



The role of Inbound operators (IBO's)

Introduction

“An Inbound Operator (IBO) is just a middleman who adds no value whatsoever to our business and wants a big cut for doing nothing!”

This is a comment that we hear from time to time and this document seeks to clarify just what an IBO does to earn the extra level of commission that we seek.

In recent times, there has been increasing pressure for suppliers to lift the levels of commission payable to IBO's. This has primarily been driven by travel agents around the world seeking higher commissions due to airline commission caps. In the past, an agent could expect to make 9% on a LA to AKL airfare and 10% on the ground package. Airlines have capped these commissions now at 4%, effectively halving the agent's air commissions overnight.

On most 20% commissionable products, we and other IBO's retain 2% to a maximum of 5% and pass on the balance to our off shore partners. This commission level is unsustainable for IBO's and wholesalers and most book this type of product simply as a service to our partners.

Pressure has now been brought to bear on tour operators and travel wholesalers around the world to increase commission levels payable to travel agents on ground arrangements to start at 12% rising to 15% if part of a preferred chain. The wholesalers are often expected to absorb the credit card fees. They in turn have asked us to lift levels payable to them so that they receive a **minimum of 20%**.

Why should you even consider paying more than 20%?

The following summarizes the role of the wholesaler and IBO in an effort to outline how we add value to the traditional distribution chain.

The off shore wholesaler will often:

- Produce and distribute brochures to the travel trade and general public (several of our clients produce brochures in the hundreds of thousands).
- Have a sales force on the road calling on agents, making presentations to client groups
- Pay for 800 toll free reservation lines
- Undertake retail travel agent presentations
- Accept payments from agents or consumers
- Pay travel agents 12% to 15% commissions
- Assume exchange rate fluctuation risks
- Operate B2C web sites
- Carry out travel trade and consumer advertising, direct mail campaigns and other promotions

As an Inbound Operator, we:

- undertake the research, make product recommendations, cost and, where necessary, protect space for all the product listed in the wholesalers brochure annually
- produce and distribute an annual product "tariff" to key wholesalers around the world
- provide regular product updates to our wholesale partners via e-newsletters, separate mailings and regular phone calls
- have developed and maintain a sophisticated on line quotation and reservation system with literally thousands of products
- leverage off our Australian "sister" operation, Pan Pacific Travel Australia.
- are always seeking and targeting new operators who have not traditionally sold the South Pacific. We do this through researching the market place, making approaches via direct mailings, phone calls & personal visits. We then work with product development teams, recommend product and assist with brochure design and layout. An IBO can easily invest 120 hours or more with a new operator before seeing the first booking result.
- visit each market a minimum of 2 to 3 times per annum to work with wholesalers to design programs, discuss brochure inclusion, undertake wholesale & retail staff training, meet with airlines and various Tourism offices. (Last year our travel costs alone exceeded NZ \$200,000)
- participate in marketing activities with our partners such as direct mail campaigns, work with New Zealand suppliers to produce programs to support tactical marketing initiatives
- operate representative offices in various markets – we have 2 such offices in Taiwan and USA
- provide a "one stop shop" for our offshore travel partners saving them time and resources by being a central reservations and accounting facility
- pay NZ suppliers on behalf of our offshore partners, assuming any credit risk
- provide a 24 hours/7 days a week emergency help line for clients in country
- act as the offshore partners representative on the ground solving problems, providing solutions, making amendments and contingency plans as and when required. We add significant value to both offshore partners and you as a supplier in times of crises causing distribution to international flights, floods, avalanches, strikes, company failures, accidents and road closures, delayed and cancelled transport services.
- must invest **year round** in highly trained staff at levels that are adequate to handle peak high season work loads but well exceed required levels during the 4/5 month down turn period
- have teams that meet same day turnaround deadlines by working "as long as it takes"
- welcome supplier partner visits during the low season to update us on product
- send staff on familiarizations to ensure we have personally inspected plant and product as often as possible
- Stock and distribute supplier brochures and collateral material on demand to our partners
- Provide qualitative and quantitative assessments and suitability of products for our wholesalers.

How much does it cost to work with an IBO?

Unlike the company producing your brochure, advertising sales people, guidebook or discount booklet publishers, brochure distribution companies, local information offices or the company designing and hosting your web site, we do not charge our supplier partners any up front costs for accessing this international distribution system. (How many of your suppliers would tell you to "pay me if you get business as a result of your brochure/attending the trade show/doing sales calls etc")

The only time that a supplier pays for our services is when we have delivered a booking to the supplier and then the "fee" paid to us will only be in relation to that individual booking.

Does this mean that you have to add another 5% on top of your retail selling prices or lose 5% of your total turnover?

The short answer is no, that's most unlikely!!.

Look at your business like an aircraft with 100 seats. Airlines practise what they call "yield management". There may be three obvious pricing elements - first class, business and economy. Within economy however there may many other "price bands".

You will undoubtedly have different sources of business that result in different net price prices – direct from the "consumer", a local travel agent or an information centre, perhaps you have established a relationship directly with an overseas tour operator and IBO's.

This assumes that you even want to have business from the International distribution chain. You're in total control of that decision naturally.

The following suggests a particular scenario, which may or may not bear any resemblance to your business. Very simplified examples are used.

Scenario: Your selling price is \$100 per room/product and you sell 500 rooms/products p.a (excludes GST etc)

Source of business	% of business	Commission Paid	# of room nights	Net value p.a before costs etc
Direct from consumer	50%	0%	250	\$25,000
From local agent or info centre	20%	10%	100	\$9,000
From overseas wholesaler	10%	20%	50	\$4,000
From IBO	20%	25%	100	\$7,500 (\$8,000 if 20% commission was paid)

Based on this scenario the extra 5% commission paid to an IBO is \$500 p.a on total net receipts of \$45,500. Assuming that business volumes remained exactly the same (our preferred suppliers **will** see an increase) the retail selling price would need to be raised \$1 or 1% to recoup or off set the extra 5%.

How much business is handled by IBO's these days ?

Every market is different of course. A greater percentage of Europeans travel without pre-booking anything than the Japanese or Chinese markets. The Inbound Tour Operators Council of New Zealand (ITOC) has 50 full members. It is estimated that these full members collectively handle over 40% of the total long haul holiday market to New Zealand each year (exact figures are being updated Q1 2012).

I hope this has helped a little with outlining the role that the International Tour Operator and IBO play in the tourism and travel global distribution system.

Regards,

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