

Fixed and variable costs

Business



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Every business requires operating cost in manufacturing their product or service. Fixed costs are those expenses that are always there and as the term implies, these costs are fixed. Fixed costs do not vary with the amount of the product produced; it is independent in a sense regardless of the outcome of the operation. Some common fixed costs are rentals and salaries of employees. On the other hand, variable costs are dependent on certain factors mostly, the increase or decreased in sales. An increase in the quantity of products manufactured means an increase in the variable costs.

The increase in the production means an increase in the raw materials that lead in higher expenses, thus higher variable cost. Salaries due to overtime are also considered as a variable cost. It is important to be able to determine the fixed and variable costs occurring in the company in order to budget the resources of the company as well as to offer the right marketing cost of the product. Since the variable costs are usually the amount spent in manufacturing a certain product, the selling price should be higher than the variable cost. The profit obtained in the sales will contribute in recovering the value spent in the fixed cost.

It is important to distinguish and at the same time, giving importance, to the fixed and variable cost in order to make a right decision in pricing and to know which costs should be given importance and accounted for. Since fixed costs do not vary, they are often ignored. What is important is the variable cost. In both the cellular phone industry and the pharmaceutical industry, the main factor that contributes to the costs of the company would be the materials cost which is variable costs that depends on the quantity of products produced.

The transportation cost also depends on the demand. Cellular phone and pharmaceutical industries also spend much in the improvement of their products especially cellular phone industries since they should be able to improve their products from time to time. On the other hand in oil companies, fixed costs can be considered as the primary operating cost since they require constant workforce. On the other hand, variable cost would include shifting and transportation of the products. It can be said that these three industries are highly demanded by the people.

Easy access to messaging is a very important part of every culture that makes cellular phone very popular because of its size and features. Medicine on the other hand had been an important object in for several generation and to the generations to come. Also, oil industry is widely needed in all countries. Thus, these three businesses can be considered above other businesses in terms of profit because of their high demand. When it comes to the question of which company makes more, one cannot really say that one company or industry makes more than the other because the validity of any claim would be dependent on a certain area of reference.

However, when it comes to the global market, perhaps the oil industry would be the one who makes the most. This is because oil is indeed a global product that most industry requires.