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Estimating pricing upside before implementation

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A decision model for separating theoretical headroom from revenue and earnings a business can actually capture.

Abstract

A pricing opportunity is an estimate of a change in customer behavior and business economics. It is not the difference between today's price and the highest price a survey respondent will tolerate. Before implementation, the useful question is how much incremental contribution a specific commercial action could produce, on which accounts, over what period, and with what uncertainty.

For a private equity investor, that distinction changes the investment decision. A large theoretical opportunity may be inaccessible during the hold period. A modest transaction-level correction may produce cash earlier, with fewer dependencies. The comparison requires a common baseline, a clear counterfactual, and explicit deductions for concessions, lost volume, implementation expense, and time.

The decision this paper supports

Approve a defined pricing action when its economics remain attractive under credible downside assumptions and the next implementation step can test the largest unresolved assumption. Keep theoretical headroom, expected annual impact, and current-year earnings in separate lines.

1 Start with the action and the counterfactual

"There is 10 percent pricing upside" does not specify an executable decision. "Increase the renewal price for eligible mid-market customers by 8 percent, subject to a minimum effective uplift and a defined exception policy" does. The second statement identifies a population, a transaction, and a mechanism that can be modeled.

Establish what would happen without the action. For an existing business, that counterfactual includes expected renewals, ordinary churn, contracted escalators, product launches, and volume changes already in the operating plan. Pricing should receive credit for the difference from that path. Comparing next year's revenue with this year's revenue confuses pricing with the business's underlying growth or decline.

Choose the unit of analysis before collecting data. An account-renewal is often appropriate for contracted software; a customer–SKU–month may fit an industrial distributor; a project or service line may fit a

professional-services business. The right unit preserves differences in eligibility, economics, and timing. Companywide averages erase those differences before the model has a chance to explain them.

Define the horizon as well. A twelve-month recurring run rate answers a different question from earnings recognized in the next fiscal year. Contract value, annual recurring revenue, revenue, contribution, EBITDA, and cash are different measures. Use a bridge between them rather than substituting one for another. The SEC's non-GAAP guidance distinguishes EBITDA from differently calculated adjusted measures and emphasizes clear definitions and reconciliation. That is a useful discipline for an internal investment case, even where public-company reporting rules do not govern the presentation.[1]

2 Build an eligible economic base

The minimum viable data set joins the contract or order, invoice, credits, entitlements, usage, and customer attributes. Preserve effective dates and stable identifiers. A quoted increase cannot produce earnings if the customer is not eligible to receive it, the relevant renewal falls outside the period, or the billing system does not apply it.

Input	What it establishes	Frequent error
Net realized revenue	The economic starting point	Applying uplift to list-price value
Contract and renewal terms	When an action is available	Assuming immediate repricing
Volume and entitlements	Comparable quantities and scope	Treating expansion as pure price
Avoidable delivery costs	Contribution at risk if volume falls	Treating all cost of sales as avoidable
Credits and concessions	Actual realization of new terms	Ignoring free months or service giveaways
Customer evidence	Plausible response by segment	Generalizing from cooperative customers

Reconcile the base to a finance-approved total. Investigate missing records and duplicate line items before extrapolating. State the proportion of revenue with usable evidence. If half the contract base has not been reviewed, label the extrapolated half rather than presenting the combined result as equally supported.

Segment only where a difference changes the decision. Useful divisions can include workflow criticality, competitive alternatives, contract protection, purchasing process, or cost to serve. "Enterprise" alone is often insufficient: two large accounts may have very different switching options and commercial leverage.

3 Model the mechanism explicitly

For an eligible cohort with baseline revenue R, baseline avoidable variable cost C, realized net price increase r, and incremental quantity loss c, a simplified annual contribution bridge is:

$$\Delta R = R\big[(1+r)(1-c)-1\big], \tag{1}$$

$$\Delta\text{Contribution} = Rr(1-c) - (R-C)c. \tag{2}$$

Here c is the additional loss caused by the action relative to the counterfactual. Ordinary expected churn belongs in the baseline. The model assumes a constant product mix, constant unit delivery cost,

and a proportional reduction in genuinely avoidable costs when quantity falls. If those assumptions fail, calculate at a finer level.

The second expression shows the economic tradeoff. Higher price earns more on retained units. Lost units forfeit their baseline contribution. Subtract incremental recurring operating expenses and period-specific implementation expenses to reach the estimated EBITDA change. Do not automatically apply the current companywide EBITDA margin to incremental price revenue; much of the fixed cost may remain unchanged.

Realized price r should reflect changes in discounts, credits, free periods, and terms. If management announces an 8 percent increase but gives away one quarter of the incremental price, the net increase is 6 percent. Calculate realization on the same scope and quantity. An account that buys fewer seats after renewal should not appear to have accepted the full economics merely because its per-seat rate increased.

For packaging, add-ons, and new customers, use choice probabilities and expected quantities under each alternative. Model movement between offers. A premium package can increase its own revenue while reducing total contribution if existing high-spend customers migrate into it at a lower total bill.

4 Translate buyer evidence into bounded assumptions

Different evidence answers different questions. Interviews uncover the purchase process, alternatives, budget ownership, and reasons for resistance. Transaction records show accepted deals within the historical offer range. Structured choice research estimates tradeoffs within a designed scenario. A controlled commercial pilot observes behavior for the offer actually tested.

None of these automatically reveals an unrestricted demand curve. Historical discounts are partly chosen in response to expected deal difficulty. A correlation between deep discounts and low win rates therefore does not establish that discounts hurt sales. Similarly, a survey respondent's stated willingness to buy should not be inserted directly into a revenue forecast. Research comparing willingness-to-pay methods with actual purchases shows why the elicitation method and behavioral calibration matter.[3]

Create an assumption register with the value, evidence, owner, date, and decision sensitivity for each input. Separate observed facts from estimated responses and management judgments. Use a range where the evidence is weak. A sensitivity table is more informative than extra decimal places on an unsupported point estimate.

Treat correlated risks together. Weak differentiation may simultaneously increase discounting, churn, and implementation resistance. An optimistic realization assumption combined with a pessimistic retention assumption may describe no coherent commercial world. Scenarios should represent internally consistent customer and operating conditions.

5 Worked example: a large announcement, a smaller first year

Illustrative assumptions. A business has $8 million of annual revenue in a relevant product line. Contract review establishes that 75 percent, or $6 million, is eligible for the proposed action. This eligible base has $1.5 million of avoidable variable delivery cost and $4.5 million of contribution before fixed operating expense.

The announced increase is 8 percent. Expected concessions reduce the realized increase to 6 percent. Incremental quantity loss is assumed to be 1.5 percent relative to the baseline. The annualized revenue bridge is:

$$\$6{,}000{,}000\,[1.06 \times 0.985 - 1] = \$264{,}600.$$

Avoidable delivery cost falls by $22,500. Annualized incremental contribution is therefore $287,100. With $60,000 of additional recurring operating expense, the annualized EBITDA improvement is $227,100.

Now introduce timing. Assume renewals yield half a year of aggregate exposure during the first fiscal year. Contribution in that year is $143,550. If the full $60,000 operating expense and $100,000 implementation expense are incurred in that year, estimated first-year EBITDA changes by **negative $16,450**. Positive annual economics and a negative first-year result can both be correct.

Annual scenario	Net increase	Extra loss	EBITDA change
Downside	3.0%	4.0%	−$67,200
Base	6.0%	1.5%	$227,100
Upside	7.0%	0.5%	$335,400

Each scenario uses the same $6 million eligible base, 75 percent baseline contribution margin, and $60,000 recurring incremental expense. Implementation expense is excluded from these annualized figures. Scenario values are assumptions, not statistical confidence bounds.

The opportunity is not $640,000 simply because an 8 percent headline was applied to $8 million. Eligibility, realization, customer response, cost behavior, and exposure time each change the answer.

6 Do not add overlapping opportunities

Suppose a company identifies a price increase, discount reduction, and packaging migration on the same contracts. Summing three standalone estimates will generally overstate the combined opportunity. Discount reform changes the starting net price for the increase. Packaging changes which products and quantities customers buy. Migration can also consume the commercial attention needed for renewal execution.

Use mutually exclusive account-level scenarios or a sequential bridge. In a sequential bridge, explicitly name the order: baseline, then discount policy, then new price, then package migration. The attributed contribution of each action depends on that order, but the total must match the modeled final state. Disclose the convention so teams do not claim the same benefit twice.

Check capacity and capital requirements. New high-margin demand may require implementation staff, onboarding capacity, or infrastructure. If capacity becomes a constraint, the relevant contribution depends on the opportunity cost of serving each account. A revenue opportunity that displaces more profitable work may destroy value.

7 Choose the next evidence investment

The objective is decision quality, not eliminating all uncertainty. Identify the assumption that could change the decision. If contract eligibility is unclear, inspect contracts. If the new offer is not understood,

improve and test the proposition. If incremental churn dominates the downside, run a carefully designed renewal pilot with an appropriate comparison group.

Predefine the population, assignment, outcome, observation window, and decision rule. Controlled-experiment research stresses trustworthy design and evaluation criteria; the same logic applies to commercial pilots, although sparse B2B renewals require particular care.[2] A small pilot with no observed cancellations does not demonstrate zero churn risk.

The budget for research should relate to the decision at stake. Additional evidence has high value when it can prevent a large mistaken rollout or unlock a profitable action that otherwise would be deferred. It has little value when the same action remains preferred under every credible assumption.

8 What an investment committee should receive

A reviewable recommendation fits into a concise decision package: the proposed action and population; the reconciled eligible base; annual and in-period economics; coherent downside cases; a ledger of assumptions; dependencies and owners; and the pilot or rollout decision.

Include a bridge from modeled contribution to the company's defined earnings measure. If an exit valuation sensitivity is useful, apply an explicitly assumed multiple to a separately stated sustainable earnings estimate. Do not present a hypothetical multiple expansion as a pricing result, and do not treat annualized run rate as realized trailing earnings.

The strongest size-of-prize estimate makes clear what would invalidate it. It tells management which accounts to act on, which facts are still needed, and which evidence will determine whether to expand, revise, or stop the action. That makes the estimate useful before implementation and auditable afterward.

9 Commission a size-of-prize assessment

The model in this paper makes the missing evidence visible. Before committing to an increase or a broader redesign, management needs a reconciled eligible base, a credible range for realized price, an explicit customer-response assumption, and a schedule for converting the opportunity into earnings. A generic industry benchmark cannot supply those company-specific inputs.

If those inputs are missing, the next useful purchase is a defined assessment of the opportunity. Curly's Consulting's **Pricing Upside Report** assesses monetization practice across 23 levers and develops conditional twelve-month revenue and EBITDA scenarios, prioritized recommendations, and a 90-day action plan. It helps an investor decide whether the opportunity is material enough to pursue and which uncertainties deserve further work.

The report sizes and prioritizes opportunities; original buyer research and implementation belong in a **Pricing Transformation**. That distinction keeps a scenario estimate from being mistaken for a fully validated recommendation. Where a material opportunity depends on unknown willingness to pay, package preference, or customer response, commission the evidence before committing the full base.

The next commercial step

Buy the Pricing Upside Report to establish the financial case and next decision. If original buyer research and execution are already required, request a Pricing Transformation quote.

Sources and methodology

This paper combines the cited published work with Curly's Consulting's analytical framework. The commercial examples, thresholds, and calculations are illustrative; they are not client results or findings from a new empirical study. Published studies support the specific claims beside their citations. Their results should not be treated as universal benchmarks for a portfolio company.

References

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[3] Miller, K. M., Hofstetter, R., Krohmer, H., and Zhang, Z. J. (2011). How should consumers' willingness to pay be measured? An empirical comparison of state-of-the-art approaches. *Journal of Marketing Research*, 48(1), 172–184. https://doi.org/10.1509/jmkr.48.1.172.

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