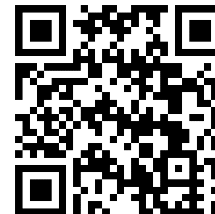


## Cost Plus Pricing as a Sustainable Solution for MSMEs Case Study: Permata Bakery Lampung



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**ABSTRACT:** This study aims to accurately determine product selling prices by calculating the cost-plus pricing method at Permata Bakery. This research uses primary data with descriptive quantitative methods. The results showed that the selling price set by Permata Bakery differed from the one the author calculated. The calculations made by the business owners tend to be lower, so the selling price of the product is lower, and the profit earned tends to be lower because the selling price of the product is not accurate. Using cost-plus pricing-based calculations, Permata Bakery's profits are expected to increase. This research will help business owners set a precise selling price to make the business profitable. The cost-plus pricing method is expected to provide sustainable profits for small and medium enterprises, which, in practice, find it challenging to increase business capital in a sustainable business effort.

**KEYWORD:** UMKM, Price of Product, Cost Plus Pricing Method

### 1. INTRODUCTION

Competition in today's business world is fierce, and many MSMEs need help to avoid the economic cycle. The number of recent innovations in the marketed products makes business people think about developing their products to sell well in the market and make the desired profits. The best effort in expanding a business is to analyze the profit or revenue generated and the costs incurred to obtain the desired profit and help sustain the business because the funds from this business profit will help the business increase the company's profitability (Warren, 2016). Expanding the business's profitability must be supported by increasing the sales of the goods or services produced. The quality of the product or service produced significantly impacts the increase in sales; therefore, it must be considered. Before determining the selling price of a product, it is necessary to calculate the cost of Production to determine at what selling price we can make a profit. According to Arif et al. (2021), the most appropriate way to calculate the cost of goods produced is to use the complete costing method because it is much more accurate in determining the selling price.

This complete costing method includes variable and fixed costs to calculate the cost of goods produced. Based on the above description, the researcher wants to examine the determination of the selling price; this is because, based on the literature study related to this research, the problem faced by the company is in determining the selling price, where the selling price is significant for the company to determine the profit. In this case, companies are often less precise in determining the selling price, so the selling price is sometimes too high or too low, which causes problems with the company's finances. To overcome the above issues, the authors researched the determination of the selling price using the cost plus pricing method, which compares the determination of the selling price with the estimated total cost. In the cost-plus pricing method, the selling price is determined by calculating the costs associated with Production and non-production by adding the desired profit value (Rizan et al., 2016). This method applies not only to manufacturing companies but also to all sectors, such as the pricing policy of pharmaceuticals using cost-plus pricing (Guideline, 2021). Based on the above background, the author formulates the problem: Calculating product selling price based on cost plus pricing in Permata Bakery. This study aims to determine the selling price of products with calculations based on the cost-plus pricing method at Permata Bakery.

### 2. LITERATURE REVIEW AND HYPOTHESIS FORMULATION

#### 2.1. Micro, Small and Medium Enterprises (MSMEs)

MSMEs are businesses that can expand the acceptance of labor in the community and increase the country's economic growth, according to the Government Regulation of the Republic of Indonesia No. 7 of 2021 on Facilitating, Protecting, and Strengthening Cooperatives and Micro, Small, and Medium Enterprises.

MSMEs in economic activities refer to the Financial Accounting Standards for Micro, Small, and Medium Enterprises (SAK EMKM) approved by the Financial Accounting Standards Board of the Indonesian Institute of Accountants (DSAK IAI) on 24 October 2016. SAK EMKM, effective from 1 January 2018, is one of the stand-alone financial accounting standards that can be used by entities classified as micro, small, and medium enterprises (MSMEs).

According to Harahap (2013: 105), a financial statement reflects an entity's operations' financial position and results at a particular time or period. There are widely known types of financial statements:

- Balance sheets
- Income statements
- Profit and loss accounts
- Cash flow statements
- Statements of changes in financial position

Research by Arif et al. (2021) on the method of determining the selling price of shoe products based on the cost plus pricing method at CV Tritunggal Sidoarjo, the purpose of this study is to determine the selling price based on the cost plus pricing method and see a comparison of the selling price set by CV Tritunggal Sidoarjo to increase competitiveness. The results showed that the variable cost approach is more effective in determining the cost of the company's orders and calculating the selling price using the cost-plus pricing method is more appropriate. The sales price using the cost-plus pricing method is lower than the price set by the company.

Meroekh et al. (2018) on determining the cost of products and setting the selling price using the complete costing approach and the cost plus pricing method. This research aimed to assess the utilization of the expenses incurred in the Production and Production of the company's products and the application of the cost-plus pricing method in setting the selling price. The result of the research is that there are differences in the analysis results between these two approaches; namely, the selling price based on the variable costing approach is higher than using full costing, but when looking at the cost of Production, the variable costing approach costs less than full costing.

#### 2.2. Cost of Goods Manufactured

The cost of goods manufactured is the total cost of producing goods completed and transferred to the finished goods inventory during a period. This cost of goods manufactured represents the total cost of goods completed in a given period (Mowen, 2006). The cost of manufactured goods is the cost associated with Production that must be incurred to process and turn raw materials into finished products ready for sale. Amalia et al. (2020) and Hamdan (2021) are in line with the research conducted by the authors that business owners still need to calculate the cost of production and selling price based on cost accounting but only follow the product's market price. The results showed that the company sets the selling price based on estimates with the guidelines of capital return and also looks at competitors' prices, so there is no specific percentage set by the company to achieve a sure profit.

#### 2.3. The Role of Selling Price

According to Mowen (2006), the selling price is the monetary amount a business unit charges buyers or customers for goods or services sold or delivered. According to Hansen & Mowen's book, price plays a vital role in the success of a business. There are several roles that price plays in the success of product marketing and the survival of a company, including

1. Price is one of the factors that determines the level of demand for a product in the market;
2. Price determines the level of sales and profits;
3. Price can influence the segment of the market that the firm can penetrate;
4. Price and pricing strategy affect the success of product distribution;
5. Price influences the implementation of sales promotion programs.

According to Toar et al. (2017), methods of determining selling prices based on costs include:

1. Cost-plus pricing method, where a certain amount (percentage) of the selling price or cost is added as profit.
2. The markup pricing method is the difference between the selling price of a product or service and its cost.
3. Producer pricing begins with a series of distribution prices set by other companies.

Meanwhile, according to Mulyadi (2003) in Meroekh et al. (2018), the selling price setting method is classified as follows:

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1. Normal pricing. Under normal circumstances, the selling price is determined at the total future cost and added to the expected profit. Determining the average selling price is commonly referred to as cost-plus pricing, and the estimation of total cost can be done with two approaches, namely full costing and variable costing.
2. A cost-type contract is a total cost in which the buyer agrees to purchase the product or service at the actual cost according to the product or service manufacturing contract plus a profit calculated as a certain percentage of the total actual price.
3. Special order pricing determines the selling price of special orders. This means that the company's orders are outside its regular orders. Regular orders are expected to cover all fixed costs incurred during the financial year.

### 3. RESEARCH METHODOLOGY

This research was conducted in the Permata Bread Factory in Bataranila. This research uses a quantitative research method with a descriptive analysis method. Namely, its implementation includes data, analysis, and interpretation of the meaning and data obtained. The research procedure refers to Warren's (2016) research, namely:

1. Collecting information about the general description of the research object;
2. Understanding the process of recording costs, determining the cost of goods produced to determine the selling price of products in the object of research;
3. Testing existing samples with the theory studied by the author;
4. Recalculate the cost of goods manufactured obtained;
5. Concluding and making suggestions for improvement that are considered necessary to overcome problems.

The data collection methods in this research are as follows:

1. Literature review
2. Preliminary survey
3. Field studies are conducted directly at the research site to obtain relevant data through interviews and data collection.
4. Electronic media

The analysis method used in this research is descriptive analysis, which is carried out by collecting and presenting calculations based on the cost plus pricing method and analyzing them to obtain a clear enough picture of the problem at hand. Then, conclusions are drawn according to facts.

### 4. RESULTS AND DISCUSSION

This research was conducted at Permata Bakery in Jalan Komarudin, Rajabasa Raya, Bandar Lampung City. This shop is a small and medium enterprise that has been partnering with Bogasari since 2018. The owner is Dr Ir Sarono. Below is a presentation of the products produced by Permata Bakery per day, per week, per month, and year.

**Table 1. Total Production of Permata Bakery's Bread**

Type of Bread	Estimated Number of Products Produced			
	Day	Week	Month	Year
Fresh Bread	410	2.870	12.300	147.600
Toasted Fresh Bread	135	945	4.050	45.360
Sweet Bread	100	700	3.000	33.600
<b>Total Production</b>	<b>645</b>	<b>4.515</b>	<b>18.060</b>	<b>216.720</b>

Source: Permata Bakery, December 2022

**Table 2. Cost of Goods Produced Based on Permata Bakery Data**

	COGS per day (IDR)	COGS per month (IDR)
Fresh Bread	1.750.000	52.500.000
Toasted Bread	405.000	12.150.000
Sweet Bread	300.000	9.000.000
<b>Total</b>	<b>2.455.000</b>	<b>73.650.000</b>

Source: Permata Bakery, December 2022

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The cost of Production above is based on data provided by Permata Bakery. The author attempts to calculate the cost of goods produced and the selling price of products using the cost-plus pricing method. Below is a description of the data presented based on the author's data processing.

**Table 3. Direct Raw Material Costs for Making Fresh Bread in November 2022**

Direct Raw Materials	Total Raw Material Usage Per Month	Unit Price (IDR)	Total Cost (IDR)
Wheat flour	1.560 kg	7.800	12.168.000
Eggs	210 eggs	1.800	378.000
Yeast	7500 gr	32.500	975.000
Sugar	300 kg	11.200	3.360.000
Butter	120 kg	14.500	1.740.000
Salt	3.000 gr	500	15.000
<b>Total</b>			<b>18.636.000</b>

Source: Permata Bakery, December 2022

Based on the table above, the cost of raw materials for making white bread is IDR 68,475,000 in one month with a production volume of 12,300 white breads.

**Table 4. Direct Raw Material Costs for Making Roasted Fresh Bread in November 2022**

Direct Raw Materials	Total Raw Material Usage Per Month	Unit Price (IDR)	Total Cost (IDR)
Wheat Flour	70 kg	7.800	546.000
Milk Powder	60 kg	15.000	900.000
Sugar	50 kg	11.200	560.000
Eggs	30 butir	1.800	54.000
Yeast	7500 gr	32.500	975.000
Margarine	50 kg	14.500	725.000
Chocolate	15 kg	35.000	525.000
Cheese	15 kg	55.000	825.000
Green Bean	15 kg	20.000	300.000
<b>Total</b>			<b>5.411.000</b>

Source: Permata Bakery, December 2022

Based on the table above, the total cost of making toasted Bread is IDR 18,636,000. With a total production of 4,050 loaves, the cost per toasted loaf is IDR 4,601.

**Table 5. Direct Raw Materials for Making Sweet Bread in November 2022**

Direct Raw Materials	Total Raw Material Usage Per Month	Unit Price (IDR)	Total Cost (IDR)
Wheat Flour	70 kg	7.800	546.000
Milk Powder	60 kg	15.000	900.000
Sugar	50 kg	11.200	560.000
Eggs	30 butir	1.800	54.000
Yeast	7500 gr	32.500	975.000
Margarine	50 kg	14.500	725.000
Chocolate	15 kg	35.000	525.000
Cheese	15 kg	55.000	825.000
Green Bean	15 kg	20.000	300.000
<b>Total</b>			<b>5.411.000</b>

Source: Permata Bakery, December 2022

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Based on the calculation table above, the total direct raw material cost of Sweet Bread is IDR 5,411,000 for a total production of 3,000 loaves. Therefore, the raw material cost per loaf is IDR 1,804.

**Table 6. Direct Labor and Direct Labor Cost in November 2022**

Type of Work	Number of Direct Labor Direct	Labor Cost	Total
<b>Chef</b>	2	2.300.000	4.600.000
<b>Cashier</b>	2	1.500.000	3.000.000
<b>Total</b>			7.600.000

Source: Permata Bakery, December 2022

Based on the data obtained from Permata Bakery, the direct labor consists of cooks and cashiers. The total direct labor cost is IDR 7,600,000.

**Table 7. Variable Factory Overhead Costs for producing Breads**

Cost Type	Total Cost (IDR)
Electricity Cost	2.500.000
Telephone Cost	300.000
Gas Cost	9.000.000
<b>Total</b>	11.800.000

Source: Permata Bakery, December 2022

The total overhead cost of Permata Bakery is IDR 11,800,000., based on Table 7.

### Cost of Goods Manufactured with Cost Plus Pricing Method

**Table 8. Production Cost of Roti Tawar November 2022 (IDR)**

Direct Raw Materials	68.475.000
Direct Labor Cost	7.600.000
Variable Factory Overhead Costs	11.800.000
<b>Total Production Cost</b>	87.875.000

Source: Permata Bakery, December 2022

Based on the table above, the total cost of producing breads in November is IDR 87,875,000. The total production for the month is 12,300. Then calculating the cost of production as follows:

Cost of Goods Manufactured = Total Cost of Production

$$\begin{aligned}
 & \text{Total production for a month} \\
 & = 87.875.000 \\
 & \quad 12.300 \\
 & = \text{IDR } 7,144
 \end{aligned}$$

Based on the cost of goods manufactured calculated above, the selling price of the product using the cost plus method is as follows:

$$\begin{aligned}
 \text{Product Selling Price} & = \text{Total Production Cost} + \text{Expected profit} \\
 & \quad \text{Total Production a month} \\
 & = 87.875.000 + (50\% \times 87.875.000) \\
 & \quad 12.300 \\
 & = 87.875.000 + 43.937.500 \\
 & \quad 12.300
 \end{aligned}$$

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= IDR 10,716 or if rounded up to IDR 10,700

Calculating the selling price using the cost-plus pricing method reveals that the selling price for fresh Breads should be IDR 10,716.

**Table 9. Production Cost of Toasted Fresh Bread**

<b>Direct Raw Materials</b>	18.636.000
<b>Direct Labor Cost</b>	7.600.000
<b>Variable factory overhead costs</b>	11.800.000
<b>Total Production Cost of Grilled Fresh Bread</b>	38.036.000

**Source:** Permata Bakery, December 2022

The total production cost of grilled fresh bread is IDR 38,036,000 for a total production of 4,050 per month, based on the calculation table above. The calculation of the production cost is as follows:

Cost of Goods Manufactured = Total Cost of Production

$$\begin{aligned} & \text{Total production a month} \\ & = 38.036.000 \\ & \quad 4.050 \\ & = \text{IDR } 9,392 \end{aligned}$$

Based on the cost of goods manufactured calculation above, the selling price of the product using the cost plus method is as follows:

$$\begin{aligned} \text{Product Selling Price} & = \text{Total Production Cost} + \text{Expected profit} \\ & \quad \text{Total Production a month} \\ & = 38.036.000 + (50\% \times 38.036.000) \\ & \quad \quad 4.050 \\ & = 38.036.000 + 19.018.000 \\ & \quad \quad 4.050 \\ & = \text{IDR } 14,087 \text{ or if rounded up to IDR } 14,100 \end{aligned}$$

**Table 10. Production cost of sweet bread (IDR)**

Direct Raw Materials	5.411.000
Direct Labor Cost	7.600.000
Variable Factory Overhead Costs	11.800.000
<b>Total Production Cost of Sweet Bread Variants Flavour</b>	24.811.000

**Source:** Permata Bakery, December 2022

The total production cost of sweet bread is IDR 24,811,000 for a total production of 3,000 per month, based on the calculation table above. The calculation of the production cost is as follows:

$$\begin{aligned} \text{Cost of Goods Manufactured} & = \text{Total Cost of Production} \\ & \quad \text{Total production a month} \\ & = 24.811.000 \\ & \quad 3.000 \\ & = \text{IDR } 8,270,- \end{aligned}$$

Based on the calculation of the cost of goods produced above, the selling price of the product based on the cost plus pricing method is as follows:

$$\begin{aligned} \text{Product Selling Price} & = \text{Total Production Cost} + \text{Expected profit} \\ & \quad \text{Total Production a month} \\ & = 24.811.000 + (50\% \times 24.811.000) \\ & \quad \quad 3.000 \\ & = 24.811.000 + 12.405.500 \\ & \quad \quad 3.000 \\ & = \text{IDR } 12,405.5 \text{ or if rounded up to IDR } 12,406, - \end{aligned}$$

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This study aims to calculate the selling price of bread products at Permata Bakery based on the cost-plus pricing method. There are differences in the selling prices of the products between those set by Permata Bakery and those calculated by the author based on the calculations made. To compare the cost of producing, the authors present the table below:

COGS based on Permata Bakery (IDR)		COGS based on Cost Plus Pricing Method (IDR)
Fresh Bread	52.500.000	87.875.000
Toasted Fresh Bread	12.150.000	38.036.000
Sweet Bread	9.000.000	24.811.000
<b>Total Production Cost</b>	<b>73.650.000</b>	<b>150.722.000</b>

**Source:** Permata Bakery, December 2022

The above table compares the costs of Production. The costs based on the cost-plus pricing method are higher than those of Production based on the data from Permata Bakery. Business owners only use estimates or intuition with simple calculations without classifying the costs incurred when determining the cost of goods produced.

The method of cost-push pricing has been mathematically proven to generate a profit for the company with a higher sales value. However, to maintain customer loyalty, small and medium-sized businesses must continue to implement massive marketing strategies to keep customers from abandoning the product. As it is understood, consumer behavior will generally make consumers switch if the product's value is considered too high from its benefit value. According to Kotler and Keller (2001), Consumer Behaviour is a field of study that examines how individuals, groups, and organizations are involved in choosing, buying, using, and evaluating products. Consumer Behaviour aims to satisfy the needs and wants of individuals, groups, and organizations in choosing, buying, using, and evaluating products in selecting, purchasing, using, and evaluating products to satisfy their needs and wants. Suppose the company has a vast amount of data about its customers. In that case, this data can be used to find out what the company wants to know to help direct the company's marketing activities to measure, improve, and determine the potential for success in building and developing the company's business in the future. Success in building and developing the company's business in the future. Creating customer value is essential to fostering customer loyalty.

The marketing strategies that can be applied by MSME sector actors, concerning the theory presented by Philip Kotler and Gary Armstrong (2018), are as follows: The use of direct and digital marketing can enable direct engagement with individual consumers and targeted customer communities to obtain immediate feedback and build lasting customer relationships. Marketing via the Internet using company websites, online advertising and promotions, email marketing, online videos, and blogs. Social media is an independent online social networking platform that can be commercial because it is a place where people come together to socialize and share news, opinions, pictures, videos, and other content. Some extensive social networks can provide opportunities for MSMEs. For example, 1.6 billion people access Facebook every month; Twitter has more than 305 million monthly active users and more than 1 billion YouTube users upload 500 hours of video every minute of every day; Google+ has 359 million active users, Instagram 400 million, LinkedIn 100 million and Pinterest 100 million. However, large social media networks can leave a gap and countless interests and needs. These online social networks can meet the needs of smaller communities of like-minded people, making them an ideal marketing tool for MSMEs targeting specific customers.

In the long term, another strategy that MSMEs can apply is socially responsible marketing, also known as socially responsible marketing, which aims to provide social benefits to society. Socially accountable marketing seeks to encourage people to do things that are good for society, such as leading healthier lifestyles. It is different from marketing, which focuses on financial gain. Non-profit or governmental organizations usually undertake it, which involves careful marketing planning. According to Wood, Pitta, and Pranzak (2008), a company that can identify its intended target market's needs, wants, and aspirations strives to provide consumers with more valuable 'value.'

## 5. CONCLUSION

The Cost-Plus Pricing method determines the selling price by calculating the costs associated with Production and non-production and adding the desired profit value. There is a difference between the results of the author's analysis and the calculation of the owner of Permata Bakery. To make the set selling price more accurate, the author calculates the estimated selling price that Permata Bakery will sell. The results show that the selling price set by Permata Bakery differs from the one



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calculated by the author. The cost done by the business owners tends to be lower, resulting in a lower selling price of the product, and the resulting profit tends to be lower because the selling price of the product is different. Using a cost-plus price-based calculation is expected to increase Permata Bakery's profit. The limitations and further studies are that further research can add methods in calculating the selling price of the products to generate the maximum profits. It is hoped that further research can add more research objects as this research is limited to a sample of cake shops.

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