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Pricing Strategies Evaluation in Radio Industry's Firm (Case Study at PT XYZ)

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Abstract: The purpose of this research is to analyze the pricing strategy and product prices that can be applied by PT XYZ. The method used is qualitative research. The study concluded that the pricing strategy that should be applied by PT XYZ is value-based pricing strategy. By using value-based pricing, the company will have a better understand of client's current conditions, and can fulfill client requests depending on their budget for promotion. In addition, by using value-based pricing properly, will result in increase consumer loyalty increase to the company. The minimum price that PT XYZ can offer for spot products is Rp 44,221 and Rp 27,507 for adlibs products. PT XYZ can also provide advertising packages that can match according to the client's budget, starting from IDR 1,000,000.

Keywords: Pricing Strategy; Price Determination; Value-based Pricing.

Introduction

Increased competition in the radio industry forces companies to develop their businesses to appeal to consumers. Not only creating the latest innovations, to get maximum profits, companies must be able to reduce company costs. Not only competing with similar companies, companies engaged in the creative industry have many types of challenges from various other forms of companies, which were formed due to the rapid development of technology today.

As for other forms of company that become one of the competitors that are considered quite heavy are companies engaged in streaming platforms such as Spotify, Apple Music, Joox and others. Easy access to streaming platforms certainly attracts millennial interest. Streaming platform users have many choices of song banks owned by companies that can be played freely. In contrast to the radio the song has been arranged by the music director by the company, so listeners must follow the song choices of the radio company. McIntyre (2016) states radio still has a "heart" in its listeners. In 2018, audiences in Indonesia spend approximately 2 hours 11 minutes listening to the radio in their spare time (Nielsen in Fajar, 2019). Is in the third position where television is still ahead with 4 hours 53 minutes, and the Internet with 3 hours 14 minutes.

The high level of listeners attract other companies to market their products on radio in the form of advertisements because radio is still considered to have a high enough market and has a wide and diverse audience coverage. Especially in areas where the internet is not yet stable enough to stream. Besides radio also has a fairly broad coverage.

PT XYZ has been established for more than 25 years, with a target audience of 18-25 years SES ABC (Nielsen), so far it has been able to attract quite a number of listeners from almost all walks of life, from students to office employees. Because of the good reputation, the company has become one of the media targets chosen by other companies to market their products through radio advertisements.

Through initial interviews conducted with PT XYZ, advertisements offered by PT XYZ are quite diverse and have the usual radio standards, such as Spot, Adlibs, to talk shows. In determining the price of advertising, PT XYZ uses an estimated percentage of the price of the price of the company in another city and ensures that the quality of the company is the same as that of the company. So far, PT XYZ has never taken into account the costs spent on producing these advertisements.

Advertising is a huge income for companies in the radio world (Morello, 2019). So when companies misstate pricing policies, and without calculations, there will be problems that can occur. One such problem is the lack of resources used by companies to pay business-related costs, such as salary costs. Delay in payment of salary makes some workers look for additional work that requires them to work full-time.

In recent years, companies have experienced a decline in advertising demand. This is due to the presence of companies entering the PT XYZ market. PT A is a subsidiary of a network group with a big name in Indonesia, especially in Jakarta, so advertising sales are not the only income from PT A, but they get additional income from the holding company in Jakarta. Because advertising is not the only income received by PT A, it makes PT A offer a much lower price than that offered by PT XYZ, so clients who have been advertising for PT XYZ will be interested in moving to PT A. This causes PT XYZ is no longer a market leader in that market.

PT XYZ at the time of determining the price, does not calculate the costs that must be incurred to produce and run services. The company uses a percentage calculation that refers to companies in other cities, assuming that the products produced and the resulting feedback will be the same. So in determining the price, the company does not consider the costs to be paid.

In general, target costing is applied to companies engaged in manufacturing or production. In this study, researchers will classify the costs that can be included in the cost of advertising production at PT XYZ and perform target costing calculations for companies in reducing costs that must be incurred by companies in producing. After that, together with management, the researcher will discuss the target pricing in accordance with

the company and competitors in the same market, in the hope that prices that will later be given to outside companies will be interested in advertising in the company. In addition, this research will not only look at the condition of the company, but will provide a view of the consumer or client.

To determine prices of advertisement, Putry (2017) used Activity Based Costing and divided the overhead costs by minutes. After that she compared the calculated prices to the current prices used by the company to see if they make profit or not. Budiarto (2003) on his research on evaluating price determination using cost-plus pricing method found that cost-plus pricing with full costing method is fit to a company that run in radio industry and there is no significant differences between the current prices used by the company and the cost calculated on research.

This study aims to cover research gaps from previous studies. In which the research before just using any one of three pricing strategies, research it will use a three- pricing strategy that is cost-based pricing, competitor-based pricing and customer's value-based pricing. Research conducted to determine the strategy of the price of a service that is offered by XYZ or companies alike. The study is expected to be a reference for companies similar in the conduct of fixing the price of a product or service.

Literature Review

Price Determination Theory

Kahn (1984) states that, in the long run, prices are determined by the interaction between aggregate demand and aggregate supply in the long run, whereas aggregate demand has an interrelated relationship between prices and output levels that indicate a combination of prices and output. Whereas the aggregate supply estimates the number of products offered shows the amount offered at each compilation price of all fully employed resources.

The level of output is determined by the natural level which consists of labor force size, labor market structure, technological conditions and other factors that are not common regarding macroeconomic models (Kahn, 1984). PT. XYZ is engaged in advertising services. In addition to advertising, the company also offers advertising production services. Client request for advertising Indicates a request for advertising. In determining prices, companies need to do price calculations to determine the costs required to supply supplies to clients.

Sheng (1993) states that there are two stages to solving the pricing problem. First check how much the price is determined and then he has a full analysis instead of the price that is determined to be reasonable, correct and radional.

Pricing Strategy

Pricing Strategy is a policy adopted by a company to determine what will be charged for its products and services (Sammut-Bonnici & Channon, 2014). The price set by the company will be one of the company's attraction to attract clients to use the company's services and products.

Hernandez & Esteban (2011) states that the existence of a strategic relationship between sellers and service recipients encourages companies to ask for high prices for advertising services, thereby reducing price competition between companies. Fader in Griffith & Rust (1997) suggests four keys to price. First, cooperative prices are prices that maximize the combined profits of the three companies if they work together. The second is a two-person cooperative is a price that maximizes the profits of two of the three companies from two companies choosing the same price. Furthermore, independent prices maximize the price offered by other companies. And finally the envious price is the price that maximizes the difference between company profits and other individual profits.

Hinterhuber (2008) categorizes pricing strategies into three categories, cost-based pricing where prices are determined by the costs incurred by companies to process an item or service. Second is competition-based pricing, the price is determined by existing market prices that come from competitor companies. And the last category is customer value-based pricing, where prices are determined based on demand from consumers.

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Cost-based pricing or cost-based pricing approaches determine prices primarily with data from cost accounting (Hinterhuber, 2008). An example of using this strategy is pricing using the cost-plus, mark-up and target-return pricing methods. These three strategies use the cost of production or service costs carried out by the company and added to the expected surplus to produce prices to be offered to consumers. This research will use cost plus pricing in calculating the price set by the company.

Hinterhuber & Stephan (2012) states that although using this strategy will be easy because the data will be easy to collect, this strategy also has shortcomings. The main weaknesses of using this strategy are aspects related to demand (willingness to pay, price elasticity) and competition (competitive price level) tend to be ignored. Omar (1997) states that before a new car is launched, senior managers must determine the ideal selling price, determine eligibility to meet that price, then control costs to ensure that the specified price is met. Prices are determined using target costing. The formula of Target Costing is as follows:

$$S_{cp} = C_{cp} + P_{cp}$$

 S_{cp} : selling price

 C_{cp}^{T} : expected production cost

 P_{cp} : expected profit margin

Price strategy with competition-based pricing, the price is decided to be relevant to competitors. Such a method might apply to medium-sized companies that compete with competitors with high shares (Sammut-Bonnici & Channon, 2014). Morgenroth (1964) once stated below in the field of marketing, the thing that stands out is the possible defense against charges of collusive pricing. insight into the company's own pricing practices and competing practices must be obtained. Morgenroth provides advice to improve management training especially regarding understanding of the nature of local markets and the interaction of market characteristics with organizational variables can be realized.

Customer value-based pricing is positively correlated with the success of new products, whereas no correlation is identified between the success of new products and the adoption of cost-based pricing and competition. The authors conclude that Customer value-based pricing as a whole is the best strategy to be adopted in making decisions about pricing new products (Hinterhuber, 2008).

Johansson et al (2012) argued that implementing value-based pricing is largely a process of building price capabilities in general with all the challenges. Johansson et al also stated that price setting is the effort of the organization or company, so that when the company has understood and realized that price setting is the effort of the organization, routines, processes, and capabilities of the company, it becomes a fundamental factor in being able to set the right price.

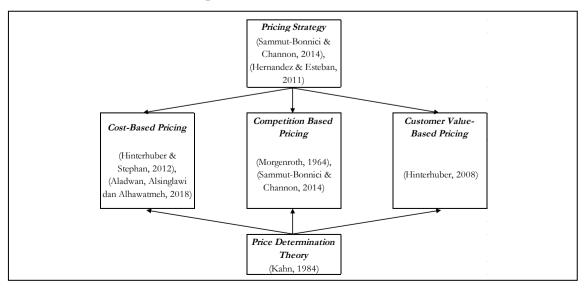


Figure 1. Research Framework

Methods

Research Design

This research is a type of case study research. Case studies are qualitative research designs conducted by researchers to explore an activity or process in depth to solve problems or phenomena that exist on one or more objects (Creswell, 2014). In case studies, researchers find problems, and gather information using available procedures to collect data needed by researchers in conducting research. This research was conducted to solve existing problems in the radio industry in determining the right pricing strategy. The problems faced by PT XYZ were collected and analyzed and evaluated the current strategy.

Research Instruments

This research will use Primary and Secondary data. Primary data is data that is directly taken by investigators while the data Secondary is data that is not taken immediately or is already available for study. The research instruments that are used by the research in the form of an interview with the XYZ General Manager, Financial Manager, and Marketing Team. While for Secondary data research this will require the XYZ Financial and Standard Operating Company Reports, a list of assets owned, as well as the price list that is applied by XYZ and the market price when it applies.

Interviews were conducted will be semi-structured. Semi-structured is the interview conducted to explore information with a question that is open-ended. Where the questions have been prepared, but don't close the possibilities of the supplemental questions who dig the information more in like the question why or how (Adams, 2015). In addition to XYZ research, research is also going to discuss about the perception of consumers to price the products that are offered in the company 's. Interviews were conducted with 23 companies that had marketing their products or businesses on the radio.

In addition to interviews, research will also be conducted by analyzing secondary data using content analysis techniques. Content analysis is a technique of research that is done to make conclusions were derived from data collected (Krippendorff, 2004). The data obtained is used for content analysis can be in the form of visual representation and written data. The research is going to focus on the XYZ financial statement, a list of salaries and load as well as the rate card or list price that is offered by XYZ.

The technique of analysis that is used in research this is the Content Analysis. Content analysis or analysis of the content is done to check the data, either in the form of printed data, images, or sounds-texts are made to understand the contents of the data are and understand what people are certain to understand and what they are doing to prevent as well as information about what they convey (Krippendorff, 2004). Krippendorf also stated that the questions are not a question that can be answered by scientists, so the question is only to be answered by those who have studied the organization of the.

The analysis is done by using the information that is collected as a Statement of Financial Companies. The data collected from reports of financial will be used to calculate the price

that has been applied at the company and how prices are supposed to apply. Furthermore, interviews were conducted with several company instruments. Interviews in the record for purposes of playback and analysis with the knowledge and consent of the parties that in the interview, results of interviews are obtained will be in the analysis, and will be included in the study is in the form of a narrative.

After completing the interview with the company, things that subsequently do are collect the price of advertising kind of company that is in the city where XYZ is and has a target audience the same. Data that will be compared with the price that is offered by XYZ. And the last is doing a survey to several companies that are being or ever put on the radio. The survey was carried out online through the short interview and is intended for marketing, advertising, finance, up to the manager teams. From 23 types of businesses, there were 165 respondents who had filled out the questionnaire.

Unit Analysis

PT XYZ is a company engaged in the creative industry led by the General Manager and is under the command of the company's director. General Manager oversees several sections such as Music Director, Marketing, Station Manager, Finance Manager and Program Director and Off Air Manager.

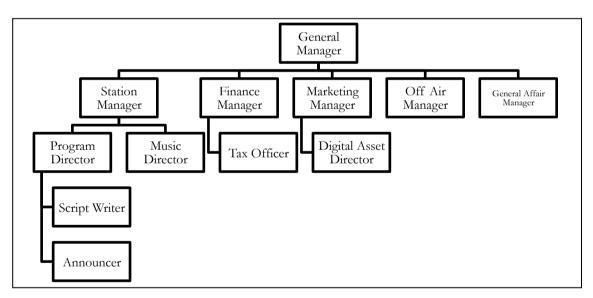


Figure 2. PT XYZ Company's Structure

Pricing applied by PT XYZ follows the prices applied by other similar companies with a percentage system. For example, PT Y's company set Rp. 500,000 for one run, PT XYZ will set 25% of the price so PT XYZ will set Rp. 125,000 for one run. PT XYZ determines this price with the assumption that the quality they have is the same as the quality given by PT Y.

The number of staff owned by PT XYZ is 19 people. The company has flexible working hours, where staff are allowed not to come to the office, with the record that all work to be done is complete or not interrupted. All employees are given leeway, because almost all

employees have jobs other than on the radio. This does not apply to some positions. For example, such as a telephone operator who also doubles as a receptionist who has to work in accordance with the shift hours set by the company. If unable to attend, then they must find a replacement first before applying for permission.

In addition to staff, PT XYZ also has 19 announcers, where they are paid using hour calculations. The amount of wages paid per hour is different. Depending on the level they have now. Wages are given starting from IDR 8,000 to the highest is IDR 15,000 per hour. As with staff, announcers do not have to always be in the office. They must come at least 30 minutes before the program they will carry out begins.

It has been established for more than 20 years, so far PT XYZ applies prices by following the prices applied by other similar companies with a percentage system. For example the company PT. Y sets Rp. 500,000 for one broadcast, then PT XYZ will set 25% of the price so that PT. XYZ will set IDR 125,000 for one broadcast. PT. XYZ determines this price with the assumption that the quality they have is the same as the quality given by PT. Y.

Findings

From the results of interviews were conducted with the Finance Manager of PT XYZ, as long as these companies sell advertising at prices that equal the price of which are sold by companies similar to others who are in town another much more great. XYZ admitted that the company has the level of quality of the product or advertising is similar to the products that are sold in other regions. During these companies successfully marketed with the better, up to the year 2016, there were new company competitors which were part of the Group's network of other kind of regions companies. Companies that belong in a group, so that the sources of financing of companies not only come from the local, but get an injection of funds or additional funds from the network are.

The presence of additional funds that creates revenue that is needed by competing companies is more slightly. It's led to the company's competitors suppressing the price of advertising is far below XYZ. Seeing their prices are much lower, the client began to glance at the company's competitors.

According to an interview with the General Manager of XYZ, the company competitors have a quality that is far different from that during this offered by XYZ. With a price that is much more lower than that offered by XYZ, the company's competitors tend to be more attentive to the quantity of advertising that entry rather than the quality of the entry. In other words, do not there is the filter that is done by the company's competitors. Besides that, in its presentation, the company's competitors do not pay attention to the quality or output of advertising such.

An interview with the Marketing Manager stated that companies usually provide unit prices in offering advertisements to clients, but companies can also make package requests according to client needs. The same thing is done by competing companies. However, the price that is offered by the company's competitors for the package they offered will force PT XYZ to lowered their price. This price competition made PT XYZ lost some of its clients. Clients tend to choose competitors because the price is cheaper. Not only the problem from similar competitors, PT XYZ also has competitors engaged in a very different field like social media. The rise of social media's celebrity affects demands of advertisements.

In this study, there are two companies engaged in the same field as PT XYZ and are in the same city and have the same target audience, namely PT A and PT B. PT A is a company that has just been established for less than 10 years and is a subsidiary of a large group company in Jakarta. The income obtained by PT A is not only sourced from advertisements, but also comes from the parent company. While PT B is a company that has a network, but the main income comes from advertising sales made by radio. The comparison of advertising prices between the three companies is as follows:

Table 1. Comparison of Advertising Prices				
Ad Type	PT XYZ	PT A	РТ В	
Spot	IDR 200,000	IDR 150,000	IDR 200,000	
Adlibs	IDR 250,000	IDR 240,000	IDR 200,000	
Semi Blocking	Rp. 2,900,000	Rp. 4,200,000	N / A	
Insert Quiz	IDR 850,000	IDR 540,000	IDR 500,000	

In this research, the main focus of costs and prices calculation of costs and prices is spot, because the spot is a product that becomes the source of the greatest funds from advertising, and led to charges that are big compared to other products because of their production of the spot that is done by the company. To calculate the cost that is incurred by XYZ, the cost is divided into two parts, direct costs and indirect costs. Direct costs that were issued by XYZ for product spots is as follows:

Table 2. Direct Costs				
Production Man	Rp	1.100.000		
Voice Talent	Rp	450.000		
Operator	Rp	2.904.750		
Traffic Man	Rp	1.680.000		
Broadcast License	Rp	2.800.000		
Total Direct Cost	Rp	8.934.750		

Apart from direct costs, there are other costs included in indirect costs. The indirect costs incurred by PT XYZ are as follows:

Table 2. Indirect Costs				
Marketing	Rp	2.366.000		
Electricity	Rp	9.042.876		
Water	Rp	819.250		
Announcers Wages	Rp	3.726.500		
Staffs Wages	Rp	13.348.750		
Office Equipments	Rp	804.750		
Other Expenses	Rp	3.840.757		
Biaya Adm Bank	Rp	100.000		
Total Indirect Cost	Rp	34.048.883		

In one day, PT XYZ can play up to 24 spots, with 6 spots in prime time and 3 spots in regular time. Within 18 hours of on air, PT XYZ has 2 programs at prime time (6am - 10am and 3am - 6pm), and 4 programs at regular time. So the calculation of spot costs is as follows:

Spots Costs Per Day=
$$\frac{\text{Rp 8.934.750} + \text{Rp 34.048.883}}{30 \text{ Days}} = \text{Rp 1.432.788}$$

Spot Costs Each=
$$\frac{\text{Rp 1.432.788}}{24 \text{ Times}} = \text{Rp 59.699}$$

Furthermore, these costs are added with an expected margin of 25%, so the prices that can be offered by PT XYZ in accordance with the target pricing formula are as follows:

PT XYZ will provide an additional bonus for the marketing team that successfully gets clients with a magnitude of 10% of the total payment received. If entered into the formula, the price that should be offered is:

From the price offered by PT XYZ at this time, to get a margin of 25%, PT XYZ can reduce the spot price to Rp 117,913 so the price will be Rp 82,087 for one spot. This price is of course a basic price and does not include tax costs paid by the client.

In offering products, companies generally will offer package prices consisting of spots, adlibs, social media exposure and spot production. The price offered is different, but requires the company to make a substantial price reduction. PT A, which has other sources of income apart from advertising, offers package prices that are far below the prices offered by PT XYZ. In addition, PT A also offers price flexibility, where clients can submit company promotion budgets and PT A will make packages according to the client's budget. This policy has not been implemented by PT XYZ. So even though the company has offered a lower price compared to the unit price, the company will still lose money. The illustration of package prices offered by PT XYZ are as follows:

Table 3. PT XYZ I	Radio Advertising	Offer Package

Units	Qty	Days	Price	Package Price
Spot	3	60	Rp 200,000	Rp 10,000,000
Adlibs	3	60	Rp 250,000	Kp 10,000,000

The package price offered by PT XYZ is certainly far below the unit price offered previously. If calculated with a minimum price (IDR 59,699), for 180 spots, the required cost is IDR 10,745,820 and does not include other production costs. To cover this loss, of course, companies must have a strategy to reduce costs. Adlibs in a radio do not require significant costs, because the costs needed will be met, if all slots for spot advertisements are met. So with IDR 10,000,000 for 180 spots, the expected spot unit price is IDR 55,556

(rounding IDR 55,000) and the expected profit is 25%, the target costing calculation is as follows:

So to be able to fulfill client orders, companies must be able to reduce production costs by Rp. 15,699 for 1 spot, or by Rp. 11,303,280 per month.

The results of interviews with PT XYZ, the company is currently setting prices by using estimates of the similarity of quality and price, so that the company cannot determine the costs that must be paid to run the company. So when there are competitors who sell prices far below the price offered, making the loss of the quantity of consumers who prefer to market advertising at lower prices.

At present, PT XYZ sells spots with an expected margin of more than 25%. Even the price offered by the company is twice the cost required to sell the spot. Because at the beginning of the price determination the company does not use target pricing, so the price offered is not accurate and tends to be too expensive.

When PT A entered the same market as PT XYZ, PT A was able to sell the spot at a price far below the price offered by PT XYZ. This is because there are other sources of income owned by PT A, so the company does not rely on spot advertising to run its business. If PT XYZ uses target pricing, PT XYZ, which was previously a market leader, can maintain its current price and until 2020, PT XYZ will still be able to compete with the price offered by PT A.

The flexibility program offered by PT A can also attract client interest. Not only clients who have a big enough name, such as state-owned companies (Pertamina, Telkomsel and others), but also can attract the interests of Micro, Small, and Medium Enterprises (MSME) workers.

In addition to conducting interviews with service provider companies, researchers also conducted a survey of clients who had or were marketing their products on the radio. From a total of 18 businesses conducted by the survey, as many as 13 clients stated that the company's priority in marketing products on the radio was received feedback, 3 clients prioritized ad quality and 2 clients who prioritized the price offered. So, the price is not the only determinant of the company to market its products on the radio.

PT XYZ must establish a pricing strategy based on cost-based pricing, where prices are offered by companies' use costs plus expected profit calculations. So the price offered by PT XYZ illustrates the company's financial conditions at this time, so the income received will be in accordance with the costs incurred by the company.

Not only price, the company must also convince clients to market their products on the radio. Companies must ensure the quality provided to clients is good and even though they are sold cheaply, the quality they get is very good. The quality is not only the quality of the product or service, but also the quality of service provided to clients. Service provider companies cannot guarantee whether the products of these clients will sell quickly if they are marketed on the radio. Because the product will sell if someone wants to buy the product and the radio is only an intermediary between the buyer and seller, so the target

that must be applied by the ad service provider company is the engagement obtained by the client. Radio is a seller channel to introduce its products to the public so that people are aware of the products sold by clients.

Through interviews conducted with some of these consumers, found an alternative to radio to market their products. One of them is social media. Social media has become one of the cheap marketing places and even tends to be free, with social media, companies can themselves manage what content should be promoted on the company's social media pages.

The rise of the use of social media is accompanied by the rise of influencers or known as celebrities, who are social media users who have a large number of followers. When they have a large number of followers, they will open promotional services such as paid promoting or endorsement services. The price offered also varies, depending on the number of followers on social media. Because feedback is one of the concerns of companies in marketing their products or businesses, social media is considered as one of the very interesting media to choose from. Because of the number and variety of influencers, it is easy for companies to choose which is more suitable to be chosen as an endorser or influencer to promote their products or businesses.

Conclusion

Problems arise at the moment there are competitors at the market that have access to what is not owned by PT XYZ, which is funding outside of advertising. Before the companies that sign, XYZ is a company that is highly in demand by clients. So that at the beginning of the determination of the price, which the company is a market leader, the company should use targeted pricing in determining the price, so that when there are competitors just who has the option of funding the other, they will set a price that is not too far from the market leader. Besides that, the presence of target costing, can assist companies in determining how large the costs that can be cut, so that the company can be more efficient than before.

At present there are several things that can be done by PT XYZ or companies that experience the same problem, such as:

- 1. Doing the calculation of target costing, so the company will know the amount of cost that was issued for a product or service.
- 2. After getting the calculation of costs, companies have to look back expenses which if stopped is not going to nearly the performance of the companies mentioned, so that the company can be more efficient.
- 3. Doing the calculation of the target pricing to determine the price and determine whether the price has been in accordance with the conditions of the company and the market currently is. By using target pricing, the company will know the actual prices that can be offered by the company.
- 4. Looking for alternative funding, so companies don't just rely on advertising as their only income. XYZ can hold firm clients to do the work together to produce an activity promotion, for example, product placement or distribution of sample products, so that the client will get the benefits not only through radio advertising, but also using other media such as offline events.

5. Companies must be able to keep up with technological developments. The use of social media that is good and effective, can be an alternative source of income for the company.

As some limitations in the study of this are as follows:

- 1. Research is conducted in areas in Indonesia where only there is little radio with the same target audience. So that the study was not able to do with a scoop which is great.
- 2. The data obtained are still there are many shortcomings, so it is quite difficult to collect all of the time that is very short.
- 3. Report of Finance which is given in the form of cash in cash out so as to be in the sorting and formed into financial statements are complete in accordance with the rules that apply. It is certainly slow down the research because the data is not able to be quickly withdrawn and if after receipt at the researchers.

For further research in order to conduct research in big cities that have many radio industries with the same target audience, especially in Java with companies that have bigger scoop. This research focuses on two types of pricing, cost-based pricing and value-based pricing, so that other types of price determination can be added, so that they are not only seen from two types of pricing, but by adding other pricing. And finally, further research can add another disruption related to pricing in the company.

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