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Marketing Expenses of Indonesian Contractors

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- Methodology
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BACKGROUND

- ◆ Marketing Mix Concept (Borden, 1950):

- ◆ Ingredients → Recipe → Cook

- ◆ Marketing Mix 4Ps:

- Product
 - Price
 - Promotion
 - Place

→ Marketing expenses may be explored through expenses of those 4Ps mixes

BACKGROUND

- Surprising finding by Mochtar (2001):

- 60% Indonesia Contractors' marketing expenditures are more than 2% of annual contract value **versus** only 14% of US contractors

- Question arises:

- ✦ Indonesian Contractors more aggressive or developed in marketing expenses?

OBJECTIVES

- To investigate the extent of marketing practices in terms of 4Ps expenditures of Indonesian contractors

LITERATURE REVIEW

Marketing Budgeting Approach:

- Percentage of Sales: fixed percentage
- Affordable: company can afford
- Return on investment: expected to desired ratio
- Competitive parity: follow competitors

(Kotler, 1997)

→ Budgeting marketing expenses is the key success of marketing efforts in a (construction) company

LITERATURE REVIEW

Budget based on Marketing Mix 4Ps In Construction:

Product: (First P)

Services

Described and proposed in TP in bidding and the real actions to improve products (services)

Strategy:

1. Innovations: methods, tools, mgmt
2. TP: as routine or excellent TP

LITERATURE REVIEW

Marketing Mix 4Ps In Construction:

Price: (Second P)

Pricing in construction mostly cost-based pricing (Mochtar 2001)

Markup: overhead, profit, and “fees”

Fees for clients: Bidding committee/project leader, other project staff, and “competitors” (bid rigging/collusions) (Arifin, 2003)

Controversy:

1. Bribery (Mochtar Lubis, 1985 and 1992)
2. Usual marketing fee or project cost

LITERATURE REVIEW

Marketing Mix 4Ps In Construction:

Promotion: (the third P)

- printed media adv (newspaper, magazines etc.), audio-visual adv (radio and tv), direct mail, brochures, newsletter, news releases, trade show, client relations, handbooks, company profile, website, event sponsorship, seminars

LITERATURE REVIEW

Marketing Mix 4Ps In Construction:

Place: (the fourth P).

Company branch offices both inside and outside Indonesia.

Company networks/cooperation with other company both inside and outside Indonesia.

Effectiveness measures: market share and profit of the company.

METHODOLOGY

- Survey to 50 Asosiasi Kontraktor Indonesia (AKI-Indonesia Contractors Association) members
 - Responses:
 - 14% returned duly filled out
 - Considering:
 - ✦ Such sensitive issue of “marketing expenses”
 - ✦ Homogeneity of population: AKI members, large contractors, similar internal and external cultures, all practicing in Indonesia
- 14% is relatively high and representative

RESEARCH FINDINGS



Table 1. The First P: Product	
Parameters	Respondents as percentage
In developing most technical proposals respondents would do it	
With no special efforts	0.0
With little efforts and with little modification	57.1
With many efforts and with many modification	42.9
With special efforts and with huge modification	0.0
No answer	0.0
Innovations respondents make in the last years to improve services to clients	
Latest and more efficient construction methods	71.4
Most modern equipment/tools	0.0
New software	0.0
Management approach	85.7
No answer	0.0
Innovations respondents would offer in most technical proposals	
No innovations	0.0
Little innovations	57.1
Many innovations	42.9
Huge innovations	0.0
No answer	0.0
How often respondents use an excellent technical proposal as a strategy to win a bid	
Almost never (0%-10% of bids)	0.0
Sometimes (10%-50% of bids)	57.1
Often (50%-90% of bids)	42.9
Almost always (90%-100% of bids)	0.0
No answer	0.0

Table 2. The second P: Price		
Types of Action	Respondents as percentage	Average score
Bidding Strategy		
Lobby with bidding committee/project leader		
Never	28.6	2.14
sometimes	42.9	
Often	14.3	
Always	14.3	
Price competition		
Never	0.0	3.57
sometimes	0.0	
Often	42.9	
Always	57.1	
Use of more than one company names (Bid rigging)		
Never	85.7	1.14
sometimes	14.3	
Often	0.0	
Always	0.0	
Bid collusions		
never	85.7	1.14
sometimes	14.3	
often	0.0	
always	0.0	

Note: 1=never, 4=always

Table 3. The third P: Promotion		
Activities	Respondents as percentage	Average Score
Printed media advertisements (newspaper, magazine etc.)		2,00
never	0,0	
sometimes	85,7	
often	0,0	
always	0,0	
Audio-visual advertisements		1,17
never	71,4	
sometimes	14,3	
often	0,0	
always	0,0	
Direct mail		2,33
never	28,6	
sometimes	14,3	
often	28,6	
always	14,3	
Brochures		3,83
never	0,0	
sometimes	0,0	
often	14,3	
always	71,4	
Newsletter		2,17
never	42,9	
sometimes	14,3	
often	0,0	
always	28,6	
News Releases		1,83
never	57,1	
Sometimes	0,0	
Often	14,3	
Always	14,3	
Trade Show		2,00
Never	28,6	
Sometimes	42,9	
Often	0,0	
Always	14,3	
Note: 1=never, 4=always		

Table 3. (Continued)		
Activities	Respondents as percentage	Average Score
Client Relations (outside of bidding period)		3,29
never	0,0	
Sometimes	14,3	
often	42,9	
always	42,9	
Handbooks		1,33
never	57,1	
Sometimes	28,6	
often	0,0	
always	0,0	
Manual/company profile (printing)		3,67
never	0,0	
Sometimes	0,0	
often	28,6	
always	57,1	
Website		2,71
never	28,6	
Sometimes	14,3	
often	14,3	
always	42,9	
Event sponsorship		2,29
never	14,3	
Sometimes	57,1	
often	14,3	
always	14,3	
Seminars		2,17
never	14,3	
Sometimes	57,1	
often	0,0	
always	14,3	
Note: 1=never, 4=always		

Table 4. The fourth P: Place

Types of Place	Average
1. Branch Office	
- Inside of Indonesia	
Number of office	10
Number of cities	10
Number of provinces	10
-Outside of Indonesia	
Number of office	0
Number of cities	0
Number of countries	0
2. Company networks	
- Inside of Indonesia	
Number of office	3
Number of cities	2
Number of provinces	2
-Outside of Indonesia	
Number of office	1
Number of cities	1
Number of countries	1

Table 5. Summary of Marketing Expenditure

4P Mix	Average % of Annual Contract Value
Product	1.90
Price	2.40
Promotion	1.43
Place	3.20
Total	8.90

- **Place** is the most expensed ingredient
- **Price** (OH, Profit, and Fees) ingredient is surprisingly high
- **Promotion** and **Product** are unexpectedly low budgeted ingredients → “True Marketing”

CONCLUSION

- Expenditures of marketing in a company may be explored from 4P marketing mix concept.
- Most Indonesian contractors have only average efforts to improve or innovate their service
- Most Indonesian contractors are still national oriented and not international oriented in marketing their products
- Their attitude is to use more intensive price (OH, profit, and “fees”) policy rather than both product innovation and true promotion

CONCLUSION

- Attitude to use more product innovation and true promotion approach in marketing in construction must be encouraged systematically in the future, to improve competitiveness in the long term.

CONCLUSION

- The average 8.9% total marketing expenditures confirm Mochtar's (2001) finding that 60% of Indonesian contractors expense over 2% of annual contract value for marketing purposes. On the other hand, Mochtar's (2000) finding that only 14% of US contractors spend over 2% of annual contract value for marketing purposes need to be reconfirmed.

CONCLUSION

- One possible reason is that “marketing” term here is interpreted as “promotion”. If this term is used in this research, Indonesian's average expenditure for promotion purposes of 1.43% explains this question. Duplication of this research to US contractors is needed and recommended to test this possibility.
- Similar countries may get lessons from this research to improve their contractors approach in marketing their services



**THANK YOU
TERIMA KASIH**



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