EFFECT OF PROMOTION COST AND PRODUCTION COST ON SALES PERFORMANCE: AN EMPIRICAL STUDY ON INDONESIAN AUTOMOTIVE MANUFACTURE

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ABSTRACT

The purpose of this research is to analyze the effect of promotion cost on sales performance, the effect of production cost on sales performance of automotive manufacture in Banten. The method used in this research is quantitative method, data collection method by distributing questionnaires to manufacturer manager. The questionnaire was distributed electronically using simple random sampling technique. The results of the questionnaire returned were 110 respondents. Based on the results of data analysis, it is concluded that promotion costs have a significant effect on sales performance. An increase in the promotion cost variable will be followed by an increase in sales performance and a decrease in the variable promotion cost will be followed by a decrease in sales performance. Production cost costs have a significant effect on sales performance. The novelty of this research is the variable relationship model of production cost, sales performance and promotion cost. The results of this study can become a reference for future research to be applied in other places or countries.

Key Words: Production cost, Sales performance, Promotion cost

I. INTRODUCTION

Advances in technology cause the need for vehicles for every community activity to increase. This is indicated by the number of motorcycle dealers that have emerged in Indonesia. According to Adinugraha et al. (2021); Anas et al. (2020) and Alessa et al. (2021) Business competition continues to be carried out by business actors who market motorbikes. To be able to continue with the business that is being carried out by the company, it is required to carry out a promotion strategy properly. To increase competitiveness, companies must be able to use a method or strategy that is right so that the company will be able to achieve the desired level of sales and get profit from sales. Achmad Rozi, et al (2021); Ahmad Khoiri, et al (2021); Ali Maddinsyah, et al (2020) A company in carrying out promotional activities must spend for promotion costs, where the amount of promotional costs set by the company to market products to consumers will greatly affect the development of producer movements and consumer market growth. In a distributor company, the ups and downs of sales volume will greatly affect growth. a business that has been established and is running and its products are marketed by the established company. According to Arif et al. (2021); Dijkstra et al. (2010) and Desky et al. (2020) the company experiences an increase in sales results, the products will be able to further develop and will have a major place in the consumer market, and vice versa. The company attaches great importance to the results of the sales volume that it gets in order to maintain the business it has founded.

According to Hair et al. (2019); Hair et al. (2012) and Hair et al. (2017) every company realizes that product sales have a very important role in determining the survival of the company, because the source of income received by the company comes from product sales. Therefore, every company must increase sales. The size of the sale depends on the needs and desires of the community for the product. One way to increase sales is through promotional activities, because promotion can maintain the company's survival from competitors. The emergence of competition from companies that is clearly unavoidable in terms of marketing their products, including in promotion. Araujo (2021); Erlangga (2020); Gunartin (2020); Moch. Ali Imron, et al. (2021) In an effort to seize the market, it takes public trust as consumers of the products being marketed, the accuracy of this trust is in addition to the quality of the product itself. Many strategies have been carried out, such as the establishment of
business branches in various regions so that customers can get what they are looking for. Solutions like this tend to require very large costs, therefore to overcome it requires a media that is a facility for customers to obtain complete information about what they want and can make transactions more easily without being constrained by time and distance. According to Henseler et al. (2009); Iriani et al. (2021) current business development is marked with increasingly sharp competition, especially in the management of company units. This is indicated by the emergence of companies offering types of quality products at competitive prices in marketing. To overcome the intense competition in marketing, one of the efforts made by the company is to establish a promotional pricing strategy, in which the company tries to set competitive prices, so that the level of sales continues to increase.

Indonesian automotive industry experiencing very rapid progress, this caused by the need for a vehicle to every community activity increases. Indonesia is one of the countries has large population in the world so that the Indonesian market is very potential for the vehicle industry to market its products. Share how is done by companies to attract the interest of the buyers. By doing various kinds of business strategies, ranging from carry out sales promotions for goods up to more service to customers. According to Iriani et al. (2021) and Juliana et al. (2021) and Kim et al. (2021) the car businesses at Indonesia always tries to give quality of excellence for all the product. Where are the product users the car may have felt quality and advantages of use automotive products. Nufus (2020); Paramarta (2021); Pawar (2020); Sunarsim (2020) Role more effective and efficient promotion so that the main goal for volume sales can be achieved, therefore the company concentrate on promotion of new consumers in order to win over competing customers, as well able to occupy the position of market leader in the face of intense competition from other companies, with do a good promotion planning will result in a marketing performance optimal. One of the concepts is promotion mix program consisting of advertising, sales promotion, relationships community, private sales and direct marketing. According to Nugroho et al. (2020); Novitasari et al. (2021) and Fabiyani et al. (2021) Characteristics of success a company's sales can be seen through how the sales rate is from the company's products and services. one way to achieve this is by carry out an efficient marketing strategy and learn what is in need and desired by consumers and know what factors influence consumers to buy products and of course just in line with its promotional activities carried out by the company including, advertising, sales promotion, public relations, personal selling, direct marketing.

With the production and promotions that are carried out efficiently and periodically it will create its own characteristics compared with products made by other companies that will push

the buyer makes a purchase and will increase a sales company. According to Rahaman et al. (2021) Hold production minimum cost required / efficient possible order after the product is finished and ready marketed, the product has a cost low ones that will later have competitive advantage in terms of price which is cheaper than its competitors with the same quality, which is later able to provide that advantage great for companies with increased sales. Production is an activity change the factors of production into goods that are ready to sell. According to Purwanto et al. (2021); Pramono et al. (2021) Through production an effective and efficient product is expected the company is able to create an image cheap prices in the eyes of consumers. The emergence of various demands and compelling customer desires company in order to be able to increase performance and running a wide range programs that can attract customers and make him a loyal customer. Supriyadi, et al (2020) ; Paramarta (2021); Muslimat (2021) After a company hold a production and produce a product, it must immediately introduced to consumers so that consumers understand and know the products that the company makes the. Desire to introducing a new product or old products that have been developed is called activity promotion. Promotions made for products that are ready to sell for the purpose is introducing that product to consumers to order that product on ultimately in demand by customers so that sales are targeted capable of being reached by the product maker According to Suardhita et al. (2020) Cost production are those costs related to the production of an item, namely the amount of direct material, wages direct and factory overhead costs. According to Purwanto et al. (2020) cost production is defined as, all expenses incurred by companies to obtain production factors and raw materials which will be used to create manufactured goods the company. According to Rudyanto et al. (2020); Sena et al. (2020) and Suardhita et al. (2020) Production costs are costs associated with manufacture of goods and provision of services. The purpose of this research is to analyze the effect of promotion cost on sales performance, the effect of production cost on sales performance of manufacture in Banten
II. METHOD

The method used in this research is quantitative method, data collection method by distributing questionnaires to packaging industry employees. Each closed question / statement item is given five answer options, namely: strongly agree (SS) score 5, agree (S) score 4, disagree (KS) score 3, disagree (TS) score 2, and strongly disagree (STS) ) score 1. The method for processing data is by using PLS and using the SmartPLS version 3.0 software as a tool. The population in this study were 110 managers of manufacture in Banten Indonesia. The questionnaire was distributed electronically using simple random sampling technique. The results of the questionnaire returned were 110 respondents.

![Figure 1. Research Model](image)

Based on the theoretical study and previous research above, the research model is as in Figure 1. While the research hypothesis is as follows:

**H1**: Production Cost has a significant effect on Sales Performance

**H2**: Promotion Cost has a significant effect on Sales Performance

III. RESULT AND DISCUSSION

According to Hair et al. (2017) and Hair et al. (2018) The testing phase of the measurement model includes testing for convergent validity, discriminant validity and composite reliability. The results of the PLS analysis can be used to test the research hypothesis if all indicators in the PLS model have met the requirements of convergent validity, discriminant validity and reliability testing. According to Hair et al. (2019); Hair et al. (2012); Hair et al. (2017)) Convergent validity test is done by looking at the loading factor value of each indicator against the construct. In most references According to Hair et al. (2018) a factor weight of 0.5 or more is considered to have sufficiently strong validation to explain latent constructs In this study, the minimum limit for the accepted loading factor is 0.5, provided that the AVE value of each construct is> 0.5. Based on the estimation results of the PLS model found all indicators have a loading factor value above 0.5 so that the model has met the convergent validity requirements. According to Hair et al. (2012); Hair et al. (2017) and Hair et al. (2018) part from looking at the loading factor value of each indicator, convergent validity was also assessed from the AVE value of each construct. AVE for each complete construct can be seen in table 2. According to Hair et al. (2018) The AVE value for each construct of this study is more than 0.5. So the convergent validity of this research model has met the requirements. The value of loadings, cronbach's alpha, composite reliability and Variance Extracted (AVE) shown in table 2

| Tabel 1. Cronbach’s Alpha, Composite Reliability, and Average Variance Extracted (AVE) |
|---------------------------------|-----------------|-----------------|-----------------|
| Promotion Cost                  | Cronbach's Alpha | rho_A           | Composite Reliability | Average Variance Extracted (AVE) |
|                                 | 0.923            | 1.012           | 0.921             | 0.912                          |
| Production Cost                 | 0.921            | 0.921           | 0.914             | 0.913                          |
| Sales Performance               | 0.912            | 0.923           | 0.914             | 0.917                          |

**Construction Reliability Testing**

According to Hair et al. (2017) and Hair et al. (2018) Construct reliability can be assessed from the Cronbach's alpha value and the composite reliability of each construct. The recommended composite reliability and
cronbach's alpha value is more than 0.7. The results of the reliability test in Table 1 above show that all constructs have composite reliability and Cronbach's alpha values are greater than 0.7 (> 0.7). In conclusion, all constructs have met the required reliability.

Desriminant Validity Testing

Discriminant validity is done to ensure that each concept of each latent variable is different from other latent variables. According to Hair et al. (2019) the model has good discriminant validity if the AVE square value of each exogenous construct (the value on the diagonal) exceeds the correlation between this construct and other constructs (values below the diagonal. the results of the discriminant validity test in Table 4 show that all constructs have a square root value of AVE above the correlation value with other latent constructs (through the Fornell-Larcker criteria) so that it can be concluded that the model has met discriminant validity.

Table 2. Discriminant Validity

<table>
<thead>
<tr>
<th>Concept</th>
<th>Promotion Cost</th>
<th>Production Cost</th>
<th>Sales Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion Cost</td>
<td>0.912</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production Cost</td>
<td>0.812</td>
<td>0.915</td>
<td></td>
</tr>
<tr>
<td>Sales Performance</td>
<td>0.114</td>
<td>0.215</td>
<td>0.912</td>
</tr>
</tbody>
</table>

Hypothesis test

According to Hair et al. (2019); Hair et al. (2012); Hair et al. (2017) Hypothesis testing in PLS is also known as the inner model test. This test includes a significance test for direct and indirect effects as well as a measurement of the magnitude of the influence of exogenous variables on endogenous variables. To determine the production cost and promotion cost on sales performance, a direct and indirect effect test is needed. The effect test was performed using the t-statistic test in the partial least squared (PLS) analysis model using the SmartPLS 3.0 software. With the bootstrapping technique, the R Square value and the significance test value are obtained as shown in the table below:

Table 3. R Square

<table>
<thead>
<tr>
<th>Concept</th>
<th>R Square</th>
<th>R Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Performance</td>
<td>0.56</td>
<td>0.57</td>
</tr>
</tbody>
</table>

Based on Table 3 above, the R Square value is 0.56 which means that the sales performance variable can be explained by the production and promotion cost variable of 56 %, while the remaining 34% is explained by other variables not discussed in this study.

Table 4. Hypotheses Testing

<table>
<thead>
<tr>
<th>Concept</th>
<th>Original Sample (O)</th>
<th>Sample Mean (M)</th>
<th>Standard Deviation</th>
<th>T Statistics</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion Cost -&gt; Sales Performance</td>
<td>0.121</td>
<td>0.076</td>
<td>0.214</td>
<td>3.134</td>
<td>0.023</td>
</tr>
<tr>
<td>Production Cost -&gt; Sales Performance</td>
<td>-0.321</td>
<td>-0.313</td>
<td>0.231</td>
<td>2.321</td>
<td>0.012</td>
</tr>
</tbody>
</table>

**H1: Production Cost has a significant effect on Sales Performance**

Based on the results of the analysis in table 4, it is obtained T Statistics of 3.134 > 1.96 and P-Values 0.023 < 0.050 so that it can be concluded that H1 is accepted, promotion cost has significant effect on sales performance. An increase in the promotion cost variable will be followed by an increase in sales performance and a decrease in variable promotion cost will be followed by a decrease in sales performance. This Result is align with According to Henseler et al. (2009); Iriani et al. (2021) and Juliana et al. (2021) and Kim et al. (2021) that an increase in the promotion cost variable will be followed by an increase in sales performance and a decrease in variable promotion cost will be followed by a decrease in sales performance.

**H2: Promotion Cost has a significant effect on Sales Performance**

Based on the results of the analysis in table 4, it is obtained T Statistics of 2.321 >1.96 and P-Values of 0.012 < 0.050, so it can be concluded that H2 is accepted, production cost has no effect on sales performance. An increase
in the variable production cost will increase the sales performance variable and a decrease in the variable production cost will decrease the sales performance variable. This result is align with According to Purwanto et al. (2021); Pramono et al. (2021) and Rahaman et al. (2021) that An increase in the variable production cost does not increase the sales performance variable and a decrease in the variable production cost does not decrease the sales performance variable.

IV. DISCUSSION

Based on the results of data analysis carried out in the study, it can be seen that the promotional costs that have been set and allocated to several promotional activities by automotive industry which consist of advertising costs, sales promotion costs, personal selling costs and public relations costs have a significant effect on sales volume, obtained by the company. These results are in accordance with the research Supriadi et al. (2020); Suheny et al. (2020) and Wanasida et al. (2021)that there is a significant effect of promotional costs on sales volume. Promotional costs incurred in getting from sales of the company. The allocation of promotional costs for several promotional activities, namely advertising costs, personal selling costs, sales promotion costs and public relations costs. According to Anas et al. (2020) and Alessa et al. (2021) Advertising activities carried out by the automotive industry that cost money are advertising promotions through newspapers with the aim that the product can be known and known by the wider community, through banners, which are used to introduce the products issued so that they are expected to be interested in buying the product, as well as informing the program credit policy program so that people who see will be interested in buying the motorbike that is being offered, then through radio the company promotes it through programs on local radio stations, through exhibitions in several shopping places, aimed at making people know more closely the automotive distributors and their policies on the products they display. According to Sena et al. (2020) and Suardhita et al. (2020)Personnel allocated to the activities of workers to communicate directly to prospective customers to form customer understanding of products so that they are interested in buying, those who succeed in getting buyers will get a commission from the sales proceeds. Sales promotion costs are allocated for promotional activities in the form of prizes to consumers in the form of lottery coupons, discounted prices, oil, giving free jackets, services and others that have been determined by distributors, the lottery program is one of the activities of allocating promotional costs with the intention that people are interested in buying the company's products by providing prizes and lottery coupons.

Accrprising to Pujianti (2021); Dewi (2021); Yulistiana (2021); Sunarsi. (2021); Imron, et al. (2021) The allocation of promotional costs for community activities is carried out to maintain a harmonious relationship with the community. Public and consumer responses related to the implementation of promotional activities carried out by distributors are evidence of the importance of funding budgets for public relations. This is in line with the opinion expressed by Purwanto et al. (2020) which states “public relations is an important promotional trick in which companies not only have to deal with customers, suppliers and distributors, but also have to deal with a larger pool of public interests.” significantly to the sales volume. Thus, the hypothesis in this study which suspects that there is a significant influence between promotional costs on sales volume is acceptable, so that the objectives of this study have been achieved.

The results of this study in line with the research being carried out Henseler et al. (2009); Iriani et al. (2021) and Juliana et al. (2021) and Kim et al. (2021) which states that “Low production and promotion costs optimal indeed simultaneously affect sales, the more low production costs that are accompanied with optimal promotion then will increase sales value. This matter also supported by research from According to Rudyanto et al. (2020); Sena et al. (2020) and Suardhita et al. (2020) which states that costs production and promotion costs have an effect simultaneously against sales, because with that promotion optimal and minimization of production costs, will encourage and influence consumer interest in buying products such, and can improve sales.

V. CONCLUSION

Based on the results of the analysis show promotion cost has significant effect on sales performance. An increase in the promotion cost variable will be followed by an increase in sales performance and a decrease in variable promotion. cost will be followed by a decrease in sales performance, production cost has no effect on sales performance. An increase in the variable production cost will increase the sales performance variable and a decrease in the variable production cost will decrease the sales performance variable. Based on the results of research that has been carried out in the previous discussion, It can be concluded that there is an influence on the volume of promotion sales have experienced an increase in sales this is due to several things that are implemented in increasing the sales value, namely the quality of housing which is good, comfortable and safe.
This is due to the implementation of promotional activities optimal, which of course is supported by adequate costs. To increase the good sales results every year at need more strategies to increase competitiveness in the midst of competition. The marketing or leader's department must be able or have good ideas to promote their product. That all need to be considered and require costs that can not be detrimental company to increase sales.

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