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Tourism Distribution

Chapter outline

For intangible tourism services, *distribution* represents the point of sale, as well as a cost of getting a sale through travel trade intermediaries. Fundamentally, distribution is based on a tourism service provider paying a commission to an intermediary who supplies a customer, and for many tourism businesses this can have a major impact on pricing, competitiveness and profits. Intermediaries act as agents by providing tourism businesses with access to consumers, often in markets they would otherwise not be able to realistically reach. As many intermediaries have a powerful influence in travellers' itineraries, distribution is an important aspect of tourism marketing planning. The chapter discusses opportunities for distributing tourism services through a range of intermediaries, such as concierge services, visitor information centres, retail and online travel agents, inbound tour operators, and overseas wholesalers. It also summarises distribution challenges faced by small tourism businesses, such as attracting the attention and interest of important intermediaries, understanding the different commission arrangements, securing preferred supplier agreements, and ethical contractual obligations.

Learning aims

To enhance your understanding of:

- Tourism distribution opportunities and challenges
- Commission as a cost of getting a sale through an intermediary
- The range of travel trade intermediaries.

Key terms

Tourism distribution (place)

The point of sale (*place* is the 4th P in the traditional marketing mix) for intangible tourism services, as well as a cost of getting a sale through travel trade intermediaries.

Travel trade intermediaries

Agents in the distribution chain, in between a business and their target consumers, such as concierge services, visitor information centres, retail and online travel agents, airlines, inbound tour operators, and overseas wholesalers.

Commission

The cost of getting a sale through an intermediary, on behalf of the business, typically as a percentage of the advertised retail selling price. Commission levels vary between different types of intermediaries, and can include an override payment to secure *preferred supplier* status for the tourism business.

Distribution of tourism services

Distribution of an intangible tourism service represents the point of sale. This can be in the form of a direct sale to a customer at the business site, or a sale made at another location through a third party intermediary such as a travel agent. Therefore, *distribution* is regarded as the *place* of sale in the 4 Ps of the traditional marketing mix, along with *product*, *price* and *promotion* (Borden, 1964). Also, as discussed in 8: *Pricing Tourism Services*, distribution also represents a cost of getting a sale through travel trade intermediaries, and can therefore be an important consideration in costing a tourism service. This cost of a sale is in the form of a commission payment.

Commission

The concept of paying a commission to a third party for a sale on behalf of a business is neither new nor complex, and yet can be easily misunderstood by new entrants in the tourism industry. A common complaint is about how high the rate of commission is. Think of this as akin to someone groaning about having to pay too much income tax. The positive is they are only paying that level of tax because they have received a certain level of income, whereas no income tax means low or no income. Much in the same way, a commission is only paid when a sale is made, and a perceived high commission is a market reality if a business wants access to a major intermediary's customers. Trying to reach those same consumers independent of an intermediary would cost a lot more, even if it were possible

to reach them. Intermediaries have access to a customer database the individual small tourism business would never achieve, and the intermediary is undertaking promotion on their behalf. So commission should be acknowledged as a cost of getting a sale through a distributor, just as advertising is a cost incurred to get direct sales.

Another misunderstanding is where a tourism supplier attempts to undercut the intermediary's price by offering a cheaper rate if a consumer books direct. In this case the supplier avoids paying commission but will likely lose the goodwill and business of the intermediary. This commonly occurs where online travel agents (OTA) advertise accommodation suppliers, with which they have a commission arrangement. Some consumers will see the listings and contact the hotels direct to try to negotiate a lower rate. In some parts of the world this issue is being debated in legal circles with a view to establishing the legal rights of the intermediary and the suppliers. While the legality of undercutting an intermediary's advertised price might be in question, ethically it is not good business practice and therefore not sustainable in the long term.

Activity 13.1 – Offering a discount for direct bookings

When customers have made their booking via an intermediary, for which the business has paid a commission, it can be tempting to offer guests a discount for their next visit if they book direct with your business. Also, your business website could openly advertise a discount for direct bookings. While this would save the business the cost of future commissions, what is the potential downside of this approach?

Commission levels vary around the world, and have traditionally been costed as a percentage of the advertised retail price. In general, traditional commission levels could be expected to be in the range of the following percentage of the retail price:

- Visitor information centres (10%)
- Retail travel agents (10% – 20%)
- Concierge service (10% – 20%+)
- Inbound tour operators (25% – 30%)
- Tour wholesalers (25% – 30%)
- Airlines (25% – 30%)

In the current deregulated global economy, remembering there is no overall coordinator of the *tourism system*, there are many variations to the traditional commission levels above. Digital disruptor Airbnb changed the traditional accommodation commission structure, by levying a *service fee* of 3% – 5% to the hosts and 5% – 15% to guests. Some specialised niche operators, such as personal homestay wholesalers charge a 100% mark up on what the host charges, which equates to 50% commission. Major online retailers can also charge as much as 50%