CURLY'S CONSULTING / WHITE PAPER 04

The private equity guide to price increases

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April 2026

How to choose the customers, amounts, timing, and controls that make an increase worth implementing.

Abstract

A price increase is an investment in a different commercial outcome. The business receives more on retained volume and risks losing contribution through churn, contraction, concessions, or a weaker pipeline. The decision should compare those effects with what would have happened without the increase.

Private equity ownership adds a timing question. A defensible increase implemented early in a hold can have a different value from the same annual run rate achieved shortly before exit. Contract eligibility, customer notice, renewal exposure, billing readiness, and the observation period for retention all affect the result.

The objective is not to prove that customers never leave after an increase. It is to identify where a change in price produces attractive incremental contribution, implement it accurately, and learn whether the actual response supports wider adoption.

The decision this paper supports

Choose differentiated increases by commercially identifiable customer group. Approve a rollout when contract eligibility, buyer evidence, downside economics, execution readiness, and a credible measurement plan support the action.

1 Replace the companywide percentage with a portfolio of decisions

An across-the-board increase assumes the same price headroom and response across customers. That may be convenient operationally, but it needs evidence. A product embedded in a critical workflow, a lightly used tool with alternatives, and a contract protected by a negotiated cap present different decisions.

Construct a renewal or transaction-level opportunity map. Record current net price, scope, usage, relevant alternative, delivered value, purchase process, contractual constraints, and the earliest effective date. Separate accounts where the business can act now from those requiring negotiation or future renewal.

Segment where evidence changes the recommended action. One group may support a straightforward rate change; another may need a package redesign; a third may require an adoption intervention before

any increase. This is a commercial segmentation, not simply a ranking of customers from least to most likely to complain.

Define the policy in usable terms: who receives which change, how the amount is calculated, what notice applies, which alternatives may be offered, and who can approve an exception. If the policy cannot be reproduced by the account team and billing system, the modeled increase is unlikely to become the realized increase.

2 Measure incremental response rather than total churn

Customers would have left even without a price increase. Attributing all subsequent churn to the action overstates its downside. Attributing none of it to the action understates the downside. The target is the difference from a credible counterfactual over a defined window.

For a homogeneous cohort, let g be the realized increase on retained units, m baseline contribution margin, and c incremental quantity loss relative to the quantity that would have remained without the action. Ignoring additional operating expense, the change in contribution as a share of baseline revenue is:

$$\frac{\Delta\text{Contribution}}{R} = g(1-c) - mc.$$

The corresponding break-even incremental loss is:

$$c^* = \frac{g}{m+g}.$$

At $g = 6$ percent and $m = 80$ percent, this simplified threshold is about 6.98 percent. It is a mathematical sensitivity, not a forecast or permission to lose that much business. Implementation expense, customer concentration, future expansion, reputation, and continuing service obligations can change the decision.

Define c carefully. It is additional lost units divided by counterfactual retained units. It is not automatically the difference between two headline logo-churn percentages, particularly if account values differ. Use revenue or contribution-weighted calculations where appropriate, and model quantity reductions as well as complete cancellations.

3 Build an evidence base before choosing the increase

Historical price dispersion can reveal inconsistent outcomes, but it does not identify the highest sustainable price. Low prices may reflect scope, competition, geography, or a difficult purchase situation. Compare like-for-like contracts and investigate unexplained differences.

Interview customers and prospects about delivered value, alternatives, switching work, budget priorities, and purchase approval. Explore actual recent decisions rather than asking only whether they welcome higher prices. Buyers generally prefer lower bills; that preference does not reveal how they will trade price against the value of retaining the product.

Use structured offer tests when meaningful choices remain unresolved. Present the new rate together with scope, timing, service commitments, and feasible alternatives. A survey about an abstract percentage increase may miss that a buyer evaluates the total renewal bill or a budget threshold rather than the percentage alone.

Distinguish baseline churn risk from sensitivity to the intervention. In retention field experiments, Ascarza found that customers most likely to churn were not necessarily the best targets for retention treatment.[2] The study does not estimate price-increase effects. Its relevant lesson is that predicting an outcome and predicting the effect of an action are different tasks. A churn score alone is not a price-response model.

4 Design the increase and its alternatives together

The customer sees an offer, not an isolated rate. A reasonable set of options can include continuing the current scope at the new price, reducing scope, adopting a different package, or making a longer commitment in exchange for defined terms. Model each option's economics rather than treating every save as equivalent.

Avoid replacing a visible discount with an invisible concession. Free months, implementation work, extra users, service credits, price freezes, and nonstandard support can reverse the economics while preserving the appearance of an accepted increase. Record the full concession in the approval and realized-price calculation.

Review contract terms and required notice before scheduling communication. Establish the interpretation of caps, renewal dates, indexation, and agreed protections for each relevant contract class. The operational goal is an eligible action with a reliable effective date; a broad policy statement cannot override individual commitments.

Communicate the change in a way that explains its scope and basis. Kahneman, Knetsch, and Thaler's survey research found that perceptions of fair price changes depend partly on the circumstances, including cost pressures and reference transactions.[1] That evidence does not guarantee acceptance of any message. It supports researching how buyers interpret the change and ensuring the explanation is accurate.

5 Worked example: why total cancellations mislead

Illustrative assumptions. A cohort contains 1,000 equal-sized customers paying $10,000 annually. Each requires $2,000 in avoidable annual delivery cost. Without a change, management expects 950 renewals. Counterfactual revenue is therefore $9.5 million and contribution is $7.6 million.

An 8 percent announced increase becomes a 6 percent net increase after concessions. Under the proposal, 940 customers are assumed to renew at $10,600. Revenue is $9.964 million and avoidable delivery cost is $1.88 million, producing $8.084 million of contribution.

Annual cohort measure	No increase	Proposed increase
Customers renewing	950	940
Net annual price	$10,000	$10,600
Revenue	$9,500,000	$9,964,000
Avoidable delivery cost	$1,900,000	$1,880,000
Contribution	$7,600,000	$8,084,000

The increase generates $564,000 on retained customers and forgoes $80,000 of baseline contribution from the ten incremental lost customers. Incremental contribution is $484,000. If annual incremental operating expense is $100,000, the annualized EBITDA change is $384,000 before one-time expense.

There are 60 total cancellations in the proposed scenario, but only ten additional cancellations relative to the counterfactual assumption. The incremental quantity loss used in the formula is 10/950, approximately 1.05 percent. Both the counterfactual and treatment assumptions require evidence. The calculation explains the distinction; it does not prove the proposal will produce this result.

If only half the cohort renews early enough to contribute a full-year equivalent of six months, current-year impact is lower. Account-level effective dates should determine the in-period estimate. Annualized contribution is not automatically earnings available for the next exit valuation.

6 Pilot with a comparison that can answer the question

Where feasible, randomize a defined policy across comparable account or renewal groups. Stratify on factors such as size, renewal month, and historical price so that important economic differences do not arise by chance. Preserve the assigned group in the analysis, including accounts receiving approved concessions.

Account-level assignment may be inappropriate when related entities share procurement or commercial information. Consider assignment at a group or market level, recognizing that this reduces the number of independent observations. Do not count repeated invoices as independent customers.

Controlled-experiment guidance emphasizes statistical power, clear outcomes, and trustworthy implementation.[3] For sparse B2B cohorts, a pilot may be unable to detect a small change in churn. Decide in advance which effects the available sample can resolve. No cancellation among a few renewals is weak evidence about a low-probability event.

When randomization is unavailable, use the strongest credible comparison and state the limitations. Prior-year renewals can differ because of competition, product quality, and market conditions. Comparing accounts selected by sales for easy increases with the rest creates selection bias. A pilot should improve the decision without claiming more causal certainty than its design supports.

Observe a relevant renewal window and subsequent customer behavior. Immediate acceptance can coexist with later seat reductions, lower adoption, or cancellation at the next available date. Choose the window according to the contract and buying process, rather than stopping measurement when invoices first increase.

7 Make execution a controlled operating process

Assign one commercial owner accountable for the result. Finance owns the baseline and benefit definition; commercial operations owns offer configuration; sales and customer success own communication and negotiation; legal or contract specialists resolve eligibility; billing owns accurate application.

Before rollout, run sample accounts through the entire process. Reproduce old and new bills, apply typical exceptions, test credits and downgrades, and verify that the customer-facing explanation matches the contract. A correct rate in a spreadsheet is insufficient if it cannot be quoted, approved, and billed accurately.

Give frontline teams a bounded negotiation menu and a reason to protect contribution. Require an economic explanation for exceptions, including what the business receives in return. A longer commitment has value only if its economics and enforceability support the trade. An exception without an expiry or owner can become a permanent new price.

Review early outcomes frequently, but avoid changing policy in response to every anecdote. Escalate patterns: unexpected competitive losses, concentrated contraction, invoice disputes, or systematic concession requests. Patterns can identify an incorrect segment definition or an implementation failure that deserves a specific revision.

8 Report the economic result and the remaining uncertainty

Track eligible revenue, notices delivered, effective-date exposure, realized net uplift, concessions, contraction, gross revenue retention before price effects, contribution, and billing accuracy. Keep both account counts and revenue weights. A small number of large accounts can dominate the economics.

Distinguish three explanations for a shortfall: the policy was not applied, the realized terms differed, or customer response was worse than expected. Each implies a different action. More communication will not fix weak buyer value; better pricing research will not repair a billing defect.

At the investment review, show the counterfactual, the observed result, the attribution method, and the sensitivity to unresolved assumptions. Include implementation and recurring costs. Maintain separate views of recognized earnings and future annual run rate.

A good price-increase program produces both earnings and knowledge. It identifies where the company can charge more, where it must change the offer, and where the customer proposition needs improvement. That evidence makes subsequent increases more deliberate and the resulting margin more defensible.

9 Replace a proposed percentage with a researched policy

The information needed to approve an increase is specific to the business: contract eligibility, delivered value, competitive alternatives, buyer response by segment, concession behavior, and renewal exposure. A general claim that price increases are safe or dangerous cannot substitute for those inputs.

If the team cannot explain why a particular group should accept a particular change, the decision needs more evidence. Commission a scope that combines contract and realized-price analysis with research into the buyer's alternatives, value, and response to a concrete renewal offer. Carry the findings into cohort selection, exception rules, scenario economics, and a measurable rollout.

Curly's Consulting's **Pricing Transformation** brings together size-of-prize modeling, original buyer research, pricing design, and support executing the highest-value opportunities. For an increase, the useful deliverable is an evidence-based commercial decision and execution plan, rather than a recommended percentage detached from customer and contract realities.

The next commercial step

Request a Pricing Transformation quote. Share the product, customer population, renewal window, and increase under consideration so the research addresses the decision before the base is exposed.

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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