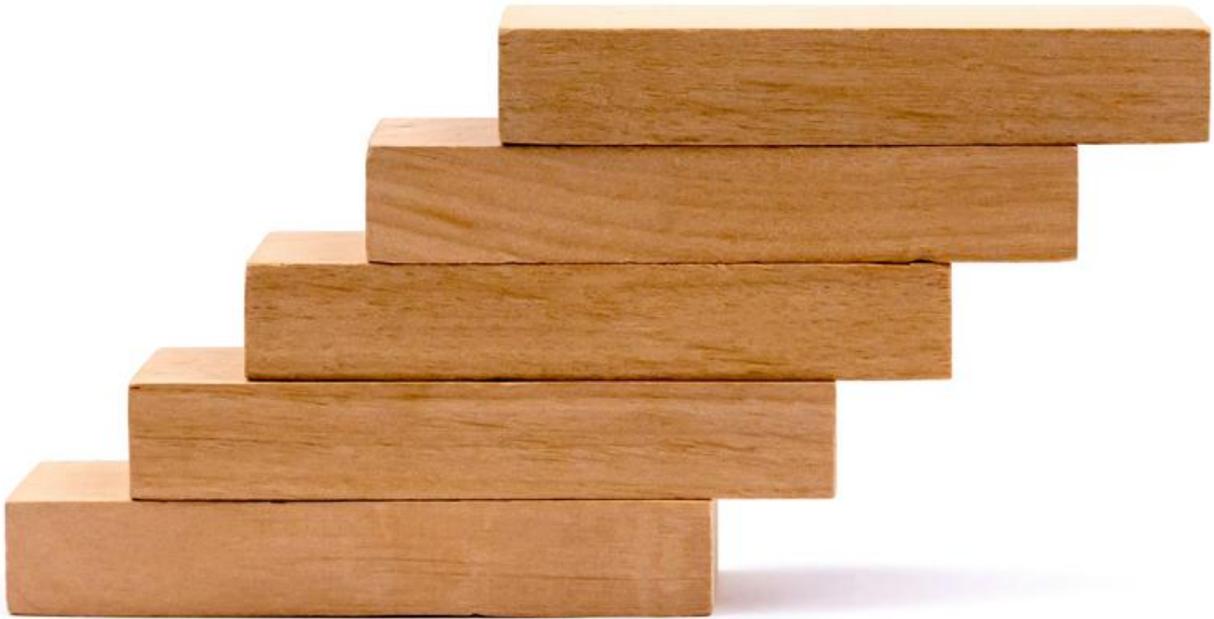


Why AI Breaks SaaS Pricing and What to Do Instead



Why Traditional Pricing Models Break Down

Traditional SaaS pricing worked because it relied on stable proxies for value. Seats, licenses, and tiers mapped cleanly to how software was used, delivered, and monetized. AI changes those assumptions.

For companies introducing or scaling AI-driven software, pricing decisions are no longer about selecting a model from a familiar menu. They are about re-establishing the link between value delivered, customer perception, and economic sustainability, often amid real cost uncertainty and evolving customer expectations

IGS works with teams facing the same set of questions: How do you price AI when usage is variable, value is less (or more) visible, and customers demand both fairness and predictability?

This paper outlines how we help companies rethink pricing and packaging for AI by grounding decisions in how customers actually experience value, which is often not the same as how AI is built or consumed.

How We Evaluate Pricing and Packaging Fit

Across AI engagements, nearly every challenge maps back to the same diagnostic questions. Rather than starting with a predefined pricing model, we pressure-test the current approach against three dimensions that determine whether pricing will support or impede AI adoption and growth.

Is the Pricing Metric Aligned with Customer Value?	Does the Model Scale Profitably & Predictably?	Is Pricing Accelerating AI Adoption?
		
We Test:	We Test:	We Test:
<ul style="list-style-type: none"> Does the pricing reflect customer-perceived value? Are the outcomes measurable and easy to explain? 	<ul style="list-style-type: none"> Can the model scale with usage? Are margins protected as demand grows? 	<ul style="list-style-type: none"> Does pricing encourage or constrain experimentation? Are customers hesitant to try AI due to perceived cost risk?
What Breaks if Ignored	What Breaks if Ignored	What Breaks if Ignored
<ul style="list-style-type: none"> Pricing feels arbitrary or unfair Sales struggles to explain AI pricing without caveats Customers distrust price changes 	<ul style="list-style-type: none"> High-value customers become unprofitable Surprise overages damage trust Growth is constrained by cost 	<ul style="list-style-type: none"> AI features remain under-adopted Power users hit hidden limits Pricing becomes a psychological barrier leading to limited usage

Why This Matters

The goal at this stage is not to select a single “best” pricing model. It is to narrow the field to approaches that fit the product, customer reality, and underlying economics, creating a foundation that can evolve as AI capabilities and usage mature.

Where AI Pricing Efforts Most Often Fail

Once teams agree that AI pricing needs to change, challenges often arise not just from selecting the pricing model, but from how that choice is evaluated, implemented, and supported.

The most common issues we see include:

- Pricing is designed around how AI works, not how customers think**
 Metrics make sense internally, but customers struggle to understand what they are paying for. Over time, pricing feels arbitrary and harder to justify as usage grows.
- Costs look manageable at first, then creep up**
 Early adoption seems healthy, but heavy users or automated workflows drive higher costs. Limits or restrictions are added later, surprising customers and slowing momentum.

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- **Outcome-based pricing is pushed too far, too fast**
Pricing is tied to results before those results can be measured or explained clearly. This creates confusion, debate, and hesitation to expand usage.
- **AI pricing is treated as a product decision instead of a company-wide change**
Pricing is updated, but sales motions, discounts, and renewals stay the same. Teams become cautious about selling AI, and pricing starts to hold adoption back.

When this happens, pricing becomes the bottleneck. AI features underperform commercially despite strong product value, and adoption challenges are misattributed to product or market fit.

Avoiding these pitfalls requires a thoughtful transition that aligns pricing and packaging with how customers see value, how costs scale, and how the business sells and supports the product.

Designing the Right Transition: Pricing and Packaging

Pricing changes for AI can fail based on a flawed design, but also when commercial teams, customers, or internal systems are not ready to absorb the changes. Pricing changes are a structural transition that require sequencing and considering trade-offs.

We help clients design this transition by separating packaging decisions from pricing mechanics, then reconnecting them deliberately.

Step 1: Identify the Packaging Strategy That Fits the Product and Market

Packaging is often a powerful and overlooked lever. Rather than asking where AI should live, we ask how packaging can balance adoption, differentiation, and monetization over time.

Critical insights come from internal data such as interviews, content, and sales data analysis, as well as external sources including customer and prospect interviews and/or surveys and competitive intelligence.

For AI-native products, we explore:

- Capability-based differentiation, where advanced AI unlocks progressively more value for more sophisticated users.
- Quantity-based access, where limits or performance thresholds support fairness, predictability, and margin control.

For established products adding AI, we assess trade-offs across:

- New AI-inclusive tiers that create a clear step-change in value
- Embedded enhancements that make AI feel inseparable from the core workflow
- Add-on models that allow selective adoption and controlled rollout

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Industry context matters. Productivity and cybersecurity products often require AI to feel ubiquitous, while healthcare, logistics, and govtech frequently benefit from more modular or hybrid approaches. Our work focuses on identifying which structure best supports how value is distributed across customers, not just how AI is architected.

Step 2: Align the Pricing Model to Value Delivery

Once packaging is defined, we help clients determine whether their pricing metric still makes sense. This is where many companies struggle, where trade-offs need to be weighed and modeled carefully. Inputs to this process include market norms, buyer insight and use cases from interviews and surveys, and expertise that IGS has from many similar projects.

We evaluate where the business should sit on the AI pricing spectrum:

- Access-based models such as seats or tiers
- Usage-based models such as credits, tokens, or actions
- Hybrid models that combine predictability and flexibility
- Outcome-linked approaches where value attribution is clear and trusted

The right model depends on the role AI plays in the product, how customers budget and buy, and how easily value can be explained. Customers should immediately understand what they are paying for, what they get more of, when and what they will be invoiced (predictability), and why the price makes sense.

Step 3: Set Price Levels, Policies, and Guardrails

Only after model fit is established do we refine price levels. This work is grounded in evidence and custom market research so that data drives the decisions.

We help clients define:

- Clear corridors for price movement
- Where premiums are justified by differentiated value
- Guardrails for discounting, exceptions, and expansion pricing
- Rules that limit downside exposure while remaining simple for customers

These decisions are typically validated through pilots or structured tests, allowing teams to manage customer response, sales execution, and margin impact before scaling changes more broadly.

The objective is to ensure pricing scales in a way teams are comfortable promoting and customers can trust.

Diagnosis Before Prescription – Recent Examples

Our approach is consistent – partner with portfolio companies, gather the right insights, and design pricing transitions that are commercially viable as well as analytically sound, then develop and pressure test market-ready solutions. Recent examples include:

- Designing a pricing and packaging framework for an AI-native compliance platform, including pilot structure and conversion strategy
- Recommending a token-based pricing system for a supply chain platform to reflect the varied value of multiple agents
- Developing a full pricing and packaging remodel for AI-enabled govtech software, grounded in customer and competitor research

Key Takeaway

AI pricing is not converging on a single best model. Success comes from treating pricing and packaging as a strategic capability that evolves with the product, the market, and customer expectations. Companies that win are not the ones that guess correctly upfront, but the ones that apply a clear framework, test thoughtfully, and adjust with confidence.

Connect with our Pricing Experts

As pricing becomes an increasingly important driver of portfolio returns, pricing strategy is no longer optional—it's a competitive advantage.

Reach out to our pricing team to learn how our approach to pricing can help you.



Patrick Meegan

Senior Partner

patrick.meegan@igsinsights.com



Trevor Dodds

Associate Partner

trevor.dodds@igsinsights.com



Pete Morelli

Partner

pete.morelli@igsinsights.com



Adnan Akbari

Partner

adnan.akbari@igsinsights.com

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