Distributing your tourism product

No matter how impressive your product is its success relies on customers knowing you exist in the marketplace. The strength of your presence in the marketplace will be very much dependent on choosing the most effective distribution channels to reach and then sell to your target markets.

**WHAT IS DISTRIBUTION?**
Distribution is the variety of channels used to extend the promotion and sales of your product. Distribution channels are the means by which you reach your customers.

Efficient product distribution will facilitate product sales in advance of their actual use. This is particularly valuable if your target markets include international visitors travelling on a structured prepaid itinerary, or domestic travellers who prefer to confirm their itineraries prior to travelling. Advance sales give you the advantage of being able to plan ahead.

Smaller operators usually sell directly to customers and do not necessarily use distributors to sell their product. If this applies to you, consider that by expanding the number of distribution channels selling your product, you can improve sales and profitability.

The establishment of a business link with distributors does involve some costs. These are usually not upfront costs but they are incurred after a sale is made. This is commonly known as a commission and is classified as a distribution cost. The use of a combination of distribution channels to sell your product can contribute to improved bookings and, ultimately, increased profits.

Distribution channels are dependent on target markets. Your options for distribution include working with distributors, such as wholesalers, or using promotional material and/or a website to spread the word about your product and generate sales.

**CHOOSING THE RIGHT DISTRIBUTION CHANNELS**
Analysing which distribution channels will be the most profitable to your business is crucial. Ask yourself:
- How do your target markets currently purchase your type of product and how do you go about establishing a relationship with these distributors?
- What sort of costs will be incurred by using these particular distributors?
- Are these proposed distributors familiar with your product? If not, what are the costs involved in developing product familiarity?
- Are these proposed distributors enthusiastic about your product? Are they potentially good sales ambassadors?
- Do they handle products provided by your direct competitors?
- What sort of incentive can you offer a distributor to encourage sales of your product, for example, a sales incentive scheme or “over-ride” commission.

**TRADITIONAL DISTRIBUTION CHANNELS**
As your business grows the use of distributors, as opposed to direct sales between you and your customers, is often the most cost-effective means of increasing sales. It is also a better option for filling large numbers of beds or seats, or bringing in better patronage during low season periods.

There are three types of traditional distributors that play an important part in servicing customers. These are retail travel agents, wholesalers and ITOs. To work with these partners, your product must be established, well regarded and commissionable.
Retail travel agents (retailers)
Retailers are either based in Australia or overseas and provide customers with an accessible place to book or enquire about travel products. These agents usually provide a shopfront office for customers in shopping centres and local town centres.

Wholesalers
Wholesalers provide retailers with travel packages comprising two or more products supplied by different operators. These packages are put together in brochures, which are then distributed to networks of retail agents for display in their travel agencies. Wholesalers can also sell directly to customers. Wholesalers that provide packages for the inbound market are generally based overseas. There are a few Australian-based wholesalers, however, such as Qantas Holidays, who sell to retail travel agents within Australia.

Inbound tour operators (ITOs)
ITOs, sometimes referred to as ground operators or destination management companies (DMCs), are Australia-based businesses that negotiate contracts directly with tourism operators on behalf of overseas wholesalers. They are responsible for developing itineraries specifically for international travellers.

ITOs provide a complete, costed travel schedule tour program that is marketed to customers through international wholesalers and travel agents. They usually co-ordinate itineraries about 12 months in advance, so if this applies to you, you will need to plan ahead. The tourism calendar year is from 1 April-31 March and is linked to the wholesaler’s brochure production.

DIRECT SALES THROUGH THE INTERNET
Worldwide usage and access to the internet is playing an increasingly important role in the travel planning and decision-making processes of customers. Travel planning and booking are among the most popular online activities in major e-commerce markets.

Research indicates that more travellers investigate their travel options online. During 2011, 61% of international visitors to Australia used the internet to research and gather information before their arrival [Tourism Research Australia, International Visitor Survey, year ended September 2011].

Online travel sales are growing at an explosive rate, with consumer travel sales in the United States hitting $79 billion in 2006 and predicted to grow at a 17% annual rate before reaching $146 billion in 2010. [eMarketer’s report, Online Travel Worldwide, 2006]. In the year ended September 2011, 44% of international travellers to Australia used the internet for travel bookings [Tourism Research Australia, International Visitor Survey, year ended September 2011].

The growth in online travel bookings has outpaced other online sales for many reasons, including:
- access to extensive information to aid selection;
- perceived availability of choice;
- convenience of booking online (from home and out of business hours);
- and the perception of price advantage.
The internet presents some great opportunities for tourism operators to promote their product, but before developing an online presence, consider the following:

- how will your target audience find you?
- who will provide design advice and programming skills to develop and maintain a website?
- how will you manage the ongoing accuracy and relevancy of your website?
- how will you enhance your presence, including third party online travel providers?

There are three key potential uses for the internet. Each presents significant opportunities; each presents challenges that will need to be addressed.

1. The internet as a marketing tool
   The internet offers the travel industry opportunities to market destinations, products and services. Since 2006, internet usage by international visitors has increased at an average annual rate of 7.2% (Tourism Research Australia, Information Sources Snapshot, 2011).

2. The internet as an information tool
   The internet is an excellent tool for travel research, planning and decision-making. If you create a website, it is vital to maintain compelling, up-to-date, accurate and relevant content on it and any other sites that include your business information.

3. The internet as a purchasing tool
   If you make transaction facilities available on your site, you gain an advantage by providing an additional distribution channel for customers to book or purchase travel product. You must also develop competitive product, pricing, promotional and distribution strategies to meet market needs, and you need to service customers in a timely and professional way.

Direct sales on the internet can take two forms:
- transactions on your own website via an online booking system
- allocations to other online sellers such as www.expedia.com, www.wotif.com and www.lastminute.com

In both cases, consider the costs, resources and security measures involved.

Do your homework
Online distribution is less structured than the traditional travel distribution system. Commission levels vary from site to site, depending on how the site is operated. Before establishing a distribution deal with any online partners, research the site, how it operates and how it will promote your product. Also check how information is loaded and updated. Many sites provide you with access to maintain and update your details on the site. While this does provide you with control over information on your product, it can also be very time consuming, especially if you are featured on a number of sites.

To reach your target market and maximise your exposure consider, as part of your marketing plan, links with the websites of major tourism authorities, such as those managed by your local visitor information centre, regional tourism organisation and Destination NSW.
DESTINATION NSW
Destination NSW invests many millions of dollars a year into promoting NSW to potential visitors. The organisation uses a range of media, but the Destination NSW website www.visitnsw.com.au is fundamental to all Destination NSW marketing activities.

Destination NSW campaigns direct consumers to information stored on the website about tourism products, services, destinations and special offers. In the 2010-11 financial year sydney.com and visitnsw.com delivered more than 7 million visits and more than 2.2 million leads to the tourism industry in NSW.

If you do not already have your free listing on the Destination NSW consumer website www.visitnsw.com.au, go to www.destinationnsw.com.au/getconnected or contact the Destination NSW Helpline on 1300 655 077.

Once your listing in all correct you may want to think about enhancing it by placing it on a single booking platform, NSW Connect. The benefit of this system is that it manages your inventory in real time as it also connects with third party distributors such as Wotif, and LastMinute. All Australian states and territories are using the same platform to support their official websites. Around 60 per cent of travellers now want to book online. For more information, go to www.destinationnsw.com.au/nsw-connect

TOURISM ONLINE MARKETING E-KIT
The tourism online marketing e-kit has been developed by Destination NSW, in partnership with the Australian Tourism Data Warehouse (ATDW) and all the Australian state and territory tourism offices.

The e-kit tutorials offer tourism operators detailed information about how to maximise online marketing opportunities. The tutorials cover a range of topics from conducting an initial assessment of your current online marketing status to more complex issues such as online booking systems.

Benefits of the e-kit include:
- smarter e-marketing knowledge through step-by-step lessons;
- insight into what online marketing strategies will suit your business;
- and hundreds of references to resources.

Go to www.destinationnsw.com.au/Tourismekit to take advantage of the online tutorials.

Tourism Australia’s publication Planning for inbound success under the Industry Resources tab at www.tourism.australia.com

HANDY HINT
Doing business online is no different to traditional methods. The same level of focus and effort is required.
BROCHURES
Before you produce a brochure, you will need to determine how your prospective customer will access it. Where will you distribute your brochure for the best exposure to your target markets? It is increasingly difficult to find outlets that will carry brochures, and those that do charge a fee. Effective distribution methods are important to brochure success. Consider the following options:

- Visitor information centres (VICs). Many independent travellers prefer to leave their itinerary open until they arrive at their destination. Therefore, do not overlook distributing your product through domestic VICs. Many operate as both information and booking centres. For a list of accredited visitor information centres (AVICs) in NSW, go to www.visitnsw.com.au

- Hotels often have display racks for brochures, so it is a good idea to make contact with your local hotels. Talk to the concierge about displaying your brochure. A company called The Informed Tourist manages the re-stocking of brochure racks in the larger Sydney hotels. For more information, go to www.theinformedtourist.com

PACKAGES
Depending on your business, it may be appropriate to expand distribution by incorporating your product into wholesaler packages. Also, consider participating in co-operative marketing programs with transport carriers, major accommodation chains and government tourism authorities – they often compile their own itineraries, such as weekend packages geared to domestic markets. To achieve such an arrangement, it is expected that your product is established and well regarded in the marketplace, and that it has a price structure that incorporates commissions.

DISTRIBUTORS AND THEIR COMMISSION RATES
Commissions paid to tourism distributors are paid only when a product is sold. Commission rates vary depending on the channel of distribution. For traditional distribution channels, industry standards for commissions paid from the regular retail rate are:

- 10% of the retail price for retail agents
- 20% of the retail price for wholesalers
- 30% of the retail price for ITOs

(These rates are a guide. Rates may vary depending on individual contract details.)

To encourage sales of your product, some operators may wish to consider offering an additional commission, called an over-ride commission. This generally pays an additional 2–3% on top of existing commission rates.

INTERNATIONAL MARKETS
International markets are very competitive and are not necessarily suitable for every product. To succeed, you require an “export ready” product, suitable cashflow, and the ability to forge positive relationships with distributors specialising in international markets. You must also be patient because financial returns can be slow. As a rule of thumb, it takes two to four years to become established in the international market.

If you think you are export ready, answer the following questions:

- Is your business established in the domestic market? Do you have a good level of domestic distribution and do you have a successful domestic marketing strategy?
- Do you offer same day booking confirmation via email or internet?
• Have you thoroughly researched the international markets to establish where your product fits?
• Do you clearly understand the differing needs of international markets compared with domestic markets?
• Do you understand the concept of commissions and nett rates? Are you prepared to pay 30% commission for bookings from ITOs and 20% commission for bookings from wholesalers?
• Do you have an active quality assurance program to ensure your product maintains a high standard?
• Can you guarantee your rates for 12–18 months in advance?

For more detailed information about distribution channels in key international markets, go to Tourism Australia’s website www.tourism.australia.com, select the Industry Resources tab and view Planning for inbound success.

HANDLING BUSINESS ENQUIRIES
When handling booking enquiries, it is important to understand who you are dealing with, so you know the correct price to quote. It is also essential that wholesalers and ITOs are made aware of the retail price because it includes commissions. This prevents any incorrect pricing of a product. It is recommended that you don’t quote nett rates over the phone and always ask for all rate enquiries from a wholesaler or ITO to be put into writing. This will avoid revealing confidential nett rates to non-wholesale or inbound clients.

Quoting correctly
• Customers booking directly with you should be quoted the retail rate.
• Retail agents should be quoted the retail rate and they will then deduct their 10% commission.
• Wholesalers should be quoted 20% less than the retail rate.
• ITOs should be quoted 30% less than the retail rate.

CREDIT TERMS BETWEEN OPERATORS AND DISTRIBUTORS
Many wholesalers and ITOs do not pay for a product until travellers actually depart on a holiday. The accepted method of payment is a voucher system. Vouchers are generated by the ITO or wholesaler and are presented by the traveller to the operator at the time the product is used. Operators then return the voucher to the distributor (wholesaler or ITO) in order to receive payment, usually within 30 days.

It is recommended that you (the operator) ask the distributor to complete a credit application form, providing details and signatures of three business referees with whom they are currently working. This ensures you are entering a business arrangement with a credible distributor and will provide you with further information on their background in order to protect your business.

Anticipate and allow for delayed payments when dealing with distributors using the voucher system.

HANDY HINT
Keep your distributors informed of any product developments through regular newsletters and industry familiarisations (famils). Maintaining good relations with your distributors means better exposure and better sales.
**THE LINK BETWEEN DISTRIBUTION AND PROMOTION**

The extent of your sales relies not only on the most effective distribution channels but also on associated product promotions and their distribution network. Promotions must be placed in locations that guarantee extensive exposure to your target markets. If compiled and distributed effectively, advertising brochures, and publicity featured in targeted publications (including travel guide books and maps) can successfully project your product and stimulate sales.

**DISTRIBUTION CHANNEL OPTIONS BETWEEN INTERNATIONAL TRAVELLER AND AUSTRALIAN TRAVEL INDUSTRY**

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<thead>
<tr>
<th>Option</th>
<th>Channel Options</th>
<th>Commission</th>
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<tbody>
<tr>
<td>1</td>
<td>Traveller → Retail travel agent → Tour wholesaler → Inbound tour operator → Travel supplier</td>
<td>up to 30%</td>
</tr>
<tr>
<td>2</td>
<td>Traveller → Retail travel agent → Tour wholesaler → Travel supplier</td>
<td>up to 20%</td>
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<tr>
<td>3</td>
<td>Traveller → Retail travel agent</td>
<td>up to 10%</td>
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<tr>
<td>4</td>
<td>Traveller → Travel supplier</td>
<td>no commission</td>
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<tr>
<td>5</td>
<td>Traveller → Retail travel agent → Travel supplier</td>
<td>up to 10%</td>
</tr>
<tr>
<td>6</td>
<td>Traveller → Travel supplier</td>
<td>no commission</td>
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