

TOUR COSTING

Costing of a package tour includes the determination of the monetary value of a tour package. The cost of package tour is explained as the total expenses are incurred to convert the places of interest along with services into an appealing package tour.

Fixed costs are changed when the number of packages sold increases over time. Tour operators include the cost of hiring buses and guides or interpreters. Fixed costs are a 195 kind of expenses incurred before any sales take place. These costs often include rent of the building, furniture and salary.

A tour company incurs the costs for transacting with the principal service providers. It assembles or purchases individual components to give concrete shape to tour package. The cost is determined as per clients or markets requirements or organisations strategies. Tour operators work out fixed and variable costs.

Variable costs change according to the increase and decrease in the number of customers in the group. These include meals, accommodation, admission fees, and other costs charged according to a rate per person. The cost of advertising, pamphlets and brochures are also included in the variable costs

Furthermore, variable costs include the actual expenses (direct costs) of rooms, tickets, and other package components incurred with the sale of each package. The overhead and marketing costs are considered proportionately for each tour package based on the costs of developing and marketing each package.

Fixed, variable, and overhead costs vary between 60 per cent and 70 per cent. Three different costs are added with a 10–15 per cent mark-up to get the final price tag for an individual tour package. For example, Yatrik Travels plans to offer a weekend winter sports package to Kashmir during the professional skiing season.

It includes tickets, room charges, helicopter services, two meals, executive hotel services, skiing equipment, and refreshments. Break-even analysis is a method used to determine the total sales needed to cover the total costs. Hence the name break-even signifies that the total revenue is equal to the total cost. This technique is used to evaluate alternative pricing levels.

- The point at which the income derived from the sale of a tour is exactly equal to the expenditures incurred in running the tour, i.e. no loss and no gain.
- It can be identified in terms of the number of dollars of sales required (price multiple number of participants) or in terms of the number of tour members required.
- It is the smaller number of tour members constituting the breakeven point and per passenger cost will be higher.

PACKAGE PRICING WORKSHEET

A pricing worksheet reflects the distribution of cost components in the package tour. For example, when Rs 10,000 is the final price of one tour package, the costs of the elements of services in the package is divided into direct and indirect costs. Out of the gross margin of profit, nine per cent is spent on administrative cost.

The indirect costs comprising costs on advertising, sales promotion, and publicity constitute five per cent. Thus, a tour operator can make a profit of around fifteen per cent on each sale of the package tour that includes 196 the commission or override from the principal service providers. The average profit made on package holidays is extremely slender. Many non-travel companies supplying consumer products achieve a net margin on sales turnover of 10 - 12 per cent. Table presents the tour price structure

PRICING OF PACKAGE TOUR

After ascertaining the cost of a tour package, tour operator analyses exchange rates, estimates future selling price and finalises the price of a particular package.

The tour price is not solely determined in terms of the cost but on the basis of expected rate of return, market share and competitors' price. There are different approaches to fix the price of package tour such as total cost and marginal cost method, breakeven pricing, rate of return pricing, skimming, penetration, going rate, differential etc.

COST FACTOR OF A TOUR OPERATION BUSINESS

A package tour business is carried with the help of methodical planning and controlling of various down and upspring resources. The price tag of the package tour is decided on the basis of the positioning and branding. Tour operators use the methods of marginal pricing after examining the market trends. The operational costs and margin of profit is thoroughly examined by the tour operators to decide the price of the package

Tour operators have the absolute freedom to zero in the price tag on the basis of mark-up and buying power of the potential buyers. 197

Some of the essential elements of the cost factor in the package tour business include mark-up, net rate, and gross profit. Mark-up is the extra amount which the company can maintain on each sale. Tour operators have the best bargain ability while negotiating with the suppliers of services in order to secure services at the cheapest possible cost

The net rate is the price that a supplier charges based on which prices for package tours can be decided. Any amount of mark-up can be added before arriving at the final rate meant for the buyers. The commission constitutes a major share of earnings in tour operation

FACTORS INFLUENCING TOUR COSTING

- Seasonality: It may vary your price depending on high or low season.
- Operating Costs: The higher the operating costs, the more expensive the prices will need to be so that it cover all expenses.
- Competition: There is no point pricing the product out of the marketplace and the company need to stay competitive or be able to justify the high price.

- Demand: People pay more if there is a high demand in a region. Similarly, they pay less if there is an abundance of choice.
- Tour or Accommodation Details: Different tour types of rooms are reflected in the package tours for the guests to know.
- Daily Costs (Fixed): To determine the fixed costs associated with operating business, such as fuel, labour etc...
- Daily costs (Variable): To determine the costs associated with taking passengers on tour or letting out rooms, such as meals, third party activities, linen and room cleaning

- Annual Business Costs (Fixed): To calculate the total costs associated with operating the business, these costs occur whether the tours operating or not, it remains to be fixed. For example costs that are fixed include insurance, marketing, lease payments, bank fees, accounting fees and salaries.
- Average Capacity: The package tour business is based on factors such as visitation to the region, competitor analysis and customer feedback

- **Accurate Forecasting:** is also necessary for another reason. Yet another risk can arise from the unexpected loss of popularity of a country where the tour operator has contracted heavily.
- **Political or Security Concerns or Natural Disasters:** Typhoons or volcanoes, or currency movements or new aviation or tourist taxes influence the cost of package tours. There is a high level of price elasticity between holiday markets.

HOLIDAY PRICING

Tour operators set prices to ensure that as many aircraft seats and hotel beds are used as possible. The main components are:

HOLIDAY PRICING

Season Pricing

Package holidays are normally organized into two seasons: Summer and Winter. In the summer, more people wish to go to their holidays in August than in May. However, tour operators need to keep their planes as full as possible throughout the year. This is achieved by varying the prices to reflect the varying demand for holidays

The summer period is the main time to travel both due to holidays and due to the weather. There is a double pressure on demand. August is also the main month for holidays throughout India. There must be more pressure on beds from all domestic markets. More people wish to travel as there would be school holidays. There are only a finite number of beds & aircraft seats, prices must rise for those periods. Tour operators are generally committed to beds & seats for a full 6 month season

Flight Times

Most customers would prefer to travel during the day, but some are prepared to travel at unsociable times if the price is right. This policy helps keep all the holiday prices down, not just those using midweek night flights.

Regional Departures: The prices for flights from regional airports are set to keep aircraft as full as possible. Tour operators are keen to provide regional departures for people like to travel from their local airport

Single Room and Other Accommodation Supplements:

Most tour operators contracts with hoteliers and apartment owners are based on a price per room, whilst their 199 brochure holidays are sold per person. As a result, per person price for a single traveller includes the whole room cost. This applies to both single rooms in hotels and self catering units.

Tour Operators and Exchange Rates

A high proportion of the costs are incurred from the foreign currencies, for hotels, transfers, airport charges etc. in the destination country. Also aviation fuel is priced in US dollars.