



Group Travel Award Pricing Options

The Good, The Bad and The Ugly

| Pricing Type | Description | Pros For Buyer | Cons For Buyer | Where the Buyer Gets Screwed |
|---------------------------------------|--|--|---|---|
| Per Person or Packaged Pricing | <ul style="list-style-type: none"> ▶ A fixed per person price for each person traveling on the award trip <ul style="list-style-type: none"> – eg: 100 people @ \$1,000 per person = \$100,000 total budget ▶ Package price includes ALL costs (air, land, food, activities) in a lump total per person | <ul style="list-style-type: none"> ▶ Agency deals directly with suppliers – buyer has no contractual connection to end supplier ▶ Simple, clean and easy to understand billing ▶ Less involvement in the “sausage making” associated with travel purchasing | <ul style="list-style-type: none"> ▶ Typically a minimum total price regardless of number of travelers ▶ Changes to program typically require additional fees at substantial mark up ▶ No knowledge of contract provisions between agency and ultimate service provider resulting in hidden profit areas for buyer such as back-end commissions, overrides | <ul style="list-style-type: none"> ▶ Agencies can negotiate with suppliers for lower costs and reduce the number of meals, activities, etc without client knowing. For every meal not eaten, activity not taken it represents pure profit to the agency. In other words, they tell the client 100 people will eat breakfast at \$10 but know that only 80% of the travelers will eat so they tell the hotel to only set for 80 people – the 20 people difference is pure profit. |
| Cost Plus (cost+) | <ul style="list-style-type: none"> ▶ Each item in the travel program is priced at “cost” and a “mark up” is added. <ul style="list-style-type: none"> – eg: Airfare = \$100 per person . Agency adds 15% mark up, buyer pays \$115 per person for airline ticket. Same process applied to food, hotel rooms, activities, etc. | <ul style="list-style-type: none"> ▶ Complete transparency on pricing and cost of program elements ▶ Only need to negotiate one number – overall mark up versus individual items in the program ▶ Simple and easy to execute | <ul style="list-style-type: none"> ▶ Agency is in a position where higher “costs” = more profit . Agency goals are not in alignment with buyer. Agency has no motivation to reduce costs and can actually make more money by increasing costs ▶ “Costs” associated with agency supplied items (ie: printing) may include hidden profit and questionable “costs” ie: “overhead burden” | <ul style="list-style-type: none"> ▶ Agency doesn’t negotiate with suppliers ▶ Agency doesn’t audit supplier bills with same intensity as with per person pricing allowing suppliers to include items not used, over priced or simply made up |
| Management Fee | <ul style="list-style-type: none"> ▶ Each program element is estimated and provided at cost from the supplier through the agency – called a “pass through” ▶ Agency charges a “management fee” based on expected workload and coordination effort. Typically calculated using hours and hourly rates | <ul style="list-style-type: none"> ▶ Program pricing is almost completely transparent ▶ Management fee is not contingent on program costs therefore agency can work to reduce costs for buyer without impacting their profitability | <ul style="list-style-type: none"> ▶ Depending on the negotiated management fee agency may need to reduce service levels to remain profitable ▶ “Costs” associated with agency supplied items (eg: printing) may include hidden profit ▶ Changes to the program may create unforeseen management costs by the agency and additional fees can be added ▶ In order to maintain profit agency may quote a “senior” staff for rates but use a “junior” staffer with less cost burden for implementation – buyer gets less experienced person on their program | <ul style="list-style-type: none"> ▶ Lack of audit on hours worked on a project ▶ Overestimate true hours needed and used to support the program ▶ Using unpaid or lower paid interns to do important work requiring rework that may be charged to the client ▶ Showing an item provided through agency at “cost” when it really has profit in it |
| Combination | <ul style="list-style-type: none"> ▶ Some combination of per person, cost plus or management fee <ul style="list-style-type: none"> – eg: Airline tickets could be cost plus, food and beverage could be packaged and an additional fee for agency management could be added to total | <ul style="list-style-type: none"> ▶ None | <ul style="list-style-type: none"> ▶ More complicated to decipher where the true costs and expenses are ▶ Client must trust agency to work in their favor vs. agency favor on items that are cost+ ▶ Includes all the negatives with all the other options (determining true costs, using less experienced support staff, hidden profits, etc.) | <ul style="list-style-type: none"> ▶ Multiple places for an agency to bury profit and confuse the entire pricing issue ▶ Most opaque of all pricing scenarios. Agency can use all the avenues from each pricing option to create a package that is most favorable for them |