Five Pricing Mistakes

A ten-minute read for founders

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Introduction

You set a price. Maybe you looked at a competitor's pricing page and knocked ten dollars off. Maybe you added up your hosting bill and doubled it. Maybe you picked a number that felt safe and moved on to the parts of the business you actually enjoy.

Now something is off. Sign-ups are fine but upgrades are rare. Or customers pay without blinking, which is its own warning. Or you have not touched the number in two years and you no longer remember why it is what it is.

This guide names five pricing mistakes I see over and over in early software companies. Each one is a reasonable shortcut that quietly costs customers, revenue, or both. Each one has a first step that takes less than a week.

I am not going to give you a formula. Pricing is a decision made under uncertainty, and the honest goal is a number you can explain, plus a way to test it. That is what the sections below are built to give you.

Here is how to read it. Go through the five mistakes in order. For each one, ask whether it describes you. Most founders I talk to recognise two or three. Then read the last section, which turns the five first steps into one week of work.

One rule I follow in these pages: no invented statistics, no studies. Where I want to show something, I use a fictional company that behaves the way real ones do and reason from how the mechanics work. You can check every claim against your own customers.

Ten minutes from now you will know which mistakes you are making. By this time next week you can have a price you chose on purpose.

Mistake 1: Copying a competitor

The most common way a first price gets set is by looking at someone else's pricing page. It feels like research. It is actually borrowing a decision without borrowing the reasons behind it.

Why it feels safe

A competitor's price is a real number that real customers pay. Matching it seems to remove risk: nobody can call you expensive, and you are not obviously leaving money on the table by going too cheap. You also get to skip the hardest part of pricing, which is deciding what your product is worth to a specific person.

The trouble is that a price on a pricing page is the visible tip of a lot of decisions you cannot see.

What you cannot see

Consider Ledgerline, a two-person company that makes invoicing software for freelance designers. When they launched, they looked at Tallyhaus, the established tool in the space, saw a $24 a month plan, and set theirs at $19. Just under, so they could say "cheaper".

What Ledgerline could not see:

- Tallyhaus's $24 plan is a decoy. Most of its revenue comes from a $59 plan aimed at small agencies, and the cheap plan exists to make the expensive one look reasonable.
- Tallyhaus has a sales team that upsells. Ledgerline has a signup form.
- Tallyhaus's customers are agencies with five people. Ledgerline's are solo designers who send four invoices a month.
- Tallyhaus set $24 years ago and has been meaning to raise it.

So Ledgerline copied a number designed for a different customer, supported by a different sales motion, and possibly already wrong. Then they undercut it, which told their market: we are the cheap one. Solo designers who loved the product assumed it was the lesser tool. Agencies never considered it.

> When you copy a price, you inherit the strategy that produced it, and you usually do not know what that strategy is.

The undercutting trap

Pricing just below the incumbent has a second cost. It anchors your own thinking. Every future pricing conversation at Ledgerline started from $19, and every increase felt like a betrayal of the "cheaper" story. They had built a ceiling out of someone else's floor.

There is also a plain mechanical problem. If you are cheaper and do less, you are competing on price with a company that has more money than you. If you are cheaper and do more, you are giving away the difference. Neither is a plan.

When looking at competitors is useful

I am not saying ignore the market. Competitor prices tell you what buyers are used to seeing, and it is worth knowing the range so that your number does not need a paragraph of explanation. Use them to learn what the buyer already believes. Do not use them to decide.

The question to answer is not "what do they charge?" It is "what does my product change for my customer, and what is that worth to them?" The competitor's page cannot answer that. Only your customers can, which is what the next sections are about.

First step

Write one sentence that explains your current price without mentioning any other company. "We charge $19 because..." If you cannot finish the sentence, or the honest ending is "because Tallyhaus charges $24", you have found the mistake. Keep that sentence. You will rewrite it by the end of this guide.

Mistake 2: One tier for everyone

One plan, one price, everyone pays the same. It is the simplest pricing page you can build, and for a product with one kind of customer it can be right. Most software products do not have one kind of customer.

The problem in one example

Crewpad makes shift scheduling for restaurants. At launch it had one plan: $29 a month, unlimited staff, every feature.

Two customers signed up in the same week. One was a bakery with four employees and one location. The other was a regional group with eleven restaurants and around ninety staff. Both paid $29.

The bakery owner thought $29 was steep for something she used once a week. The restaurant group's operations manager could not believe his luck. He had budgeted several hundred a month, because that is what a tool that runs scheduling across eleven sites is worth to him.

One price managed to be too high for one customer and far too low for the other. That is the mechanical flaw with a single tier: the price has to sit somewhere between the value to your smallest customer and the value to your largest, and it will be wrong for both.

What a single tier hides

A single price also throws away information. When everyone pays $29, you cannot tell which customers would have paid more, which would have stayed at $15, or which features they actually value. Your pricing page is not asking any questions, so it gets no answers.

And it caps your upside. Crewpad's best customers were growing. Each new location was more value to them and zero extra revenue to Crewpad. The product got more useful the bigger the customer got, and the price never noticed.

Tiers are a sorting mechanism

Tiers are not about squeezing people. They let customers sort themselves by how much value they get, and pay in proportion.

The key decision is the axis: the thing that grows as value grows. For Crewpad it was locations and staff. For an invoicing tool it might be invoices per month or number of clients. For an API it is usually usage. Pick

something the customer can see coming, that does not punish them for using the product well, and that tracks the value they get rather than the cost you incur.

Here is what Crewpad shipped six months later:

Plan	Price per month	Who it is for	The line that sorts
Starter	$19	One location, up to 10 staff	Single site
Team	$59	Up to 3 locations	Multi-site managers
Group	$199	Unlimited locations, roles and approvals	Operators with a head office

The bakery moved to Starter and stopped grumbling. The restaurant group moved to Group and, in the ops manager's words, "finally felt like a real vendor". Revenue from those two customers went from $58 a month to $218 a month, and nobody was worse off.

Keep it to three

Three tiers is usually enough. More than four and buyers stall, comparing feature grids instead of deciding. Name the tiers by who they are for, not with adjectives like "Pro" and "Ultimate" that mean nothing to a bakery owner.

First step

List your last ten customers. Next to each, write the one thing that most obviously separates the big ones from the small ones: seats, locations, volume, projects, whatever it is. If the same axis shows up for most of them, that is your sorting line. Draft three tiers on it, with the middle one being the plan you actually want most people to pick.

Mistake 3: Never asking

Founders who would never ship a feature without talking to a user will happily set a price without asking anyone. The price feels too personal to discuss, or the founder is afraid of the answer. So it gets decided in a spreadsheet and defended in silence.

Why we do not ask

Three reasons come up again and again.

We assume customers will lowball us. Ask what someone would pay and they say "free", so why bother.

We are embarrassed. Talking about money with a customer feels like asking a friend for a loan.

We think price is a math problem. Costs, margin, competitor, done.

The first reason is half right, which is why the question you ask matters. The second is a habit you can break in one call. The third is the mistake we cover next.

What a conversation actually reveals

Kestrel Forms sells an inspection app to heating and cooling contractors. The founder, Dan, priced it at $15 per technician per month because that felt like an easy yes. Sales were slow. He assumed the price was too high.

Then a customer's office manager asked him for a call about something unrelated, and at the end he asked her three questions. What were you doing before Kestrel? What did that cost you? What would you compare us to?

Her answers rearranged his pricing in twenty minutes.

Before Kestrel, technicians filled in paper forms and photographed them. Someone in the office retyped them, which took most of a morning each day. Twice that year a form had been lost and a technician had to be sent back out, which meant a day's labour plus an unhappy client. And she compared Kestrel not with other apps but with the part-time admin she was about to hire.

Nothing about $15 per technician was in that picture. The value lived in office hours saved and callbacks avoided, and it was measured per business, not per technician. Dan's per-seat price was actually discouraging contractors from putting every technician on it, which made the product less useful, which made it harder to justify at all.

> The customer already has a price in their head. It is whatever they are doing instead. Your job is to find out what that is.

Questions that work

Do not ask "what would you pay?" People are bad at that question, and you will get the number they think you want to hear.

Ask about the alternative and its cost:

1. What were you doing before, or what would you do if we disappeared?
2. What does that cost you in time, money, or mistakes?
3. Who else did you consider, and what stopped you?
4. When did you realise you needed something like this?
5. If the price were double, what would you need to see to stay?

The fifth question is the useful kind of price question. It does not ask for a number. It asks what would make a bigger number fair. The answers are a feature roadmap and a pricing page at once.

Five is enough

You do not need a survey. Five conversations with paying customers, or with people who nearly paid and did not, will show you a pattern. Ask the ones who cancelled too. They are the most honest people you will speak to.

First step

Email five customers today and ask for fifteen minutes this week. Say you are working on pricing and want to understand how they think about it. Nobody refuses that. Use the five questions above and write down their exact words, not your summary. Their phrasing is what goes on your pricing page.

Mistake 4: Anchoring on your costs

Cost-plus pricing is natural for engineers. Work out what it costs to serve a customer, add a margin, and you have a price that is fair, defensible, and almost certainly wrong.

How it goes wrong in both directions

Renderbox sells an API that turns raw video into web-ready clips. The founder priced it the engineer's way: compute cost per minute of video, add storage and bandwidth, multiply by 1.4 for margin. That produced a price of a few cents per minute.

Their first serious customer was a property listings site. Video on a listing made it stand out, and the sales team wanted every listing to have one. Before Renderbox they paid a freelance editor per clip and waited two days for each. Renderbox turned that into an API call that finished in minutes.

The listings site would happily have paid ten times Renderbox's price, because they were comparing it with the editor, not with Renderbox's server bill. Renderbox left almost all of that on the table. Worse, the low price made a serious buyer nervous. Their head of engineering asked whether the company would still be around next year.

Now the other direction. A second product, a note-taking tool the same founder built as a side project, was priced with the same formula. Its costs were mostly the founder's time, so it came out at $20 a month. Its users compared it with the free notes app already on their phone. The formula that priced Renderbox too low priced the notes app too high.

Costs do not know anything about the customer. That is the whole problem.

Where costs belong

Costs set your floor. Below a certain price you lose money on every customer and growth makes it worse. You must know that number, and if you sell anything with real usage costs, such as an API, storage, or AI features, you must know it per customer.

But a floor is not a price. The price lives between the floor and the ceiling, and the ceiling is set by what the customer would otherwise do. Cost-plus pricing forgets there is a ceiling. It starts at the floor and steps up a little.

Pricing from the alternative

The better starting question is the one from the last section: what does the customer do instead, and what does that cost them?

For Renderbox: an editor, a two-day wait, listings without video. For a scheduling tool: a spreadsheet, a manager's Sunday evening, wrong shifts. For a contract tool: a lawyer's hourly rate, or a template copied from a friend and hoped for.

Once you can describe the alternative, the price has a range. It must be clearly cheaper than the alternative, all things considered, and it can be a great deal higher than your cost. Where you sit within that range is a choice, and a choice is something you can explain.

> Your cost is what the product costs you. Your price is what the problem costs them.

A quick check on the number

Take your current price and ask two questions. If I doubled it, what would a customer compare it with, and would it still be obviously cheaper? If I halved it, would it worry a serious buyer? If doubling is still safe, you are anchored on cost. If halving is not scary, you may be selling a commodity and should think hard about what else you can offer.

First step

Write down your floor: the cost to serve one typical customer for a month, including your own time if you support them by hand. Then, from your customer conversations, write down the alternative and what it costs them. Put the two numbers side by side. Your price should be nearer the second than the first, and the gap between them is the argument for it.

Mistake 5: Never revisiting the number

A price set at launch is a guess made with the least information you will ever have. The mistake is not guessing. It is treating the guess as settled and never coming back to it.

How a price goes stale

Clausebook started as a small library of contract templates for freelancers, priced at $12 a month. Three years later it drafted agreements from a questionnaire, tracked signatures, reminded you when contracts were about to expire, and was used by small agencies as much as by freelancers. It was still $12 a month.

Nobody had decided it should stay at $12. The founder was busy shipping, every month brought a reason not to touch it, and raising prices felt like a fight she did not have time for. Meanwhile each new feature made the product more valuable and the price more wrong.

Two things happen when a price sits still while the product moves:

- New customers get a bargain they did not ask for, and they read a cheap price as a small product.
- You train yourself to think of the product as a $12 product, which shapes what you build next.

The fear of raising prices

The reason most founders avoid revisiting the price is fear of losing customers. That fear is real, but it is usually about the wrong customers.

When Clausebook finally moved new customers to $29, a handful of freelancers who barely used it complained, and a few left. The agencies did not notice. The customers who left were the ones costing the most in support per dollar paid. Revenue went up, support load went down, and the product now looked like what it had become.

Existing customers are a separate question. You can keep them on the old price for a while, move them with plenty of notice, or offer the old price in exchange for an annual commitment. The point is that you have options, and none of them requires you to keep charging new customers a three-year-old number.

Revisiting is not the same as raising

Sometimes the review leads down. If your customer conversations show that people compare you with a free tool and the value is small, a lower entry price with a paid tier above it can beat a single higher price. The habit is what matters: looking at the number on purpose, with fresh information.

Make it a habit with a trigger

Decide now what will cause you to look at pricing again, so the decision is not left to your mood. Useful triggers:

- A calendar date. Every six months, whether you feel like it or not.
- A product change that alters what the customer can do, not just how well.
- A customer type showing up that you did not design for.
- Nobody has complained about price in three months.

That last one deserves a note. Silence about price is not a good sign. If no prospect ever pushes back, your price is not doing any work.

Test it, do not debate it

You do not have to be sure. A price change for new signups only is a reversible experiment. Run the new price for a month, compare conversion and the kind of customer you attract, and decide with evidence. Existing customers never see the test.

First step

Open your calendar and put a one-hour pricing review six months from today, with the four triggers above in the description. Then look at the date your current price was set. If it is more than a year old and the product has changed materially since, the review starts this week, not in six months.

What to do instead

You now know which of the five mistakes describe you. Here is how to turn the five first steps into one week of work that ends with a price you can explain.

The week

Day	Do this	You end up with
Monday	Write the one-sentence explanation of your current price. Email five customers for a fifteen-minute call.	An honest baseline, and a calendar of calls
Tuesday to Wednesday	Run the calls with the five questions. Write down exact words.	The alternative, what it costs them, and how they sort themselves
Thursday	Write your floor. Choose the sorting axis. Draft three tiers named by who they are for.	A range and a structure
Friday	Pick the numbers. Rewrite the sentence. Ship the new prices to new signups only.	A price you chose on purpose, and a test running
Thirty days later	Compare conversion and customer type. Keep, adjust, or revert.	A decision with evidence behind it

None of these steps needs a designer, a consultant, or a new billing system. They need an hour a day and the nerve to ask.

The sentence, finished

At the start of this guide I asked you to write "We charge X because..." and warned that you would rewrite it. Here is what it should look like now.

"We charge $59 a month for the Team plan because managers with two or three locations are replacing a spreadsheet and a Sunday evening of their own time, they told us they had budgeted more, and it is still clearly cheaper than the alternative."

That is a price with a reason. When a prospect pushes back, you have an answer instead of a discount. When you review it in six months, you know which part of the reason to check.

What to watch after

Three signals tell you the new price is working. Some prospects push back and buy anyway. The customers you attract look more like the ones you designed for. Support load per dollar goes down, not up. If you see all three, leave it alone until the next review.

Get the interview script

The conversations in the middle of the week are where the whole thing turns. To make them easy, I have written out the full ten-question customer interview script I use, with the follow-up questions that get past polite answers.

Reply to the email that delivered this guide with the word SCRIPT and I will send it to you.