

YOUR JOURNEY TO TRADE READINESS

LUNCH 'N LEARN SESSIONS

Pricing & Commissions Part 2

Tuesday 12 November, 12.30pm

Establishing your retail rate
Operating cost
Commission
Margin

Why do we give commissions?
Rate Parity
Establishing a contract

TUESDAY
12 NOVEMBER,
12.30PM
VIA ZOOM



Welcome

- Collaboration between RTOs
- Short lunchtime sessions to build industry knowledge & capability
- Topics of interest from operators – help us to shape the programme
- Time for Q&A at end of each session (inc anonymous functionality)
- Sessions recorded & hosted on RTO website
- Pause for peak season, resume next year



Tourism Waitaki



Mackenzie
Region



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Your Journey to Trade Readiness

Understand the Travellers and the Trade distribution channels Part 1

Tuesday 5 November, 12.30pm

The Travellers:

Domestic vs Internationals
NZ Mains Markets
Market characteristics

Types of travellers (overviews, coach travel, Cultural differences)

Travel Trade:

Benefits
Travel distributions channels
How does it work?
Pros & Cons of each channel

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Showcasing your product Part 3

Tuesday 19 November, 12.30pm

Trade marketing collateral
(presentations, rates, fact sheets, image library etc.)
Watch your tone!
Considering the memberships

Showcasing your product:

Your own website
Direct connectivity
Talk to your RTO
Tourism New Zealand: New Zealand.com
I site & visitor centres network
Trade events, Trade shows & Sales calls + Famils



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Your Journey to Trade Readiness



Geraldine Morisse

- Extensive trade background including over 9 years as NZ based inbound operator, and engaging with trade as operator
- Over 4 years with RTOs helping industry with trade
- Now supports industry to get 'trade ready' with own consultancy 'Trade Ready with G'



Your journey to
TRADE READINESS

MODULE 2:

PRICING
&
COMMISSIONS

A woman with long dark hair, wearing a black floral-patterned dress, is standing in a grocery store aisle. She is holding a small jar and looking at it intently. The aisle is filled with shelves of jars, likely containing preserves or condiments. In the background, other people are visible, including a man and a young child. The lighting is bright, and the overall atmosphere is that of a well-stocked grocery store.

PRICING YOUR PRODUCT

INTRODUCTION

It is important when pricing your product that you consider all the costs associated with running your business. I always recommend physically writing down everything.

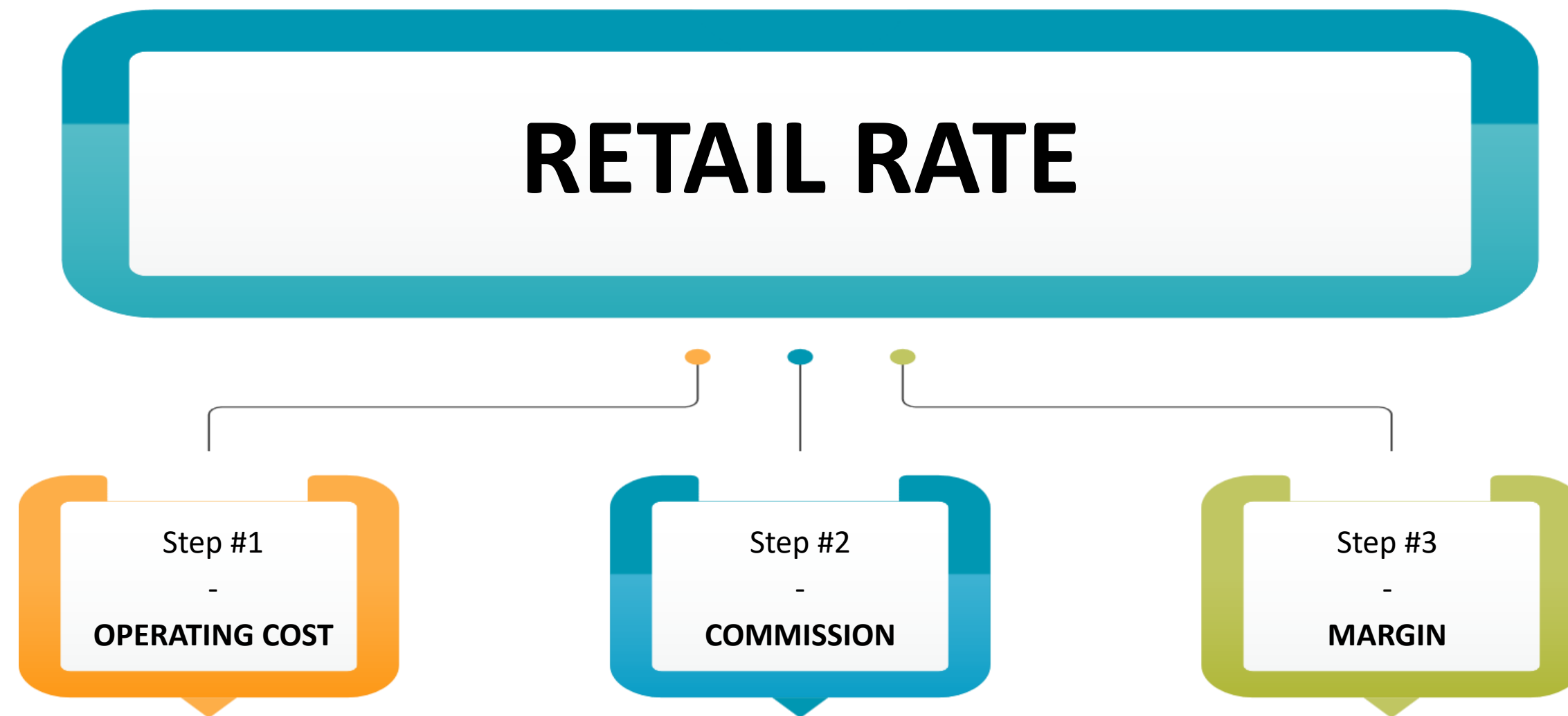
The price should be set according to:

- The level that your target market is prepared to pay
- Your competitors' pricing and offering
- The cost of distribution (including commissions)
- Fixed and variable costs
- Seasonality
- Your profit margin

Your pricing strategy may initially take some trial and error to 'test the market' and that's okay!

ESTABLISHING YOUR RETAIL RATE

Your retail price needs to encompass all the costs associated with conducting business. Identify how you plan to distribute your product and build in a commissionable component. It also needs to have a large enough margin to ensure a profitable and sustainable operation.



Doing this exercise will help to identify how many customers you need in order to break even and will provide a guide as to when your business will become profitable.



OPERATING COST

Fixed Costs

Costs that occur regardless of having someone stay / operating your tour.

Operations:

- Rent / Mortgage / Rates
- Loans
- Gas / electricity
- Waste removal
- Water
- Equipment depreciation
- Licensing
- Permits
- Internet / phone
- Computer software
- Web hosting

Administration:

- Accounting Fees
- Kiwi Saver
- Government charges
- Wages (incl. owner)
- Postage / Stationary
- Insurances
- Bank charges
- Work cover
- Membership fees

Variable Costs

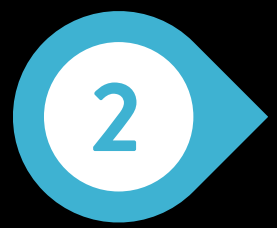
These costs only occur when you have someone stay or experience your tour

- Food / Drinks (pp)
- Entrance costs
- Fuel
- Welcome gifts
- External suppliers misc costs
- Consumables (shampoo, conditioner, insect repellent...)
- Cleaning
- Casual wages / Operational staff
- Vehicle costs / servicing
- Travel
- Maintenance
- ...

Marketing Expenses

Costs that occur throughout the year to promote your business

- Brochure production
- Brochure distribution
- Marketing Fees
- Social Media
- Printing costs
- Famils
- Internet development
- Sales calls
- Campaign fees
- Advertising
- ...



COMMISSION

Build a commissionable component in your retail rate.

Know the difference between **gross** and **net rates**.

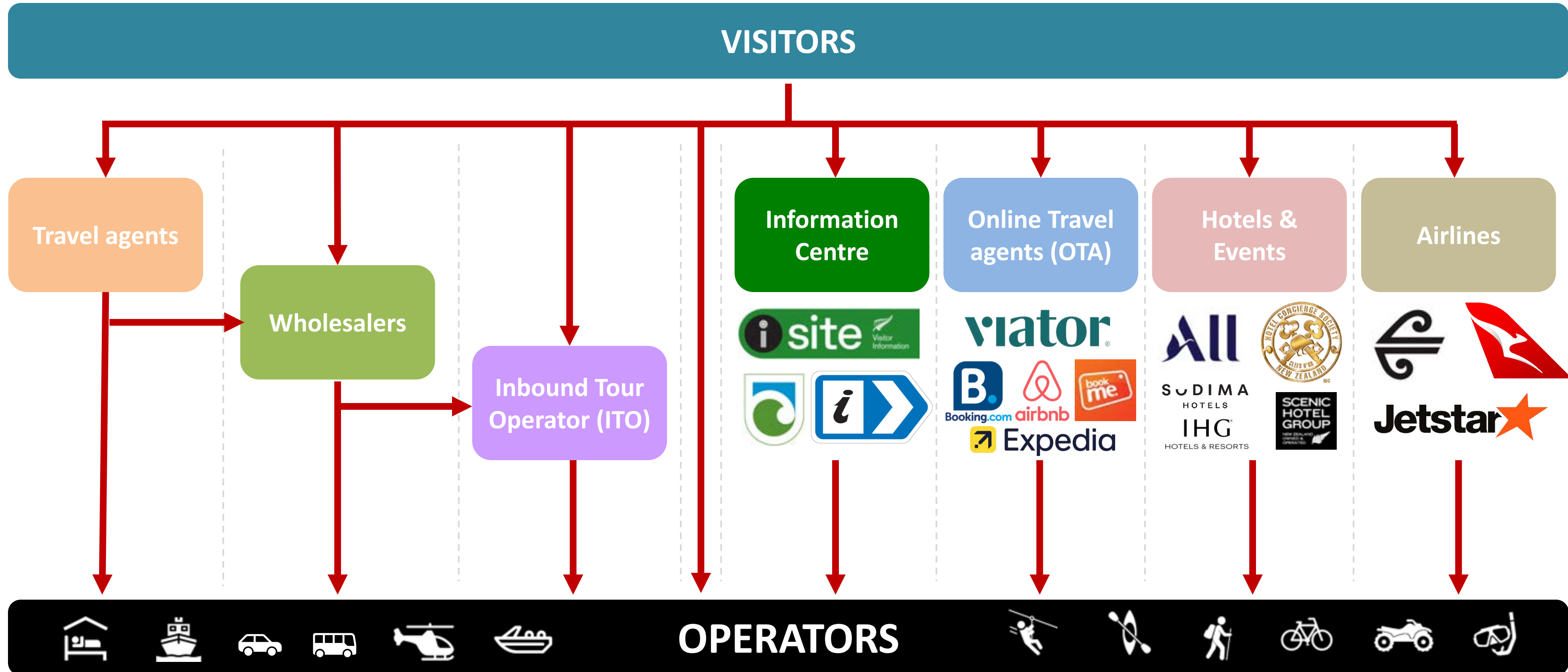
- Your 'gross price' is the price that your customers will pay, no matter where your product or service is purchased.
- Wholesale and Inbound agents will request 'net rates'. Net rates are your gross price less the commission you agree to pay to that agent.

Depending on who you choose to work with you may be asked to pay between 10% to 30% commission.

This may seem daunting at first, however let's review the travel distributors.

TRAVEL DISTRIBUTORS

Members of the travel trade are known as travel distributors.



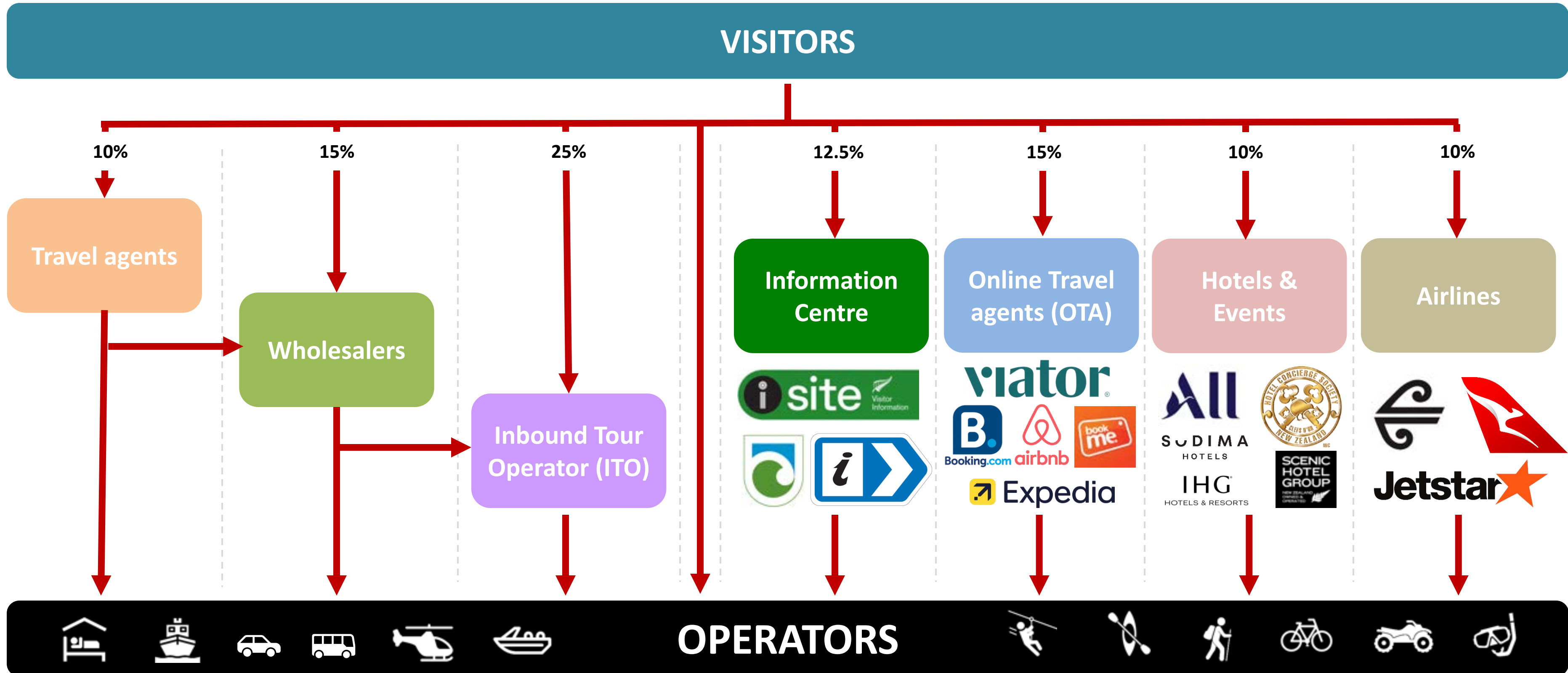
COMMISSIONS GUIDELINES

| CHANNEL | COMMISSION LEVEL | EXPLANATION |
|--------------------------------|--------------------------|---|
| Inbound Tour Operators ITOs | 20-25% Minimum is 20% | Most contracts are at 25%. 20% is generally for small operators or a starting point when new relationships are formed. It can reach 30% due to important sales volumes either at each sale or under the form of an annual override. |
| Wholesalers | 15% | If you pay ITOs 20%, the wholesaler can't be at 20% as you need to reflect the distribution chain. 5% less than the ITO is generally the way to go if you were to work with wholesalers directly. |
| Online Travel agents (OTA) | 15% | 10-15% commission. OTAs are asking more and more commission to the point that some of them ask for a higher commission than ITOs. |
| I-Site/Information Centre | 12.5% | Most I-sites and visitors centre are sitting around the 12.5% commission |
| Retail Travel Agents | 10% | 10% commission is classic |

Commissions should always be different based on the distribution channels.

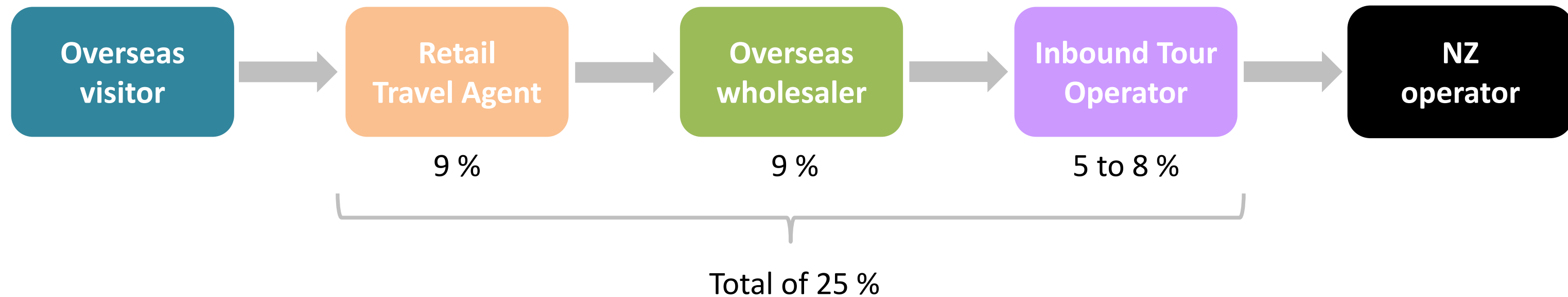
COMMISSION GUIDELINES

Members of the travel trade are known as travel distributors.



COMMISSIONS TO ITOs

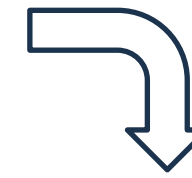
Example: When you pay 25% commission to an ITO, the commission is actually divided amongst the different players in the distribution:



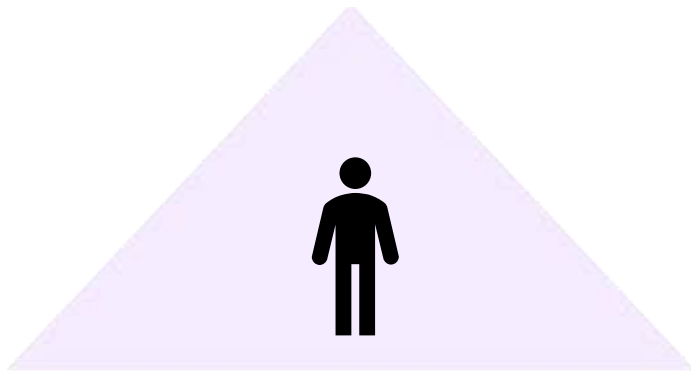
Don't consider giving commission as money coming "out of your pocket", consider it as part of your marketing budget.

THE REACH

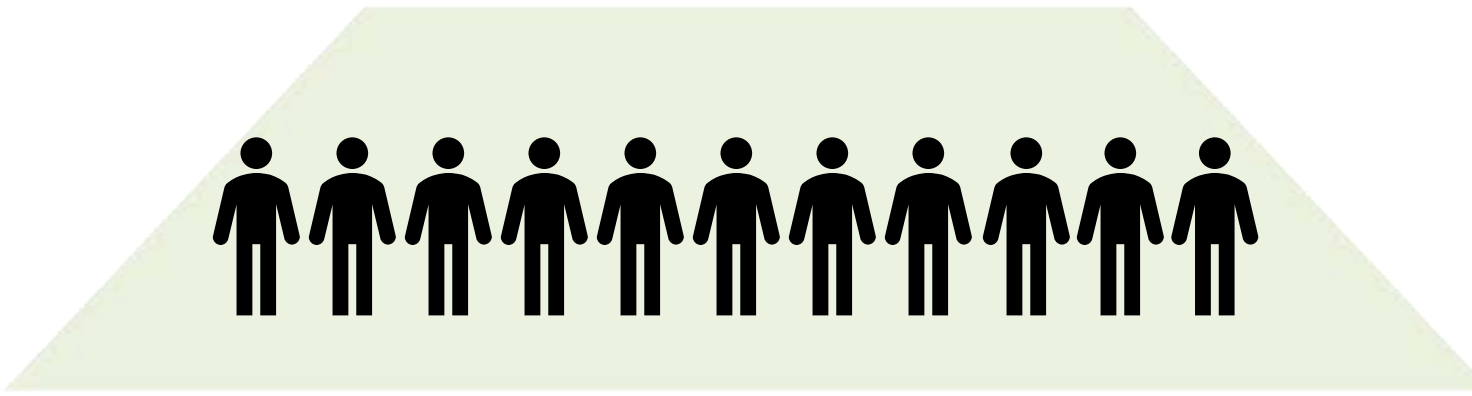
OPERATORS



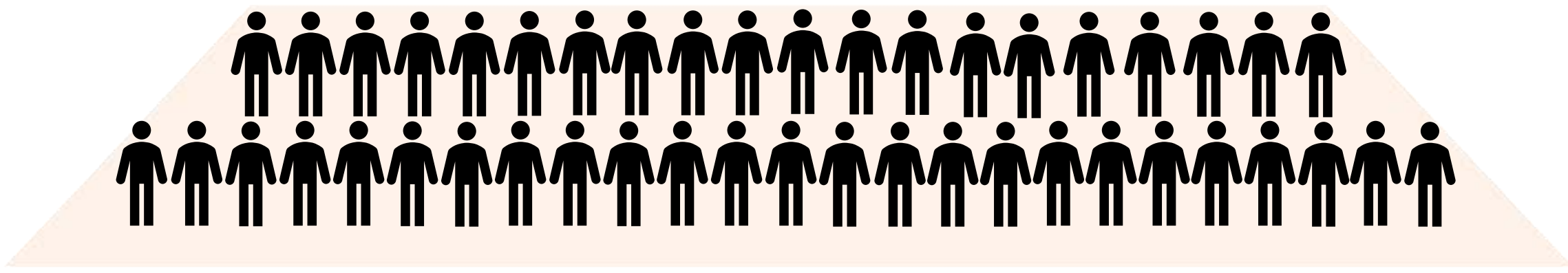
ITOs



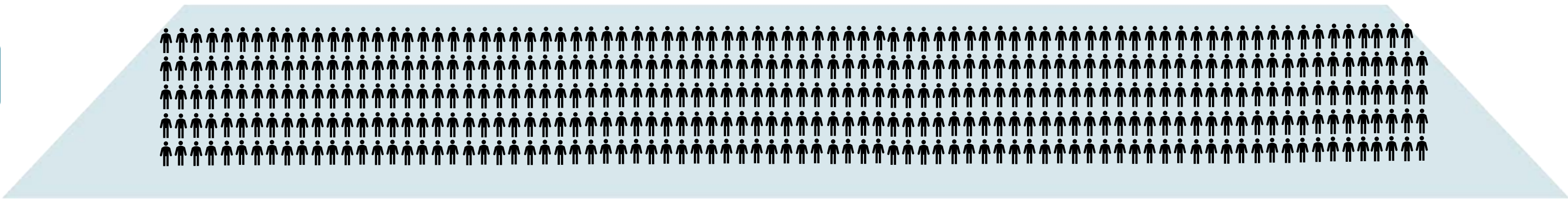
WHOLESALEERS



TRAVEL AGENTS



VISITORS



COMMISSIONS TO ITOs




Remember,
you only pay commission
when a booking is made!

3 MARGIN

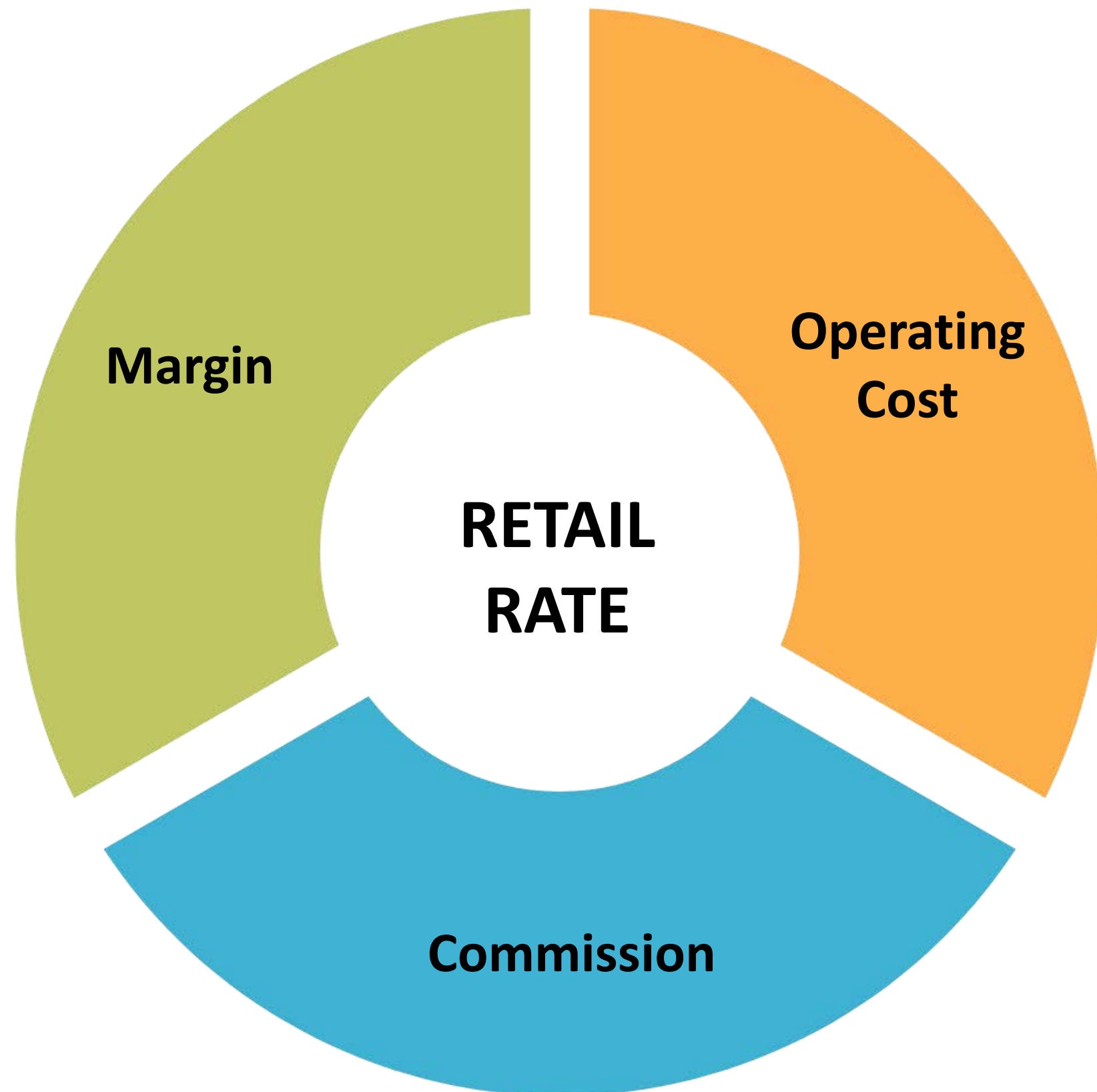
You margin ensures your business is profitable and sustainable.

Having some Margin will allow you to reinvest in your business:

- Refurbishment
- New equipment

 Don't be greedy! Or your retail rate won't be relevant.

RETAIL RATE



Common Pricing Types:

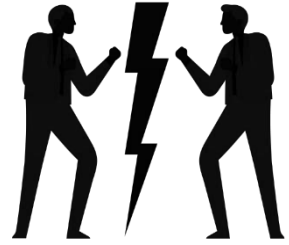
- Per person
- Per unit (group / charter / private tour)
- Single / Double occupancy / per room (accommodation)

The price can't be too low, as this can sometimes give visitors the perception of a low-quality experience.

But be also careful of not pricing it too high as the customer needs to have that impression of value.

ADDITIONAL PRICING FACTORS

Other factors to consider when pricing your product are:



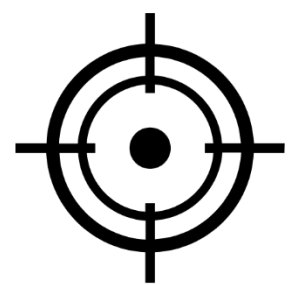
Competition

- Find out what your competitors are charging.
- Competitors' pricing strategies influence the maximum rate at which your product can be sold.
- Even though comparison is important make sure you keep your individuality.



Demand

- Demand for your product is generated by both existing and potential customers.
- Make sure you understand market demands and their impact on rate.
- Consider what can be added to your product to improve sales without sacrificing profit.



Target markets

- Determine which markets you intend to target – domestic, international (western/eastern or both).
- Research your target market in relation to product needs, price sensitivity, length of stay and disposable income.



Seasonality

- Determine the fluctuations in business between high and low seasons.
- You can absolutely have different rates for different seasons.

ESTABLISHING A CONTRACT



WHAT TO PUT IN A CONTRACT?

Contact details:

- Name of the business
- Address
- Phone
- Mobile
- Email
- Website
- GST number

Terms & Conditions:

- Cancellation policy & charges - based on:
 - Different periods prior to travel
 - FITs / Groups
- Amendment policy & charges
- Payment policy
- Any special conditions or blackout dates

Validity of the contract:

- Start date / end date

Rates:

- Seasonality (high season / low season -don't forget to mention precise dates! (keep things simple)
- Net and gross rates inclusive of GST
- How do the rates work? per person, per room, per group?
- Adults & child ages
- Inclusions and exclusions
- Minimum and maximum guest capacity / guide ratio
- Departure times and location
- Free of charge (FOC) policy for groups—usually 1 FOC for every 10, 12 or 15 paying guests / rooms for accommodation.

STATIC / DYNAMIC RATES

The main difference between static rates and dynamic rates is that static rates remain the same, while dynamic rates change based on external factors

Static rates

A set rate that doesn't change, regardless of market conditions, demand, or seasonality.

Static rates are predictable, which can make it easier to plan.

However, static rates can lead to missed opportunities to maximize revenue during peak times.

Dynamic rates

Rates that change in response to external factors, such as demand, season, time, and competitor pricing. Dynamic rates can change by the day or even the hour.

Dynamic rates can help accommodation operators to maximize revenue by preventing rooms from going unoccupied or being sold for less than their potential value.

When deciding whether to use static or dynamic rates, you can consider factors such as: market conditions, business model, target customer profile, operational costs, location, and competitor pricing.

RATE PARITY

Rate parity is the practice of maintaining the same rates for a product across all distribution channels.

Rate parity ensures:

- ⇒ An even playing field for all participants and secures operational profitability for all parties.
- ⇒ Consumers receive the best pricing and value no matter which of these channels they use to make their reservations.

CONCLUSION FOR TODAY'S SESSION

You got this!

Establishing or re-looking at your pricing is important.

It can seem daunting at first but my recommendation is to take a methodical approach and follow what has been said today step by step.

Also when sending your contract / rate sheet, double check you are sending to the right person!

And if you need help, don't hesitate to reach out to your RTO!



Q&A

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