

2.12: The Five Critical Cs of Pricing

Learning Objectives

By the end of this section, you will be able to

- List the five critical Cs of pricing.
- Characterize the five critical Cs of pricing.

Cost

What should you charge for a product or service? As you've probably discovered by now, pricing is not something that marketers approach without a lot of research. Using the five critical Cs of pricing can help to determine the *best* price—one that provides optimal value to the buyer and profit maximization for the company. Figure 2.12.1 illustrates the five critical Cs to consider when pricing: cost, customers, channels of distribution, competition, and compatibility.

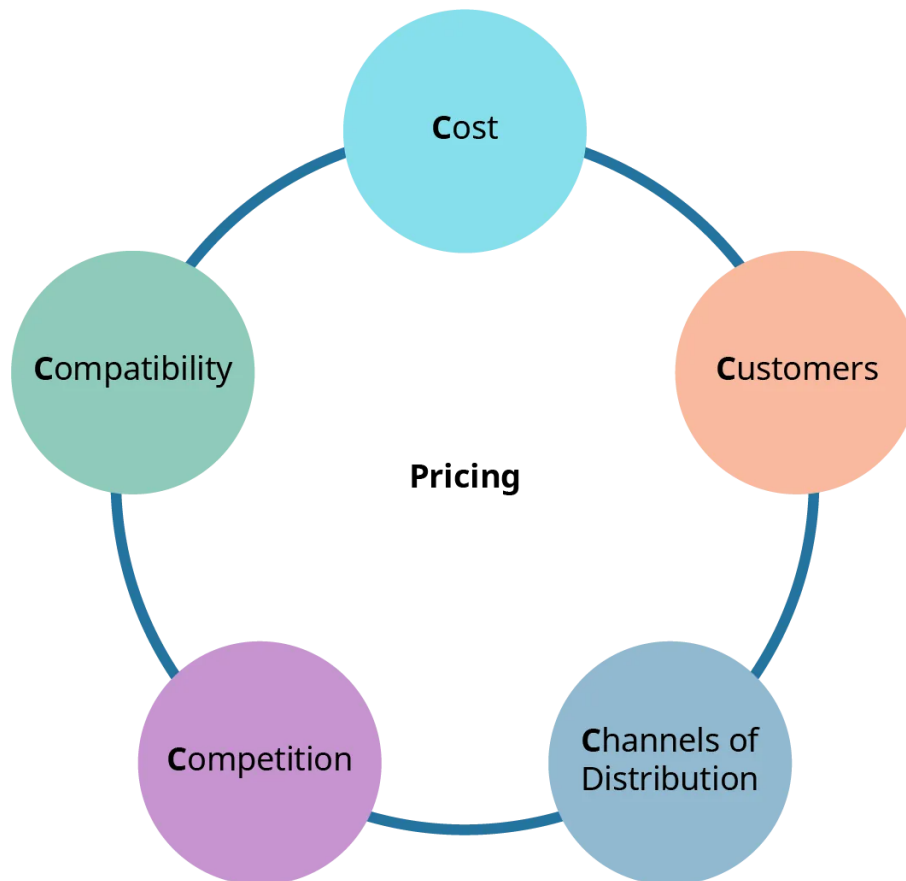


Figure 2.12.1: The Five Critical Cs of Pricing (CC BY 4.0; Rice University & OpenStax)

Cost is the most obvious element of the pricing decisions. As we've already discussed, you must know the cost of doing business—both fixed and variable—before you can set an adequate price. However, cost alone cannot be the only basis on which a pricing decision is made. After all, buyers never know (and don't care) how much it costs a business to produce its goods and services.

Link to Learning: The Five Critical Cs of Pricing

Scale Finance has [provided an excellent article](#) that may help you get your mind around the five Cs of pricing.

Customers

Customers are another key element to pricing decisions, as you've learned already in this chapter. Marketers must determine not only what customers expect a product or service to be priced at but also what those customers are willing to pay. Toyota

manufactures cars and markets them toward the middle class. Through research, it has determined what its target market is willing and able to pay for a particular vehicle. Alternatively, Lexus, which is marketed as more of a luxury car, has a higher price point and is marketed to a different market than Toyota's.

Channels of Distribution

Many products are sold through channels of distribution—intermediaries who move products from manufacturer to end users. Intermediaries affect the prices of products because they also need to maximize their profits. Therefore, pricing decisions must consider profits, expenses, and the value they add to the product or service.

IKEA began as a mail-order catalog in 1953 in Älmhult, Sweden. Today, it is a global home furnishings brand that focuses on sustainability (IKEA, 2022). Its distribution channel consists of the manufacturer, dealer, wholesaler, and retailer. Each of these channel members is in business to make a profit. Therefore, the price strategy that IKEA utilizes must help to ensure that each member is financially satisfied while making a profit itself and keeping a price that is of value to the end-user. If any channel members (or end-users) do not find value in the price set by IKEA, the entire channel becomes weak and unsustainable.

Link to Learning: IKEA

IKEA is a very interesting company to study when learning about marketing and business. As this [blog examines](#), it has 1,600 suppliers for manufacturing products that deliver to 186 global stores. That's a complex—and successful—system!

The [MBA Skool website](#) explains the IKEA marketing strategy and the four Ps, including IKEA's distribution model.

The [Contact Pigeon blog outlines](#) IKEA's strategy that made it the successful company it is today.

Competition

Every company and product faces competition. Even the most unique products are competing for buyer dollars. Buyers' perception of one product compared with alternatives has an important impact on pricing decisions. Gazelle Bikes is a top-tier manufacturer of bicycles. The bikes offered by Gazelle have a starting price point of \$1,499 (Gazelle, 2022). One of Gazelle's competitors, Giant, has a starting price point of \$1,720 (Liv, 2022). For bicycle enthusiasts, these price points are important when comparing one brand with another; an enthusiast who comes across a new brand of bicycles with a starting price of just \$200 would not position it with Gazelle and Giant bicycles.

Compatibility

Panama City Beach has been one of the most popular spring break destinations of college students for decades. In fact, it is considered the "Spring Break Capital of the World" (PCBeach Spring Break.com, 2022). It is well-known for its late-night parties, concerts, and celebrity sightings. Hotels and clubs along the beach of Panama City drive their marketing efforts toward this market segment: college-aged spring break-goers. The prices they set for the weeks of spring break are compatible with both this segment of the market's ability to pay and the businesses' profitability. Conversely, hotels in areas of Florida that are more family-friendly set prices that are considered a value for families and promote the hotels toward families rather than college-aged partygoers.

Pricing decisions are not made in a vacuum. When marketers set a price for a good or service, it must be consistent with the other marketing objectives. Imagine if McDonald's started offering a \$20.00 ribeye steak. This decision would be inconsistent with the marketing of the company's low-priced fast food, would be confusing to customers, and thus would not be successful (Scalefinance.com, 2022).

Marketing in Practice: The Five Cs of Pricing

The five Cs of pricing have long been a standard for marketing practitioners. However, some practitioners also consider another area when determining price: context. Context refers to a more complex pricing strategy where marketers set—and change—prices according to variables external to the company. For example, an ice cream truck in the U.S. Midwest would arguably have more traffic during the peak summer hours and less during the colder winter months. The owner of the ice cream truck would change their prices to best fit the context (in this case, weather). The product (ice cream) remains the same regardless of the price, but the price is changed to fit the context of the situation. The appropriateness of using this strategy depends on several factors, including the product category, market size, and other industry nuances.

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