

Lecture Note

Course Title: ITM 2311 Tour Business Management

Credits: 3(3-0-6)

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Program: Tourism Management

Week 1

Unit 1: Theories and Concepts of Tour Business Management

Topic

- Concepts and theories of business management
- Business of tour production

Objectives

After the completion of this unit, students should be able to:

- Explain the concept of business.
- Explain the concept of tour business.
- Explain the concept of management.
- Explain the roles of management in tour business.
- Define the business of tour production in concepts and terms, and the changing situation nowadays.

1. Concepts and Theories of Business Management

1.1 The Concept of Business

1.1.1 Definition

- Business is known as an enterprise or a firm, the so called an organization involved in decision making for production of goods or services.
- Business can be defined as activities of trade and industries which seek for profit through selling.
- Business can also be considered as economic and commercial activities which have the goal of seeking profit through attempts to produce goods or services from available resources in order to serve specific market demand.
- Wikipedia give the definition of business as organization involved in the trade of goods, services, or both to consumers.

Usually businesses are common in capitalist economies; this is why most businesses are privately owned and provide goods and services to customers in exchange for other goods, services or money. The fact that they provide goods and services in exchange for other goods, services or money classifies types of businesses:

(1) *trading business or business to- business or trading company, or B2B trader* which is highly specialized in one goods category and with a strong logistics organization; and

(2) *business- to- consumer or B2C* which are business or transactions conducted directly between a company and consumers who are the end- users of its products or services.

1.1.2 Basic Forms of Business

Forms of business can be organized or classified fundamentally into 3 groups: (1) sole proprietorships, (2) partnerships, and (3) corporations. Each form of business differentiates from one another by the way an organization operates, how it is taxed (taxation), what liability its owners have, how expenses, compensation and benefits are treated, and the problems that the business owner may encounter.

(1) *Sole proprietorship*: A sole proprietorship or sole trader is owned by one person and operates for their benefit. The owner may operate the business alone or with other people. A sole proprietor has unlimited liability for all obligations incurred by the business. All assets of the business belong to a sole proprietor, such as computer infrastructure, any inventory, manufacturing equipment as well as any real property owned by the business. In tourism industry, a person may want to open a small an agent selling flight tickets and packaged tours online, which can also be of sole proprietorship; or this can be considered as small business enterprises, such as some who open homestay or souvenir businesses.

- (2) *Partnership*: A partnership is a business which is owned by two or more people. In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business. In tourism industry, there are also many small partnership businesses, which can be travel agent or local tour companies such as Udomporn Tour Limited Partnership, Sri Sawat Travel and Tour Limited Partnership (Koh Phi Phi Tour).
- (3) *Corporation (or a corporate group or group of companies)*: The owners of a corporation have limited liability and the business has a separate legal personality from its owners. Corporations can be either government-owned or privately owned. They can organize either for profit or as not-for-profit organizations. A privately owned, for-profit corporation is owned by its shareholders (who own shares of the business- stock, that's why we also call shareholders as stockholders), who elect a board of directors to direct the corporation and hire its managerial staff. A privately owned, for-profit corporation can be either privately held by a small group of individuals, or publicly held (Public Limited Company- PLC, or Public Company Limited- PCL), with publicly traded shares listed on a stock exchange. Below is the list of corporate groups in Thailand, as the examples.

No	Symbol	Logo	Public Company Limited	No	Symbol	Logo	Public Company Limited
1.	BAFS		BANGKOK AVIATION FUEL SERVICES	16.	PTT		PTT
2.	BCP		THE BANGCHAK PETROLEUM	17.	PTTEP		PTT EXPLORATION AND PRODUCTION
3.	BTS		BTS GROUP HOLDINGS	18.	PTTGC		PTT GLOBAL CHEMICAL
4.	CPN		CENTRAL PATTANA	19.	SAMART		SAMART CORPORATION
5.	EGCO		ELECTRICITY GENERATING	20.	SAMTEL		SAMART TELCOMS
6.	GRAMMY		GMM GRAMMY	21.	SAT		SOMBOON ADVANCE TECHNOLOGY
7.	HANA		HANA MICROELECTRONICS	22.	SC		SC ASSET CORPORATION
8.	INTUCH		INTOUCH HOLDINGS	23.	SCB		THE SIAM COMMERCIAL BANK
9.	IRPC		IRPC	24.	SE-ED		SE-EDUCATION
10.	IVL		INDORAMA VENTURES	25.	SIM		SAMART I-MOBILE
11.	KBANK		KASIKORN BANK	26.	SPALI		SUPALAI
12.	KKP		KIATNAKIN BANK	27.	TISCO		TISCO FINANCIAL GROUP
13.	KTB		KRUNG THAI BANK	28.	TMB		TMB BANK
14.	MINT		MINOR INTERNATIONAL	29.	TOP		THAI OIL
15.	PSL		PRECIOUS SHIPPING				

Companies in this form of business must have the word “company- Co.” and “limited-Ltd.” following their registered names (e.g. Exotissimo Travel Co., Ltd), or sometimes there is only the word “Limited” following the name, which can be sued as well. The ones with large shareholders are called “public limited company”. Companies in this form of business can be normally seen in tourism industry, both the

small, medium and large ones, such as Noom Sao Tour Company Limited, Benjaporn Tour and Service Limited, Thai Airways International Public Company Limited, and Asian Trails Ltd. Many corporate groups can cover other big companies as their shareholders/ stockholders so that their business will be strong enough to serve their existing markets as well as to expand to other markets. For example, Kuoni Travel Limited became a major shareholder of Asian Trails Limited. Then, Asian Trails' existing management structure was integrated into the Kuoni Destination Management structure.

Another form of business to be talked about is *cooperative*, or it can be called “*co- op*”. A cooperative is a limited liability business that can organize for-profit or not-for-profit. A cooperative is different from a corporation, that is, co- op has members, not shareholders, and they share decision-making authority.

1.2 The Concept of Tour Business

1.2.1 Definition

The business of tourism concerns products that are intangible. Therefore tourism products are services and experiences customers received at a tourist destination or at places or premises where services take place.

Talking about service, it can be classified as:

- *Services for tourists*: such as restaurant, tourist guide, transportation, currency exchanges, and other more.
- *Services for businesses*: such as communication, transportation, advertising, insurance, and other more.
- *Services for general people or public*: such as education, laundry, beauty salon, banking, tailor, insurance, and other more.

If service is classified as above, tour business is also considered a service provided for tourists. Tour business is therefore selling a combination of services tourists need or require in order that they can make their trip complete with satisfaction. Moreover, a service can be provided for another business as well, for example when two or more businesses sell their own products to each other, which we know as B2B business.

By definition, tour business refers to activities concerning production of products and services to facilitate and respond to the needs or demand of travelers or tourists (customers), in order that tourists will be able to travel or to make their desired trip become real. Tour business requires making contacts with different existing services in the destination the tour will be operated, from transport business, accommodation business, restaurant or food and beverage business, tourist attraction business, and some other business

depending on the variety of services to be combined and proposed to customers. The supply chain of tour business also involves the intermediary business, which will be discussed in later units.

According to the Travel Agency Business and Guide Act B.E. 2551 (2008), tour business is defined as that involves in bringing tourists to destinations with leisure and other purposes, with a provision of services and facilities, which include accommodation, foods, tourist guide or other services defined in Ministerial Regulation related to tourism

1.2.2 Characteristics of Tour Business

Tour business sells the pleasure to tourists who are considered its customers. Therefore, products of tour business are intangible, or cannot be touched or tested before purchasing. This makes tour products have special characteristic as follows:

- (1) *Tour products are intangible (intangibility)*: they cannot be touched before buying, for example tourist attractions. Customers decide to buy tour products from their imagination, emotion, personal feelings and experiences. Even though today there are so many media which allow customers to see the product first before making a decision to buy, still they cannot see the real one.
- (2) *Tour products are unique*: most of tour products are unique by their geography and physical characteristic they are located, such as natural attractions. Man-made products such as man-made attractions and souvenirs can differentiate from those of other areas. Even though some products may be created very similar to others, destination selling strategies must be different in order to have their own unique selling point.
- (3) *Production and consumption must be occurred at the same place and at the same time*: an example can be traveling by plane, staying at a hotel, visiting an attraction. Customers need to be at the place where the services take place, so they can receive the services and experiences, and the time they consume or receive the services must be as planned and at the time the services take place.
- (4) *The process of buying and selling tour product cannot be separated (inseparability)*: this means that even though customers already buy the product, let say, packaged tour, the process of buying and selling does not finish, as the company which sells the product will still need to provide the product to the customer until the trip finishes, or until the customer goes back. This applies in other businesses of tourism industry. Souvenir business may act in a different way.
- (5) *Tour products are highly perishable (perishability)*: tour products are highly perishable in nature. This means that business cannot store the products for a long time like other tangible products. Production and consumption take place while tourist (customer) is available. If the product

remains unused, the chances are lost, for example if a tourist does not purchase it. A travel agent or tour operator who sells a tour product cannot store it. Production can only take place if the customer is actually present. And once consumption begins, it cannot be stopped, interrupted or modified. Other example is that if a tourist does not visit a particular place, let say a museum, the opportunity at that time is lost (money from entrance fee), and cannot bring the museum ticket that is gone from yesterday to be sold in the next day. It is due to tourism reason why there are heavy discount offered by hotels, transport or packaged tour generating companies during off season (low season).

- (6) *Sales volume of tour product depends on seasonality*: seasonality is characterized by weathers and season of consumption. For example, mostly beach resorts are fully booked during summer, whereas during winter they have very low occupancy rate. In airline business, there is higher demand of flights on Monday and Friday, whereas on Tuesday and Wednesday there is not.
- (7) *Tour product is the combination of a variety of products (composite product)*: this means that a tour product is the combination of different products. It does not have a single entity in itself. In the experience of a visit to a particular place, various service providers contribute. The tour product cannot be provided by a single enterprise unlike a manufactured product. The tour product covers the complete experience of a visit to a particular place (destination), and many providers contribute to tourism experience. For example, an airline supplies seats, a hotel provides rooms and restaurants, a travel agent makes booking for stay and sightseeing, etc. This is why in tourism business, there are tourism trade co-operations.

1.2.3 Importance of Tour Business

Tour business plays its significant role in national development in many aspects, as follows:

Economic aspects:

- (1) It can attract foreign currencies into destination countries.
- (2) It can motivate economic flow and generate income throughout regions of destination countries.
- (3) It can stimulate productions (i.e. local production), especially by the uses of national and local resources at the best utilization.
- (4) It can stimulate productions in a circular system in order to produce income for destination countries.
- (5) It can directly and indirectly encourage employments of destination countries.

Social aspects:

- (1) It can promote good understanding between people in both supply and demand sides of tour business.
- (2) It plays significant role in national and local development.

- (3) It drives conservational movements for national cultural and natural heritages.
- (4) It plays role in eliminating differences or gap between urban and rural areas.

Political aspect:

- (1) It can promote a sense of national security through the strength in economic and international tourism trades.

1.3 The Concept of Management

1.3.1 Definition

In business and organizations, management is the function that coordinates the efforts of people to accomplish goals and objectives of organizations, by using available resources efficiently and effectively.

1.3.2 Basic Functions of Management

Management comprises the five basic functions. These are:

- (1) Planning,
- (2) Organizing,
- (3) Staffing,
- (4) Leading or directing, and
- (5) Controlling.

These five functions are similar to the driver or mechanism of management to be more concrete in driving an organization to accomplish the goal. In managing an organization, these four functions always exist in order to systemize the organization. The management functions require different people to work on them, in which each role is represented by organizational structure which is the typically hierarchical arrangement of lines of authority, communications, rights and duties of the organization.

The basic roles of management include the following:

- *Interpersonal roles*: roles that involve coordination and interaction with employees
- *Informational roles* : roles that involve handling, sharing, and analyzing information
- *Decision roles*: roles that require decision-making

Towards the end of the 20th century, business management consists of six branches, which are the following:

- financial management
- human resource management
- information technology management (responsible for management information systems)
- marketing management
- operations management or production management
- strategic management

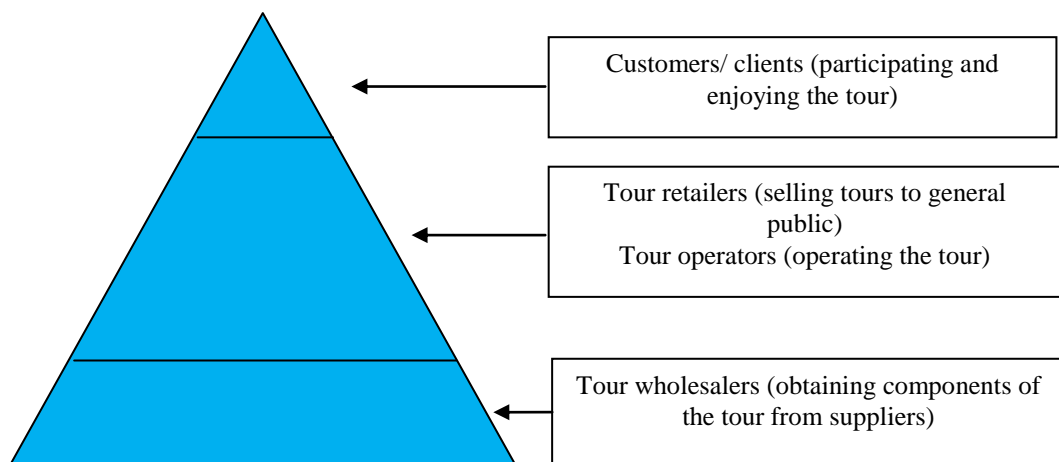
2. Business of Tour Production

2.1 Tour Production

2.1.1 Definition

Creating and implementing a successful tour are one of the most challenging and rewarding aspects of the travel business. Tour production is rewarding because a successful tour will be enjoyed and remembered forever by many customers. It is challenging because it involves the integration of many skills, including some that are business- related and others that are purely artistic.

Part of what makes the production of a tour so challenging is that it requires the co- ordination and co- operation of so many different people and operations. For a tour to be completely successful, these people, organizations and the services they provide must all blend together to give an appearance of a single organized unit. The business of tour production may be thought of as a pyramid, with the components of the tour at the base, the operators who sell and operate the tour in the middle, and the clients or customers who participate and enjoy the tour at the top.



At the base of this pyramid are the tour wholesalers. The **tour wholesaler** is the person or business entity that obtains (from different suppliers) the components of the tour such as transportation, accommodations, attractions and sightseeing, and packages them together in the form of tour for sale to the tour retailer. Sometimes, this responsibility is outsourced to a **tour packager**, a person or company whose sole business is to design tour packages. They generally have no contact with the consumers as the tour operator is the tour packager's client.

The tour wholesaler acts only as an intermediary*ⁱ to the tour retailer. Wholesalers make money by using their power as volume buyers to negotiate low prices from suppliers, then packaging the components and adding a mark-up to cover their costs before presenting the complete tour to the retailer. Normally wholesalers are those who have advantage in innovative IT technology, or they may develop a relationship with or become a member of big internet travel service providers who are capable of storing huge amount of tourism suppliers.

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The **tour retailer** is the person or business entity that buys the tour product from the tour wholesaler either at a net cost or on a commission basis, and sells the tour product to the general public. The tour retailer may or may not choose to operate the tour. In cases where the tour retailer does not handle the tour operation, it is turned over to a tour operator. Nowadays there are many companies doing this business, which can be known as **land operator** business. The **tour operator** is the person or business entity that is responsible for the actual implementation and operation of the tour with the tour participants (customers). Tour operators, in effect, take the tour plan that was conceived and packaged by the tour wholesaler and actually carry out the tour. This means that the tour operator is responsible for booking and paying suppliers such as hotels and airlines, issuing vouchers and documents and generally looking after the day-to-day operations of the tourⁱⁱ.

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capitals. History buffs can learn about Vietnam's recent hard fought wars in the museums. Culture seekers will delight in the discovery of the diverse landscapes and everyday sights, from bustling floating markets, lush paddy fields to colorful hill tribes in the highlands. For beach lovers, Vietnam's long coastline is framed with sandy beaches and clear seas with lots of opportunities for water-based adventures.

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This can be imagined that there are many people and business entities are involved in the business of tour production, which includes sale and operation of a tour. If any of the links are weak, the tour will likely suffer. This is why it is essential to develop relationships with other reliable or dependable travel professionals and subcontractors. Trust in all the travel professionals involved

in the production and operation of tours is essential to ensure the delivery of a consistent product to all clients or customers.

However, it should also be mentioned that the differences between the roles played by tour wholesalers, tour retailers, and tour operators have become increasingly blurred. It is no longer certain that a tour wholesaler produces tours for sale to the tour retailer who in turn hires a tour operator to run the tour. In some cases, tour operators own retail travel agencies and sell their products directly to the general public. Wholesalers can also build additional sections as selling functioning, especially in the era of highly innovated information and communication technology that help them to have stronger and easier presence to the market via the Internet. Similarly, some travel agencies package and operate their own towns, thereby cutting out the tour wholesaler and tour operator intermediaries. This can reduce the costs and result in greater profits for the agency and its travel professionals.

Learning Activities and Medias

- Introducing the lesson with a VDO.
- Giving a lecture.
- **Individual assignment:** search for an international tour company and study throughout its website. Then, identify its roles in the tour business. Explain in your own words the supporting details as well as capturing the business web page/ homepage or related web pages.

Length of paper: 1-2 A4 pages, typing with Time New Roman 12, spacing 1.5.

Paper submission and power point presentation: Next class.

ⁱ An intermediary (or go-between) is a third party that offers *intermediation* services between two trading parties. The *intermediary* acts as a conduit for goods or services offered by a supplier to a consumer.

ⁱⁱ Travel and Tourism Consultant Course Textbook, IATA