



Analysis of Price Setting Process And Pricing Decision Art Object: A Case Study In Art Contractor Industry

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ABSTRACT

Price setting is a very complex matter and can bring profits and losses to the business if it is wrong in making pricing decisions. Art objects have different standards in determining their prices so that they do not have a definite price standard. This research focuses on how to determine the price of art objects through the pricing process and the value brought by the art objects. This research is a case study research using a qualitative approach. The company studied is an art contractor located in Bali. Researchers conducted field observations, studied company data and conducted interviews. The results of this study show pricing decision-making process in the art contracting industry has several stages to estimate project costs as a basis for making decisions to determine the final price. Each stage of the process correlates with one another and will reveal the costs of the project. The valuation of the art object is added to the project cost based on the artist's skill in making the art object. Each project will have a different value that is tailored to the artist who made the work on the project.

Keywords: Price Setting, Price Decision, Art Business

INTRODUCTION

In business, one of the most important decisions in marketing is the pricing decision. Price, is an element of the marketing mix that is flexible. Pricing is one of the highest factors that greatly affects a business. In business management, pricing must be managed and have a good strategic plan for business sustainability. There are certain risks involved in pricing a product or service. (Jan-Eric, Christina, & Babak, 2018), If the pricing decision is set too low, it will cause a higher risk of business losses, while if the price is too high, it will cause failure to receive demand. Pricing itself can be differentiated on the products produced, which is specialized products and standard products (Jan-Eric, Christina, & Babak, 2018), companies in the pricing of a product or service must have a strategy and be observant in seeing the opportunities, risks, and competitors of their products so as to be able to make pricing decisions that can provide optimum profit. Various studies in pricing approaches can be divided into three including cost-based

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price, competition-based price, value-based price, and activity-based price which are generally used as the main sources for setting prices (Guerreiro & Amaral, 2018). The four approaches have their own perspectives in making pricing decisions that must be adjusted to the company's business model. By understanding the company's own product knowledge, whether it is a specialized product or a standard product, pricing should be easier to generate optimum profits, but instead it makes decision making difficult because the gap between theory and company practice is too wide to be explored and explained further (Guerreiro & Amaral, 2018).

In the art contractor industry, companies have products and services in the form of art items that they use as commodities to offer to customers. The products and services offered by art contractors start from searching, consulting architecture or art infrastructure to creating art objects that are able to beautify and create aesthetic value in a building, room, which is able to present its own taste and prestige for its customers. This makes the commodity produced by art contractors a specialized product because the differences in products sold to each customer are more specific. Estimation in pricing the main factors that are often used to make calculations are production costs, product maturity, market competition, raw material costs, and the importance of raw materials for customers. (Jan-Eric, Christina, & Babak, 2018). Price estimation in the art contracting industry is contained in the cost budget plan submitted to the client. In deciding the strategy and making pricing decisions, the company forecasts the cost budget plan. Clients usually seek preliminary pricing information first before they purchase the company's products or services. Price estimates set the base price and pricing strategies are used to ensure that strategic pricing is provided to clients, as clients usually make purchasing decisions based on value for money. (Fortune & Cox, 2005).

Practically, there is no concrete and definitive formula for estimating the price of each project in art contractors and art objects used to this day because pricing in art objects involves a number of data from various sources, art objects are products that have a function as creative objects that have different ways of approaching pricing (Susanto, Simatupang, & Haryono, 2018). This has caused the gap between theory and practice to widen. There is a very basic difference in setting the price of art objects and other commodities. The price of an art object is not only determined by production factors such as materials, labor hours, profit and so on. (Carter, 1990). Art objects in the art industry have a level of economic value, which can simply be traded as commodities that have equal prices in the market and have values that determine market prices. Values that influence price include critical value, symbolic value, aesthetic value and historical value (Susanto, Simatupang, & Haryono, 2018). So that there are differences in the preparation of components in the estimated cost budget plan that will be submitted to the client will be different because there are variables in determining the price that will appear according to the infrastructure to be built and the value of the art object.

Decision-making in pricing art contractors becomes a problem due to differences in methods based on production costs and activities while the price of art objects has its own value so that the estimation of determining the price of the entire project tends to be biased and has no definite basis. According to Calabrese & Francesco (2014) that not all costs are capable of representing value. In addition, pricing is not only the absolute power and authority of a business owner. In order for the price to be accepted by the client, an attractive price offer is needed, on the other hand the price affects the business to get the optimum profit in each project.

This research aims to find out each stage or process and what factors influence pricing decisions in the art contracting industry and how to add the value of art objects in pricing so as to create strategic prices. By using the model approach of building project price advice process (Fortune & Cox, 2005) is expected to be able to analyze the cost of the project in more detail for each activity.

LITERATURE REVIEW

Price setting

According to Stiving (2011), pricing is one of the most powerful marketing tools but difficult to understand. Prices must reflect value because setting prices that are too low will cause the company not to get optimum profit even to a loss while setting prices that are too high can reduce and inhibit demand (Guerreiro & Amaral, 2018). According to Smith (1995) emphasizes that the price setting is correlated with the managerial process which guides the production process, needs and considers customer information. Activity-based costing recognizes that the products or services produced require activities that consume resources that generate costs (Haroun, 2015). Activity-based costing identifies cost drivers for each activity. This method can be applied at various stages of the product cycle and can inclusively handle design and manufacturing costs. Activity based system is a useful tool for distributing overhead costs in proportion to the activities performed in a specific job.

Art Business

The business of art is triggered by a number of things, including the emergence of fine art and antiques as an alternative and the growth of art exhibitions around the world with the presence of significant loci in the art economy and the emergence of new art market centers in various parts of the world (Susanto, Simatupang, & Haryono, 2018), this growth has made art objects a traded commodity. Art objects have a number of perspectives, appreciations and judgments in determining their price. According to Teerink (2014) there are 5 ways of viewing or evaluating art objects, namely fundamental value, economic value, critical value, symbolic value, and aesthetic value.

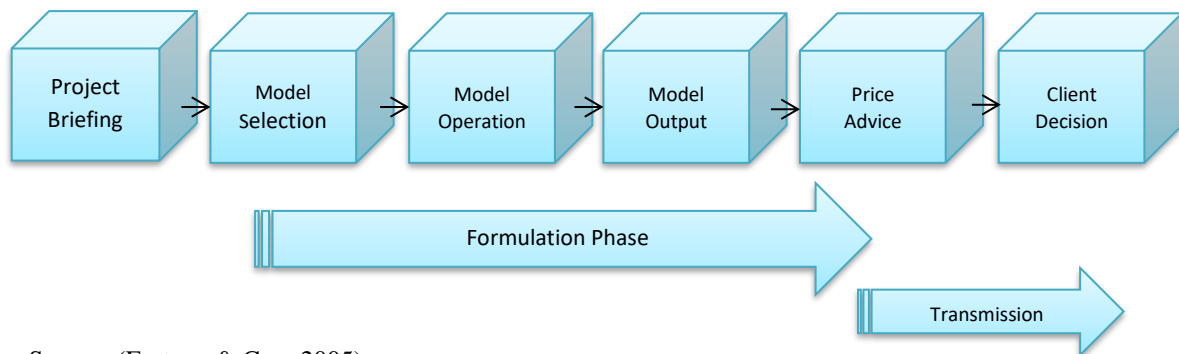
According to Tjiptono (2015), price setting is also based on its objectives. Pricing objectives are based on orientations such as profit, volume, market demand, market share, cash flow, matching competitors, prestige and status quo (Tjiptono, 2015). Some orientations are more suited to the issue of pricing the goods and services used for buying and selling by the company.

Pricing Decision

In the process of making decisions in price management, companies need to define the process based on company behavior (Remenova & Kintler, 2015), one of them is by making decisions through the process. Decision-making theory helps practitioners to make decisions where the topic approaches decision-making ability and competence as well as the responsibility to decide (Remenova & Kintler, 2015). Decision-making is concerned with evaluating and possibly taking alternative courses of action.

To develop an understanding of how pricing is estimated for art projects, it is necessary to know the process or stages that must be followed. Ignorance of the process or stages will reduce the accuracy of the analysis at the pre-production, production and post-production stages. According to Fortune & Cox (2015), Building a project should include technical formulation, calculation of advice and application of expertise in the preparation of price estimates. Figure 1 shows that each process requires expertise as well

as proper technical formulation so that all pre-production to post-production processes can be calculated.



Source: (Fortune & Cox, 2005)

Figure 1. Model of building project price advice process

The model in Figure 1 provides a standardization that allows practitioners to assess the model they use in the price setting process. Pricing decision-making is progressive and requires logical steps at each stage.

RESEARCH METHOD

This research is a case study research using a qualitative approach. In this approach, researchers create a complex picture, examine words, detailed reports from respondents' views and conduct natural studies. Case study research conducted by researchers describes what happens in a particular situation to reveal the reality and a thorough description of the individuals or groups who experience and feel the situation. This research sets limits only on how the decision-making policy regarding pricing is made which is identified through the stages carried out by the company. The company studied is an art contractor located in Bali. Researchers conducted field observations, studied company data and conducted interviews. Interviews were conducted with 5 people in each company, namely 1 CEO, 1 CFO and 3 senior finance staff. The research focused on data regarding price estimation or price setting and then asked how this pricing policy was taken.

RESULT AND DISCUSSION

Project Briefing

Project Briefing is conducted by the project team to discuss the work to be created. Cost estimation is done from collecting, analyzing and preparing projections, anticipation and overview of costs to be incurred. All project costs are estimated in preparing bids for the entire project down to unit costs. The project budget is the first step and is the basis that is used as a reference for cost control. Project estimates are prepared by a team headed by the Project Manager (PM). In this activity, the researcher did not find a cost budget used at the project briefing which was charged to the price charged to the project, the meeting fee was charged to the company. This activity only embodies the project target and the formation of a work team that will be submitted to the client and the client's

wishes. The estimation and difficulty of the art objects to be assessed after the project briefing activity.

Model Selection

In this activity, the project team proposes several project design models that will be evaluated together. These estimates are as detailed and accurate as possible. Design models are developed using project documentation while detailed costs are prepared using drawings and specifications. Semi-detailed cost estimates are used that are high priced and high quality and have elements of both conceptual and detailed estimates. Next, the team quickly develops a preliminary budget from a series of drawings or designs to quantify the cost elements and determine whether the project is profitable or not.

In determining the value of art, it is based on collective agreement and according to the researcher's observation, there is no standardized basis in calculating and determining the price. There is no objective basis for the value of art but there is still a reference that is the basis for determining art objects other than raw materials (Direct Cost). Art objects have price characteristics that are commonly used, namely technique, subject, origin, size, signature, reproduction and sales space (Susanto, Simatupang, & Haryono, 2018). The characteristics of these art objects are referred to as indirect costs by the finance department because they are indirect costs and cannot be measured visibly and can only be measured by the artist's practice and technique.

Table 1. Estimation Cost Art Contractor

No	Cost Art	Description
1	Contruction Art	Direct Cost + Indirect Cost
2	Direct Cost	Labor + Material + Equipment
3	Indirect Cost	Art Value + Home Office General Condition + Jobsite general condition

Source: Primary data processed

Based on table 1, it is known that the construction art budget estimate is based on direct costs and indirect costs. According to Holm (2019), direct costs reflect the actual cost of construction or other activities. Labor and materials can be seen during the project. Indirect costs reflect the value of art objects that have been curated or assessed by the team based on the artist's characteristics, experience and techniques. Home office general conditions are administrative expenses that have a direct impact on the project such as project manager salaries, accountant staff and others. Jobsite general conditions are jobsite conditions including security, insurance, transportation and others. According to Holm (2019), there are many ways to determine the scope of general jobsite conditions to be added to the budget estimate, namely by making estimates based on previous work experience or information from colleagues and even clients. Although art projects are specific, the conditions can be estimated in general. Jobsite general conditions will be discussed at a later stage.

Model Operation

At this stage of the operation model, it is more elaborated on how the team works systematically so that the costs incurred can be estimated accurately. At this stage the art contractor can take a variety of different alternative approaches in the way they estimate and manage their work. Business and financial analysts at this stage will usually discuss reducing unnecessary costs and activities that cause overhead and lowering the lowest cost to increase profits. Administrative costs are calculated and operations are needed to support and cost control later in the field. At this stage, the potential of the activity elements that can cause overhead will be known so that it can be anticipated through the price offered and to maximize revenue.

Table 2. Estimation Revenue

No	Estimation	Description
1	Revenue	Cosntruction cost + Fee
2	Fee	Home office overhead + Profit
3	Home office overhead	Adimistration cost + Overhead Production Art (Material + Jam Kerja + Ekstra Cost)

Source: Primary data processed

Overhead and profit known as fees for contractors (Holm, 2019). Some of the costs in administrative costs that are usually included include: scheduler, estimator, safety inspector, accounting and audits costs, preconstruction services fees or costs. Management of home office overhead is the responsibility of the CFO and CEO. The project team operation model results will focus on production costs and the home office team will use the plan or operation model as a cost control. The lack of understanding or perspective between the team in the field and management is a source of failure in optimizing profits (Holm, 2019). Production cost art is a cost that is charged due to the production factor of art objects. Rationally, the pricing of art objects is material plus labor hours and extra profit, this system is considered the most flexible and measurable (Susanto, Simatupang, & Haryono, 2018). In the extra-profit art contracting industry, the cost is assessed based on experience, technique and whether or not the artist who created the art object is famous. Although the extra profit is indeed irrational in management and accounting because it does not have a definite size, the practice of pricing art objects has generally occurred.

Model Output

This stage is the stage where the design, field team and cost budget will be completed and have a relationship with each other in the sense that the job desk of each financing element is correlated and rationally acceptable. The contractor will connect and communicate the design with all company stakeholders. This stage also evaluates the financing that will be carried out and also the taxes that will be charged on the price that

will be offered to the client. The company's net profit is calculated after all financing elements are deducted with taxes. The final price that will be offered will be added to the cost of taxes that are generally charged to the client.

Table 3. Estimation Net Profit

No	Estimation	Description
1	Construction Art	Direct Cost + Indirect Cost
2	Fee	Home office overhead + Profit
3	Net Profit	(Gross Profit + Price Policy) - Taxes

Source: Primary data processed (Calabrese & Francesco, 2014)

Evaluation in this process is more frequent because company owners and stakeholders will discuss more often to get a rational and attractive price for clients.

Price Advice

The Price advice stage is the provision of policy in making the final decision on pricing based on the agreement and rationality of the project work to be carried out which is based on the calculation of the previous stage. Price Policy in management has a role to influence the profit to be achieved, the marketing department will provide advice which will later become a mark-up price by adding a percentage to each financing element. Furthermore, art objects will use the cost plus method which is used to determine commodities that are difficult to set the base price.

Final pricing has few fundamental obstacles, for effective decision-making in the price management process is its organization. Often in practice there is no clear concept of pricing strategy, the final decision-making has individual steps in this stage. The decision-making process should ensure functional elements in coordination with management (Remenova & Kintler, 2015).

CONCLUSION

The pricing decision-making process in the art contracting industry has several stages to estimate project costs as a basis for making decisions to determine the final price. The process in estimating prices is carried out by the project team and will later be approved by central management. Each stage of the process correlates with one another and will reveal the costs of the project. The valuation of the art object is added to the project cost based on the artist's skill in making the art object. Each project will have a different value that is tailored to the artist who made the work on the project.

In this study, it was found that the pricing decision-making still had individual steps that should have been made in coordination with management. This causes differences in views with management, especially the marketing department which must then determine the right pricing strategy for final pricing.

The research is only limited to the cost elements that influence pricing decisions in the art contracting industry based on the stages of cost estimation. Future research is

expected to dissect cost elements with other methods and pricing strategies.

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