



Tourism Business Information

Pricing your tourism product

To be successful in the marketplace, a product must be priced accurately and competitively. This requires a clear understanding of the individual costs of all product components and their impact on total product price.

Factors influencing pricing

Seasonality

Fluctuations in business between high and low season.

Operating costs

Including general overheads, promotion and labour costs which can vary depending on business peaks and troughs.

Competition

This influences the maximum price for which a product can be sold.

Demand

Generated by existing and potential customers.

Calculating a basic sale price

A base nett rate is what an operator must receive from the sale of a product. Base nett rate is generally calculated considering overheads and other operating costs, allowing for a margin on the price that is considered profit.

Examples of overheads and operating costs include:

- labour costs (including yourself and your staff).
- cleaning, maintenance and repairs.
- stock (including stationery, linen, food, petrol, stamps, machinery and uniforms).
- bank fees.
- insurances.
- marketing (including research, advertisements, promotions, brochures consumer or trade events and travel costs).
- commission rates.

Nett Rate = operating costs and profit.

Expanding distribution channels

Smaller operators usually sell direct to customers, thereby providing the best profit margin. However, expanding the number of distribution channels selling a product can improve sales and therefore

profitability. Establishing a business link with sales intermediaries does involve some costs. These are usually not upfront costs, but incurred after a sale is made. This is commonly known as a "commission" and is classified as a distribution cost.

Using a combination of distribution channels to sell a product can contribute to improved bookings and ultimately increased profits.

Who is who in the distribution process?

Retailer

Either based in Australia or overseas, and commonly known as a retail travel agent. Retailers provide customers with an accessible place to book or enquire about travel products.

Wholesaler

Provides retailers with travel packages comprising two or more products supplied by different operators. Wholesalers can be based in Australia or overseas.

Inbound Tour Operator

Based in Australia and responsible for booking the ground arrangements (itineraries) on behalf of an international wholesaler.

Pricing products with commissions

Each distribution channel receives a level of commission which is generally a standard rate. These commissions should be added to the nett rate to create a retail price.

Distribution Channel	Commission
International or domestic retailers who sell directly to a customer	10%
International or domestic wholesalers who sell to retailers, who then sell to a customer	20%
Inbound tour operators who sell to wholesalers, who then sell to retailers, who then sell to a customer.	25-30%

Retail Price = nett rate + distribution costs.

Distribution costs must be added to nett rates to create a retail price. A retail price is the maximum price a customer pays for a product, irrespective of where it is bought.

Handling business enquiries

From customers

Should be quoted the retail price of a product.

From retailers

Should also be quoted the retail price. The retailer will then deduct the standard 10% commission leaving 90% of the retail price.

From wholesalers

Should be quoted a wholesale rate of 20% less than the retail price.

From inbound tour operators

Should be quoted an inbound rate of 25-30% less than the retail price.

When handling booking enquiries, it is important to confirm who you are dealing with so that you know the correct price to quote. It is also essential that wholesalers and inbound tour operators are aware of the actual retail price which allows for commissions. This will prevent any incorrect pricing of a product.

Credit cards

Offering customers the option to pay for a product by credit card can streamline bookings and improve sales. A credit card facility can be easily obtained through any bank, however it is recommended that the fees and conditions imposed by a variety of banks be carefully compared.

A credit card facility:

- improves the security of bookings. Recording customers' credit card numbers confirms bookings and dispenses with the need for deposits.
- offers customers a simple method of payment.
- improves business credibility and professionalism.

Credit terms between operators and sales agents

Many wholesalers and inbound tour operators do not pay for a product until travellers actually depart on a holiday.

The accepted method of payment is a voucher system. Vouchers are presented by the traveller to the operator at the time the product is used. Operators then return the voucher to the sales agent in order to receive payment – which is usually within 30 days.

Competitive pricing

Discounted prices

Commonly applied in the off season. Although it can be useful in gaining immediate business, discounting does not usually differentiate a product from the competition and is generally quickly matched by competitors.

Value adding

In comparison to discounting, value adding can create a competitive edge and attract a greater market share. It can also help to prevent business fluctuations for products subject to regular peaks and troughs.

Examples of product value adding may be:

- a purchase incentive (eg champagne on arrival or complimentary parking).
- a package (eg 3 nights accommodation including tickets to a particular attraction).

Prices for packages

The following pricing methods are applied to packages and the most appropriate method depends on the type of product being sold. See *Fact Sheet "Packaging for domestic markets"*.

Disguised pricing

Generally, discounted package components (eg accommodation, meals, entry fees, transport) are presented as one upfront cost. This method disguises the exact cost of individual components and also the extent of discount provided by individual operators.

Visible pricing

Offering a range of activities, attractions and options, with each component costed at their full price, can result in a final package cost that is too expensive to be appealing. This can be overcome by offering a flexible package with each component priced separately and purchased individually. The customer is then able to select their preferred package components according to the travel preferences and budget.

For more information on pricing

Refer to:

- your local Business Enterprise Centre
- your local tourist information centre
- Tourism New South Wales
- Tourism Training New South Wales

Pricing Pointers

- Consider all costs and include in pricing.
- Differentiate between fixed costs (eg rent) and variable costs (eg promotions). Variable costs, including the actual cost of a product, will change as product demand changes.
- Be realistic to ensure you obtain profits while retaining a competitive edge.
- Understand market demands and their impact on price. Consider what can be added to improve sales without sacrificing profit.
- Improve ease of payment for customers by providing credit card facilities.
- Consider expanding the distribution channels available to sell a product, using travel agents, wholesalers and inbound operators.
- Ensure commission rates for all intermediaries are factored into retail price.
- Be sure of different pricing levels for different intermediaries and quote accordingly.
- Anticipate and allow for delayed payments when dealing with sales agents (eg wholesaler voucher system).
- If packaging, determine the most appropriate pricing method for the particular product (eg. disguised or visible).

For more information concerning tourism product development, obtain a copy of Tourism New South Wales publications list and order form. Phone 9931 1111.



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