

## OWNER DEMOGRAPHICS INFLUENCE KNOWLEDGE OF SELLING PRICE DETERMINATION

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### Abstract

Micro, Small and Medium Enterprises (MSMEs) have an important role in the Indonesian economy, especially in West Java Province. However, the main challenge faced by MSMEs is a lack of knowledge about accounting and cost management, including calculating the Cost of Goods Production and overhead costs, which influence the determination of product selling prices. This research aims to analyze the influence of MSME Owner Demographics on knowledge of selling price determination. The research methodology uses a verification method with a quantitative approach. The research population was all MSME owners in West Java Province, with samples taken using a purposive sampling technique. Primary data was obtained through a closed questionnaire with a Likert scale, which included questions about owner demographics, knowledge of COGS, overhead costs, and determining product selling prices. Data analysis was carried out using linear regression to test the influence of the independent variable on the dependent variable. Convergent and discriminant validity as well as construct reliability have been tested and show that all indicators and constructs in this model are valid and reliable. The results of the research show that Owner Demographics of MSMEs influence knowledge of selling price determination

**Keywords** : *COGS, Determining Selling Prices, MSMEs, Overhead Costs, Owner Demographics.*

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## 1. INTRODUCTION

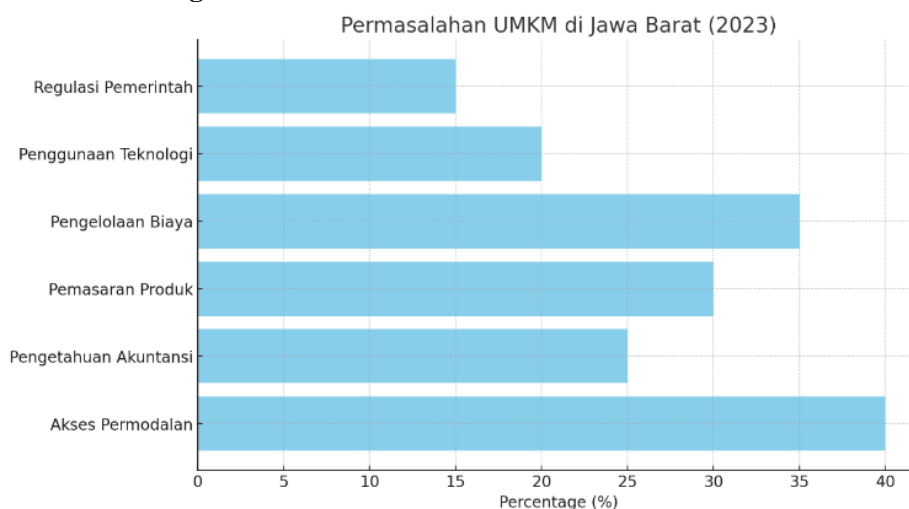
Micro, Small and Medium Enterprises (MSMEs) have an important role in the Indonesian economy, especially in West Java Province. MSMEs not only contribute to employment but also help in developing the local economy. However, one of the main challenges faced by MSMEs is a lack of knowledge about accounting and cost management, including calculating the Cost of Goods Sold and overhead costs, which influence the determination of product selling prices (Saputra, 2019; Sarifillah, 2019).

Accurate COGS calculations are very important for MSMEs because they are directly related to determining product selling prices. Errors in calculating COGS can cause uncompetitive selling prices and ultimately reduce profits or even cause losses. Overhead costs that are not allocated properly can also obscure the picture of true costs and mislead business owners in making pricing decisions (Oktaviana et al., 2021).

In West Java, MSMEs play a vital role in the regional economy. Programs such as "UMKM Champion" launched by the Governor of West Java have helped improve the ability of MSMEs to access technology, training and marketing. This program has had a positive impact by providing mentoring, training and exhibition opportunities for MSMEs (West Java Champion Program, 2023). One successful example is "Tahu Bapak Arisyita" which succeeded in improving product quality and production cost efficiency through accounting and cost management training (Rizatyk, 2021).

The following is a graph showing the percentage of problems faced by MSMEs in West Java:

**Figure 1. MSME Problems in West Java in 2023**



Sourced: Processed Data, 2024

The problem of MSMEs in West Java is a research phenomenon. Based on available data, several problems faced by MSMEs in West Java are:

1. Access to Capital: 40% of MSMEs experience difficulty in accessing capital to develop their business.
2. Accounting Knowledge: 25% of MSMEs have limited knowledge of accounting, including calculating COGS and overhead costs.
3. Product Marketing: 30% of MSMEs face challenges in marketing their products, especially in utilizing digital platforms.
4. Cost Management: 35% of MSMEs experience difficulty in managing costs effectively, which affects the determination of selling prices.
5. Use of Technology: 20% of MSMEs do not utilize technology in their operations, such as using accounting software.
6. Government Regulations: 15% of MSMEs feel burdened by government regulations that do not support the development of their business.

MSMEs are often inaccurate in determining selling prices. This is due to MSMEs' lack of accuracy in determining the cost of production of the products produced. Determining the cost of production consists of raw material costs, direct labor costs and factory overhead costs (Siswanto, 2015). These three types of costs must be recorded and adjusted according to the type and nature of the costs. Considering the intense competition in the business world, it requires companies to increase efficiency in calculating production costs because the cost of production is very important for companies to determine the selling price of their products (Maslikah & Saskara, 2018).

Demographic factors of MSME owners, such as education level, ethnicity and gender are believed to have a significant influence on understanding cost accounting and pricing. Owners with a higher level of education or longer business experience tend to have a better understanding of cost management and pricing strategies (Sunaryo et al., 2020; Prawiro, 2018).

Based on the description above, the aim of this research is to determine the influence of demographics of MSME owners on knowledge about COGS, on understanding overhead costs and on determining product selling prices. It is hoped that the results of this research can be a reference for MSME owners to increase their understanding of cost management and pricing strategies. Apart from that, it is also hoped that this research can help the government and related institutions in designing targeted training programs for MSME owners.

## 2. LITERATURE REVIEW

### Knowledge of Selling Price

Knowledge of selling price determination is the ability to calculate and manage COGS and BOP and determine profitable and competitive selling prices for products or services. This involves a deep understanding of how to calculate and manage COGS, BOP, as well as determining appropriate selling prices. Knowledge of COGS (Cost of Goods Sold) is an understanding of all direct costs related to the production or provision of products or services, including the costs of raw materials, direct labor and other direct costs. COGS includes raw material costs, direct labor costs, and factory overhead costs. According to Mulyadi (2016), accurate COGS calculations are very important to determine competitive and profitable selling prices (Mulyadi, 2016).

Raw material costs are the costs incurred to purchase materials that will be processed into finished products. Effective raw material management can help reduce production costs and increase profitability. Direct labor costs are costs paid to workers who are directly involved in the production process. These costs must be managed well to ensure operational efficiency. Overhead costs are costs that cannot be directly attributed to a specific product, but are necessary to run business operations. Knowledge of Production Overhead Costs is an understanding of indirect costs related to production, such as factory rental, utilities, and equipment maintenance, which cannot be directly attributed to individual product units. Good management of overhead costs is important to ensure product selling prices reflect the actual total production costs (Hansen & Mowen, 2018).

Determining the selling price is the process of determining the selling price of a product which includes production costs and profit margins. According to Kotler and Keller (2016), pricing strategies must consider production costs, competitor prices, and the value perceived by consumers (Kotler & Keller, 2016). Factors that influence price determination include production costs, where accurate COGS is important for setting competitive selling prices. Knowledge of Selling Prices, namely the ability to set optimal selling prices based on COGS and BOP, as well as considering market factors, such as customer demand, competitor prices, and economic conditions.

### Owner Demographics

Owner demographics are demographic characteristics that define the background of micro, small and medium enterprise (MSME) owners. The three main aspects of the demographics of MSME owners that are often analyzed are:

1. Education is the level of formal education that has been achieved by MSME owners, such as a bachelor's degree, master's degree, or special training in the fields of business, economics, or accounting. Education influences the owner's knowledge and skills in managing various aspects of the business, including cost calculations, financial management, and pricing strategies. Higher education is usually associated with a better understanding of business theory and practice.
2. Ethnicity is the ethnic or racial background of MSME owners, which includes cultural aspects, values and traditions that influence the way they run a business. Ethnicity can influence an owner's approach to business management and pricing strategy, as well as access to resources, community support, and

business networks. Certain cultural influences and traditions can influence business decisions, including pricing.

3. Gender is the gender identity of MSME owners, whether male or female. Gender can influence an owner's approach to managing a business and making decisions, including pricing. Differences in managerial style, attention to detail, and business strategy can be influenced by gender, which in turn influences how prices are set.

MSME owner demographics consisting of education, ethnicity, and gender provide insight into how the owner's educational background, ethnicity, and gender influence knowledge and decisions in running a business, including setting selling prices. These three factors interact to shape the owner's approach to various aspects of business management.

### **The Influence of MSME Owner Demographics on Knowledge of Selling Price Determination**

The influence of MSME Owner Demographics on knowledge of selling price determination can be seen from three main factors: education, ethnicity and gender. Owners with higher education, especially in business or accounting, better understand how to properly calculate COGS, including direct and overhead costs. A good education helps in identifying and managing production overhead costs, it is important to set prices that cover all costs. Educated owners better understand various pricing strategies and use market analysis to determine competitive selling prices.

Ethnic background can influence traditional approaches to managing production costs. Ethnicity influences access to resources and networks that support overhead management. Pricing preferences and strategies can be influenced by cultural values and market access within a particular ethnic community.

Women tend to be more detailed in cost management, increasing COGS understanding, while men may focus on broader strategic aspects. Women may be more careful in recording and allocating overhead costs, while men focus on reducing overall costs. Women consider social impacts in setting prices, while men focus more on market analysis and financial data.

Overall, education, ethnicity and gender shape the knowledge and skills of MSME owners in setting optimal selling prices, which contribute to the success and sustainability of their business. Based on the description above, the hypothesis to be tested is:

H1: MSME Owner Demographics influence knowledge of selling price determination

### **3. RESEARCH METHODS**

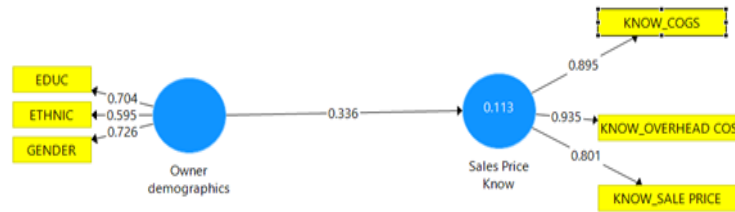
This research uses a verification method with a quantitative approach. The objects in this research are Owner Demography (X) and Knowledge of Selling Price Determination (Y) in MSMEs in the food and beverage sector in West Java. The data collection technique was carried out using primary data using a questionnaire method which was given to a total of 50 MSME respondents in the food and beverage sector in West Java. includes questions regarding owner demographics (level of education, ethnicity and gender), knowledge of COGS, overhead costs, and determining product selling prices.

The data analysis method uses SmartPLS software. Hypothesis testing using the PLS approach is carried out in two stages, namely the outer model and the inner model. The outer model test was carried out to prove the validity and reliability of all indicators for each variable. Inner model testing is carried out to test the influence between variables according to previously established hypotheses.

**4. RESULT AND DISCUSSION**

The research model for the influence of UMKM owner demographics on knowledge of selling price determination is shown in the image below:

**Figure 2. Outer model**



Source: Processed Data, 2024

The outer model is carried out to ensure that the measurements used are suitable for measurement or meet validity and reliability. The outer model used is convergent validity and discriminant validity.

**Convergent Validity**

Individual indicators are said to be reliable if they have a correlation value > 0.7, but factor loadings of 0.5-0.6 are still acceptable (Ghozali, 2021).

**Table 1. Convergent Validity**

Loading Factor	VARIABLE		Conclusion
	Owner Demographics	Sales Price Know	
EDUC	0.704		Valid
ETHNIC	0.595		Valid
GENDER	0.726		Valid
KNOW_COGS		0.895	Valid
KNOW_OVERHEAD COST		0.935	Valid
KNOW_SALES PRICE		0.801	Valid

Source: Processed Data, 2024

**Discriminant validity**

Discriminant validity is obtained by comparing the square root of AVE (Average Variance Extracted) for each construct with the correlation between the construct and other constructs in the model.

**Table 2. Discriminant validity**

	Owner Demographics	Sales PRICE Know
Owner Demographics	0.678	
Sales PRICE Know	0.336	0.879

Source: Processed Data, 2024

From the results of the table above, it can be seen that the loading value of each indicator item on the construct is greater than the cross loading value, namely  $0.879 > 0.336$  and  $0.678 > 0.336$ . Thus, it is concluded that all constructs or latent variables have good discriminant validity, where in this block the construct indicators are better than the indicators in other blocks.

**Composite Reliability**

After testing construct validity, the next test is testing construct reliability as measured by Composite Reliability (CR). A construct is declared reliable if the composite reliability value is > 0.6.

**Table 3. Composite Reliability**

	Composite
Owner Demographics	0.717
Sales PRICE Know	0.910

Source: Processed Data, 2024

Based on the table above. That the results of the composite reliability test show a value  $> 0.6$ , which means that all variables are declared reliable.

### Inner Model

After evaluating the model and finding that each construct meets the requirements of Convergent Validity, Discriminant Validity, and Composite Reliability, the next step is to evaluate the structural model.

The inner model describes the relationship between latent variables based on substantive theory. The structural model was evaluated using R-square for the dependent construct. The  $R^2$  value can be used to assess the influence of certain endogenous variables and whether exogenous variables have a substantive influence (Ghozali, 2021).

**Table 4. R Square**

	R Square	R Square Adjusted
Sales Price Know	0.113	0.089

Source: Processed Data, 2024

This test uses the goodness fit model test or  $R^2$ , it is interpreted that the variability of the Knowledge construct regarding COGS, Overhead Costs and Price Determination can be explained by the variability of the owner demography construct of 8.9%. where construct variability was able to explain 8.9%. This means that the Sales PRICE Know variable (knowledge of determining selling prices) is influenced by Owner Demographics by 8.9%, and the remaining 91.1% is explained by other variables.

### Hypothesis Tested

**Table 5. Direct Effect**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistic	P-Values
Owner Demographics → Sales Price Know	0.336	0.418	0.126	2.671	0.008

Sourced: Processed Data, 2024

Based on the table above, the P-Value value must be smaller than 0.05, the hypothesis can be accepted. So MSME Owner Demographics influence knowledge of selling price determination.

### Discussion

The influence of MSME owner demographics on knowledge about determining selling prices can be analyzed through several main factors such as education, ethnicity and gender. Each of these factors can influence the knowledge of MSME owners in determining optimal selling prices, including understanding the Cost of Goods Sold, Production Overhead Costs, and selling price setting strategies. MSME owners with a higher educational background, especially in the fields of business, accounting or economics, tend to have a better understanding of the COGS concept.

Formal education provides the analytical skills necessary to accurately calculate production costs, including raw material costs, direct labor, and overhead costs. Good education helps MSME owners understand the various components of production overhead costs. They can identify and allocate indirect costs, such as utilities, rent, and maintenance, that affect the total cost of production. Owners with higher education tend to be more careful in recording and allocating overhead costs. Adequate education enables MSME owners to understand various pricing strategies, such as cost-plus pricing, value-based pricing, and market-based pricing. They can also use analytical tools and techniques to assess market demand and competitor behavior, so they can set competitive and profitable selling prices.

Ethnic background can influence the approach of MSME owners in managing their business and understanding the cogs concept. For example, some cultures may have certain traditions in cost and production management that may influence the understanding of COGS. Ethnicity can influence MSME owners' access to resources and information regarding overhead costs. Strong ethnic community networks can provide additional support and knowledge in managing overhead costs, while limitations in access to information can be a challenge for some ethnic groups. Ethnic background can also influence the pricing strategy chosen by MSME owners. Some ethnic groups may have certain preferences or traditions in pricing that differ from other

groups. Additionally, ethnic minority owners may face additional challenges in gaining access to the wider market, which may influence pricing strategies.

Gender can influence the approach of MSME owners in understanding and managing COGS. Several studies show that women tend to be more thorough and detailed in cost management, which can increase understanding of COGS. Meanwhile, men may focus more on broader strategic aspects. Women and men may have different approaches to managing overhead costs. Women may be more thorough in recording and allocating overhead costs, while men may focus more on overall cost reduction strategies. Gender differences in pricing approaches are also apparent. Women may consider more social and emotional aspects in setting prices, such as the impact of prices on customers and communities, while men may focus more on market analysis and financial data. Both can provide different but valuable perspectives in setting selling prices. Thus, the combination of various demographic factors can shape the knowledge and skills of MSME owners in setting optimal and profitable selling prices.

## 5. CONCLUSION

MSME Owner Demographics influence knowledge of selling price determination. Overall, the demographics of MSME owners, as measured through education, ethnicity and gender influence knowledge about determining selling prices. More education correlates with a better understanding of COGS, Overhead Cost, and pricing strategy. Ethnicity influences traditional approaches and access to information, while gender brings different perspectives to cost management and pricing. The combination of various demographic factors shapes the knowledge and skills of MSME owners in setting optimal and profitable selling prices. It is recommended that MSMEs increase their knowledge of cost accounting through formal education or special training. A good understanding of COGS, overhead costs, and pricing will help in making better business decisions. With better knowledge, MSME owners can increase the efficiency and profitability of their business.

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