

TOUR AND TRAVEL PRICING STRATEGIES

Tour Costing Components

Tour costing and pricing are interrelated financial processes that play a vital role in the success of tourism enterprises. **Tour costing** involves the systematic calculation of all expenses required to organize and deliver a tour. In contrast, **tour pricing** sets the final selling price based on these costs and a chosen profit strategy. Their combined purpose is to ensure business sustainability, customer satisfaction, and profitability. Costing provides the financial foundation upon which pricing decisions are made, helping operators avoid losses, control expenses, and meet market expectations. Together, they enable tour companies to offer competitively priced packages that reflect the true value of the experience, ensuring long-term viability and customer trust. (Dileep, 2019).

The following outlines the key components involved in tour costing and explains how each contributes to the overall cost structure of a tour package.

- **Direct Costs** – These are the expenses that are directly related to delivering the tour services to participants. These include costs such as hotel accommodation, transportation, meals, entrance fees, and tour guide services. Since these costs are variable, they depend on the number of tourists and the length or scope of the tour.

For example, a 2-night hotel stay at ₱2,000 per room per night for a twin-sharing results in a direct accommodation cost of ₱2,000 per pax (person), computed as follows:

$$\text{₱2,000 per room} \times 2 \text{ nights} = \text{₱4,000.00}$$

The total accommodation cost for two (2) pax in a twin-sharing room for two (2) nights is ₱4,000.00. The per pax accommodation cost is computed by dividing the total accommodation cost by the number of pax, as follows:

$$\text{₱4,000.00} \div 2 \text{ pax per room} = \text{₱2,000.00}$$

As illustrated, the cost depends on the number of tourists and their length of stay.

- **Indirect Costs** – These are also known as *overheads*, referring to the general business expenses necessary to run a tour company but not directly attributable to any one tour. These include office rent, administrative salaries, utilities, internet services, and communication tools. Although these costs do not vary per tour, they are often allocated proportionately across all tour packages. For instance, an estimated ₱500.00 per person may be added to a tour's cost to help cover overhead expenses. This is usually determined by the tour company's finance or operations staff based on total overhead costs and the expected number of clients or tours.
- **Contingency Costs** – These are funds reserved to cover unexpected events or emergencies that may arise during the tour. This ensures that the tour operator is financially prepared for last-minute changes, medical needs, weather disruptions, or vehicle breakdowns. Contingency is typically calculated as a fixed amount or a small percentage of the total cost, such as ₱300.00 per person or 3%–5% of the total tour cost. The contingency amount, when set as a fixed amount, is determined by reviewing past tours to estimate common unforeseen expenses, adjusting for the tour's risk level, and following the travel agency's policies. This amount is then standardized for similar tour packages, rounded for convenience, and may be increased to account for inflation, seasonal risks, or the specific nature of the destination.

Having determined the complete cost structure of the tour through the identification of its cost components, the next step is to compute the final tour price by applying a suitable pricing strategy that ensures both profitability and competitive market positioning.

Tour Costing and Pricing Procedures

Tour Pricing Strategies

Tour operators ensure competitiveness in the market while achieving desired profitability by adding a profit margin to the total cost calculated during the costing phase. Below are some pricing strategies that may be used for pricing tour packages:

- **Cost-Plus Pricing** – It is a straightforward strategy where the tour operator adds a fixed percentage markup (profit margin) to the total cost of the tour package. The goal when setting the mark-up is to cover all expenses, earn profit, and remain competitive. Markup percentages used in the industry vary from one travel agency or tour operator to another. Retail agencies usually apply **25% - 40%** and wholesalers apply **15% - 25%** then pass their tour packages to retailers.
- **Market-Oriented Pricing** – It involves setting the tour package price based on competitor pricing and prevailing market conditions. Tour operators analyze similar offerings in the industry to position their prices attractively. This strategy helps in staying competitive and appealing to price-sensitive travelers. However, to ensure profitability is not sacrificed, the set price must still exceed the total cost per person. For instance, a tour operator analyzes competitors' 3D2N Boracay packages and finds that the average market rate is ₱7,200.00 per person. To stay competitive, the tour operator may price their offer at the same rate, go a little higher if their package includes extras, or go lower if they are targeting a budget market segment or just entering the market. It is essential to consider one's brand positioning and customer expectations when setting prices, while keeping the business profitable.
- **Value-Based Pricing** – It focuses on the perceived value of the tour to the customer rather than just the cost incurred. This approach allows operators to charge higher prices if the experience offers exclusivity, premium service, or unique features. For instance, a tour including customized gourmet meals, a professional photographer, and exclusive resort access may be priced at ₱18,000.00 per person, even if the actual cost is only ₱12,000.00, because of the elevated customer experience and luxury branding. In contrast, a standard island-hopping tour with shared boats and packed lunches may cost ₱9,000.00 and be priced at ₱10,500.00, showing how perceived value justifies a higher price point.
- **Seasonal Pricing** – It refers to adjusting tour prices based on demand fluctuations throughout the year. Prices are typically higher during peak seasons (holidays, summer, festivals) and lower during off-peak or lean periods. For instance, a Boracay tour may be priced at ₱15,000.00 in March, but the price may be dropped to ₱10,000.00 during the rainy season in July, helping to balance demand and fill slots year-round.
- **Promotional Pricing** – It is a short-term strategy where discounts, offers, or bundled deals are used to increase sales, attract new customers, or fill unsold tour slots. It is commonly applied during product launches, low-demand periods, or special events. For example, a "Buy 3, Get 1 Free" promo or an early bird discount of 10% can encourage group bookings and boost immediate sales volume.

Travel and tour businesses use different pricing strategies or a combination thereof that suit their operations, ensuring long-term sustainability.

Travel Product Pricing Procedures

Having established a clear understanding of the fundamental components of tour costing and the range of pricing strategies employed to determine the final selling price, it is essential to examine how these financial figures are derived, structured, and operationalized within real-world tour management practices.

Cost-plus pricing is one of the most used strategies in tour operations, especially by small to mid-sized operators, because it is simple and ensures profitability. In this discussion, the cost-plus pricing strategy, which involves calculating the total cost of providing a tour (including direct costs, indirect costs, and contingency) and adding a fixed percentage mark-up as the profit margin to determine the final selling price, will be illustrated.

Costing and Pricing Individual Travel Components

Travel agencies are also providers of individual travel components that cater to travelers who prefer customized or partial arrangements rather than full itineraries. Many clients have specific needs that do not require the complete package. In such cases, agencies sell individual travel components as stand-alone products. These components can include airline tickets, hotel reservations, car rentals, train passes, attraction tickets, airport transfers, travel insurance, visa assistance, or guided day tours. Selling individual components allows agencies to serve a wider range of customers, from fully independent travelers who design their itineraries, to business travelers who only require flights and hotels, to returning clients who already have certain arrangements but need to add extra services.

Each travel component is commonly priced by most travel agencies based on its net cost, plus applicable markup or service fees, and sometimes commission (if applicable) to determine the final selling price (Herrera et al., 2021).

- The **net cost** is the base amount charged by a supplier (e.g., airline, hotel, tour operator) to a tour and travel company, excluding any profit margin, service fee, or commission. It reflects the actual rate the company must pay to acquire the service, often obtained through negotiated contracts, bulk purchasing, or preferred partner agreements. For instance, if a hotel's published retail rate for a twin-sharing room is ₱4,000.00 per night, but the agency has a contracted rate of ₱3,200.00 per night, the ₱3,200.00 is considered the company's net cost. If it sells it at the published rate, the tour company earns ₱800.00 per room per night.

Item	Published Rate	Contracted Net Cost	Selling Price	Agency Profit
Hotel (twin-sharing, per room/night)	₱4,000.00	₱3,200.00	₱4,000.00	₱800.00

Computation:

Selling Price – Net Cost = Agency Profit

₱4,000.00 – ₱3,200.00 = ₱800.00

- Markup** is the additional amount added to the net cost to generate profit and cover indirect expenses such as marketing, administration, and operational overheads. It is typically expressed as a percentage of the net cost and varies from one tour company to another. There is no single universal rule in setting the markup rate for tour and travel agencies. Typical range for domestic travel is 10% - 20%, international travel at 15% - 25%, and customized itineraries may range from 25% - 40% or even higher.

For example, if a sightseeing tour costs the agency ₱2,000.00 (net cost) per pax and they apply a 10% markup, the selling price becomes ₱2,200.00, with the ₱200.00 difference retained by the agency as markup income. This is illustrated as follows:

Item	Net Cost	Markup %	Markup Amount	Selling Price
Sightseeing Tour	₱2,000.00	10%	₱200.00	₱2,200.00

Computation:

Net Cost × Markup % = Markup Amount

₱2,000.00 × 0.1 = ₱200.00

Net Cost + Markup Amount = Selling Price

₱2,000.00 + ₱200.00 = ₱2,200.00

- A **service fee** is a fixed peso or flat amount charged to the client for administrative services rendered by a tour and travel company, such as booking arrangements, documentation, itinerary planning, and after-sales support. Unlike markup, which is percentage-based, a service fee remains constant regardless of the net cost of the service. Service fees are often applied to airline tickets, visa assistance, and custom itinerary design, and may be omitted for components where the agency already earns commission or markup. *For instance, a travel agency may charge a flat rate of ₱500.00 service fee for issuing an airline ticket, whether the fare is ₱5,000.00 or ₱20,000.00.*
- **Commission** is a monetary incentive given by the supplier to the travel agency as a percentage of the selling price, serving as compensation for promoting and selling the supplier's products or services. Commission rates vary from one supplier to another. These are generally included in the retail price set by the supplier, which means the client does not pay extra for it, and the agency earns without adding a separate charge. For example, if a resort's retail rate is ₱5,000.00 per night with a 15% commission, the agency remits ₱4,250.00 to the resort and retains ₱750.00 as commission income.

Item	Retail Rate	Commission %	Commission Amount	Remitted to the Supplier
Resort Stay	₱5,000.00	15%	₱750.00	₱4,250.00

Computation:

Retail Rate × Commission % = Commission Amount

₱5,000.00 × 0.15 = ₱750.00

Retail Rate – Commission Amount = Amount Remitted to the Supplier

₱5,000.00 – ₱750.00 = ₱4,250.00

The same computation principles apply to other travel products such as meals and travel insurance, with variations depending on the type of supplier arrangement. Different tour companies may use a combination of the above items; that is, net cost + markup or net cost + service fee. This flexibility allows tour companies to maintain competitive pricing while protecting their profit margins, especially when dealing with suppliers who have varying commission structures. The goal is always to cover all operational expenses, ensure profitability, and keep the offer attractive to the customer, regardless of the supplier's payment model.

Costing Tour Packages

To cost out a tour, the **rate sheet**, a structured document or table that outlines the cost components, rate descriptions, and computation basis used in developing a tour package price, is necessary. The following example demonstrates the application of costing procedures, integration of profit margins, and computation of the final price per person using the cost-plus pricing method.

A local tour operator is organizing a 3-day and 2-night land-based package to Baguio City for a group of 16 paying participants. The package includes:

- Two (2) round-trip air-conditioned van transport
- 10 twin-sharing hotel accommodation with breakfast
- Five (5) plated meals (Day 1: Lunch and Dinner; Day 2: Lunch and Dinner; Day 3-Lunch)
- City and countryside tour with entrance fees
- One (1) full-time Department of Tourism (DOT)-accredited tour guide
- Travel insurance and contingency support

Sample Rate Sheet**Tour Package: 3D2N Baguio City Tour****Group Size: 16 Pax**

Component	Supplier/Source	Unit Cost	No. of Units	Full Group Cost	Cost per Person
Accommodation	Pines View Hotel	₱3,500.00/night (twin sharing)	8 rooms x 2 nights	₱56,000.00	₱3,500.00
Transportation	Baguio Van Rentals	₱5,000.00/day	1 unit x 3 days	₱15,000.00	₱937.50
Meals	Local Partner Restaurant	₱200.00/meal	5 meals x 16 pax	₱16,000.00	₱1,000.00
Tour and Entrance Fees	<i>Sites indicated in the itinerary</i>	₱800.00/pax	16 pax	₱12,800.00	₱800.00
Tour Guide	DOT-Accredited Guide	₱3,000.00/day	1 guide x 3 days	₱9,000.00	₱562.50
Insurance	Malayan Insurance	₱100.00 per pax	16 pax	₱1,600.00	₱100.00
Indirect/Overhead Cost	Internal	₱250.00/pax	16 pax	₱4,000.00	₱250.00
Contingency Fund (fixed amount)	Internal	₱200.00/pax	16 pax	₱3,200.00	₱200.00
Total Cost				₱117,600.00	₱7,350.00
Markup (10%)				₱11,760.00	₱735.00
Selling Price Before Value-Added Tax (VAT)				₱129,360.00	₱8,085.00
VAT (12%)				₱15,523.20	₱970.20
Selling Price (Inclusive of Tax)				₱144,883.20	₱9,055.20

Notes:

- To compute the total cost, add all the individual cost components as shown in the table. When the full group cost is divided by the number of paying tour participants, the cost per person will be obtained.
- To compute the markup, convert the markup percentage to a decimal number and multiply it by the total cost. To compute the markup rate:

Total Cost x Markup percentage = Markup rateMarkup for the full group: $₱117,600.00 \times 0.10 = ₱11,760.00$ Markup per person: $₱7,350.00 \times 0.10 = ₱735.00$

- To get the Selling Price Before VAT, add the Total Cost and the Markup Rate.

Total Cost + Markup Rate = Selling Price Before VATSelling Price Before VAT for the full group: $₱117,600.00 + ₱11,760.00 = ₱129,360.00$ Selling Price Before VAT per person: $₱7,350.00 + ₱735.00 = ₱8,085.00$

- To compute the VAT, convert the VAT percentage to a decimal number and multiply it by the Selling Price Before VAT.

Selling Price Before VAT x VAT Percentage = VATVAT for the full group: $₱129,360.00 \times 0.12 = ₱15,523.20$ VAT per person: $₱8,085.00 \times 0.12 = ₱970.20$

- To get the final selling price, add the Selling Price Before VAT and the VAT.

Selling Price Before VAT + VAT = Selling Price (Inclusive of tax)Selling price for the full group: $₱129,360.00 + ₱15,523.20 = ₱144,883.20$ Selling price per person: $₱8,085.00 + ₱970.20 = ₱9,055.20$

When the selling price for the full group is divided by the number of pax, the selling price per person will be derived ($\text{₱}144,883.20 \div 16 = \text{₱}9,055.20$).

The selling price may be rounded to $\text{₱}9,100.00$ for clarity, ease of communication, and customer appeal.

Free-of-Charge (FOC)

In terms of tour packaging, an FOC tour component is typically not totally free. This is done for marketing appeal while maintaining profitability. Some suppliers give concessions to groups. For example, a hotel provides one (1) free room for every 10 rooms booked. Therefore, there is no cost incurred for the accommodation of the FOC. Another example includes entrance fees. Some theme parks give complimentary tickets to every 15 or 20 participants. The same may also apply to some restaurants. The complimentary concessions granted by the suppliers are normally a management privilege, a sales offer, or a contracted agreement between the tour operator and the establishment. However, not all components enjoyed by the FOC are free. For example, not all restaurants, parks or sites, and hotels agree with concessions. Thus, whatever the cost incurred by the FOC participant is bundled within the other elements of the tour. The FOC is normally given for groups with a minimum of 15 paying tour participants.

For instance, considering the tour above, and if an FOC will be given, the computation will be as follows, assuming the provider provides one (1) free room accommodation.

Tour Package: 3D2N Baguio City Tour

Group Size: 16 Pax + 1 FOC

Component	Supplier/ Source	Unit Cost	No. of Units	Full Group Cost	Cost per Person	FOC
Accommodation	Pines View Hotel	₱3,500.00/ night (twin sharing)	8 rooms x 2 nights	₱56,000.00	₱3,500.00	0.00
Transportation	Baguio Van Rentals	₱5,000.00/day	1 unit x 3 days	₱15,000.00	₱937.50	0.00
Meals	Local Partner Restaurant	₱200.00/meal	5 meals x 16 pax	₱16,000.00	₱1,000.00	₱1,000.00
Tour and Entrance Fees	Sites indicated in the itinerary	₱800.00/pax	16 pax	₱12,800.00	₱800.00	₱800.00
Tour Guide	DOT-Accredited Guide	₱3,000.00/day	1 guide x 3 days	₱9,000.00	₱562.50	0.00
Insurance	Malayan Insurance	₱100.00 per pax	16 pax	₱1,600.00	₱100.00	₱100.00
Indirect/Overhead Cost	Internal	₱250.00/pax	16 pax	₱4,000.00	₱250.00	₱250.00
Contingency Fund (fixed amount)	Internal	₱200.00/pax	16 pax	₱3,200.00	₱200.00	₱200.00
Subtotal				₱117,600.00	₱7,350.00	₱2,350.00
Prorated FOC Cost				₱2,350.00	₱146.88	
Total Cost				₱119,950.00	₱7,496.88	
Markup (10%)				₱11,995.00	₱749.69	
Selling Price Before Value-Added Tax (VAT)				₱131,945.00	₱8,246.57	
VAT (12%)				₱15,833.40	₱989.59	
Selling Price (Inclusive of Tax)				₱147,778.40	₱9,236.16	

The prorated FOC cost is added to the total cost and redistributed to the 16 paying guests, resulting in a slightly higher per-person cost. It should also be noted that the above breakdown illustrates how the FOC cost is computed; however, when presented to the client, the FOC should appear as 'no charge' (₱0.00).

In this case, the tour operator may set the price at ₱9,240.00 or ₱9,250.00 per pax. The FOC is presented to guests as free, but the cost is factored into the overall package price as shown in the example above. This means the expense of the “free” item is spread across the paying participants.

A well-structured costing and pricing system not only promotes transparency and operational efficiency but also builds trust with clients by offering clear, fair, and value-driven travel packages. It should be noted, however, that the actual cost breakdown should be handled with confidentiality. This will not only protect the tour operator's negotiations with suppliers but will also prevent leakage and unfair competition practices in business.

A balance between transparency in providing a full costing breakdown, competitive pricing, and value-driven tour packages provides a strategic foundation for informed decision-making, effective financial planning, and enhanced customer satisfaction.

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