

**COMPONENTS OF TOUR COSTING AND  
PREPARATION  
OF  
COST SHEET**

Costing each element of package tour is a painstaking work for a tour operator while developing new package tour. Calculation of costs of package services determines the price of package tours and it helps in garbing new market. Many tour operators minimize the cost of preparing package tour that helps them maximize profits. Reduction of unwanted costs and negotiation with primary service providers for special rate largely help tour operators make profits and pass on certain benefits to the customers or clients.

It is essential to include each element of cost that directly and indirectly determine the final price tag of a particular package tour. Including research and development costs as an indirect cost also determines the price of package tour. Similarly, marketing and publicity are two important costs that a tour operator includes them as indirect costs.

Besides understanding and including each element of cost, developing a methodical cost sheet is an important work of a tour operator to bring each implicit and explicit cost into the calculation of total costs of package tour. Thus, this lesson will explain each component of package tour costing along with the preparation of cost sheets.

## **FIXED AND VARIABLE COSTS**

Fixed costs do not vary in the short run, but it varies in the long run. For example, the cost remains to be the same no matter how many rooms are occupied in particular day. It does not matter it is 1 or 20 passengers. But the costs would be the same. Variable costs change in short run as well as in the long run also. It varies as per the variation of the sale of package tours. Table presents the difference between fixed and variable costs pertaining to the various activities.

# **VARIOUS COMPONENTS OF COST**

The cost for developing a package tour decides the final price of the package.

The sale of the package tour is a direct function of direct or indirect costs or fixed and variable costs. The tour cost is explained as the sum total of cost incurred to combine related and complementary services. For example, SOTC as a tour wholesaler examines affordability of potential customers and various cost components

Profit margin is added after due consideration of purchasing power of buyers and costs involved in designing the package tours. Furthermore, market demand determines the cost of tour packages and tour operators make all possible ways to make the services arranged in a very negotiable rate with the principal service providers. There is usual variation of doing the calculation of costs from one tour operator to another. These are the following variable costs apart from the fixed costs.

## **COST FOR NEW PRODUCT DEVELOPMENT**

The cost is incurred for discovery of new destination and development of new packages. It includes the cost for preparing documents for planning. Tour operators incur the cost on their familiarization tour. The development of new packages needs allocation of cost.



## Transfer Cost

International and domestic airfares, rail travel, and transfer and departure tariffs are included in the cost component in case of the all-inclusive package tour.

## Accommodation Cost

Accommodation cost is expected to be around 30 per cent of the total cost that is decided after the negotiations accommodation companies.

## Sightseeing Costs

Sightseeing cost includes the cost of guide, entry free, refreshments, coach, etc. The calculation is done on per head basis.

## Administrative and Transactional Cost

The cost of managing the preparation of itinerary and package tour is incurred. This is an indirect cost or implicit cost. The cost includes salary and incentives, insurance, financial or legal expenses and recruitment and selection cost.

## The Technical cost

The technical cost includes the acquisition of new software, hardware, and computers for the reservation of air tickets and tour packages.

## Cost for Training and Development of Staff

The cost of training the staff is incurred from the revenue of the tour company. Front line executives are given in-house training with the help of external or internal trainers, whereas the managers are send for outhouse training to learn the strategic business decisions.

## Cost Marketing

The cost marketing is incurred from the budget for marketing. Marketing cost includes advertising and sales promotion for diversification of the package tour business.

## Printing and Publicity Cost

The cost of printing tour brochures is incurred for designing and printing multiple copies of the tour brochure on coloured glossy papers highlighting the tour itinerary and other important features of package tours.

## Cost for Bank Interest

The cost is also incurred to repay the rate of interest and principal for borrowing loans from the banks.

## Sun Cost

The cost is incurred for the depreciation of fixed assets in the long run due to the obsolete nature of software and hardware, and electronic gadgets.

## Miscellaneous Cost

This cost includes portering charges at airports and railway stations, tips at hotels or airports, entrance fees, insurance premiums, gifts, and welcome dinners. Thus, while costing a product, the tour company should concentrate on the four pivots namely- cost consciousness, cost measurement, cost responsibility and cost improvement.

# Concept of Costing

- A managerial accounting method that describes when all fixed and variable costs, including manufacturing costs, are used to compute the total cost per unit. Full costing includes these costs when computing the amount of money it takes to produce and distribute one unit of output.
- In travel and Tourism costing includes, air travel and local transportation, lodging, and other Sight Seeing expenses.



# Components of Tour Cost



Hotels



Meals



Airlines



Railways



Road  
Transport



Cruises



Local  
Guides/Escort



Miscellaneous

# Hotels

- Different types of hotels
- Types of rooms
- Tariff plans
- Extra bed charges
- Taxes
- Meals





# Meals

- Continental Plans (CP)= Room + Breakfast
- Modified American Plan (MAP) =Room + Breakfast or any one Meal.
- American Plan (AP)= Room +All Meals.
- European Plan (EP)= Only room – No meals.
- A La Carte = According to the menu, Pay their own bills
- Most Travel Agents don't include Lunch because of Sight seeing.



# Airline & Railway

- Travel Agents should have the knowledge of airfares for different sectors as required for Itinerary or it can be Supplement.
- TA should be familiar with train names, routes, schedules, and fares.
- Indian railways allow 90 days prior ticketing.
- Also Tatkal Seva is available.



# Road Transport

- Pick-up and Drop Facility from Airport / railway Stn to Hotel, Visiting places of attractions or Sight Seeing.
- Travel Agent should contact local transport operator for calculating the cost of the vehicle for entire tour.
- Drivers charges, parking charges, toll taxes etc.
- Km travel/ day. Extra charge for extra km
- Ac/ Non Ac vehicles.



## ● Cruise

- Cruise Packages for Three to five days.
- Cost varies for different categories of rooms, cabins, on board facilities etc

## ● Local guides charges

- English speaking or Foreign Language speaker.
- Explain monuments or other sight seeing
- Thus costing includes total Guides charge divide per person



# Miscellaneous

- Entrance fees – Museums, Historical forts, palaces, Churches and similar charges.
- Cultural Show in the evening
- Porterage,
- Desert safari
- Toll Taxes

