

Assess pricing power.

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Why pricing matters to investors

Why it matters

Pricing is one of the clearest indicators of a company's commercial health — and one of the most overlooked.

Investors often spend hours on market sizing, retention curves, and CAC payback, but only minutes on monetization. Yet pricing has a direct impact on two of the outcomes investors care about most: growth velocity and margin scalability.

A company with strong pricing power doesn't just grow faster; it grows with discipline:

- Net revenue retention expands.
- Sales cycles shorten.
- Gross margins stay protected, even at scale.

A company with weak pricing power may still post headline growth — but it grows inefficiently:

- High CAC and heavy discounting.
- Flat ARPU and weak expansion.
- Fragile unit economics.

Pricing is therefore not just an internal growth lever — it's an external signal. For investors, it reveals:

- How well leadership understands its market.
- How disciplined GTM execution is.
- How much untapped headroom remains.

Founder prompt

- If this company doubled its customer base tomorrow, would its pricing model scale profitably — or would margins collapse?

What to look for: Indicators of pricing power

When evaluating a company, there are clear signals — both positive and negative — that show whether pricing is a driver or a drag.

Positive Indicators

- **Net Revenue Retention >120%** → Customers expand naturally without heavy upsell pressure.
- **ARPU rising by cohort** → Newer customers pay more than older cohorts.
- **Stable win rates despite price rises** → Increases don't kill the pipeline.
- **Disciplined discounting** → Narrow spread between list and realised prices.
- **Expansion through tiers/add-ons** → Customers graduate up naturally as they scale.
- **Strong gross margins** → Pricing reflects costs (especially variable AI/infra costs).
- **Perceived value for money** → Customers believe product delivers strong ROI.
- **ROI proof** → Company can measure business value, with ACVs at ~10–20% of that value.

Red Flags

- Flat ARPU → Suggests stale or misaligned pricing.
- Feature bloat without monetization → Shipping for free instead of driving revenue.
- “Unlimited” plans → No natural expansion path.
- Overreliance on discounts → Sales leans on price cuts to close deals.
- Misfit metrics → Customers pay less as they succeed (common AI pitfall).
- One tier dominates → Poor segmentation, no fences to separate customers.
- Churn driven by price → Price cited as majority reason for cancellations.
- Weak value messaging → Features emphasised over outcomes and benefits.
- No price differentiation → Customers with bigger budgets pay the same as smaller ones.

#	CRITERIA	WEIGHTING	SOURCE	RAW INPUT	PRICE HEADROOM	RAW INPUT	PRICE HEADROOM
1	Lost deals due to price	MID	CRM	7%		12%	
2	Churn due to price	HIGH	CRM	2%		25%	
3	Recency of price increases	HIGH	Price history	3 years		3 years	
4	Median discount	HIGH	Transaction data	12%		28%	
5	Spread of discounts	MID	Transaction data	25%		35%	
6	Average % price vs. ROI	MID	Usage & transaction data	6%		12%	
7	Price performance vs. competition	MID	Customer research	Very good		Good	
8	Presence of alternate solutions	HIGH	Customer research	High		Low	
9	Importance of price in purchase	HIGH	Customer research	Medium		Very high	
10	Relative value within tech stack	MID	Customer research	Low		Low	
11	Value-for-money score	HIGH	Customer research	Good		Very good	
12	Net Promoter Scores	MID	Customer research	40		20	
13	Price thresholds	HIGH	Customer research	+25% vs. today		+0% vs. today	

Founder prompt

- If I never hear customers complain about price in market interviews, is this company underpriced — or do they just have no pricing strategy?

The 20 questions every board should ask

Investors don't need to micromanage pricing. But they do need to ask sharp questions that reveal whether a team is truly on top of it. These 20 cover the essentials:

Alignment of pricing strategy

1. Who exactly is your **bullseye ICP**? Which segments are you deliberately excluding?
2. Is pricing aligned with your **GTM motion** (PLG vs. SLG vs. partner)?
3. What is your **value promise**, and what metric best reflects it?
4. What is your **gross margin** by product line or segment? Are variable costs priced in?

Design of pricing strategy

5. Do customers see themselves clearly in your **packages**? Do you articulate **benefits or features**?
6. What percentage of revenue comes from your **top tier vs. entry tier**?
7. Which features are **adoption drivers** (always free), **monetization drivers** (always gated), and **add-ons**?
8. Which features drive the **most value** within the product?
9. Have you measured your customers' **willingness to pay**? What about their **perception of value for money**?
10. What's your **Net Revenue Retention**, and what role does pricing play in it?
11. Do you have **expansion paths** built into your packaging (tiers, add-ons, usage ramps)?
12. How does **ARPU** differ between older and newer cohorts?
13. How many deals do you lose due to **price**?
14. How much of customer **churn** is due to price?
15. How wide is your **discount spread**? Who can approve exceptions, and under what rules?

Ownership
of pricing strategy

16. How often do you **review** pricing? Who owns the process?
17. When was the last time you changed pricing? Was it **proactive or reactive**?
18. How do you handle **overages** — auto-upgrade, true-up, or hard limits? And do you collect on them?
19. Do Sales find it easy to **communicate** pricing to customers?
20. What's your **playbook** for migrating existing customers to new pricing?

A leadership team that can answer these crisply has pricing under control. A team that hesitates, or defaults to “we haven't really looked at that,” is leaving money on the table.

How investors can help

Investors don't need to dictate pricing. But they do need to push portfolio companies to treat it with the same seriousness as product or fundraising. Here's where investors add value:

Investor levers

- **Signal importance** → Ask about pricing in every board pack to normalise it as a priority alongside ARR and CAC.
- **Benchmarking** → Share insights from across the portfolio — not to promote copycatting, but to show the range of viable models.
- **Resources** → Introduce pricing experts, tools, or advisors when teams hit inflection points.
- **Pressure test** → When leadership makes bold moves (new product lines, international expansion), push them to test with customers, iterate, and revisit often — not rely on “gut feel.”
- **Support change** → Pricing changes can feel risky for founders. Back them, even if it means short-term pain (churn, pushback) for long-term gain (higher ARPU, stronger NRR).

Investor prompt

- When I look at this company's board pack, do I see pricing treated as a lever — or as a footnote?

What “pricing power” looks like

Outcome

A company with strong pricing power shows it in both narrative and numbers:

- **Narrative** → Leadership can articulate their ICP, value promise, metric thesis, and packaging philosophy in a single page.
- **Numbers** → NRR above 120%, ARPU rising, discounting narrow, gross margins steady, and visible expansion paths.

Pricing power doesn't mean charging the highest price in the market. It means charging the right price — one that aligns with delivered value, scales with customer success, and protects margins as you grow.

For investors, spotting and strengthening pricing power can be the difference between a company that stalls at \$30M ARR and one that compounds to \$300M ARR.

Ready to stop guessing?
Start owning your pricing
and grow with confidence.

See the impact at northlane.partners

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info@northlane.partners

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