

# MONEY... MONEY... MONEY...

## PRICING AND COMMISSION

Understanding how to price your tourism product to ensure you are operating profitably is an integral part of operating a tourism business. It is essential that you understand how to price your product, allowing for fixed and variable costs as well as the appropriate commission levels that align with your distribution network.

## DEFINITIONS

**COMMISSION:** A cost of distribution and the fee paid to others to market, sell and distribute your product.

**GROSS / RETAIL/ RACK RATE:** The price paid by the consumer either directly to you or to an agent selling your product.

**NETT RATE:** The price that is paid to you from an agent, less their commission.

## WHY PAY COMMISSION

Paying commissions provides your product with exposure to consumers that you can't reach yourself personally.

The commission you pay to an agent is the cost of distributing your product through their channels.

The cost of distributing your product is paid by either you the operator making a percentage commission payment to the distributor, or the distributor paying you a nett rate, less the appropriate commission.



## WHO GETS COMMISSION

Visitor centres, booking agents, travel agents, wholesale agents and inbound operators.

Each play a different role and therefore require different levels of commission.

### Who gets how much?

Customer → **Operator Pays 0%**

Customer → Retail Agent → **Operator Pays 10% - 15%**

Customer → Retail Agent → Wholesaler → **Operator Pays 20% - 25%**

Customer → Retail Agent → Wholesaler → Inbound Agent → **Operator Pays 25% - 30%**

## WHAT'S AVERAGE COMMISSION?

It's the average amount of commission you pay over a year and takes into account paying no commission on some sales, 10% on some sales, 20% on other sales etc.

COMMISSION TYPE	PROPORTION OF ANNUAL SALES	WEIGHTED AMOUNT OF COMMISSION
0%	53%	0%
10%	35%	3.5%
20%	10%	2%
30%	2%	0.6%
	<b>= 100%</b>	<b>Av. = 6.1% Commission</b>

So, using this example the operator must incorporate an extra **6.1%** into their cost structure.



## PRICING TO INCORPORATE COMMISSION

The price of your product is made up of:

- Fixed costs eg, rent, insurance
- Variable costs – the fluctuating costs associated with providing the product / service, eg food costs
- Profit margin – the amount that will contribute to your end of year profits
- Average commission – allowance so you are able to pay commission to agents
- GST – if applicable

## I CAN'T AFFORD COMMISSION

If you are operating at full capacity 100% of the time, then you don't need to.

But...if you have spare capacity can you afford to turn away sales?

The cost of refusing to pay commission of 10% on a room with a tariff of \$100 that would otherwise sit empty could cost the operator \$90 of missed revenue.



## COMMISSION AND THE RIGHT MIX FOR YOUR BUSINESS

BOOKING CHANNEL	COMMISSION	PERCENTAGE OF BUSINESS	GROSS OR RACK RATE	GROSS REVENUE	NETT RATE	NETT REVENUE	COMMISSION PAID
Direct	0%	60	\$100	\$6,000	N/A	\$6,000	\$0
Online Retail	10%	5	\$100	\$500	\$90	\$450	\$50
Retail	15%	10	\$100	\$1,000	\$85	\$850	\$150
Wholesale	20%	10	\$100	\$1,000	\$80	\$800	\$200
Online / Inbound	25%	10	\$100	\$1,000	\$75	\$750	\$250
Inbound	30%	5	\$100	\$500	\$70	\$350	\$150
<b>Totals</b>				<b>\$10,000</b>		<b>\$9,200</b>	<b>\$800</b>