 500-person enterprise do not get the same value from your product, do not have the same budget, and should not pay the same price. Price them identically and you either scare off the freelancer (price too high for them) or massively undercharge the enterprise (price too low for them) — usually both at once.

The solution isn't one perfect price. It's **segmentation**: capturing more value from customers who have more of it, using features, usage tiers, and support levels as *fences* that let each segment self-select into the price that fits.

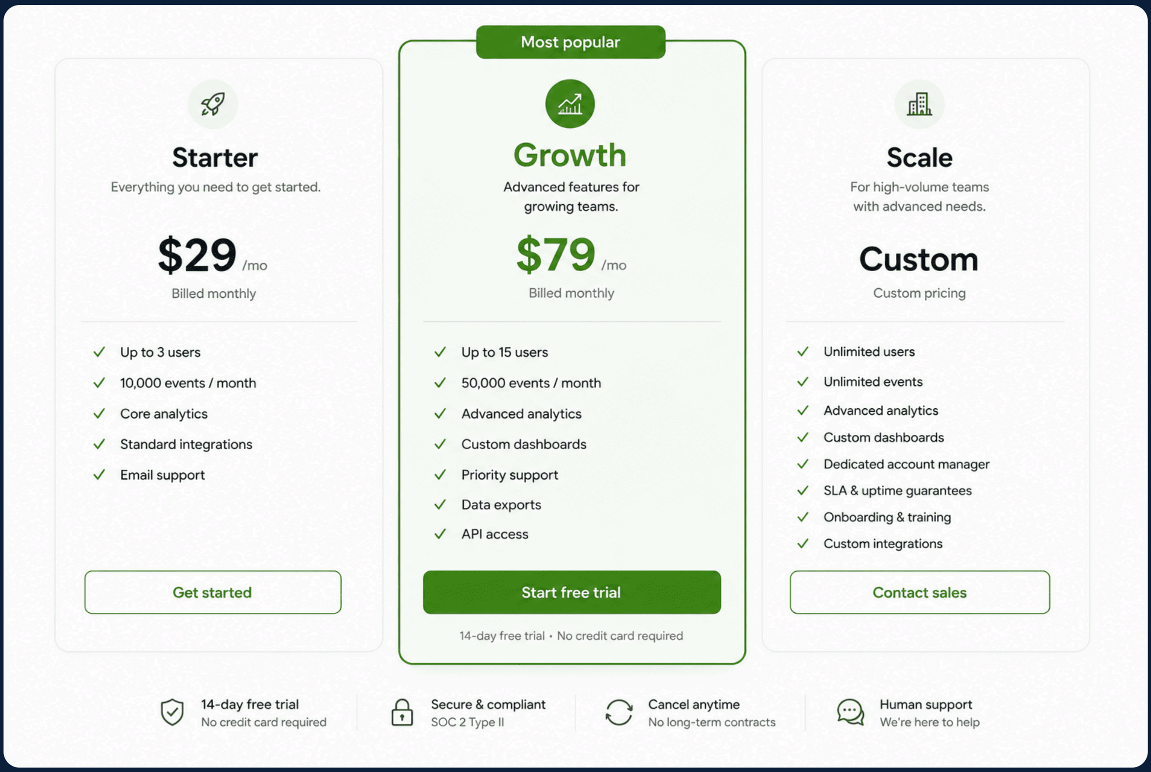


A single price captures one rectangle under the demand curve. Good tiering captures far more of the area — that's the entire economic argument for good-better-best.

> ***WARNING — Don't research price in a vacuum.*** *Willingness-to-pay answers are only meaningful relative to a clearly described product and a named alternative. "What would you pay for our tool?" is nearly useless. "What would you pay for our tool instead of the spreadsheet-and-intern process you use today?" produces answers you can act on. Always anchor the research to the alternative the customer is actually weighing you against.*

Chapter 5 — Designing Tiers That Sell

Once you know what customers value and what they'll pay, you package it. Good packaging can lift revenue more than any single price change, because it engineers *choice* — and choice is psychological before it's economic.



The middle tier is the one you want most people to choose. Everything about the layout should push them there.

Good-better-best is the default for a reason

Three tiers works because it gives the customer a decision they can actually make. Faced with one option, a buyer's real question is "yes or no?" — a hard, high-friction question. Faced with three, the question quietly becomes "which one?" — and you've already won, because every answer is a sale. The middle option becomes the safe, sensible choice, which is exactly where you want most buyers to land.

Anchoring: the most expensive tier isn't for buying

Your top tier does a job even if almost nobody buys it: it makes the middle tier look reasonable. A €500 "Enterprise" plan makes the €150 "Growth" plan feel moderate. Remove the €500 anchor and suddenly €150 is your most expensive option, and it feels expensive. The anchor's value is contextual, not transactional.

> ***INTERESTING FACT*** *— This is the decoy effect, demonstrated famously by behavioural economist Dan Ariely using magazine subscriptions. When a print-only option was priced identically to a print-plus-digital option, almost everyone chose the combo — the "useless" print-only tier existed only to make the combo look like a steal. A well-designed decoy tier isn't there to be bought. It's there to be compared against.*

Rules for tiers that don't backfire

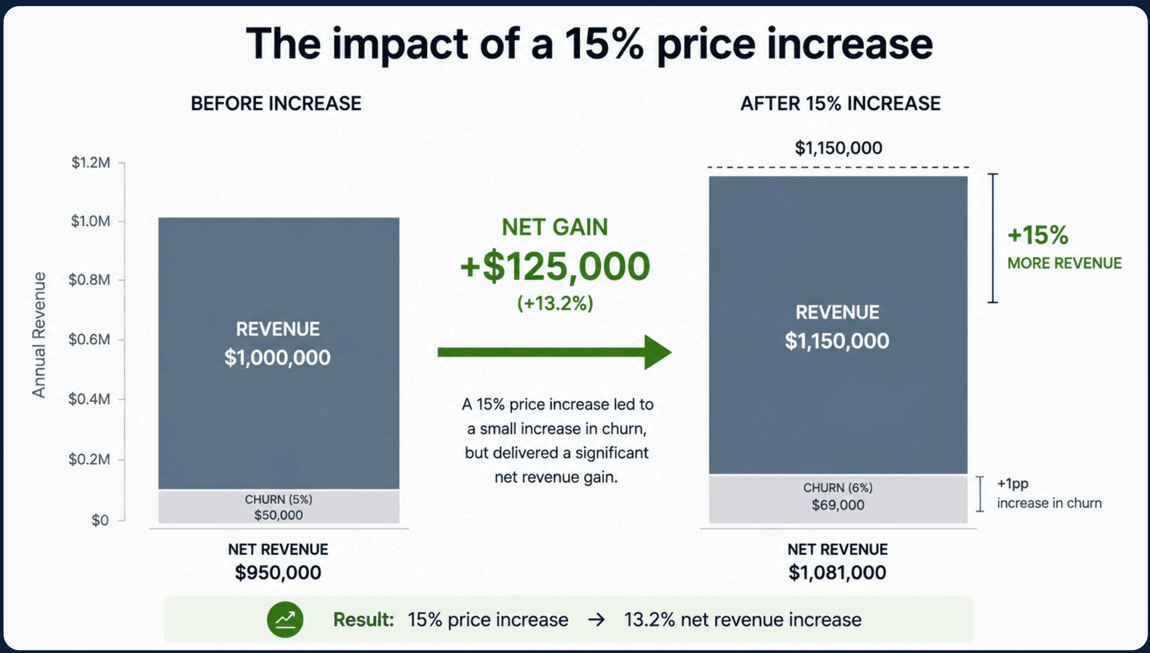
Do	Don't
Keep it to 3–4 tiers	Offer 6+ tiers ("analysis paralysis")
Make the differences obvious	Split hairs customers can't evaluate
Name tiers by customer type ("Team," "Business")	Name them by internal jargon
Put the feature that drives upgrades at the tier boundary	Give away your best feature in the cheapest tier
Highlight the tier you want chosen	Leave the choice visually neutral

> ***COMMON MISTAKE — The overloaded free tier.*** *A free plan that's too generous is the most expensive marketing you'll ever run. If free solves the customer's problem completely, they have no reason to pay — ever. The free tier's job is to demonstrate value and create a need to upgrade, not to satisfy it. The best free tiers are excellent for one user and start hurting the moment the customer succeeds.*

> *"The best free tier is excellent for one person and starts hurting the moment they succeed. That ache is the upgrade."*

Chapter 6 — Raising Prices Without Losing Customers

Most companies are terrified of raising prices, so they never do — which means they're serving 2026 customers on 2021 prices while their costs, their product, and the value they deliver have all grown. Here's how to raise prices like a company that knows what it's doing.



The math of a price increase almost always favours you. Losing a few price-sensitive customers to gain margin on everyone who stays is usually a trade worth making.

The math is almost always on your side

Run the numbers before you panic. If you raise prices 15% and lose 5% of customers, you're substantially ahead — you've traded a handful of the most price-sensitive accounts for a permanent 15% margin lift on everyone who stayed. Customers who leave over a modest, well-communicated increase were rarely your best customers to begin with; they were the bargain-seekers with the highest support burden and the shortest patience.

You would need to lose a *large* fraction of customers before a price increase actually loses you money — and if a small increase triggers that kind of exodus, the real problem was never the price. It was that the product wasn't delivering the value you thought.

The playbook

1. **Grandfather existing customers — for a while.** Give loyal customers time on their old price (say, 6–12 months) or a smaller increase than new customers face. This rewards loyalty and blunts the backlash. But don't grandfather *forever*; a permanent legacy tier becomes a growing liability that punishes you for having early customers.
2. **Raise new-customer prices first.** Test the new price on new signups before touching your base. If conversion holds, you've validated the increase with zero churn risk.
3. **Tie the increase to visible value.** "We've shipped 40 new features this year" makes an increase feel earned. A raise announced alongside a genuine improvement reads as a company investing in the product, not squeezing customers.
4. **Communicate early, directly, and once.** No burying it in a footnote. A clear, confident email from a human beats a legalistic notice every time. Apologising for the increase signals you don't believe in it — don't.
5. **Give an off-ramp.** Let customers lock in the current price with an annual prepayment before the change. Some will, improving your cash position and your retention in one move.

> ***BEST PRACTICE*** *— Raise prices regularly and modestly rather than rarely and dramatically. A company that lifts prices 8% a year trains its market to expect it and barely registers a complaint. A company that holds prices for five years and then jumps 40% triggers a revolt. Small and frequent beats large and traumatic — for you and for them.*

> ***WARNING — Don't discount reflexively.*** *Every discount you give is a permanent statement that your list price was fiction. Sales teams under quota will discount to close, and each closed deal trains the market that your price is negotiable — poisoning every future negotiation. If you must discount, trade it for something: a longer commitment, an annual prepay, a case study. Never give price away for free; it's the one thing you can't take back.*

Chapter 7 — The Pricing Audit

Everything in this report reduces to a set of questions you can ask about your own pricing right now. Work through them honestly. Each "no" is money you're currently leaving on the table.

Foundation

- Do you know what economic value your product creates for a typical customer, in currency?
- Is your price based on that value — not on your costs or a competitor's number?

Value metric

- Do you charge *per* something that grows as the customer succeeds?
- Can a customer predict their bill and understand the logic behind it?

Willingness to pay

- Have you ever run structured willingness-to-pay research?
- Do you know how WTP differs across your customer segments?

Packaging

- Do you offer 3–4 tiers, with the middle one clearly the intended choice?
- Does your most expensive tier make the others look reasonable (even if few buy it)?

Discipline

- Have you raised prices in the last 12 months?
- Do you have a rule for when you will and won't discount?

Score	What it means
9–10 "yes"	You price like the top 8%. Fine-tune.

6–8 "yes"	Solid foundation, clear gaps. Target the no's.
3–5 "yes"	You're likely underpricing meaningfully. Start with value research.
0–2 "yes"	You're in the 92%. This is the highest-ROI project available to you.

> *"Every 'no' on this list is not a failure. It's a coordinate — the exact location of money you haven't collected yet."*

Run this on your own pricing this week. Every "no" is a specific, findable opportunity.

Find out what you're leaving on the table.

Join thousands of readers who turned this guide into results.

Get Started