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Pricing for Indirect Sales

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Pricing for indirect sales

Introduction

Forming part of the section *Commercialise Your Bookable Experience with the Right Price*, below looks at the various elements of indirect pricing that should be considered as part of your overall pricing strategy.

How to factor in pricing for indirect sales channels

As outlined above, bookings received via indirect sales channels are generally subject to a fee achieved via commission or markups on net rates.

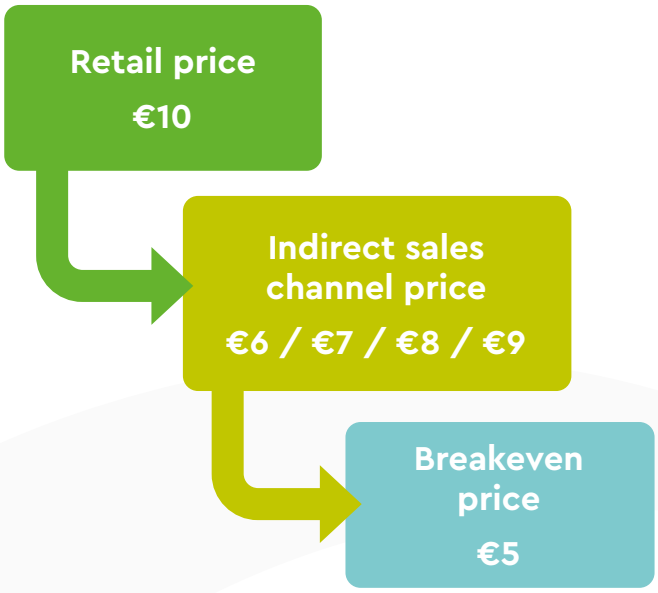
Once a) the breakeven price point and b) the retail price point is clearly established for each experience, it is easier to meet these requirements.

As this graphic illustrates, the gap between the retail price and the breakeven price, offers diverse price points at which the experience provider can negotiate an agreed partnership fee.

For example, for an experience with a breakeven price point of €5 and a retail price point of €10, there are potentially 5 negotiation price points at

- ✔ €9, €8, €7, €6
- ✔ €5: the breakeven price point

Selling experiences at breakeven point: most often, an experience provider avoids selling at the breakeven price point at which there is no opportunity to make profit. There are some occasions when selling at breakeven might be considered, particularly for high volume business opportunities.



Example: the benefits of accepting large groups at the breakeven price during low demand hours (e.g., early morning) can be considered as follows:

- ✔ While no profit is made, there is an opportunity to cover costs.
- ✔ Additional benefits: visitors may generate revenue for other services such as an on-site café, restaurant, or retail store.

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How to organise pricing for indirect sales channels

Once the negotiation price points are established, it is very easy to map out an ordered solution for the management of pricing for indirect sales channels.

Example: The tables show a model for planning net and commissionable rates for three experiences:

- ✔ Experience A: retail price point €10.
- ✔ Experience B: retail price point €30.
- ✔ Experience C: retail price point €65.

For each experience, four associated negotiation price points are defined:

- ✔ Rate 1: 25% lower than the retail price.
- ✔ Rate 2: 20% lower than the retail price.
- ✔ Rate 3: 15% lower than the retail price.
- ✔ Rate 4: 10% lower than the retail price.

For each table, it should be noted that the diverse rates levels 1–4 are calculated from and linked directly to the retail price.

Once the rates are organised, the next task is for the experience provider to decide which rates to assign to diverse intermediaries.

Net/discounted rates:

Experience	Retail Rate	Rate 1: 25% discount	Rate 2: 20% discount	Rate 3: 15% discount	Rate 4: 10% discount
A	€10	€7.50	€8	€8.50	€9
B	€30	€22.50	€24	€25.50	€27
C	€65	€48.75	€52	€55.25	€58.50

Commissionable rates:

Experience	Retail Rate	Rate 1: 25% discount	Rate 2: 20% discount	Rate 3: 15% discount	Rate 4: 10% discount
A	€10	€2.50	€2	€1.50	€1
B	€30	€7.50	€6	€4.50	€3
C	€65	€16.25	€13	€9.75	€6.50

Assigning rate levels to diverse intermediaries

Non-negotiable opportunities:

Some intermediaries will have a pre-determined ask regarding their fee such as a pre-defined nett rate (e.g., 10–25% discount off the retail price) or a predefined commissionable rate (e.g., 10–25% of the total retail price) may be requested.

In this case, the experience provider must decide if they wish to engage at the requested fee/rate, or otherwise. When making this judgment, consider the following:

- ✔ What kind of customers can I win?
  - › Are these customers a clear match for my offering?
  - › What markets do they come from?
- ✔ What volume of customers can I achieve via this opportunity?
- ✔ Can I easily reach these customers myself? What level of strain would it create to reach these customers by using my own resources (human, time, financial)? Am I truly in a position to win these customers by myself, or is it easier to partner with an intermediary who can do that for me?
- ✔ When are the customers likely to arrive? Only during high season when I am already very busy? Or year-round, also during low and shoulder season?
- ✔ Can this be a strong, harmonious, and mutually beneficial partnership?

Negotiable opportunities:

Some intermediaries invite negotiation in which case **in addition to the above noted questions**, the experience provider must decide which nett and/or commissionable rate level to offer. In this case, it is helpful to give due consideration to the following criteria:

- ✔ **Quantity:** e.g., rate levels 1 or 2 are offered to those who have a track record of consistently sending a high number of customers year-round. Rate levels 3 or 4 are offered to those with less potential for volume.
- ✔ **Loyalty:** e.g., rate levels 1 or 2 are offered to those who really support the experience provider by sending any customers they can. Lower rate levels 3 or 4 are offered to those that display zero loyalty.
- ✔ **Opportunity:** e.g., rate levels 1 or 2 are offered to intermediaries that have an established reputation and clear potential to send customers year-round. Rate levels 3 or 4 are offered to those that display lower potential.

Successful negotiations generally lead to the experience provider and intermediary reaching an agreement by meeting in the middle. To engage in a successful negotiation, the experience provider must prepare well in advance a) with careful consideration for the price (rate level) to offer and b) with a planned explanation of advantages, strengths and any additional value-adds that justify the requested pricing.

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Rate parity

Previously, it was noted that commissionable and net Rate Levels 1–4 are calculated directly from the retail price. This ordered system enables the experience provider to effectively partner with intermediaries for which rate parity can be a requirement for engagement.

Rate parity is the practice of maintaining consistent rates across all sales channels. For example, a €50 experience is displayed at this price on the

- ✔ experience provider's own brand website
- ✔ intermediary/partner website (e.g., an online travel agent)

An experience provider should think carefully before agreeing to rate parity, or whether it can be seen to offer the best price for those booking directly.

If a dynamic pricing strategy is used (whereby the retail rate fluctuates to drive sales according to demand), the commissionable and/or net rate levels need to be calculated and aligned for each retail rate price point, if rate parity is to be maintained.