

3.12 Channelling your business

Net rates

A net rate is a wholesale price offered to tour operators for marketing and selling your product or service. It is the same price as the retail price less commission. Tour operators pay you the net rate and they mark up for sales through their trade channels to reach a price for the consumer that is fair and competitive.

Remember—you only sell at a net rate when the tour operator makes the sale.

Accounting for commissions

If you deal with the travel trade, you will need to do some special price calculations to ensure that your business and your travel trade partners still get the profit margins they need.

Example:

Net cost of tourism product for supplier	\$100.00
Your net profit, markup 15% (0.85 divided into 100)	\$117.65
Net amount you must receive on each sale	\$117.65
Retail selling price, mark up 20% (0.80 divided into 117.65)	\$147.06
Travel agent price, less 10% off of retail price (\$14.70)	\$132.35
Net price, less 20% off of retail price (\$29.41)	\$117.65

Net amount paid to your business when both distribution channels are involved \$117.65

** commission percentages are estimates. These can usually be negotiated. The retail price allows you and the tour operator to pay a travel agent a minimum of 10% commission regardless of whom they purchase with. The retail price a consumer pays for their travel package should be similar no matter where in the world they purchase from.*

Advantages

These distribution channels can work to the advantage of the small tourism operator. The travel trade is active all the time – buying, selling and looking to develop new products and packages to meet the market demands of travellers. The trade could be selling your summer tourism product during the winter when it is 40° below and the snow is two feet deep and you're on a beach in Cancun. There are industry trade shows where international travel trade get together to buy and sell tourism products and packages from around the world to consumer travellers within their own countries. Your access to this market is through the travel trade.

Meeting standards

Getting your product introduced to the travel trade will require proof of its quality and the capacity of your business to provide it consistently. This may make it difficult to get a new product and a new tourism business operation into the hands of a tour operator until a track record is established. You will be required to maintain a product and delivery standard that is acceptable to the travel trade with whom you are dealing. Their consumers will set this standard. In the European Union, for instance, there is *Consumer Protection* legislation for tourists that requires all tourism products sold in Europe to meet specified standards and to be delivered in exactly the way they are advertised and packaged. As you deal with tour operators, they will inform you of the product standards that are expected.

Calculate the "true" costs

If there is a cost overrun or any reduction in the selling price, your profit margin will be reduced. The selling price will depend on the prevailing market value for your tourism product. Make sure to gather current information in your market research about prices and commissions so you can accurately calculate the net amount you will receive from the sale. If this net amount is *less* than the cost of delivering the product plus the profit margin you expect, then there is a problem. Take care in calculating the *true* cost of your product. Do not forget the indirect costs, such as the cost of getting your bookkeeping done, which have to be recovered from the sale.

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Intangible and perishable products

Selling your tourism product can be a daunting task. In addition to pricing, promotions and advertising, you must consider the issue of distribution, or *place*, as it is referred to in the 4 Ps of marketing (*see Fact Sheet 3.8*). A tourism product is not the same as many other products offered for sale. For one thing it is often *intangible*—atmosphere in a dining room, the sound of geese and swans as they migrate south, the smell of fresh baking outside a window. For another, tourism products are often *perishable*—if they are not sold by a certain date, they are worthless and can no longer be offered. After all, once the tour bus leaves, empty seats stay empty. It is important to establish an effective means of distribution before your product reaches its expiration date.

Selling direct to the consumer

Selling direct to the tourist is an attractive way to distribute your product. Since the Internet has become the number one travel planning resource, just about anyone with a website has this ability. Large operators such as major airlines, hotels and rental companies have been selling direct for years as they are large enough to afford the significant advertising costs and other overheads of direct distribution. There are also situations where direct sales make sense for small operators. In-destination distribution, such as gift shops with high traffic locations will sell primarily to walk-in tourists. Local tour suppliers featuring day-tour products can improve sales by selling their product in high traffic locations such as hotel lobbies or near tourist shopping and dining areas. Advertising in the *Yukon Vacation Planner* and other travel publications is another way of promoting direct sales. There are also consumer and travel trade shows at which you can promote and engage in direct sales of your tourism product. Selling direct to the consumer works for some businesses; however, many tourism products from small or newly formed businesses can be more efficiently and effectively distributed to a world-wide audience of consumers by using the industry's channels of distribution.

If you market and sell your product directly to the consumer AND through the travel distribution channels, the retail price the consumer pays should be similar to the price they would pay if they had booked through a tour operator or travel agent. Provide enough of a profit margin to the trade, so that they may sell at the same retail price as you. This is explained in more detail below.

The travel trade

The tourism industry distribution system is often referred to as the travel trade and consists of travel agents who are based in markets and buy retail or commissionable products and packages. Outbound tour operators, also referred to as tour wholesalers, are based in markets and purchase wholesale-priced (or net priced) packages that they mark up and sell retail to travel agents or consumers. Receptive or Inbound tour operators, are based in Canada and may sell wholesale or retail priced packages and products.

As in other industries, wholesalers and retailers are used as intermediaries between the supplier (you) and the travelling consumer. The travelling consumer is a client of all businesses involved in the sale of the package; however their primary contact is with the travel agent or tour operator whom they paid for the products. Commissions or net rates (up to 30%) are shared amongst the distribution channels.

This example shows how the distribution channel might flow:

- Consumer → Travel Agent
- Travel Agent → Outbound Tour Operator
- Outbound Tour Operator → Receptive or Inbound Tour Operator
- Receptive/Inbound Tour Operator → Supplier
- Supplier owns and operates product or service

Consumers are free to bypass intermediaries and purchase the product directly from you, the supplier. When this happens, you benefit by retaining the commission which you had already built into your product for selling through travel trade distribution channels. Note: it is industry "best practice" not to undercut your travel trade partners by discounting your retail price just to make

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Commissions

the sale. The consumers may end up booking through their travel agent, especially if flights and multi-destinations are involved.

If you intend to sell your product through the travel trade distribution system, you will need to understand the commission structure for each level of distribution and build these commissions into your final selling price. Commissions are the amount paid to the tour operator or retail travel agent when they sell your product for you without any effort on your part. The consumer buys the product at a retail price. The trade is paid a commission off of the retail price. Commissions offset some of the costs incurred by intermediaries marketing and selling supplier's tourism products. Supplier's commissions are paid to the business to whom they have sold their product. That business distributes the commissions amongst the intermediaries in the channel.

Each level of the distribution channel generally receives a different level of commission. If you do not recognize these levels and adjust your prices accordingly, you may find it difficult to market your product through the travel trade. The benefit of marketing through the travel trade is that they provide you with distribution and a marketing presence into target markets that you may never be able to reach on your own.

Note: commissions are only paid when the sale is made.

Commissions and Channels of Distribution – a general overview, subject to change and negotiations.

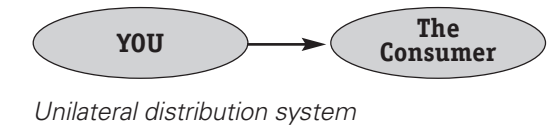
SALES METHOD	LEVEL OF COMMISSION	EXPLANATION
<p>Receptive/Inbound Tour Operator is usually based in destination and sells net prices of products and packages to outbound tour operators. They may also sell retail products direct to travel agents and consumers.</p> <p>Outbound Tour Operator (commonly referred to as tour wholesaler) is based out of the destination and sells packages and products to Yukon from within their own region or country through travel agencies, internet and tour companies.</p> <p>Both package many different suppliers' products into their multi-experience portfolio. With the Internet, the ability to sell both wholesale to other businesses and retail to the consumer is possible.</p>	<p>20-30% minimum</p> <p>20% minimum</p>	<ul style="list-style-type: none"> A net price providing a 20-30% margin is agreed to with the receptive/inbound tour operator who negotiates on behalf of the outbound tour operators and their travel agents. Receptive/inbound tour operators will request the highest level of commission to cover their costs and those associated with selling through outbound tour operators. Outbound tour operators anticipate a minimum of 20% commission in order to promote your product and pay a minimum 10% commission to travel agents selling on their behalf. Sometimes the outbound tour operator will bypass the receptive/inbound tour operator and work directly with the supplier.
<p>Supplier Local business that sells their products and services direct to the consumer or through the travel trade.</p>	<p>Sells retail and gives 10% - 30% commission or offers net rates to travel trade</p>	<p>They may provide individual components like hotel, car, attraction, or combine several components into one offering to create a packaged product, like a day tour with flights, hiking and lunch included or a multi-day river trip.</p>
<p>Retail Travel Agent</p> <ul style="list-style-type: none"> Purchases travel packages and products from tour operators. May purchase individual products direct from supplier, i.e.) hotel, airfare, car rental. 	<p>10% minimum</p>	<p>A travel agent retains a 10% commission for selling and promoting your tour product to the travelling consumer.</p>
<p>Direct to Consumer Consumer purchases a retail price direct from the supplier or tour operator. The supplier is responsible for all sales and marketing efforts.</p>	<p>No commission</p> <p>With commission built in</p>	<p>Do not have to build in commissions to your selling price which may provide you with a more attractive selling price to the consumer, but only you will be able to sell at that price.</p> <p>The price the travelling consumer pays to you will be the same price he will pay to a travel agent or tour operator. The benefit with direct sale as a supplier is that you keep the maximum profit margin.</p>

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Three main channels of distribution

Unilateral distribution system

The unilateral distribution system is the simplest method; you sell directly to your consumer. The advantage to you is there are no commissions added or paid out. The disadvantage is that you alone are responsible for making the sales. Advantages to the consumer fall to those who prefer dealing directly with a supplier, as this gives them a greater sense of personal involvement in their plans. The disadvantage to the consumer is the inability to purchase all components of their travel plans from one point of sale, along with the possibility that they may not be able to find your product through a single distribution channel.



Bi-level distribution system

The bi-level system places one intermediary between you and the consumer, usually a travel agent or a tour operator who sells your product at a retail price. In the Yukon, this middle-man is likely to be a receptive inbound tour operator who specializes in providing package tours and individual tour components for incoming tourists. The major advantage of the bi-level system is the access it gives you, the supplier, to the intermediary's connection of sales outlets. Having your product represented through several sales outlets can give you a much broader reach into the market than you can do on your own. Another advantage is that many consumers feel more secure in purchasing travel arrangements through a travel agent or tour operator; they feel they are getting



both professional and personal service. Additionally, they can advise the consumer about all their options and then make all the necessary travel arrangements in their itinerary, providing the consumer with one point of sale for all components. The disadvantage to you is that you must pay a commission to the tour operators or travel agents, ranging from 10% up to 30% on sales they generate for your business.

Multi-level distribution system

The multi-level system is the most intricate, involving two or more intermediaries, and is used primarily to sell tour packages and products that are somewhat complex or are components of a multi-day program where one point of sale is necessary. However, depending on the partnerships, individual products such as accommodations or car rentals, may be sold through the multi-level system. Typically, you sell your product to a receptive or inbound tour operator at a wholesale price. They will package it together with other tour components such as meals, accommodation, transportation, and then sell the package to the outbound tour operator at a wholesale price. The outbound tour operator marks up the product to a retail price (similar to your retail price if you are selling direct to consumers), then sells to a local travel agent who books and purchases the product on behalf of the consumer.

The advantage of the multi-level system to consumers is one point of purchase for all components, one point of contact for questions and in some cases greater value and savings on the cost of a package than if the consumer tried to book all the components separately on their own.

If you have already built in the profit margins to your selling price, there is no disadvantage to you to sell this way. If you have not, the disadvantage to you is a substantially discounted price on the sale of your product should you need to sell this way. However, this can be turned to advantage by the fact that your product is being promoted in markets you may not be able to reach, paid for in advance when the consumer books all of their arrangements through their travel agent, and made more attractive by being packaged with other products and experiences. Plus, the intermediary offices handle all the questions, correspondence and financial transactions before the consumers arrive at the destination. Communication with your intermediary partners is critical so the message to the consumer is accurate.

