



The right way to markup net rates

This information is for anyone works with suppliers that offer net rates.

Typically, you will come across a net rate situation when working with Ground Operators or Destination Management Companies on an FIT. You may also come across a net rate situation when booking a large group. For example, if you charter a river cruise for a large group, many of the river cruise lines will give you the full charter for a net rate.

First things first – what is a net rate?

To explain a net rate, I am going to back up a little bit and go through how a normal travel transaction occurs when a supplier and travel agent are involved.

Let's use the example of a cruise. Let's say the cruise fare for a specific sailing in a specific cabin category is \$5,000 for 2 people. What normally happens is the traveller will pay the \$5,000 directly to the cruise line. The cruise line will collect all \$5,000 but it won't KEEP all of it as it will pay a commission to the travel agent.

So, the net rate is the monetary amount retained by the supplier after paying commission to the travel agent. The Gross amount is the amount charged to the traveller. In this case, the gross amount is \$5,000.

Occasionally, you will come upon a supplier who offers you a net rate instead of a gross rate. 2 important things happen when a supplier offers a net rate.

1) The traveller will pay YOU and you will pay the supplier, so you will need a way to collect the funds yourself.

2) You get to decide how much commission you pay yourself. The ball is in your court. When a supplier offers you (the travel agent) a net rate, what they are saying is, "This is the amount I want you (travel agent) to pay me (supplier). What you add on for your commission is up to you."

Now that we have established what a net rate is, it's super important to know HOW to calculate the gross amount you charge your client and get the commission amount you want. Let's go back to the cruise example.



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The cruise fare for 2 people is \$5,000. This is also the gross amount. If you make 15% commission with this cruise line, your commission will be \$750. How did I get this number? It's $0.15 \times$ the Gross Amount. The net rate to the cruise line is \$4,250. How did I get this number? It's the Gross Amount – Commission (\$5,000 – \$750).

When travel agents get a net rate from a supplier, they almost always calculate their markup wrong and make the exact same mistake, shorting themselves on their commission. What's the mistake everyone makes? They take the net rate, \$4,250, and multiply it by 15% to get their mark up. I.e., they do this: $\$4,250 \times 0.15$, which equals \$637.50. Guess what? \$637.50 is LESS than \$750. In essence, what they are doing is marking up the NET rate by 15%, instead of the GROSS amount.

Remember, you want to make your commission on the GROSS amount, not the NET amount. The accurate way to calculate a markup when given a net rate is to divide your net rate by $(1 - \text{desired commission})$.

So, in this example, let's say your desired commission is 15%. The correct way to markup your net rate and collect 15% commission is to take \$4,250 and divide it by 0.85. Guess what that number is? \$750, which IS 15% of \$5,000 or the gross amount.

So, the moral of the story here is this. When you get given a net rate, instead of multiplying the net rate by $1 +$ the desired commission percentage, DIVIDE it by $1 -$ the desired commission rate.

The Wrong Way – $\$4,250 \times 1.15 = \$4,887.50$

The Right Way – $\$4,250 / 0.85 = \$5,000.00$



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