## Pricing Terms and Definitions

**Break-even point –** where total revenue equals total costs not including profit.

**Contribution Margin –** The amount of money available to go towards covering your fixed costs.

Revenue – variable costs = contribution margin

**Cost of Production** – the amount it costs you to produce a product

Variable costs + fixed costs = cost of production

**Direct marketing –** product moving from the farm/processors directly to the consumer and bypassing brokers, distributors or retail channels of trade.

**Distributor –** buys your product and resells it, at a profit, to his account. Distributors offer experience, contacts, and market segments such as gift stores, grocery chains, specialty food stores etc.

**Economy of scale –** the cost advantages and savings a processor gains when more product units are produced, e.g. purchasing raw materials in bulk reduces the input costs.

**Farm gate sales –** are sales made directly from the producer to the consumer/end-user, often on site at the farm, e.g. u-pick sales, on-farm sales.

**Fixed costs –** are consistent costs (overhead) that do not change from month to month. These costs occur no matter how many products are produced. Often they are time related, e.g. monthly rent, yearly real estate taxes, annual machinery costs, depreciation, etc.

**Margin** – is the selling price minus the Cost of Production

**Mark-Up** – is the value added to the Cost of Production to establish the selling price.

**Market channel –** describes the route a product takes to reach the consumer/end-user, e.g., direct market channel, retail channel, etc.

**Market segment –** a group of consumers that have the same buying characteristics or have similar needs.

**Market share –** indicates the size of market one producer/company holds. To calculate market share you need to divide the amount of product you sell into the total market number.

**Non-cash costs –** do not involve an outlay of cash e.g. depreciation or amortization. Non-cash costs should be included in a product's cost.

**Overhead costs –** the ongoing expenses of operating a business, e.g., rent, repairs, utilities, insurance, salaries, etc.

**Per unit cost –** The cost incurred to produce, store and sell one unit of a product including all fixed and variable costs involved in production.

**Product bundling –** is a marketing strategy where several products are for sale as one combined product, e.g., a Saskatoon liquor with a set of crystal glasses.

**Retail Price –** is the price the end user pays for a product or service.

**Target market –** the demographic group of consumers most likely to want or need to buy your product.

**Variable costs –** costs that increase proportionally to the amount produced. As a rule of thumb, variable costs include direct labour, ingredient/seed/feed costs, equipment repairs, fuel costs for distribution, marketing expenses, etc.

**Wholesale prices –** the price of a product before a middleman (distributor or broker or agent) or retailer has added on their mark-up fees to the price.