

Why should I pay commissions on my bookings?

Some tourism operators believe they are making a smart business decision and saving money by not paying commissions to Visitor Information Centres and Travel Agents who want to book them. But then WHY do so many other successful tourism enterprises pay commissions?

The Simple Answer:

Commissions are only paid when a booking is made, so it is a reward for performance.

By paying commissions, a tourism operator immediately opens up thousands of potential additional sales outlets and distribution channels. In particular, Visitor Information Centres and travel agents. These additional sources can provide you with more bookings and revenue.

Paying commissions is a cost for distributing your product to more people.

Here is an example.

Imagine a travel agent wants to make a booking at a motel on a given date that is not likely to be fully booked. However the motelier declines the booking because it will “cost” a commission payment of 10%. So, the room remains empty. In this situation the real loss to the motelier is 90% of the room rate revenue.

Is it not better for the motelier to book the room at 90% of the room rate and enjoy the business?

By declining the booking rather than pay commissions, the motelier has saved nothing, only incurred a loss of profitable revenue. Also, by not accepting the offer, the operator risks that travel agent not using them for bookings in future.

Many operators complain about the percentages requested by Visitor Centres and Agents, believing they can get bookings without their assistance.

While this may be true, you should also consider the following questions:

- Can you match the reach of customers that targeted marketing campaign offered by distributor channels can offer?
- Are you able to keep up-to-date inventory in multiple locations all the time?
- Can you match the distribution arrangements provided by wholesaler programs?

What do tourism operators receive for the commissions that they pay?

Firstly tourism operators receive business, which is important to their revenue results and profit performance.

An important reason why tourism operators pay commissions is to gain access to a network of sales outlets across Australia on a “no results - no pay” basis. In other words Visitor Information Centres and travel agents actively recommend accommodation, tours, packages, etc to their clients.

When they fail to make a booking they receive no income.

When they do make a sale they expect to be paid the appropriate commission.



What commission rates apply?

On Average, Commission fees can range from a just few percentage points up to around 30%.

As an example an inbound operator may pay a wholesaler overseas 20% commissions and this wholesaler may pay retailers in their network 10% of this amount. In this instance, the Inbound Tour Operator (ITO) needs to charge 30% so they get paid for their work.

Common commission rates may be 10 - 15% for a standard Visitor Centre and up to 30% - for inbound operators.

PAYING COMMISSIONS IS A COMMERCIAL DECISION FOR EACH OPERATOR - THERE IS NO COMPULSION. IF OPERATORS DON'T WANT TO PAY COMMISSION FOR BOOKINGS THEN THEY CANNOT EXPECT SALES OUTLETS TO PROMOTE THEIR PRODUCTS.

For the tourism operators, commissions are only payable when a booking is made.

Why successful enterprises pay commissions

By paying commissions, tourism enterprises immediately open up thousands of potential sales outlets as sources of business and promotional support, in particular Visitor Information Centres and travel agents.

In both regional and metro Australia, local **Visitor Information Centres** are a key information source for travellers, and are very important to customers who want;

- valuable advice about the destination including what there is to do and where to stay
- to make bookings for accommodation, tours and cruises.

Today, more than ever before, visitors are making contact with Visitor Information Centres via the web or upon arrival as part of their itinerary planning. Visitor Information Centres are commercially important to all tourism industry businesses. If tourism businesses, particularly accommodation providers, are not paying commissions they may be imposing a limit on their business results as Visitor Information centres and Travel agents may be less likely to make bookings with them, or to recommend them to visitors.

Impact of technology on tourism

National and international tourism is embracing the impact of technology, particularly Internet selling and “real time” reservations capability.

Technology has also introduced a new dimension to marketing your business online. Potential visitors use the Internet to obtain information and make bookings in ever expanding numbers.

There is also no doubt that many visitors will now **plan and book their entire itinerary online**. In these cases, they refer to ‘known’ and ‘trusted’ sites, such as those run by the Visitor Information Centres.

- Ever increasing numbers of customers using the Internet to do their banking, make purchases and a variety of other day-today uses
- Customers now understand how easy it is to use the Internet to make bookings, often at lower cost.
- Websites like Wotif, Quickbeds, Lastminute, etc, offer bargains for customers who are making late bookings for accommodation, tours, and packages.
- Online “real time” booking services, such as those offered by Bookeasy powered Visitor Information Centres, is now expected functionality by internet users.



Why do they need to charge commissions?

For bookings made on most online booking systems, tourism businesses pay normal commissions plus transaction fees. Transaction fees are applied by many computerised reservations systems to offset the cost of technology for processing the booking. It is usually a nominal sum.

Some operators will say that they are not prepared to pay such costs but they need to keep in mind that tourism consumer marketing is midway between traditional practices and a new era where most customers can sit in their office, or at home, and access a computer where they plan their travels and make bookings.

In brief, what technology means is that tourism businesses will increasingly be faced with competition forced on them by technology. The organisations that are asking the operators for commissions will be marketing themselves in order to drive their own revenues.

Tourism operators can take advantage of all this additional marketing activity in order to expose themselves to wider and/or targeted audiences.

Poor attitude to travel agents can be unrewarding

Many tourism operators, especially regional operators, do themselves a disservice by criticising commissions that travel agents require. The only income for travel agents is commission earnings. For them, it can be a case of “*no commissions - no profits - no business*”. Travel agents often have to operate expensive offices with overheads like rent, computer equipment, communication costs, insurances, employment of staff and many other expenses just like other businesses. Yet they earn very small margins from their efforts.

With the advent of Internet bookings and changes to airline marketing strategies, a loss of business has caused travel agents to turn to leisure travel to boost their revenues. This means that more than ever before, travel agents are very important to the commercial performance of tourism and can be highly influential on where visitors go and stay.

It is always the prerogative of tourism enterprises not to pay commissions and not to embrace technology. If so this is their commercial decision. However progressive businesses see payment of commissions and transaction fees as business opportunities. Paying commissions and embracing technology is very much part of future business success in tourism.