

Preferred Pricing Technique Used in Tourism Small and Medium Enterprises in Badung, Bali, Indonesia

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Preferred Pricing Technique Used in Tourism Small and Medium Enterprises in Badung, Bali, Indonesia

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Abstract. This research aims to examine various pricing techniques used in 3 types of tourism small and medium enterprises (SMEs) as well as to identify dominant techniques applied in support to sustainable business and tourism. The method used is qualitative method by means of interviewing pricing decision makers in tourism SMEs in Badung regency, in Bali. The results showed that there are 5 techniques used by Tourism SMEs, in Badung regency; among those, 2 pricing methods are dominantly used, these include: the accommodation and transportation businesses are more dominant in using competitor-based pricing techniques, whilst for restaurant business generally using cost-plus pricing techniques. Except for the motor/car rental, which has methodically assessed the financial sustainability of the business by devising 'breakeven point' pricing technique, the others still use a traditional way of common sense and gut feeling in assuring the sustainability of the business and the return of the investment. 'Competitor-based pricing' becomes the most preferred technic of tourism SMEs, however entrepreneurs should also apply long-term oriented pricing that ensure the profitability and sustainability of the business, as well as deliver value for customers. 'Value-based pricing' is practiced by one business respondent – an accommodation provider. This could be used as a reference by other tourism SMEs, as this shows customer orientation and uses quality as an advantage to compete and survive. To be able to operate in this domain tourism SMEs need to offer quality products, have customer service orientation and use them as a 'competitive advantage'. The research results could become a reference for tourism SMEs in setting prices for sustainable enterprises. Academically, it will enrich the knowledge about tourism that related to product-costing particularly in tourism SMEs.

1. Background

Small and medium enterprises (SMEs) experience many obstacles in running the business due to various limitations. The constraint is also faced by tourism SMEs. These limitations include: lack of capital [1], lack of competence of the tourism supporting human resources [2], inaccurate market targeting that causes less focus on promotional activities [3], less understanding of the characteristics Alternative tourism [4], which otherwise provides feasibility for the growth of tourism SMEs. Getz and Carlsen [5], argue that tourism SMEs prioritise family needs over business growth and profit maximisation. The fact that the role of small business remains significant in supporting tourism [4], although the role of large-scale business in the field of tourism is growing today [7]. Whilst, the



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Australian tourism and hospitality industry comprises of at least 80% small businesses, [8]. SMEs in Indonesia are very supportive to the government programs in terms of creating new jobs. SMEs are also created many new work units that employ fresh graduates that support household incomes. Small and Medium Enterprises (SMEs) have an important role in the Indonesian economy. Due to SMEs, unemployment due to the unabsorbed labor force in the workforce is reduced.

A tourism expert [9], in his study conducted in the early phase of the proliferation of tourism in Bali, found that the development of small-scale tourism is more appropriate for Bali because the income will be received directly by local people and the practice is aligned with Balinese traditional culture. One major obstacle to SMEs is the pricing of products offered which does not methodically take into account business sustainability [10], as stated by Ernawati [11] 'A case of low quality product packaging and pricing was provided by Baum [10], who stated that in some Asian developing countries, locals offer accommodation for as little as seven dollars per night. This small amount will not allow economic returns in the destination'.

Pricing that considering long-term and short-term needs will result in a rational product price, which will prevent price wars which ends in very small margins. This, in turn, caused Bali as tourist destination to be sold at a very cheap price and invite low budget tourists to come, then the tourism businesses in Bali are required to increase the volume of tourist visits to reach the targeted sales and profits. Large volume of tourist visit can adversely affect the quality of tourism in Bali and the life quality of local people because the carrying capacity was overlooked. Given the parentheses of problems caused by product pricing, it was identified the need for a study of pricing on tourism small and medium enterprises in order to identify pricing methods that support business sustainability and tourism industry in general. The study raises the issue: what is the pricing method applied by SMEs in tourism sector in Badung regency, Bali? Which pricing techniques that can support the sustainability of SMEs in the context of sustainable tourism? The purpose of the study is to examine various pricing techniques on SMEs in tourism and to identify appropriate techniques to be applied for the sustainable of tourism. It is expected that the results of the research could provide input for SMEs in setting prices for business sustainability. As argued by Tinsley and Lynch [17], that research on SMEs particularly in the aspect of SMEs networking is still underdeveloped; academically, the research result could enrich the knowledge about tourism SMEs, particular on product-costing.

2. Sustainable Tourism

Sustainable tourism becomes an implementation form of sustainable development promoted by the United Nations, of which four basics include [13] :

1. Holistic planning
2. Preservation of vital ecological processes
3. Urgency in protecting heritage and biodiversity
4. 'Progress' should be understood as productivity and the sustainability of future generations.

Furthermore, the principle is implemented in the field of tourism. The UN World Tourism Organization (UNWTO) defines sustainable tourism 'Tourism that takes full account of Current and future economic, social and environmental impacts, consider/anticipate the needs of visit, industry, environment and host communities' [14]. The development of tourism in Indonesia is based on the Law of the Republic of Indonesia Number 10 Year 2009 on Tourism which among other things mentioned:

That the state of nature, flora and fauna, as a gift of God Almighty, as well as the ancient relics, heritage, art and culture owned by the Indonesian nation are the resources and capital of tourism development for the improvement of prosperity and welfare of the people as contained in Pancasila and the Preamble of the 1945 Constitution of the Republic of Indonesia.

UNWTO [14], explains that Sustainable tourism in its implementation covers three aspects, namely:

Society, Natural Environment and Economy. One important aspect is the economic aspect. The sustainability of tourism in the economic aspect is determined, among other things, by the availability of employment in the field of tourism for the local people [16], the low level of revenue leakage sourced from tourism, and the business with sufficient profitability in short term as well as long-term return on investment, as well as contributions to the development of Public facilities as well as infrastructure, [16]. Business practices that provides enough profit is one of the issues that need prime attention in order to achieve the goal of tourism development which are the prosperity of local communities and the sustainability of tourism. One aspect that significantly affects the level of profitability is a comprehensive pricing method applied for products offered.

⁵Based on the Presidential Decree no. 99 Year 1998, Small and Medium Enterprises is defined as: "Small-scale economic activities of the people within the business fields that are small business activities in ¹¹major and need to be protected to prevent from unfair business competition'. The Indonesian Central Bureau of Statistics (BPS) defines Small and Medium Enterprises based on the quantity of manpower employed. Small-scale business is a business entity that has a workforce of 5 to 19 people, while medium-sized businesses are business entities that have a workforce ⁶ 20 up to 99 people. Based on the Decree of the Minister of Finance No. 316/KMK.016/1994 dated June 27, 1994, Small and Medium Enterprises is defined as an individual or business entity that has undertaken business ³ activities that accrues sales or turnover as high as Rp. 600,000,000 per year or assets as high as Rp 600,000,000 (excluding land and ⁶ occupied buildings), which consists of: Business are (Fa, CV, PT, and cooperative), Individual (craftsmen/home industry, farmers, ranchers, fishermen, forest encroachers, miners, merchants of goods and services).

Pricing is very important, because it does not only affects the profits to be achieved by a business entity, but also determines the survival of the company. In a narrow sense according to Kotler (in Nehen [17], price is the amount of value imposed on goods or services, in a broader sense it is defined as the amount of value exchanged by consumers to the benefits derived from the ownership or use of products or services. Further explained, some objectives of pricing that are influenced by business conditions at one point of time are: Company survival, Maximising profit, Leadership in market share, Leadership in product quality, Stabilising the price, and Increasing the sales. Kotler also put forward several approaches that can be used in pricing, these include:

1. Cost-plus pricing

Cost-based pricing is often called cost-plus pricing. The basic principle of standard product pricing is: the price should be sufficient to cover all costs and is able to generate profits in the long run.

2. Analysis of break-even point pricing with specific profit targets.

Price is determined to break even with the cost of production and marketing of the product to gain a certain amount of profit.

3. Competitor-based approach

Competitor-based pricing is the price formation in overall based on the business competitors, without the consideration of cost and demand. The company determines either: the same price, higher, or cheaper than the price of its main competitor. Applying competitor-based pricing will avoid an adverse price war.

Ideally pricing technics applied for tourism products should accommodate not only the economic aspect but also the other 2 aspects of sustainable tourism which are the preservation of natural environment and socio-cultural. Tourists should be engaged and should encouraged to actively participate in the effort by paying more for sustainable products. Hasan [18], argues that sustainable pricing methods in tourism should be characterized by: (a) deliver satisfying experiences for tourists, (b) provide a satisfying level profitability for the businesses, (c) yield sufficient benefits for locals, and (d) allocating some funding for maintaining environment impacts caused by tourism.

3. Research Method

This research is undertaken with the aim to examine various pricing techniques on tourism SMEs and to identify appropriate techniques to be applied in the context of sustainable business and tourism industry. The sampling technique used is convenience sampling method with saturated sample limit [19]. The study was conducted on the scope of Badung regency to represent the tourism SMEs. The SMEs specification is businesses that have a workforce of under 99 people. Data was collected using in-depth interview to the employees [8] owners of SMEs that determine the policies or who carry out costing at the respective [14] businesses. Interviews were conducted following a semi-structured interview guideline (Table 1). The analysis technique used in this research is descriptive qualitative analysis. The analysed data is logically presented accompanied by argument; thus, a conclusion can be drawn. Data analysis is undertaken by following the steps as follows:

1. Firstly, classifying the various pricing techniques that have been recorded in accordance with the pricing techniques developed by Kotler, namely: Cost-based approach, Breakeven Analysis, Competitor-based approach, and the remaining techniques are identified.
2. Furthermore, the various techniques are analysed considering the sustainability of the business within the context of tourism industry; therefore, the most appropriate method could be identified.

Table 1: The Interview guideline

No	Questions	Responses
1	Lodging/Homestay A. How to set room price per night B. Whether the pricing could provide profit for the business to survive.	
2	Restaurant/Cafe A. How to set the food price per portion B. Whether the pricing could provide profit for the business to survive.	
3	Transportation – car/motor rental A. How to set the rental price per hour or day B. Whether the pricing could provide profit for the business to survive.	

4. Results and Discussion

The research undertaken aims to examine various pricing techniques on tourism SMEs and identify appropriate techniques to be applied in the context of sustainable tourism, using a sample of 50 business units with profiles presented in Table 2. After data classification and analyses, the results show that the pricing methods applied by SMEs business practitioners in the field of tourism varies among individual businesses and among type of businesses. The analysis result in the form of a variation of pricing method applied in tourism SMEs can be seen in Table 3.

Table 2: Sample profile

No	Business field	Total respondents
1	Accommodation	15
2	Restaurant/food outlet	15
3	Transportation – rent car/motorcycle	20

There are a total of 5 types of pricing approaches applied by tourism SMEs in Badung. Observing the results of the analysis (Table 3), in general, the most widely used technique is the competitor-based pricing approach (19), followed by: cost plus pricing (18), target profit pricing (7), Break-even point analysis (5), perceived value pricing approach (1). However, the number of SMEs using competitor-based pricing approach is almost balanced with businesses that use cost plus pricing. In general,

respondents said they already receive an adequate profit from the business and the firms can still operate and survive.

From business type perspective, the accommodation/lodging providers and the car/motorcycle rental businesses in majority use competitor-based pricing techniques, whereas, the 'cost plus pricing' technique becomes a preference for food and beverage businesses. However, unlike in the accommodation business, the difference in the use of various techniques in the car/motorcycle rentals business is not as extreme as the accommodation business. It is interesting to note that there are 5 units of transportation rental business that apply break-even analysis method, which shows that the business not only sets the profit to be gained, but also takes into account the investment payback period.

From the results, it can be concluded that the approach of 'competitor-based price' becomes a preferred pricing method of Tourism SMEs, however SME entrepreneurs should also apply long-term oriented pricing approach; thus, the business managers understand the level of profitability they are operated on and to ensure the sustainability of the business. This also allows entrepreneurs to take advantage of opportunities in applying a demand driven pricing by taking advantage the sharply fluctuating demand in tourism, and using service, offering quality products to win the competition.

The pricing approach of 'perceived value pricing', in which the price is charged based on the value received by customers, is carried out by one accommodation business. For businesses that are settle and confidence with the quality of services offered should be able to operate profitably by using this pricing approach. Tourism SMEs should strive to develop quality products and services that differentiate it from competitors and use it as a competitive advantage.

Table 3: Pricing methods applied in Tourism SMEs in Badung Regency

No	Business type	Product	Pricing method used	Total Respondent
1	Accommodation	Room rental	cost plus pricing approach target profit pricing approach perceived value pricing approach competitor-based pricing approach	2 2 1 10
2	Restaurant/ food outlet	Food and beverage	cost plus pricing approach target profit pricing approach competitor-based pricing approach	12 2 1
3	Transportation	Car/ Motorcycle Rental	cost plus pricing approach target profit pricing approach competitor-based pricing approach break-even analysis	4 3 8 5

5. Conclusion

The pricing methods applied by SMEs in the tourism sector in Badung regency, among others: cost plus pricing approach, target profit-based pricing approach, perceived value pricing, competitor-based approach (price applies), and the break-even analysis approach. There are two methods of pricing techniques dominantly used by SMEs in the field of tourism in Badung: accommodation and transportation business use competitor-based pricing techniques, whilst restaurant businesses use cost-plus pricing techniques.

The pricing techniques that could support the sustainability of SMEs in the context of sustainable business and tourism industry in Badung regency is to consider the business internal and external factors which ensure the profitability and sustainability of the business, as well as deliver value for customers. Internal factors are related to marketing objectives, marketing mix strategy, cost and organization while external factors are related to market characteristics, demand, competition, and the other environment aspects.

'Competitor-based pricing' becomes the preference of Tourism SMEs, however SME entrepreneurs should also apply long-term oriented pricing techniques, therefore business managers know the level of profitability the company operate in, are clear about the payback period, and are able to take advantage of the demand fluctuations in tourism industry.

The price that is charged based on values received by customers is referred to as 'value-based pricing' approach, which is applied by one business respondent – an accommodation provider. This could be used as a reference by other tourism SMEs, as this shows customer orientation and uses quality as an advantage to compete and survive in the industry. To be able to operate in this domain tourism SMEs need to develop quality products and services and use it as a 'competitive advantage'.

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