



GO-TO-MARKET & PRICING

What is willingness to pay?

Willingness to pay measures the maximum monetary sacrifice a buyer will exchange for an offering, bounding pricing power, surplus, and conversion.

Sinan Isoglu, MBA (Quantic)

Commercial growth leader, lecturer and doctoral researcher

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MANAGEMENT SUMMARY

Willingness to pay (WTP) defines the maximum economic sacrifice an individual buyer or customer cohort will commit to acquire a product or service. Rather than an unchangeable intrinsic characteristic of a product, willingness to pay is an active subjective valuation shaped by reference prices, context, categorization, and framing. This foundational guide contrasts stated versus revealed preference methodologies (direct surveys, Van Westendorp, conjoint analysis, and incentive-aligned BDM lottery auctions), details consumer surplus and economic value to the customer (EVC), and delivers an auditable protocol to estimate reservation prices without inducing artificial anchoring.

Keywords: Willingness to pay · Pricing strategy · Value-based pricing · Demand estimation · Consumer surplus

Willingness to pay, commonly abbreviated as WTP and formally termed reservation price in microeconomic theory, is the maximum dollar amount a customer is willing to give up to acquire a product, service, or contractual outcome. If the realized price (P) sits at or below a buyer's willingness to pay (WTP), a transaction is economically viable; if the price exceeds that threshold, the customer defects, substitutes, or refrains from purchasing entirely.

In commercial strategy, willingness to pay defines the absolute upper ceiling of a firm's pricing power. Yet, executive teams frequently treat WTP as an elusive, speculative opinion, or conversely, mistake hypothetical survey answers for committed commercial transactions.

In reality, willingness to pay is neither an intrinsic physical attribute of a product nor an unmeasurable mystery. It is a subjective, context-dependent valuation shaped by reference prices, available substitutes, the buyer's cash constraints, and perceived category positioning.

How is willingness to pay formally defined and decomposed?

At the individual transaction level, a purchase occurs if and only if the offering satisfies the customer's participation constraint:

$$WTP_i \geq P$$

Where WTP_i is customer i 's reservation price and P is the net realized price.

Consumer surplus (CS)

When a transaction takes place at price P , the difference between what the buyer was willing to pay and what they actually paid constitutes consumer surplus:

$$CS_i = WTP_i - P$$

Consumer surplus represents uncaptured customer value. A firm practicing value-based pricing seeks to design packaging, tiered offerings, and dynamic terms that capture a justifiable portion of this surplus without triggering customer defection or perception of unfairness.

Economic value to the customer (EVC)

In business-to-business markets, willingness to pay is bounded mathematically by Economic Value to the Customer:

$$WTP \leq \text{Reference Price of Best Alternative} + \text{Differentiation Value}$$

Where differentiation value represents the verifiable net operational gains (cost reductions, risk mitigation, revenue expansion) delivered uniquely by the firm's offering compared to the closest available substitute.

Anderson and Simester (2003) start from the premise that makes measurement hard at all: "For most of the items they buy, consumers don't have an accurate sense of what the price should be," which is why "retailers send signals to customers, telling them whether a given price is relatively high or low." Their own tests are catalog retail rather than B2B, and they are large: including the word "sale" beside a price "can increase demand by more than 50%," and in a women's clothing catalog they "increased demand by a third just by changing the price of a dress from 34 to 39." Measurement methods do diverge in predictive accuracy, and this page gives no general overstatement rate for hypothetical surveys, because none of the sources held here reports one.

Kuijken et al. (2017) identify a narrower and more useful mechanism than category attractiveness: a price anchor. Willingness to pay, they argue, “will tend toward the average price of products in the category” a product is positioned in, and that average “acts as a reference point.” The moderator is innovativeness, not typicality: the anchor “will influence consumers’ willingness to pay strongly when the product is radically innovative, while the willingness to pay for an incrementally innovative product will not be affected.” Tested in “four experiments using online auctions in which consumers actually pay when they win an auction.”

Simonson and Tversky (1992) propose two context effects and demonstrate them across a series of studies with consumer products: tradeoff contrast, where “the tendency to prefer an alternative is enhanced or hindered depending on whether the tradeoffs within the set under” consideration favour it, and extremeness aversion, where “the attractiveness of an option is enhanced if it is an intermediate option in the choice set and is diminished if it is an extreme option.” Adding an ultra-premium third tier is the operating use of the second effect, and it is a prediction from their hypothesis rather than a measured B2B result.

Figure 1 The willingness-to-pay measurement fidelity matrix

Methodology	Behavioral mechanism	Cost & complexity	Hypothetical bias	Primary strategic utility
Direct Open-Ended Surveys	Self-reported maximum price point (“What would you pay?”)	Low cost; rapid execution	High; stated intent overstates purchase, and no source held here gives a general rate	Exploratory boundary screening for completely novel concepts
Van Westendorp (PSM)	Four-question psychological price map (cheap vs too expensive)	Moderate cost; standardized format	Moderate; identifies perceptual range, not transaction points	Mapping psychological price corridors and sticker-shock thresholds
Choice-Based Conjoint (CBC)	Trade-off choices across simulated multi-attribute bundles	High cost; requires experimental design	Controlled; decomposes part-worth utilities across features	Packaging, feature tiering, and willingness to trade off specific attributes
Incentive-Aligned BDM Lotteries	Becker-DeGroot-Marschak auction where stated bids trigger real binding purchases	High complexity; requires real transaction setup	Zero hypothetical bias; reflects real cash commitments	Precision testing of consumer reservation prices in experimental settings
In-Market A/B Cohort Testing	Live commercial transaction observations on separated customer cohorts	Moderate-high; requires operational governance	Zero bias; observes real conversions under market frictions	Final price validation before company-wide list price deployment

Author's pricing research framework grounded in empirical methodology comparisons and behavioral choice literature from Anderson and Simester (2003), Kloss and Kunter (2016), Kuijken et al. (2017), and Simonson and Tversky (1992).

Corrected 8 September 2026: the hypothetical-bias cell for direct surveys stated an overstatement of up to 40%. None of the sources held for this essay reports a general rate, as the text above says, so the cell now says what the text says.

Why do direct surveys systematically misstate customer willingness to pay?

The most frequent error in commercial pricing research is asking prospective customers directly: “What would you be willing to pay for this software?”

This direct approach fails across four distinct behavioral dimensions:

- 1 Absence of financial consequences (cheap talk): When respondents answer a hypothetical question, they incur no monetary sacrifice. Stating an inflated figure costs nothing, but allows the respondent to signal sophistication or enthusiasm.
- 2 Cognitive focal-point anchoring: An unassisted customer rarely possesses an innate, pre-calculated dollar figure for a complex service. Instead, they anchor on whatever external number was recently encountered in the survey introduction or media headlines.
- 3 Strategic under-reporting in B2B procurement: When enterprise buyers suspect that survey answers will influence future commercial negotiations, they deliberately depress stated figures to cultivate leverage for future discounts.
- 4 Contextual vacuum: A customer evaluating an abstract feature description is shielded from the real operational frictions that accompany real purchasing: budget cycle approvals, implementation fatigue, competing capital demands, and political procurement risks.

As evaluated in Van Westendorp is a survey boundary, perceptual survey methods provide valuable boundaries for buyer psychology, but they cannot replace empirical transaction observation when optimizing contribution margins.

Kloss and Kunter (2016) reach a two-sided verdict on the Van Westendorp Price Sensitivity Meter. It “yields biased results because of its hypothetical nature and its focus on minimum customer resistance,” and yet they “find it to be a method of high predictive quality for eliciting willingness-to-pay since the measurement results are comparable to those of the incentive-aligned Becker-DeGroot-Marschak mechanism.” The crossings are properties of cumulated survey frequencies, so they describe an acceptable corridor and not a revenue-maximizing point. That is a reason to test a list price rather than a finding that survey-set prices always underperform.

How does willingness to pay translate into the market demand curve?

Aggregating individual customer reservation prices across a target market generates the downward-sloping demand curve.

If we rank N prospective buyers in descending order of their reservation prices:

$$WTP(1) \geq WTP(2) \geq \dots \geq WTP(N)$$

Setting price P such that $WTP(k) \geq P > WTP(k+1)$ yields a total sales volume of exactly k units:

$$Q(P) = \sum_{i=1}^N I(WTP_i \geq P)$$

Total contribution margin (CM) at price P is therefore:

$$CM(P) = Q(P) \times (P - v)$$

Where v is direct variable cost per unit.

This mathematical reality highlights why price differentiation (such as tiered editions, enterprise feature gates, and usage-based thresholds) is paramount. A single uniform price forces the firm into a painful compromise: setting a high price captures the surplus of high-WTP accounts while forfeiting volume from price-sensitive accounts; setting a low price secures broad volume while leaving massive consumer surplus unharvested among high-value enterprises.

To examine how demand elasticity governs this trade-off, consult [What is price elasticity of demand?](#).

Worked numerical example: Capturing consumer surplus through tiered pricing

To see how willingness to pay dictates revenue optimization, examine a B2B SaaS analytics company serving 1,000 potential business accounts. Market research using choice-based conjoint reveals three distinct customer segments:

By transitioning from an unbundled single price to a tiered structure aligned with measured willingness to pay, the enterprise increases monthly cash contribution from 292,500 dollars to 560,000 dollars, a 91.5% expansion. Crucially, this requires rigorous feature fencing: if enterprise buyers can access Tier 1 features without friction, they self-cannibalize and destroy tier integrity.

As analyzed in [Pricing is a positioning decision](#), price acts as an active signal that guides how buyers categorize an offering.

Which operational miscalculations undermine willingness-to-pay estimation?

Table 2 Which operational miscalculations undermine willingness-to-pay estimation?

Miscalculation	Why it fails	Operational consequence	Corrective protocol
Trusting unassisted survey claims	Hypothetical bias inflates self-reported willingness to pay	Firm launches at an unsustainable price point and suffers conversion failure	Use choice-based conjoint or incentive-aligned BDM mechanisms
Assuming WTP is a static product constant	Ignores context, reference pricing, and framing effects	Misses opportunities to elevate WTP through positioning and tier architecture	Re-evaluate WTP whenever competitive alternatives or brand anchors shift
Ignoring feature fence cannibalization	High-value buyers downgrade to cheaper tiers if fences are porous	Destroys enterprise average revenue per account (ARPU)	Enforce strict non-negotiable enterprise gates (SSO, SLAs, compliance)
Confusing willingness to pay with ability to pay	Large enterprises with deep pockets may still refuse high quotes	Presumptuous over-pricing alienates strategic buyers	Anchor pricing to verifiable ROI and Economic Value to the Customer
Failing to test reservation prices in live cohorts	Relies exclusively on synthetic research without real market validation	Disconnects pricing strategy from actual salesforce execution	Run isolated live checkout tests or pilot cohorts before rollout

Table from this essay. Sources and interpretation are given in the article.

What auditable protocol estimates willingness to pay without bias?

- 1 Identify the economic reference alternative. Document exactly what substitute tool, manual spreadsheet, or competitor the target buyer would deploy if your product ceased to exist.
- 2 Quantify differentiation value. Calculate verifiable cost savings, operational time recaptured, or risk avoided to determine the objective Economic Value to the Customer (EVC).
- 3 Select the appropriate research instrument. Deploy choice-based conjoint (CBC) for multi-feature trade-offs, or Van Westendorp price-sensitivity meters solely for exploratory boundary mapping.
- 4 Introduce structured choice architectures. Confront respondents with realistic trade-off choices across attribute bundles rather than unconstrained direct price elicitations, accounting for buyer reliance on contextual pricing cues (Anderson and Simester, 2003).
- 5 Architect distinct tier fences. Align product packaging so that distinct customer segments naturally self-select into tiers that match their specific willingness to pay.
- 6 Deploy decoy and anchor structures. Structure pricing tables with high-end premium anchor tiers to leverage extremeness aversion and stabilize core tier adoption (Simonson and Tversky, 1992).
- 7 Validate via controlled live transactions. Conduct pilot contract negotiations or localized checkout tests with actual purchasing authorization to confirm true reservation prices.

Where are the empirical limits of willingness-to-pay models?

Willingness to pay is an analytical construct that measures valuation under defined historical and contextual conditions. It is not an absolute mathematical ceiling that remains stable across economic cycles.

Macroeconomic recessions, organizational budget freezes, and aggressive competitor price cuts compress customer willingness to pay across entire industries overnight. Furthermore, willingness to pay cannot account for non-rational procurement hurdles, such as enterprise vendor-qualification bottlenecks or sudden leadership reshuffles.

The foundations of this analysis are drawn from empirical pricing research and behavioral choice theory, specifically Anderson and Simester (2003), which is a practitioner article rather than a peer-reviewed study, Kloss and Kunter (2016), Kuijken et al. (2017), and Simonson and Tversky (1992).

and operational protocols represent the author's synthesis designed to make willingness-to-pay estimation rigorous and actionable in corporate decision-making.

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END OF ESSAY

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