

Lecture Note

Course Title: ITM 2311 Tour Business Management

Credits: 3(3-0-6)

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Program: Tourism Management

Week 2

Unit 2: Demand of Tour Business

Topic

- Concepts of market demand
- Effects of market demand
- Demand of travel market

Objectives

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

- Explain the concepts of market demand.
- Explain how market demand affects supply.
- Identify demand of travel market.
- Discuss how demand of travel market affects tour and travel business.

1. Concepts of Market Demand

1.1 Definition

1.1.1 Market

In economics, market is one of the many varieties of systems, institutions, procedures, social relations and infrastructures, whereby parties engage in exchange. In a particular market, if the system of exchange of goods and services is based on money (not barter), the prices of goods and services are established. Markets facilitate trade and enable the distribution and allocation of resources in a society¹. Markets in this sense include *physical market*, such as fresh market, Sunday market, vegetable market, community market; and *virtual market* for exchanges of goods and services (such as financial market- stock market, travel market, information/content market) are done on the Internet, which has been emerging very popularly.



General definition of “market” defined by Bourgeois² is that it is the area of actual and potential exchanges, between consumers and producers, involving the offerings of producers, and the wants of customers, and with respect to a particular situation.

Travel market can be presented virtually, which is on the Internet.



However, there are many trade fairs and festivals organized for business of tourism as well as tourists/ customers join in order to sell and buy products of tourism.

Outstanding examples of travel trades are ITB in Berlin, World Travel Mart (WTM), as well as many travel fairs for end customers.

¹ <http://en.wikipedia.org>

² In Buhalis and Costa, 2006. *Tourism Business Frontiers: Consumers, Products and Industry*

1.1.2 Demand

Demand is a desire for certain good and service (commodity) which is supported by the capacity to purchase it. In economics, demand is defined as the utility for goods or services of an economic agent (individuals or business) relative to his/her income. This means that demand involves a buyer's financial status and his/ her willingness and ability to pay a price for a specific quantity of a good and service, at a given point of time. This makes it normal that good or service is desired by buyers at various prices (i.e. one type of product may have different prices). Buyers are usually rational, so they are usually motivated to buy good or service when the price is lower. In the same time, as producers or sellers, they expect buyers to buy more products when the price is low as well.

From the definition, it can be said that the relationship between price and demanded quantity of good is known as demand. This refers to the demand and supply link.

1.1.3 Market Demand

Market demand is defined by many websites. For example, it is defined as the aggregate of the demands of all potential customers (market participants) for a specific product over a specific period in a specific market³. Market demand is calculated to determine at what level to set production output for a good or service, and to help to determine optimal pricing levels to maximize sales revenues⁴.

Demand comes with supply. Therefore, the study of demand relates with the study of supply, and the management of demand and supply must go together in the same direction, in which the management of supply should coincide with the management of demand. This means that in managing the supply chain of a particular business should be done in responding or meeting that demand (market demand) of that business. The study of market demand relates with the words "market segmentation" and "market targeting".

Market segmentation is a marketing strategy that involves dividing a broad target market into subsets of consumers, businesses, or countries that have common needs and priorities, and then designing and implementing strategies to target them. Market segmentation strategies may be used to identify the target customers, and provide supporting data for positioning to achieve a marketing plan objective. Businesses may develop product differentiation strategies, or an undifferentiated approach, involving specific products or product lines depending on the specific demand and attributes of the target segment.

³ <http://www.businessdictionary.com/>

⁴ <http://www.investorwords.com/>

2. Effects of Market Demand

2.1 Effects of Market Demand on Supply

As mentioned that demand and supply have a linkage. Therefore, the four basic laws of demand and supply are established, as follows.

- If demand increases and supply remains unchanged, a shortage occurs.
- If demand decreases and supply remains unchanged, a surplus occurs.
- If demand remains unchanged and supply increases, a surplus occurs.
- If demand remains unchanged and supply decreases, a shortage occurs.

The shift of patterns of these laws affects a balance, an increase or a decrease of price equilibrium. The shift of these patterns concern many factors. For example, for consumer goods, changing weather may affect the ability of producers to produce some agricultural goods which are of high demand, resulting in a shortage of goods; if household income increases, demand for particular products will increase. If those products are insufficient, it results in a shortage. So producers need to seek for raw materials and supplies for their production to respond to the increased demand.

From the four basic laws, it can be concluded that the management of supply must adapt to balance with existing demand in order to avoid surplus or shortage of products. One factor that comes into play is the management of 4Ps marketing mix: product (i.e. product differentiation), price (i.e. pricing strategies), place (i.e. strategic placement), and promotion (i.e. appealing promotions). Another factor is to management the chain of supplies in order to create flow and effective logistics in the supply chain until products reach end- customers.

3. Demand of Travel Market

3.1 Factors of Travel Market Demand

Demand of travel market is a desire for travel (tourism) services and willingness of buyers to pay for those services. The following factors affect the demand of travel market:

Tourist- side factors:

- Demographic factor such as age, stage of life, gender, income or financial status, education, marital status
- Social factor such as determinants of family and friends
- Physical limitation and health condition
- Personal tastes
- Social conformity
- Personal fear of risk and uncertainty (i.e. safety issue)
- Personal availability of leisure time
- Personal past experience
- Car ownership

Destination factors:

- Destination attributes and situations such as variety of places to go and activities to do, friendliness of local people, culture, political situation, climate, availability and readiness of infrastructure
- Continuous tourism product development
- The elimination of legal limitations on and practical obstacles to travel such as VISA
- Seasonality of destination and seasonality of places of origin where demand occurs.

Global factors (global perspectives)

- Technological factors such as advancement of transport technology, and of information and communication technology (i.e. Internet- increased access to information can stimulate curiosity leading to demand to traveling to see real places)
- Changes in living conditions, particular the change from agricultural to industrial and post- industrial society, dwellers are far more inclined to engage in tourism than are people in the countryside.
- Increasing international integration of life with enhanced international interaction in trade, politics, communication, media and emigration

The factors of travel demands characterize types of travel, which can be classified into 4 main groups:

- (1) Classified by number of members in trip party: free independent travel (FIT) or group inclusive tour (GIT)
- (2) Classified by types of travel: traveling on individual or personal, and traveling with packaged tour; domestic and international travel
- (3) Classified by modes of transport used: road transport, rail transport, cruise/ boat, air transport, space. This classification also has a connection with tour production related to use of transport modes to create tourism experience, changing the transport as the traveling mean to the tourism experience instead.
- (4) Classified by levels of services: high- end (luxurious), medium, budget or economy level

The types of travel as classified above indicate tourist behaviour in purchasing tour products from tour companies.

3.2 Types of Tourism

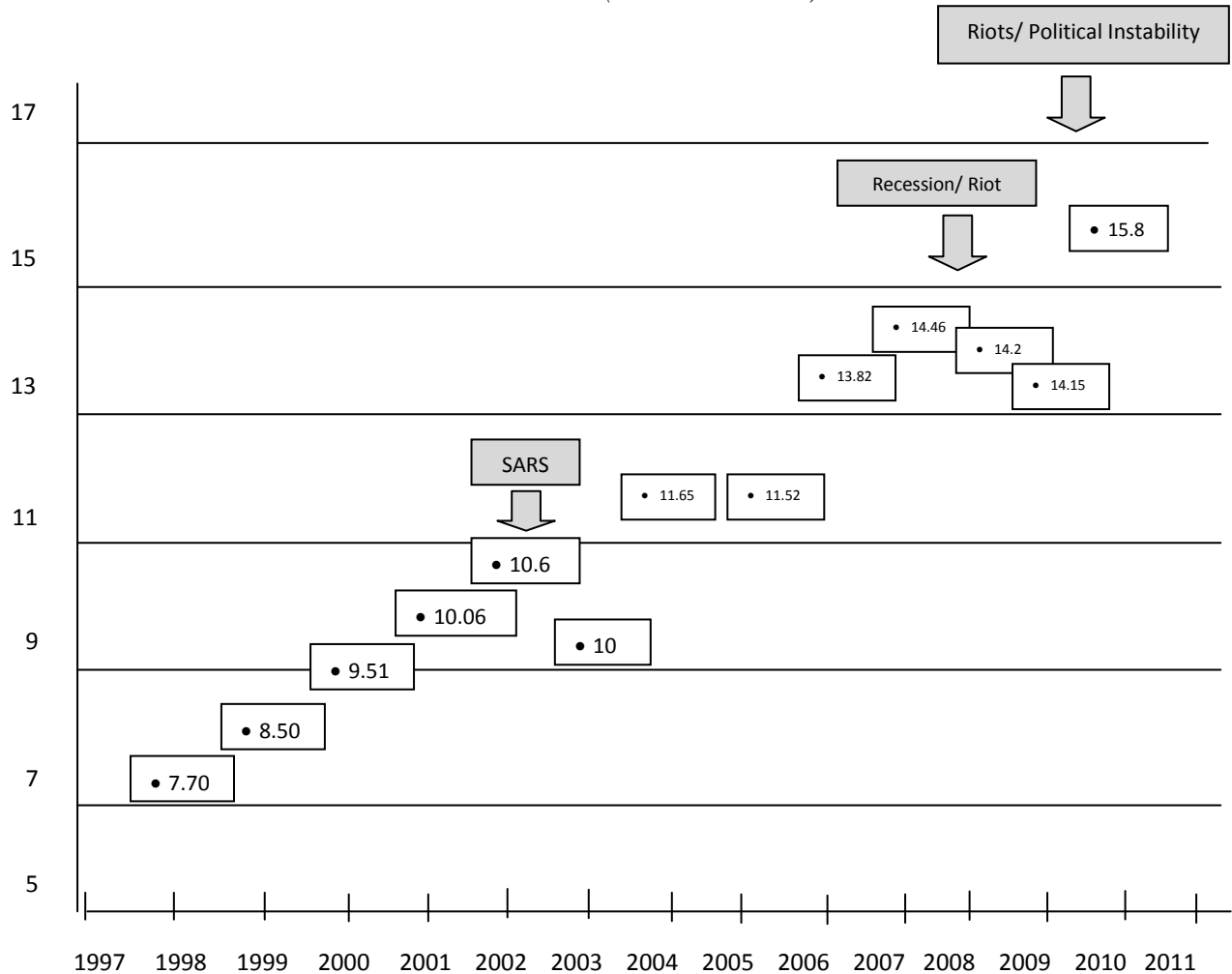
In tourism, there are many types of tourism that are developed to serve different travel demand, whereas the development of tourism types is greatly based on tourist destination's characteristics, particularly geographical characteristics and availability of supplies in the supply chain, and based on tourist factors. To name some important and outstanding tourism types, below is the list:

- (1) Honeymoon tour
- (2) Cultural tourism
- (3) Nature- based tourism
- (4) Photograph tour
- (5) Historical tourism
- (6) Adventure tourism
- (7) Sport tourism
- (8) Shopping tour
- (9) Eco- tourism
- (10) Self- drive tourism
- (11) City sightseeing tour
- (12) Food and wine tourism (gastronomy tourism)
- (13) Agro-tourism
- (14) Special- interest tourism (alternative tourism)
- (15) Familiarization tour/ trip (FAM Trip)
- (16) Health/ medical tourism
- (17) Space tourism

3.3 Events in the Past that Affected Global Tourism Demand

The events here include outbreaks and terrorism as follows:

- 9/ 11 terrorist attacks (September 11, 2001)
- Bali bombings (October 2002)
- Severe Acute Respiratory Syndrome (SARS) outbreak (2003) in Asian countries
- American – Iraq conflict-- War in Iraq (2003)
- Tsunami in the Indian Ocean (December 2004)
- London bombings (July 2005)
- The influenza A/H1N1 virus (2009)
- Thailand flood (2011)

International Tourist Arrival to Thailand (Historical View)**Learning Activities and Medias**

- Lecturer gives lecture on the unit.
- *Lecturer applies PBL:* students do group discussion in identifying what actual needs (what are their actual demands- ** please note that there may be more than one needs.*) of tourists who engage in the following types of tourism. Choose just one type of tourism from the list. Then, brainstorm what suppliers you need to contact in order to develop the supply side and your selected product.

This is the list of tourism types. Choose one.

- | | |
|-------------------------|---|
| - Honeymoon tour | - Self- drive tourism |
| - Cultural tourism | - City sightseeing tour |
| - Nature- based tourism | - Food and wine tourism (gastronomy tourism) |
| - Photograph tour | - Agro-tourism |
| - Historical tourism | - Special- interest tourism (alternative tourism) |
| - Adventure tourism | - Familiarization tour/ trip (FAM Trip) |
| - Sport tourism | - Health/ medical tourism |
| - Shopping tour | - Space tourism |
| - Eco- tourism | |