TOURISM FOR A BETTER WORLD

Pricing Your Tourism and Hospitality Services

Setting a Price: Show Me the Money!

Let's say you're starting a small business in your village or city—perhaps a food stall selling snacks to people on their way home from work. You'd have a simple menu, a few easy-to-prepare snacks, and some bottled drinks.

How would you set the price for your snacks and drinks? What do you think should be your two most important considerations?

Setting the right price is one of the most crucial decisions any business can make. Do you know why? It's about finding that **"sweet spot"** where you don't overprice and scare customers away, but you also don't undersell and leave money on the table.

Therefore, two key questions need to be answered to find this balance:

1. **What are my costs for providing this?**
2. **At what price are my competitors selling what to whom?**

Costs vs. Investment: Understanding Your Financials

It's important to distinguish between a **"cost"** and an **"investment."** You need to cover both, but you approach them differently.

- **Costs:** These are the expenses you incur from the moment you start operating. When you calculate your **prices**, you absolutely need to be able to **cover all your costs** to stay in business.
- **Investment:** This is the capital you put in to **establish the business** itself (e.g., buying kitchen equipment, cutlery, tables, chairs, etc.). You start paying back this initial **investment** from your **profit**. This might be a loan from a bank or family members.

Example Costs for a Small Restaurant

What types of costs would a small restaurant typically have?

- Cost of food ingredients and beverages
- Salaries and wages for employees
- Costs of cleaning supplies (tablecloths, napkins), other regular consumables (paper napkins, candles, take-away cups, cleaning detergents, etc.)
- Rent (if you don't own the building)
- Utilities (gas, water, electricity)
- Garbage disposal fees
- Additional services, such as pest control, equipment repair, and building maintenance
- Marketing costs, like printing signs, menus, flyers, posters, or running a website
- Telecommunication costs
- Income tax and value-added tax (VAT)

Considering your own business idea, or one you're familiar with in Your country, what's one specific cost that you think is often overlooked by new entrepreneurs?

Who Pays What? Applying Smart Pricing Strategies

So far, you've **assessed your costs** to understand your baseline and avoid going bankrupt. You've also **checked out the competition** to see what customers are accustomed to paying. Now, let's explore some clever pricing strategies to help you generate more revenue!

Pricing Strategies: Generate More Revenue

Consider these techniques that can help you boost your cash flow:

- **Pay Now, Pay Less:** Offer a **discount**, even a small percentage, to customers who are willing to prepay for your services. This secures their cash upfront and makes them less likely to cancel.
- **It's Cheaper by the Dozen:** The more customers buy from you, the more money you make. **Incentivize larger orders with a discount.** For example, a guided tour for 10 people might be just as much work as a tour for 5. Why not offer a small discount to groups booking for more than 5 participants at once?
- **Once-in-a-Lifetime Experience:** Do you have something truly **unique to offer**? Perhaps you're the only tour company in Your country offering specialized night-time guided safaris. If so,

charge more than you think you should! A higher price can signal to the customer that this experience is exceptionally special. Capitalize on your uniqueness.

- **A + B Pricing (Bundling & Upselling):** For some services, customers need to buy an additional service to fully enjoy the primary one. For example, skydiving companies often charge extra for a video of the jump. Customers pay the company to capture the experience. Be cautious, however, not to nickel-and-dime for every little extra, or customers might feel they're not getting good value for money.
- **Luring Them In (Sales Promotion):** Also known as a "loss leader" strategy. Select one of your services and price it very competitively to make it look like an amazing bargain. This can **lure customers in**, and once they're engaging with you, you can introduce them to your other products and services.
- **Buy 5, Get 1 Free (Loyalty Programs):** Loyal customers appreciate recognition. To boost customer loyalty, offer a discount or a freebie after a certain number of purchases (e.g., every fifth or tenth coffee, lunch, or hotel room booking). This works well for more frequently purchased or lower-cost items, but can also be adapted for larger bookings.

Flexible Pricing Strategies: Adapting to Demand

You want to maximize your sales of rooms, guided tours, and other services every day. This leads to companies closely monitoring demand and applying **"flexible pricing strategies."** Prices can be a powerful tool to control demand:

1. **High Customer Demand = High Prices:** When people want your service *now*, they're willing to pay more for it.
2. **Low Customer Demand = Low Prices:** When demand is low, attract customers with a great bargain to fill your capacity.

Applied correctly, both concepts will help you avoid "running dry" of customers during slow periods and maximize profits during peak times.

Think of examples of high and low demand times in the tourism and hospitality industry in Your country. Compare your ideas to these five factors:

- **Day of the Week:** In restaurants and hotels, weekdays often differ from weekends. Typical restaurant evenings are Thursday through Saturday. City hotels are usually busy during weekdays with business travelers, while resorts and lodges might be busier on weekends. For bars, this can even be broken down to "hour of the day"—a bar's happy hour is a classic example.

- **Season:** Tourism often follows specific seasons. Some destinations are busier in summer, others in winter, and some have particular months when they attract the most tourists. This heavily depends on weather patterns and wildlife migration cycles in Your country.
- **Special Events:** Large-scale international happenings significantly drive up demand for tourism and hospitality. Examples include major music concerts, international conferences, or even sporting events.
- **Crises:** Unfortunately, crises like armed conflicts, terrorist attacks, natural hazards, or disease outbreaks (like COVID-19 was) will most likely drive down demand from most tourists for some time.
- **Public Holidays:** Every country has a range of public holidays (e.g., Martyrs' Day, Independence Day, Eid al-Adha). These often lead to people taking breaks, enjoying a week of vacation, or simply celebrating by taking time off, resulting in high demand from locals for restaurants and hotels.

Many businesses don't consider these demand fluctuations at all. By standing out from the crowd and analyzing demand patterns in Your country, you'll be significantly ahead of the game!

Checking Out the Competition: Understanding Your Market

What do your customers truly care about when considering your tourism or hospitality service in Your country? Fundamentally, it boils down to: **"Can I afford your prices, and do I consider them good value for money for what I get?"**

But how do you integrate this crucial customer perspective into your pricing strategy?

You could, of course, cook for a few people, tell them your desired price, and see if they find it fair. However, a far more effective (though not foolproof) method is to **check out your potential competition.** Almost every business you'll establish or currently work for has, or will have, competitors.

Why Analyze Competitors? Two Major Advantages:

Checking out competing businesses offers two significant benefits:

1. **Understanding Their Pricing Strategy:**
    - Competitors undoubtedly **incur costs** too, and most likely, they also need to cover loans or investments. Therefore, their prices will likely represent a price point that **enables a business to cover all these costs and achieve profitability.** Studying their prices gives you a practical benchmark for operational viability.
2. **Gauging Acceptable Price Levels for Your Customers:**

- If those competitors have been operating successfully for a while, they must be doing something right. This implies that **customers are choosing their products and accepting their price levels.** This provides valuable insight into what your (potential) customers are willing to pay in the current market.

Identifying Your "Competitive Set": The 3 P's

You might think you can just check out other similar businesses in your area and analyze their prices. But it's not that simple! First, you have to carefully decide who is truly worthy of being analyzed as a competitor. We call this **"creating your competitive set."**

Here are the **"3 P" criteria** you need to think about when identifying suitable competitors. While using a restaurant example, similar considerations apply to other tourism and hospitality businesses in Your country:

3P stands for: Product, Pricing, Proximity

- **Product:** Do they offer a similar type of product or service? (e.g., fine dining vs. casual eatery, budget lodge vs. luxury safari camp, cultural tour vs. wildlife safari).
- **Pricing:** Are their price points similar to what you envision for your business, or what your target customer can afford?
- **Proximity:** Are they located within a reasonable distance, making them a viable alternative for your target customers? (e.g., in the same town, region, or easily accessible travel corridor).

Let's Practice!

Put together a competitive set for the business you are working for, or would like to work for, in Your country. You can use this table to guide your analysis:

Competitor Name	Product (Similar offerings?)	Pricing (Similar range/target?)	Proximity (Location relative to yours?)	Notes/Key Learnings

Understanding Your Costs: The Foundation of Pricing

When setting the price for your tourism product in Your country, it's crucial to understand the different types of **costs** involved, as each has unique characteristics.

Variable Costs: Costs Per Customer

These are the expenses that directly depend on the number of customers participating in your excursion or activity. They're also known as **variable costs** because the total amount changes with the number of participants.

Examples:

- Cost of food and drinks provided per guest.
- Entrance fees to attractions or national parks per person.
- Material costs for activities (e.g., craft supplies for a workshop) per participant.

Fixed Costs: Costs Per Group/Excursion

These costs are incurred for the execution of the excursion itself, regardless of how many customers are participating (up to the vehicle's capacity). They are called **fixed costs** because the total amount remains constant.

Examples:

- The cost of renting a tour bus for the day, whether you have 5 or 25 participants.
- A fixed guide fee for the entire group.

Administrative Costs: Overhead Expenses

Don't overlook your **administrative costs**, which are general business expenses that occur irrespective of whether a specific excursion runs.

Examples:

- Office rent.
- Costs for postage and communication.
- Advertising and marketing expenses.
- Utilities like electricity and water for your premises.

Distribution Costs: Selling Through Partners

If you don't sell your product directly to customers, you'll incur **distribution costs**. This typically involves paying a **commission** to intermediaries.

Example:

- A travel agency might earn a 15% - 20% commission for selling your tour package.

Thinking about a specific tour or service you offer in Your country, can you identify one clear variable cost and one clear fixed cost?

How to Set Your Price for Profit

You want to make a profit, right? Otherwise, your tourism business won't be sustainable, and you won't be able to make a living. To achieve profitability, you need to add a certain percentage to your costs. This is called a **profit markup**.

A recommended profit markup is **20%**. The calculation is quite straightforward.

Let's use one of my photo safaris as an example:

The **basic costs** for lodging, food, photo equipment, plus all service and administrative costs, come to, let's say, **$160 per person**.

Now, you calculate 20% of this sum: $160×0.20=$32.

Add this profit markup to your costs: $160+$32=$192.

So, your selling price for the photo safari would be **$192.00**. That's how you ensure you're making a profit!

Additional Considerations: Distribution Costs and Sales Tax

If you distribute your products through a travel agency or other intermediaries, you'll also need to factor in **distribution costs**. Additionally, most countries, including Your country, have a **sales tax (VAT)** or similar tax that applies to your services. Be sure to check what taxes apply in your specific region.

1. **Distribution Costs:** If you sell your product via a travel agency, add a commission (e.g., 15%) to your costs *before* adding the profit markup.
2. **Sales Tax:** The final price (costs + profit markup) must then be multiplied by the applicable tax rate in your country. For example, if the tax is 18% in Your country, you would multiply your price by 0.18.

Considering your tourism business in Your country, what is one specific cost (fixed or variable) that you think might be easy to underestimate when calculating your prices?

When to Adjust Your Price: Maximizing Your Revenue

Keeping your prices static all year round, for every guest group, and regardless of group size, simply isn't recommended. There are strategic times when you should adjust your pricing to better align with market conditions and customer needs.

Scenarios for Price Variation

Here's when you should consider varying your price:

- **Seasonal Variations:** During periods of **low or shoulder season**, when fewer customers are interested, it can be challenging to sell your services. In these times, to encourage sales and ensure some revenue, you might offer your product at a **lower price** or promote a **special deal**.

- **Group Type:** You'll likely attract diverse target groups, such as families, elderly people, or groups of young adults. Families, for instance, often face a higher financial burden when paying for an excursion for four (two adults and two kids) compared to a single customer. It's beneficial to offer a **special price for specific guest types** you want to welcome. Consider a **family package**, where **kids pay half price**, for example.
- **Group Size:** Your per-person price for an excursion might not be set for full occupancy. When your tour is fully booked, consider providing **group discounts** to reward larger bookings and encourage more sales.

Key Factors to Consider for Price Adjustments

To effectively adjust your prices, always keep these factors in mind:

1. **Constantly Analyze Your Demand:** How many tourists are interested in your product? Which target groups are showing interest? Regularly review your sales. If nobody is buying your product, critically assess if something is wrong with your selling price.
2. **Observe the Market and Your Competition:** Stay informed about what your competitors are charging for similar products. If their prices are lower, identify what additional services or unique aspects you can offer to justify your higher price.
3. **Enhance Added Value:** The more special and unique your product is—meaning the higher its added value—the more you can confidently charge compared to your competitors.

So, what can you do? Continuously look for ways to **add special value to your product**—anything that truly makes it stand out from the competition in Your country.

What's one creative "added value" feature you could introduce to your tourism product in Your country that would justify a flexible pricing strategy?

Costing and Pricing: Setting Sustainable Rates

How do you determine **sustainable and realistic prices** for the services your tourism business offers in Your country? This section will guide you through how to account for different types of **costs** when calculating your prices, ensuring your business remains profitable and competitive.

Understanding Currency Conversion for Tourism Businesses

Samba, as you know, manages a guesthouse in Your country and frequently handles international currencies like the **US dollar (USD)** and the **Euro (EUR)**, in addition to his local currency, the **Uganda Shilling (UGX)**.

While online tools like Google offer the quickest way to convert currencies, it's essential to grasp **how this process works**.

Crucially, a country's exchange rate constantly changes. Therefore, you must always use **up-to-date currency conversion information**.

Let's illustrate with some examples:

Guests Want to Pay in US Dollars

Samba charges **40,000 UGX** per room per night. He has US tourists who wish to pay in US dollars. How much should he charge them in USD?

He checks the latest exchange rate and finds:

- 1 UGX = 0.00185913 USD, **OR**
- 1 USD = 538.173 UGX

To determine the equivalent of 40,000 UGX in US dollars, we can **multiply** 40,000 UGX by 0.00185913 = **$74.36 USD**.

Alternatively, we can **divide** 40,000 UGX by 538.173 = **$74.35 USD**.

Samba Offers Currency Exchange

Samba charges his guest **$75 USD** for one night's stay, and they pay him with a **$100 USD cash** bill. He needs to provide change in **UGX**. How much change should he give them?

1. First, calculate the change in USD: $100 - $75 = **$25 USD**.
2. Next, convert this USD amount to UGX: $25 USD ÷ 0.00185913 (USD per UGX) = **13,447.15 UGX**.

Test Your Knowledge

A guesthouse in South Africa charges **R1,000** (South African Rand) per room per night. A tourist wants to pay in US dollars ($). How much must they pay if the exchange rate is: **1 USD = R14.61**?

To find out how many USD are equivalent to R1,000, you need to divide the Rand amount by the exchange rate:

R1,000 ÷ R14.61/USD = **$68.45 USD**

- Choose the correct answer:
  - **$68.45**
  - $1,461

- $985.39
- $72.30

Understanding Commission in Tourism Bookings

Samba, who runs a guesthouse in Uganda, advertises his property on an online booking platform. This platform is a great source of international tourists for his business. However, the **booking platform charges a 15% commission** on all reservations made through their site. Samba needs to calculate his actual income after this commission is deducted.

Let's look at a specific booking: He receives a reservation for a room for **5 nights at $150 per night**.

We need to answer three key questions:

1. How much does the **guest pay** for the room for 5 nights?
2. How much **commission** does the booking platform charge?
3. What is Samba's **income after commission**?

Calculation Breakdown:

1. How much does the guest pay for the room for 5 nights?

- $150/night × 5 nights = **$750**

2. How much commission does the booking platform charge?

- 15% of $750 = 0.15 × $750 = **$112.50**

3. What is Samba's income after commission?

- $750 (Guest Payment) - $112.50 (Commission) = **$637.50**

Test Your Knowledge: Monthly Commission Calculation

Over a month, Samba receives bookings totaling **75 room nights** at **$150 per night** from the booking platform. What is Samba's total income for the month after the 15% commission?

Choose the correct answer:

- **$9,562.50**
- $1,687.50
- $11,250
- $7,456.50

The right answer;

1. **Calculate total revenue before commission:** 75 room nights × $150/night = $11,250
2. **Calculate total commission charged:** 15% of $11,250 = 0.15 × $11,250 = $1,687.50
3. **Calculate Samba's income after commission:** $11,250 (Total Revenue) - $1,687.50 (Commission) = **$9,562.50**

Calculations with Samba: Managing Guest Payments and Commissions

Samba's guests are checking out from his guesthouse in Uganda after a pleasant stay and are ready to settle their bill. Samba charges **40,000 UGX per night**. Since his guests prefer to pay in US dollars, Samba quickly checks the current exchange rate online. He performs the conversion by dividing 40,000 by 538.173, and subsequently charges his guests **$74.35 US Dollars**.

Once these guests have departed, a new booking arrives via an online platform. The room was rented for **$150**. Samba immediately accounts for the **15% commission** the booking platform will deduct. After calculating the commission of **$22.50** (15% of $150), he knows he will ultimately receive **$127.50**. He considers this a positive outcome.