 **Fixed costs** are expenses that do not change with the level of production or sales. These costs are incurred regardless of whether a business produces one unit of a product or a thousand units. Examples of fixed costs include rent, salaries, insurance, and depreciation.

 **Variable costs** are expenses that vary directly with the level of production or sales. These costs increase as a business produces more units of a product or service. Examples of variable costs include materials, labor, and shipping.

For instance, if a company uses ABC costing to identify that design complexity is a major cost driver for a particular product, they can use target costing to set a target price that takes this into account.  
  
The slides mention three Cs to consider:

**Customers' Demand Schedule:** This refers to how the quantity demanded by customers changes in response to price changes. (See previous explanation about price elasticity of demand).

**Cost Function:** This refers to the relationship between the cost of producing a good or service and the quantity produced. (See previous explanation about fixed vs variable costs).

**Competitors' Prices:** This refers to the prices charged by your competitors for similar products or services. (See previous explanation about analyzing competitor pricing).

**Price Floors and Ceilings:**

**Floor Price (Minimum Price):** This is the lowest price that a company can charge for a product or service without incurring a loss. The floor price is typically determined by the cost of production.

**Ceiling Price (Maximum Price):** This is the highest price that a company can charge for a product or service without losing customers to competitors or pricing themselves out of the market. The ceiling price is typically determined by customer demand and competitor prices.

**Starting Point for Pricing:**

The slides suggest using competitor prices (and prices of substitutes) as a starting point for setting your own price.