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# Pricing – it's all about balance

What is the price and how should it be set?

What is the 'cost of distribution'?

How do I price my product for distribution system partners?

What specific information should I include in my rate agreement?

### What is the price?

Your price is the cost to consumers at various points in the distribution chain. It includes the price that consumers pay when they buy direct from you, the commission and net rate structures offered for intermediaries and the rates for children or students. It also includes your booking terms and conditions.

A product must be priced consistently, accurately and competitively to be successful in the market place. This requires a clear understanding of each individual cost component, including commissions and their impact on the total price of the product. Getting your pricing right is a key requirement for success.

The gross or retail rate of a product is the amount that the consumer pays and should be consistent across all distribution channels. Rate integrity is vital in maintaining good business partnerships.



#### The price should be set according to:

1. Your competitors' pricing
2. The level that your target market is prepared to pay
3. The cost of distribution (i.e. commissions) built into the overall price
4. Fixed and variable costs
5. Seasonality
6. Your profit margin
7. Sustainability. The price should be set at a rate that can be maintained over a long-term period, and does not change drastically season to season. If prices are set to gain entry to a market, this needs to be made clear to distributors.

### What is the 'cost of distribution'?

If you plan to sell your product through the distribution system, you will need to factor commission levels into your price structure. Commissions are a cost of distribution and the fee paid to the inbound tour operator, wholesaler, online and retail agent to market, distribute and sell your product. This is their income, paying for their operation and the services they provide.



#### Distribution costs can be either:

- You, the operator, making a percentage commission repayment to the distributor
- OR
- The distributor paying you a net rate, less the appropriate commission level

Each level of the distribution system receives a different rate of commission. If the price of your product does not allow for these levels of payment, you will find it very difficult to market your product through a tour operator, wholesaler, DMC, online channel or retail agent.

### Why should I factor in the cost of distribution?

If you plan to sell your product through the travel distribution system, you will need to factor commissions and net rates into your pricing structure. These are the cost of distributing and selling your product internationally.

Cost of distribution is a cost of doing business in the international market place. If you can get your pricing right, you should view it as an opportunity to market and distribute your business to an international audience that you might not have otherwise been able to achieve.

### But I can't afford to pay commission!

But can you afford to turn sales away, and do you have the budget and time to be able to market your product across the globe without being part of the distribution network?

### This issue needs to be addressed from 2 different perspectives:

1. How you incorporate the right amount of commission in your prices
2. How much money you make if you pay commission on a sale



### How do I price to incorporate distribution costs?

The price of your product is made up of the following cost components:

- Fixed costs or overheads – light, power, marketing, telephone, admin wages etc.
- Variable costs – the costs associated with supplying the service – e.g. laundry, cleaning, inclusions
- Profit margin – the small amount that will contribute to your end of year profit
- Average commission – an allowance to be able to pay commission to travel agents
- VAT – if you are VAT registered

The sum total of all the above costs is your market price or gross price. From this gross price you can calculate the net price by deducting the specific level of commission offered to the partner in the distribution chain. It is important not to just add the commission on top of your publicly displayed market price, as the customer should pay the same price if they book direct, via an international travel agent or via the internet, for example. Consumers will not purchase the product from a distributor in advance if they know they can purchase it directly from you at a reduced price. Distributors will not promote and market your product if they know the consumer is not going to buy from them.

### How do I price my products for distribution system partners?

When dealing with the travel distribution system, you must understand the difference between net and gross (or retail) rates and 'protect your rates' by providing the correct rates to each level of the distribution system.

It is important to understand that commission levels will vary across the entire distribution landscape, so it is best to work on a case by case basis.

Rates should be clearly marked as either gross (retail) or net.



#### **Gross rate = Net rate + Distributor's commission/margin**

- Distributors can not change the price from this agreed gross selling price, from which they will receive a commission payment from the supplier for each sale

#### **Net rate = Gross rate – Distributor's commission/margin**

- Distributors can mark up the net rates as they wish, applying a margin to cover their cost of sale and to ensure a profit

The margin is referred to as a percentage of the final price, rather than as an addition to the net rate.

**For example:**

When a tour operator contracts a product, a net rate (or contract rate) is agreed between supplier and tour operator. The tour operator adds on an amount of money (a mark up) to this contracted rate that means they make money on the sale, and can afford to pay a retail agent a certain commission also.

<b>Hotel net rate / contract rate</b>		<b>£ 100</b>	<b>per room per night</b>
<b>Tour operator mark up</b>		<b>25%</b>	
<b>Gross rate / 'brochure' price</b>		<b>£ 125</b>	<b>per room per night</b>

The tour operator here makes a 20% margin (£25), calculated as a percentage of the gross rate / 'brochure price'. An agreed proportion of this gross rate (e.g. 10%) is paid by the tour operator to the retail travel agent, if sold by one.

**The 'do's and 'don't's of pricing****DO**

- ✓ Get the price right for the market and compare it with prices offered by your competitors
- ✓ Build a totally consistent rate schedule
- ✓ Guarantee your rates for 1 April to 31 March. Price guarantees may need to be valid for up to 18 months
- ✓ Ensure that your price will generate sufficient profitability and turnover
- ✓ Ensure that the validity date and all booking terms and conditions are clearly stated on all correspondence related to pricing
- ✓ Ensure that you identify any seasonality in your product (i.e. high season, low season, and days of operation and clearly identify the corresponding rate alterations
- ✓ Ensure you know who you have distributed rates to so you can update them
- ✓ Ensure your prices are sustainable in the long term

**DON'T**

- ✗ Just add the cost of commission for the different distributor channels on top of your public pricing. This will immediately ensure the inbound market will not do business with you as they will be priced out of the market
- ✗ Distribute rates intended for wholesalers, DMCs and tour operators to retail agents. This will either increase your commission payments or dispense with one level of the distribution system for your product
- ✗ Consider commissions as a 'discount' as they are part of the cost of doing business. Intermediaries' have to promote your product and pay their costs in selling and packaging your product
- ✗ Try to set different rates for local and overseas visitors unless there is a variation in the product offering

### What specific information do I need to include in my rate agreement?

In order to make your product easy to sell for your distribution partners, when setting your rates, keep it as simple as possible. If your product is seasonal, or if you have chosen to use mid-week and weekend rates, keep the number of seasons or price categories to a minimum. Having too many rate periods is confusing for agents, makes your product more difficult to sell and may mean that your product is less likely to be featured in distributors' programs.

This doesn't mean that 'specials' can't be offered throughout the year. When offering special rates or packages ensure that they are structured to include all levels of distribution and that the validity and terms and conditions are clearly stated.

To protect your business, it is important to clearly state all the booking terms and conditions with your rates. It is preferable that the terms and conditions are on one page, attached to your rates. The more information that you provide on your rates agreement the easier it will be for your distribution partner to load your product efficiently into their system ready for sale.

You may also be asked to complete risk assessment or SLAs as part of the rate agreement, to ensure that this complies with distributor regulations or insurance policies. Make sure that this fits with your own liability and insurance policy.

This is to be used as a guide only. You should seek professional legal advice for your own business, especially to ensure all your terms and conditions are covered to protect your business.



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## Rates agreement - what to include?

- **Rate validity dates:** Rates for the international market need to be valid 1 April – 31 March and need to be guaranteed and final
- **Gross (retail) and net rates:** List both the gross (retail) and net rates and the commission level percentage. Be clear – are your rates per person, per room, per vehicle? Use tour codes where possible
- **VAT:** Clearly indicate if rates are VAT inclusive or exclusive and any further additional charges that may apply
- **Contact details:** Include address, phone, fax, mobile, email and website. Include specific contact details for bookings, marketing and accounts
- **Cancellation conditions:** Explain cancellation charges based on the time cancellation occurs prior to travel. Ensure your cancellation conditions are in line with industry standards as well as meeting your operational needs
- **Termination policy:** Explain obligations on both sides in case either side needs to end the contractual obligations
- **Amendment charges:** Explain amendment charges based on the time amendments occur prior to travel. Ensure your amendment charges are in line with industry standards as well as meeting your operational needs
- **Child/Infant:** Advise age ranges and then provide actual rates on your rate sheet. For example – Infant is under 2 years, child is 2 to 12 years inclusive. If you also offer discounts, such as a Seniors Discount, please also list this and the identification required
- **Group conditions:** For example, how many days prior to the tour or accommodation booking do you require a group rooming list? What is the minimum number required to access group rates if provided?
- **Free of charge (FOC) policy:** Stipulate that this applies to groups only and advise how many rooms need to be booked or how many passengers on tour. For example it is usually 1 FOC for every 15 paying passengers or 1 FOC room for every 10 rooms booked
- **Inclusions & exclusions:** For example meals or room inclusions i.e. breakfast, newspaper
- **Minimum night stays:** Ensure these are listed, if they are only over peak periods list the specific peak period dates
- **Minimum and maximum guest capacity on tours:** Also advise any minimum numbers to make a booking
- **Any block out periods / seasonal rates / days not operating:** These need to be advised at the time of contracting, not after the rate agreement has been issued
- **Bedding configuration:** Also include maximum capacity per rooms and any additional bedding charges (e.g. rollaway bed)
- **Departure times, dates and points:** Also include any specific details to assist your customers in finding your tour departure (e.g. include a map)
- **Payment policy & banking details:** Include when the payment is due for each booking and how payments should be made. Also state that if a trade distribution partner is going to be on an account basis (for example invoiced every 30 days) that they need to complete a credit application form and a credit check will be undertaken
- **Any special conditions:** For example, if photography is not allowed on tour or that the tour may not operate in certain weather conditions, or if it is an all weather activity. Be careful to cover inclusions on your tour, for example guests will have the opportunity to spot whales, however sightings can not be guaranteed
- **Any additional information of relevance:** For example, check in/check out times, what passengers need to bring on tour, if passengers need to arrive at a set time prior to departure, what they need to wear (e.g. long trousers for safety), what level of fitness they may require etc.
- **Damages and responsibilities:** This clearly needs to state who is responsible for any damages. You may also include that you recommend that all passengers have travel insurance



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