

Topic | Online Distribution

Tutorial 38

Online Distribution 101

Getting a handle on tourism distribution, commissions and channel managers can be a bit daunting, but once you read this tutorial it will become easier.

Reading time: 40 minutes

Prerequisite: None



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1. Getting started: working out my current bookings

To work out which distribution options make sense for your business, you will need to understand where your current bookings come from and how much they are costing you. When you have finished this exercise you will have a clear idea about how much revenue each distribution channel is generating. You can then use this information to focus your efforts and evaluate new distribution channels.

a) Step 1: Origin of the booking

Over a typical medium to high sales month, record the details of each booking you take in a notebook or spreadsheet. You will need to calculate how much each type of distribution channel is costing you and ask your customers how they reached you. For each booking over your chosen month, record:

- Where your guest physically made the booking

For instance: on the phone with you, phone call to a travel agent, or online booking through a distributor such as Roamfree or Wotif.

- The postcode (or country) of the your guest
- The dollar value of the booking
- Any commission you had to pay for this booking.

b) Step 2: Distribution channels

Make a list of all the distribution channels your business is currently using and write down what commission or fee you are paying for the service.

For example:

- Online distributor A: x% commission
- My own online booking system: x%
- Local visitor information centre x%
- X & Y travel agent x%

c) Step 3: Making sense of the numbers

At the end of your chosen month, you can now combine the two lists you made above.

Create a new document, using one line per every distribution channel you listed in Step 2 (see next page for example). On each line include the following:

- Name of the distribution channel (e.g. Total Travel, Wotif, Visitor information centre)
- Total number of bookings during that month from that channel
- Net value of the bookings that are directly attributable to that channel; that is total sales revenues minus any commissions payable. We have called this "Income" in the example below
- Total fixed costs (FC) for each distribution channel, such as set up fee, participation

- fees, and membership fees that you averaged per month
- Total variable costs (VC) which are the total of the commissions paid for the month on the bookings made using this distribution channel
 - Calculate the total cost of selling your product (“total cost to market”) by adding your fixed costs for the month (FC) and your variable costs for the month (VC)
 - Finally, divide the total cost to market by the number of bookings to work out the cost to market for each booking from that distribution channel
 - Repeat this exercise for every single one of your distributors to identify which of these gives you the most business and what their fees and charges are.

Example

The table below shows an example motel’s bookings from two distribution channels:

- 3 bookings with online distributor A at \$200 each including 10% commission
- 10 bookings at your local VIC at \$300 each including 3.5% commission

Distribution channel	Number of bookings	Income for the month (less commissions)	Fixed costs (averaged per month) (FC)	Variable costs (VC)	Total cost to market (FC + VC)	Cost to market per booking (Cost to market / Number of bookings)
Online distributor A	3	\$540	\$40 ¹⁾	\$60 (10%)	\$100	\$33.30
Local Visitor Information Centre	10	\$2,895	\$50 ²⁾	\$105 (3.5%)	\$155	\$15.50

1) Membership fee is \$480 per year

2) Membership fee is \$600 per year

d) *Analysing the results*

In the example above, although the online distributor’s commission is 10%, the cost of a \$200 booking is slightly higher (\$33.30 instead of \$20 for VC) when other fixed costs are considered. On the other hand, while the local visitor information centre has higher fixed costs, it generates

far more bookings at a lower commission, giving it a much lower total cost per booking (\$15.50)

Looking at your own sales and cost figures in this way, you can work out the value of each distributor by understanding:

- how much business each distributor generates for you per month
- what the average cost to market per booking is for each distributor

IT IS WORTH REMEMBERING THAT THE COST TO MARKET OF EACH DISTRIBUTOR SHOULD NOT BE THE ONLY CRITERIA BY WHICH YOU JUDGE DISTRIBUTORS.

In the example above, for instance, the online distributor and the local visitor information centre have very different target markets. The increased exposure to new demographics through the online distributor may provide the motel owner with long-term business opportunities that are worth the comparatively higher short term cost.

2. Traditional vs. Online Distribution

Distribution means making sure that your product or service information reaches consumers. It is not a tourism-specific concept; all goods regardless of their origin require distribution to their target market.

In recent years, the Internet has further redefined the distribution of travel products. The industry now talks about **online distribution** (which requires the use of the Internet) and **traditional distribution** (which doesn't require the use of the Internet).

a) *Not all distributors are equal*

Consumers generally expect to pay less if they buy products directly from the producer rather than through a retailer. For instance, most consumers expect apples will be cheapest at the farm gate, a little dearer at a supermarket chain that buys in bulk and a little dearer again at a local shop.

And while consumers' expectations of tourism product shouldn't be any different, travellers can become upset if they pay more for a room buying it at place A instead of place B.

b) *What are distribution channels?*

You may have heard the term distribution channel. A channel is simply a mechanism by which your product reaches the consumer.



- Cooperative marketing initiatives

- Regional tourism brochures or travel planners
- Visitor Information Centres
- Online via regional, state or commercial websites
- Direct to you either via a website, email, phone or walk-ins.
- Retailers, travel agents or booking agents
- Wholesalers
- Inbound tour operators

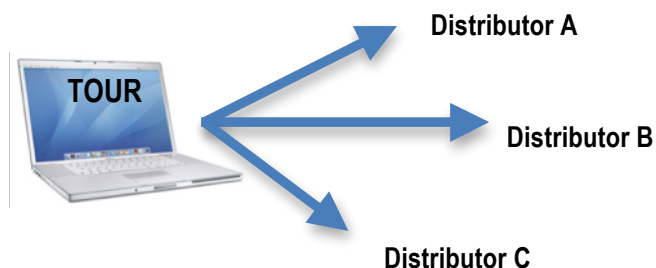
You may now want to return to your list that you compiled above and add a few distribution channels that you may have forgotten.

3. So what is online distribution?

Traditional and online distribution channels are converging. Consumers are using the Internet more and more to access information and book tourism products. They may research online and book offline, or vice versa. Either way, **the use of the Internet to research and book holidays is growing every day**. Therefore your online presence needs to be broad, professional and engaging.

There are several options available to distribute your products online.

First of all, we should point out that this tutorial will not talk about your own website as an online distribution channel but will focus on using third-party online distributors to distribute your “live” inventory.



ONLINE DISTRIBUTORS ARE TOURISM ENTITIES OR BUSINESSES WHOSE OBJECTIVE IS TO REPRESENT MANY INDIVIDUAL TOURISM BUSINESSES ON THEIR WEBSITE, SHOP FRONTS, AND/OR DATABASE.

They will present them to the travel consumer who will be able to:

- see the real-time availability of each tourism product
- book online directly on the distributor website.

There are many online distributors available to Australian tourism operators, and the Tourism Exchange Australia allows you to easily distribute your product through them provided you have a compatible online booking system.

Because in most cases online distributors have a broader online presence than your own website, they often list higher than you on search engine rankings for the main “blockbuster” keywords such as “accommodation Gold Coast” for instance. It is therefore important to ensure

that your product is available to be booked via the key online distributors for your target market.

a) Website distributors

These are the online distributors you are generally most familiar with. They have a website and present tourism product in a variety of consumer experience pathways that ultimately result in the consumer being able to buy your tourism product online.

E.g. Lastminute.com, Neditnow.com, Totaltravel.com, and About-Australia.com

b) Shop front distributors

These are perhaps not as well known as online distributors but are extremely valuable in the selling of your tourism products on the global market. They are every bit as sophisticated as the website distributors in collecting your inventory availability and selling it in real time, but the technology facilitates the screen of a consultant who then uses this information to assist a consumer who is in their shop.

E.g. Kangaroo Island visitor information.

c) Wholesale and Inbound distributors

These distributors have been an important part of the tourism industry for a long time and in the age of digital marketing they still play an important part in potentially delivering customers to your business. Many wholesalers now have the technology to receive your inventory, availability and booking capability in real time and can then pass this onto other retail travel agents, website distributors and in some cases even other wholesalers or inbound tour operators.

E.g. DiscoverWest Holidays.

4. Key terms and concepts in online distribution

Below is a list of key terms you will need to understand before selecting one or more online distributors.

a) Allocation (allotments) versus Real time inventory

Understanding this difference is vital to selecting the right online distributors for your products and to getting the maximum return for your business.

- Allocation is where you give or allocate a distributor or wholesaler a **limited number of your inventory at set time intervals**.

For example you may have 10 rooms and allocate 2 rooms to a distributor and then update this once every day. In doing this you hand over the ability to sell that stock to the wholesaler or distributor. They can sell it at a particular price and agreed commission.

- Real time inventory is where you give a distributor access to all of your 10 rooms all of

the time, and availability is updated automatically.

If you sell 1 room on your own website via your own online booking system, the distributors will be automatically notified that there are now only 9 rooms left for sale.

Generally speaking allocating inventory results in you only being able to use a small number of distributors and a large amount of manual work for you. This traditionally has worked well for large hotels and tour companies who could allot 20 rooms here and 20 rooms there. The issue for them has become the time required to manage these allotments, taking back stock in busy periods and moving it around. For the small operators with small businesses this is particularly difficult.

REAL TIME INVENTORY MEANS YOU CAN USE AS MANY DISTRIBUTORS AS YOU LIKE AND MOST OF THE WORK IS AUTOMATED.

For those of you who wish to expose your business online, allotting room stock to a large distributor may still prove to be beneficial. For others, real time inventory is a better solution as it involves less manual work and minimises the risk of overbooking.

b) Payment methods

Most online distributors fall into two payment types:

Direct payment:	This is where the consumer pays you (as the business supplying the product) the cost of the product and you in turn then pay the online distributor their distribution commission.
On-Account:	This is where the consumer pays the online distributor who then in turn pays you the funds less their distribution commission, which they retain.

c) Distribution commission

This is the fee a third party charges for bringing the consumer to your product. This third party may be a travel agent, wholesaler or inbound tour operator.

This is generally a percentage of the booking value but may also be a flat fee.

YOU WILL ONLY PAY COMMISSION WHEN A SALE IS MADE.

It is equally important to note that you will not pay commission on all of your bookings, those consumers that come direct to you will not incur any commission. Therefore you need to understand where your business is coming from to accurately price your product.

How much commission will I be paying?

That depends on the source of the booking. As a guide you can expect to pay anything between 10 and 30; 10% for retail agents; 20% for wholesalers; and 30% for inbound tour operator

working on behalf of the international travel trade.

When pricing your tourism product, make sure to include your commission in your retail rate and not to add it on.

What do I get for my commission?

Third parties who will distribute your product will promote and sell it using different channels. They are your link to the consumer who hasn't reached you directly.

For example a wholesaler will normally provide the following services:

- *Product development*
- *Brochure production and distribution of brochure to consumers through travel agents*
- *Advertising to visitors and travel agents*
- *Travel agents training*
- *A point of sale (e.g. travel agency), in-store merchandising, and window displays*
- *Invoicing and collection of participation fees.*

d) *Distributor's terms and conditions*

These are the contractual terms between the distributor and your business under which that online distributor will sell your product.

e) *Merchant*

This is the party that takes the consumer's money.

f) *Yield*

This is the amount of money after distribution commissions are paid that you want to receive for a given product you have for sale.

g) *Channel managers*



Channel managers act as a go-between for you and the distributor and manage your inventory via multiple distributors for a relatively low fee. They are a "behind the scenes" tool used by the

tourism business to manage inventory on the third party websites and/or their own website.

A CUSTOMER CANNOT BOOK ON A CHANNEL MANAGER BUT BOOKINGS TAKE PLACE ON THE DISTRIBUTOR'S WEBSITE.

Advantages of using channel managers

Using channel managers can expose your business to many distributors at the same time, even if you have a small number of rooms or tours available.

An effective channel manager will save you time and hassles by decreasing labour costs and increasing productivity and profits. It will also allow you to increase your online exposure by being listed with more online websites.

Choosing a channel manager

There is a vast range of prices which generally depend on the number of rooms a property has. Each channel manager charges differently with or without a lock-in contract. You should look for a channel manager that is cost effective and should question lock-in contracts.

Be cautious of channel managers that charge commissions based on "per booking made" as these can add up very quickly and you may think it is cheaper but in long run they can be more costly depending on the number of bookings that go through the channel manager.

Apart from assessing costs and target market, you should also look at the number of channels that the company can offer you both domestically and internationally.

Examples of channel managers that you may want to utilise are:

- SiteMinder (www.siteminder.com.au)
- Levert (www.levartdistributionsystems.com.au)
- ResOnline (www.resonline.com)
- Ezyield (www.ezyield.com)
- ChannelDirect (www.travelclick.net/reservation-solutions/channel-direct/index.cfm)
- Allotz (www.allotz.com)
- Ezyrates (<http://www.ezyrates.com>)

5. Key learning outcomes

- To work out which distribution options make sense for your business, you will need to understand where your current bookings come from and how much they are costing you
- There are many distribution channels you can use to promote your business. For instance, you may want to consider working with Visitor Information Centres. One of the most effective ways to get your product to many online distributors is to use channel managers.

6. Related material

a) *Related tutorials*

- Online distribution advanced
- Tourism Exchange Australia
- Online booking systems: 101
- Online booking systems: advanced
- Online travel agents:101
- Online travel agents: advanced

b) *Related websites*

- Tourism Exchange Australia: www.atdw.com.au/tourism_exchange_australia.asp