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## Demystifying the DMC Pricing Puzzle

When a planner reviews a hotel bill, it is no mystery where the costs come from: guest rooms, meeting space, meals and services are clearly delineated. The same holds true for services purchased from airlines, speakers, entertainers and other suppliers. And then there are destination management companies, a genre of suppliers whose pricing methods often leave planners feeling confused, irritated and taken advantage of.

"It's one of the reasons I don't bother using DMCs anymore," says Carol Ann Payne-Johnson, president of The Travel Corner, an Atlanta-based meetings and incentives firm. "I'm convinced that all the DMCs do is get the same services and prices that I do and then tack on a 20-percent surcharge. I have no idea how their fees are justified."

Some destination management executives agree. "We hear from planners again and again that the way we come up with our fees is a mystery" says Chris Lee, vice president of PGI, an Arlington, VA based firm that owns a network of DMCs in the United States and abroad. [CEO, **ACCESS** Destination Services]

One cause of the confusion over DMC charging practices is the three different pricing methods most often used by these suppliers; per person, per event or cost plus. Here is how each works.

**Per person:** This is the most common way DMCs charge their clients. DMCs typically charge a per-person fee for tours and airport transfers. According to Terry Epton, executive vice president of USA Hosts, a national DMC based in New Orleans, tour fees include the cost of the bus, driver, guide, and food and beverage, divided by the number of participants. Airport transfer fees are a bit more complicated. "That fee is based on the total number of people arriving, the window of time of the arrivals and the time level of service required," he says "It's up to the DMC to figure how many vehicles, staffers, dispatchers, porters, greeters, radios, mobile phones, etc., are needed. Then we come up with a price per person (that includes a fee tacked on for the DMC's time)."

**Per event:** DMCs typically assess a flat fee for a stand-alone event such as a theme party or final-night awards ceremony. Included in the figure, says Karen Gordon, president of Activity Planners, a Las Vegas DMC, are hard-dollar items such as decorations, props, table linens, entertainment, food and beverage and wait service, plus a fee for the DMC's creativity and orchestration of the event.

**Cost plus:** In this type of fee structure, the DMC charges the client the same price it is being charged by suppliers and then tacks on a predetermined percentage of the total as a service fee. While this method is the most up-front way to see how the DMC's prices are broken down, it is not always the best for the planner's budget. "Where's the DMC motivation for keeping costs down?" asks Sandi Cottrell, vice president of San Diego based PRA Destination Management.

## Hidden extras

DMCs earn their revenues from mark-ups, which PGI's Chris Lee [CEO, **ACCESS** Destination Services] says are typically between 15 and 30 percent over the DMC's costs. But there is a lot of confusion about how much that markup goes to covering costs and how much goes in the DMC's pocket. And that is where planners like Carol Ann Payne-Johnson think they are being taken for a ride.

"The typical thing we hear from planners is that a (non-DMC) airport transfer firm charges \$11 per person. "Why are you charging us \$17?" says USA Hosts Terry Epton. "That's certainly not all profit. They have no idea what goes into the process."

That is why Epton and other DMC executives feel the need to educate planners about the "soft costs" included in DMC fees – and how little of markup is profit (Epton estimates four percent). Among the hidden costs planners might not consider:

**Overhead:** This includes equipment, office, office staff, and the more intangible, the experience of the staff.

**Proposals:** It is standard practice for DMCs not to charge prospective clients for this labor-intensive service, which often includes compiling a complete outline of services, coming up with creative ideas, checking out the availability of products, timing, bus rides from point "A" to point "B" and establishing pricing – with no guarantee the client will select the DMC in the long run.

"I think our clients think proposals are done by a bunch of little elves" says Lee. "They take a lot of time, energy, research and creativity." The question of whether to charge clients for proposals, rather than include the costs in their markup, has been a hot topic for two years running at the annual meeting of the Association of Destination Management Executives, a Denver-based organization formed three years ago.

**Site inspections:** In some instances, even if they have not made a final destination or supplier selection, clients want to experience the activities a DMC can offer while they are in town for a site inspection. Guess who picks up the tab for transportation, food and beverage and entertainment? The DMC. Guess who pays for it? According to Chris Lee, the client – in the DMC markup.

**Referral fees:** More commonly called "kickbacks," these are fees that some DMCs pay to hotels when the hotels refer their clients to DMCs. "In some cases, in order to gain preferred status in a hotel or resort, DMCs must agree to give the property percentage kickbacks on all of their services," says Epton.

While it is considered standard practice in some parts of the country, not all DMCs play the game. "You have to pad customers' bills to get that kind of money, which can be up to 30 percent, plus extra so that you can make a profit," says Epton, who claims his firm, USA Hosts, does not pay kickbacks.

## The professional touch

"The DMC industry knows that its current way of doing business is passé", says Lee. "We should be modeling ourselves after professional service agencies, not travel

agencies, where many DMCs have their roots and upon which most base their fee structures.”

Spearheading this drive for change is ADME. At the organization’s January meeting, members agreed that if they wanted to be perceived as professionals, it would be in DMCs’ best interests to disclose all of their costs to their clients. And the best way to do so, ADME members maintain, is to change the way DMCs present their charges.

“I’ve seen proposals for \$200,000 worth of business that are two pages long – they just don’t contain enough detail or information,” says Lee, who is immediate past president of ADME. Now, he says, DMCs should add information such as whom will be working on the job in areas like research and operations and how many hours they’ll be working.

Karen Gordon, another ADME member and proponent of the new billing prototype, says that instead of a DMC writing down “Theme Party: \$2,500,” the event will be broken down more like a bill from an architect, listing the charges for management, labor, even site inspections that were held beforehand.

Lee thinks referral fees and other third-party fees also should be included in proposals. “We would rather have the customer determine whether these costs are ethical, rather than leaving it up to us,” he says.

One firm, PRA Destination Management, claims to have already adopted more detailed billing strategies in response to planners’ requests. “We present our costs (including overhead) expended to suppliers, plus the time taken into account – everything is much more clear,” says PRA’s Sandi Cottrell.

She adds: “I think there was fear in the past of DMCs exposing their profit margin. But clients are savvy and understand that they’re paying for a professional service – and our service costs the same whether our fees are exposed or bundled.”

Under the tutelage of president-elect Pam Graham, president of Toronto-based Congress Canada, ADME is creating model internal costing sheets and detailed client proposal forms so that its members – and the industry – have a standard to follow. The organization plans to educate its members on how to track their overhead costs, since less than 10 percent currently do so.