



## The I.C. (Incremental Cost) Factor

### **How on-line hotel resellers use the IC Factor:**

A hotel with a vacancy factor will allow hotel resellers like Expedia and Priceline, to use their own sales and marketing mechanism to sell the vacancies at deep discount.

A hotel room with a \$200 rack rate is sold by Expedia for \$100. The reseller has to pay for its overhead, programmers, sales force and advertising. The hotel might net \$35-\$40 from the sale. Why would a hotel do that? Because it knows it has little or no cost in the sale and anything it gets is profit.

For a hotel, and other businesses, knowing the exact cost of conducting a certain amount of additional business allows decision-makers to know, exactly, the profit margin in each transaction and make decisions that have a tangible effect on the bottom line.

### **How restaurant resellers use the IC Factor:**

A restaurant contracts with a delivery service to advertise its menu, take orders, pick up and deliver meals. The contractor buys the meals at 25% discount and, of course, charges full price to the customer. The restaurant's delivery business is usually less than 10% of the cash business and has no effect on the rest of the operation. The IC Factor, i.e. the cost of food and to-go items, is 25%. The restaurant receives 75% in payment, resulting in a 50% profit margin.

The designers of the Swiss Trade System realized the importance of knowing, and using, the IC Factor. They created a system, involving the use of a private currency, which allows for a portion of the unsold and unused capacity to be sold at rack rates for cash.

The American Trade System is a duplicate of the Swiss System.

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