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Building a defensible price architecture

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A commercial system for making prices coherent, explainable, measurable, and executable.

Abstract

A price architecture is the set of rules connecting the customer, offer, charging unit, quantity, commitment, and commercial terms to a bill. It includes the price book, package relationships, discount logic, minimums, overages, exceptions, and the ownership of changes.

A defensible architecture produces prices the business can explain and reproduce. Customers understand what drives their expenditure. Sellers can quote without reinventing the model. Finance can reconcile the expected bill with invoiced economics. Management can distinguish an intentional difference in price from an accidental inconsistency.

For an investor, that system matters because pricing improvements must survive beyond a project. A promising rate change can be eroded by overlapping discounts, undefined entitlements, legacy contracts, or manual billing work. Architecture provides the operating structure through which pricing strategy becomes repeatable.

The decision this paper supports

Approve a price architecture when its customer logic, unit economics, edge cases, and operating ownership are explicit. Evaluate the rules that generate the price as carefully as the rate itself.

1 Define the layers before redesigning the price book

Begin by separating the decisions that are often combined in a spreadsheet. The target segment identifies whose needs the offer serves. Packaging defines what is included. The charging metric identifies what is counted. The tariff translates the count and commitments into a bill. Discount and exception rules define permitted deviations.

These layers interact but need distinct definitions. A business can choose the right metric and the wrong rate. It can choose attractive packages and confusing overages. It can maintain a coherent list price while losing control of transaction-level concessions.

Layer	Core decision	Required operating definition
Segment and offer	Which customer and outcome?	Eligibility and scope
Metric	What is charged?	Counted event, unit, or right
Tariff	How does quantity become a bill?	Rates, allowances, minimums, and commitments
Terms	When and under what conditions?	Currency, period, payment, renewal, and adjustment
Authority	Who may change the result?	Approval limits, evidence, and expiry
Measurement	How is performance assessed?	Net realization, cost, and outcome definitions

Use one authoritative specification for each layer. A slide deck, quote template, product setting, and billing rule that each describe a different offer create avoidable disputes. The architecture should identify which record governs and how downstream systems receive changes.

2 Explain why prices differ

Not every customer needs the same price. Differences may reflect purchased scope, volume commitment, service burden, contract duration, or a segment's value and alternatives. A defensible difference has a recognizable commercial reason and an executable rule.

Avoid using arbitrary historical discounts as the starting logic for the new system. If sales asks why two similar accounts receive different treatment, "that is what each negotiated years ago" describes the history without establishing a future policy. Legacy terms may remain binding, but new decisions need a consistent basis.

Test whether the customer can understand the driver of the bill. A buyer should be able to estimate likely expenditure and connect additional spend with an understandable change in use, scope, or benefit. A theoretically precise measure of value can still be commercially weak if the buyer cannot observe or influence it.

Also test how the architecture behaves as the customer becomes more successful. If the product reduces the number of employees required, a per-seat model may lose revenue while the value delivered grows. That does not automatically invalidate seats, but it creates a question that rate changes alone may not resolve.

3 Specify the tariff mathematically and commercially

A tariff is a function, not merely a row of rates. An access fee plus a usage charge is a two-part tariff, a structure analyzed in classic economic work by Oi.[1] An access fee with an allowance and a charge above that allowance is a three-part tariff. Buyer uncertainty can influence choices among such plans, as Lambrecht and colleagues show in their empirical setting.[3]

The practical lesson is to specify every part of the bill and test the resulting customer experience. A low unit rate may be offset by a large minimum. A generous allowance can reduce bill anxiety but give away

usage the customer would otherwise purchase. A commitment can improve predictability while creating unused entitlements and difficult renewal discussions.

For an access fee F, included allowance A, and overage rate u, one simple monthly bill is:

$$B(q) = F + u \max(q - A, 0).$$

State the units and the measurement period. Clarify whether unused allowance rolls over, what happens after cancellation or partial months, and whether the commitment is an additional minimum or already embodied in F. Without these definitions, buyers and billing teams can calculate different answers from the same rate card.

Distinguish graduated rates from all-units volume rates. Graduated rates apply a lower marginal rate only to units above a threshold. All-units rates apply the selected rate to every unit. These structures can create very different bills near a boundary. Neither should be chosen by accident because of a quoting-system default.

4 Worked example: eliminate an unintended threshold cliff

Illustrative design. A supplier proposes charging $10 per unit below 100 units and $9 per unit on all units once the customer reaches 100. At 99 units the bill is $990; at 100 it is $900. Buying one additional unit reduces the total bill by $90.

That discontinuity may be an intentional commercial offer, but it creates a behavior worth examining. Buyers may increase or time orders to reach the threshold, and the supplier may receive less revenue for more delivery. The effect should appear in the model rather than emerge after launch.

An alternative graduated structure uses a $500 monthly access fee, $10 each for the first 100 units, and $8 for subsequent units:

$$B(q) = 500 + 10 \min(q, 100) + 8 \max(q - 100, 0).$$

Monthly quantity	Bill	Average bill per unit
80	$1,300	$16.25
100	$1,500	$15.00
150	$1,900	$12.67
250	$2,700	$10.80

At 99, 100, and 101 units, the bills are $1,490, $1,500, and $1,508. The total bill increases smoothly while the marginal price decreases above the threshold. That is an architectural property, not proof that customers will accept the tariff. The $500 fee, rates, and thresholds still require buyer and cost evidence.

Compare alternative architectures on actual or simulated account distributions. The average customer may conceal low-volume buyers unable to justify the access fee and high-volume buyers whose cost or value differs materially. Model those groups separately before choosing a standard plan.

5 Control the interaction of discounts and terms

Specify where each discount applies and whether discounts stack additively or multiplicatively. A 10 percent discount followed by a 15 percent discount produces an effective 23.5 percent discount if applied sequentially to the remaining amount, rather than 25 percent. Different interpretations can create inconsistent quotes and invoices.

Define the relationship among volume pricing, partner discounts, annual prepayment, promotional credits, and negotiated exceptions. An approval threshold based only on the visible recurring rate may miss free implementation or a minimum-commitment waiver that changes the entire deal.

Evaluate commitments over their full term. A multi-year discount trades current economics and future price flexibility for a contractual benefit. Model payment timing, expected delivery costs, renewal rights, and any scheduled changes. Do not assume a longer term is valuable merely because it increases nominal contract value.

Use contribution floors as decision guardrails where cost measurement is reliable. A floor is not necessarily the target price. The target should also reflect customer value and alternatives. A high-value offer can be materially underpriced even when it sits well above cost.

6 Assign authority without discarding local information

Commercial teams need a defined range of discretion and a route for unusual cases. Too much untracked discretion can erode the architecture; too little can prevent the business from using relevant information about the buyer and competitive situation.

Lal's theoretical analysis shows why the information advantage of a salesperson can matter when delegating pricing authority.[2] The operating implication is to design bounded decisions that preserve useful account knowledge and make the economic trade visible. It is not a universal recommendation to centralize or decentralize every approval.

Define an owner for each layer: package design, metric specification, rates, exceptions, billing configuration, and financial measurement. A cross-functional committee can review changes, but one accountable owner should resolve the decision. A committee without decision rights tends to accumulate unresolved special cases.

Every exception should have an identifiable scope, rationale, approver, effective period, and renewal treatment. Review recurring exceptions for evidence of a missing standard offer. If the same override appears in most transactions, it has effectively become part of the architecture and should be evaluated as such.

7 Version the system so old and new contracts can coexist

Record a price-book version, effective date, eligible population, currency, and authoritative tariff definition. Preserve the rules used for existing contracts rather than overwriting history. The business must be able to reproduce why an account was charged a particular amount in a previous period.

Map the architecture through the operating chain: catalog, entitlements, quote, approval, contract, usage measurement, invoice, credit, and reporting. Reconcile identifiers and measurement windows.

A transaction recorded on the last day of a month should not be counted differently by the product dashboard and the billing system without an explicit reason.

Define the treatment of corrections. Failed events, duplicate records, delayed usage, account mergers, and refunded orders can affect billable quantity. These cases deserve rules before launch because they create customer disputes and manual work when left unspecified.

Keep customer-facing explanations simpler than the internal data model. Buyers need to understand the charges and their controls. They do not need to navigate every implementation detail used to generate an invoice. Internal precision should support an intelligible commercial promise.

8 Review the architecture as a set of economic scenarios

Before approval, calculate bills for representative low-, medium-, and high-usage accounts, customers near thresholds, unusual scope combinations, upgrades, downgrades, and partial periods. Inspect both total bill and marginal cost to the buyer of the next unit. Highlight discontinuities and unintended incentives.

Then calculate contribution under plausible cost and usage distributions. Include support and operational work created by complexity. A tariff that improves nominal unit economics but produces extensive invoice disputes may underperform a simpler alternative.

For migration, calculate bill changes account by account and identify contracts that cannot move immediately. Establish the effective-date schedule and customer communication. A new architecture should not be credited with earnings from contracts that remain on the old rules.

Monitor realized price, exceptions, invoice accuracy, customer comprehension, usage response, and contribution after launch. Repeated disputes about the same unit or threshold indicate a design problem worth examining. Repeated discounts may indicate a rate or fit problem. Each signal should lead to a specific revision.

A defensible architecture gives pricing strategy an operating form. It makes differences intentional, bills reproducible, and changes governable. That structure helps a business preserve pricing gains as products, customers, and management teams evolve.

9 Commission the evidence and rules together

A cleaner rate card cannot by itself establish the right charging unit, package boundaries, volume ladder, or exception policy. Those choices require buyer evidence about value and purchase feasibility, account-level bill simulations, and reliable cost and contract data. A system that is easy to administer can still generate the wrong commercial outcome.

The research scope should connect buyer preferences and economics to an explicit rule specification. Require representative bills, identified edge cases, a migration view, and ownership of the decisions that must be implemented. The purpose is to produce an architecture the customer can understand and the business can execute profitably.

Curly's Consulting's **Pricing Transformation** combines buyer research, monetization design, size-of-prize economics, and execution support. If a capable internal team will run the work, the **Pricing**

Workshop provides three structured training days, a tailored research roadmap, tools, and an execution sequence; the team remains responsible for collecting evidence and making the recommendation.

The next commercial step

Request a Pricing Transformation quote for the researched design and execution. For a team-led effort, buy the Pricing Workshop.

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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