

Cost characteristics

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Product characteristics

4. Price to customer:

- The cost of the product ordains its selling price and decides its market attractiveness.
- Product cost is a **function** of both **variable costs**, such as material and labour costs, and **fixed costs**, such as tooling and capital equipment costs.
- A product will not succeed in the marketplace, unless it satisfies customers' needs and is considered dependable.

Product characteristics

4. Price to customer:

1



2



Product characteristics

4. Price to customer:

Elements of the farm machines cost:

1. Fixed cost

These include depreciation, interest (opportunity cost), taxes, insurance, and housing facilities.

2. Variable cost

These include repairs and maintenance, fuel, lubrication, operator labour, and timeliness cost.

Product characteristics

4. Price to customer:

Elements of the farm machines cost:

1. Fixed cost

a. Depreciation

- Depreciation is a cost resulting from wear, obsolescence, and age of a machine.
- The degree of mechanical wear may cause the value of a particular machine to be somewhat above or below the average value for similar machines when it is traded or sold.

b. Interest (opportunity cost)

- Interest on the borrowed money or opportunity cost for the own capital.

Product characteristics

4. Price to customer:

Elements of the farm machines cost:

1. Fixed cost

c. Taxes and insurance

- Taxes to be paid and insurance of the equipment comes under the fixed cost.

d. Housing facilities

- Cost of providing shelter, tools, and maintenance equipment for machinery will result in fewer repairs in the field.

Product characteristics

4. Price to customer:

Elements of the farm machines cost:

2. Variable cost

a. Repairs and maintenance

- Routine maintenance, wear and tear, and accidents comes under this section.
- Repair costs for a particular type of machine vary widely

b. Fuel and lubrication

- The costs of fuel can be estimated by using average its consumption for field operations.
- Total lubrication costs on most farms is taken as a fraction od the fuel cost.

Product characteristics

4. Price to customer:

Elements of the farm machines cost:

2. Variable cost

c. Operator labour and timeliness cost

- Labour cost is an important consideration in comparing ownership to custom hiring.
- Actual hours of labour usually exceed field machine time by 10 to 20 percent, because of travel time and the time required to lubricate and service machines.

d. Timeliness costs

- Reduction in the quality or quantity of crop in case it is not processed in stipulated time is covered under timeliness costs.
- It is generally decrease in income due to late delivery.