

# 3.12 Channeling your business

### Intangible and perishable products

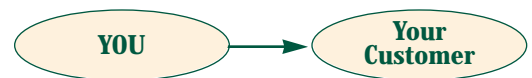
**S**ELLING YOUR TOURISM PRODUCT can be a daunting task. In addition to pricing, promotions and advertising, you must consider the issue of distribution, or place as it is referred to in the 4 Ps of marketing (*Fact sheet 3.8*). And, a tourism product is not the same as many other products. For one thing it is often intangible – a night at a bed & breakfast, a trip down a river, a tour through a cultural camp. For another, tourism products are often perishable – if they are not sold by a certain date, they are worthless. 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 your customer

For large operators such as major airlines and cruise lines, selling direct to the tourist is an attractive way to distribute their product. These companies are large enough to afford the huge advertising costs and other overheads of direct distribution. There are also situations where direct sale makes sense for small operators. Gift shops with high traffic locations will sell primarily to walk-in tourists. Advertising in the *Yukon Vacation Guide*, *The Milepost* and other publications is another way of selling direct. There are also consumer trade shows at which you can sell your tourism product. However, many tourism products from small businesses can be more efficiently and effectively distributed to a world-wide audience of customers using the industry's channels of distribution.

## Three main channels of distribution

The unilateral system of distributing your tourism product is the simplest. There are no intermediaries; you sell directly to your customer. Advantages to you are simplicity and maximum profit, since there are no other arrangements to make and no commissions are paid. Advantages to the customer fall to those who prefer dealing directly with an operator, as this gives them a greater sense of personal involvement and control over their plans. The disadvantage to you is that you alone are responsible for making the sales.



Unilateral distribution system

The bilevel system places one intermediary between you and the consumer. This is usually a travel agent or a tour operator, but can also be a department store or other retail outlet. In the Yukon, this retailer is likely to be an *inbound receptive tour operator* who specializes in providing package tours for incoming tourists. The major advantage of the bilevel system is the access it gives you to the retailer's chain of regional sales offices. Having your product represented throughout this chain can give you a much broader reach into the market than you can do on your own. An additional advantage is that many consumers feel more secure in being advised by an *independent* retailer when making their travel plans. They feel they are getting both professional and personal service. Additionally, the retailer can advise the customer about his options and then make *all* the necessary travel arrangements. The disadvantage to you is that you must pay a commission to the retailer—usually about 10%—for all sales he generates.



Bilevel distribution system

The multilevel system is the most complex, involving two or more intermediaries, and is used primarily to sell tour packages—products that are themselves a bit complex. Typically, you sell your product to a tour operator (the wholesaler). He will package it together with other tour components like meals, accommodation, transport, and then sell the package to consumers through a retailer. Another intermediary, such as a travel club or convention planner, is sometimes involved in planning the package. These people are known as *specialty channelers*. The advantage of the multilevel system to customers is even greater savings. This is made possible by the heavily discounted price the wholesaler pays for your product in the first place. Even after his markup and allowance for commissions, the package price to the customer is lower than if he were to buy all the components separately. The disadvantage to you—a substantially discounted price on your product sales—is usually turned to advantage by the fact that your product is bought in bulk, paid for in advance, and made more attractive by being packaged with other products. And, you leave all the sales arrangements to someone else.



Multilevel distribution system

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### The travel trade

This tourism industry distribution system is often referred to as the *travel trade* and may consist of tour operators, wholesalers, inbound receptive operators, travel agents, visitor bureaus and travel associations. As in other industries, wholesalers and retailers are used as intermediaries between yourself—the supplier, and your customer – the consumer. Unlike other industries, however, tourism wholesalers often package several products into new ones, while retailers do not actually purchase or mark up products. In fact, travel retailers function like sales agents and are paid a percentage of the sale price, a commission, for every sale they make. In addition, your customers are free to bypass intermediaries and purchase the product directly from you.

### Advantages

This distribution system can work to the advantage of the small tourism operator. The travel trade is active all the time buying, selling and trading tourism products and packages. The trade could be selling your summer tourism product during the winter when it is 40° below and the snow is two feet deep. There are huge industry trade shows where the travel trade gets together to buy and sell product. Your access to these markets 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 wholesaler until a track record is established. You will be required to maintain a product standard that is acceptable to the travel trade that you are dealing with. This standard will be set by the consumer. 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 wholesalers, they will inform you of the product standards that are required.

### Accounting for commissions

If you deal with the travel trade, you will need to do some special price calculations to ensure that your business still gets the *profit margin* it needs.

Example:

Cost of tourism product.....	100.00
Your expected markup ( <i>this is your profit</i> ) .....	25.00
Net amount you must receive	\$125.00
Retail selling price to tourist .....	180.00
Less: Travel agent commission (10%*) .....	18.00
Less: Wholesaler commission (20%*) .....	36.00
Net amount paid to your business	\$126.00

*\*commission percentages are estimates. These can usually be negotiated*

### 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.

### New distribution channels

The costs of travel distribution – about 22% of the total retail bill – are high compared to other industries like manufacturing (6%). These high costs, coupled with new technologies, have combined to spawn new distribution channels in the travel marketplace. Airlines and hotels have been quick to use the Internet to secure business directly from their customers, at a lower cost to themselves. Travel is one of the largest components on the Internet, making up fully one quarter of all sites – and travel site visits are high among web users. The question now is who will buy and sell travel over the internet. The entrepreneur would do well to consider the implications for his own business of direct sales via the internet.