


Subject: Tourism & Hospitality

Production of Courseware

 -Content for Post Graduate Courses



Paper 01: Tourism And Hospitality: Concept, Component, Status And Trends

Module 13: Factors Affecting Demand and Supply in Tourism



THE DEVELOPMENT TEAM

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ITEMS	DESCRIPTION OF MODULE
Subject Name	Tourism and Hospitality
Paper Name	Tourism and Hospitality : Concept, Components, Status and Trends
Module Title	Factors Affecting Demand and Supply in Tourism
Module Id	Module no-13
Pre- Requisites	Basic knowledge about demand and supply of Tourism
Objectives	To study the factors affects demand and supply of Tourism
Keywords	Tourism, Demand and Supply

MODULE 13 : FACTORS AFFECTING DEMAND AND SUPPLY IN TOURISM

1. Learning Outcomes
2. Introduction
3. Factors that motivate people to travel
4. Tourism Demand
5. Tourism Supply
6. Factor Affecting Tourism Demand
7. Factors Affecting Tourism Supply
8. Summary

QUADRANT-I

1. Learning Outcomes.

After completing this module students will be able to:

- Know the Tourism demand and supply.
- Know the difference between Tourism demand and supply.
- Understand the difference between Tourism Demand and demand, Tourism supply and supply.

2. Introduction

Tourism demand is a broad term that covers the factors governing the level of demand, the spatial characteristics of demand, different types of demand and the motives for making such demands. Cooper (2004:76) defines demand as “a schedule of the amount of any product or service that people are willing and able to buy at each specific price in a set of possible prices during some specified period of time”. Individuals called “tourists” generate tourism demands. This happens in a particular place called a “tourism destination”. The scale and magnitude of demand differs with time and sometimes with seasons. Time demand for tourism services either advances or changes. Such changes could occur due to the emergence of the so-called “new tourists” (Poon, 1994 & 1993). These tourists want to experience something new and expect high quality service and value for money. New tourists bring with them a different level of demand. Another important issue that has arisen is the increasing significance of tourist seasonality with regard to periods of high and low tourism demand referred to as peak and low seasons respectively.

Relation between Supply and Demand

Buhalis (2004) identifies three main types of demand, namely, actual, suppressed and latent demand. Actual demand is also referred to as effective demand which comes from tourists who are involved in the actual process of tourism. The second type of demand is suppressed demand created by two categories



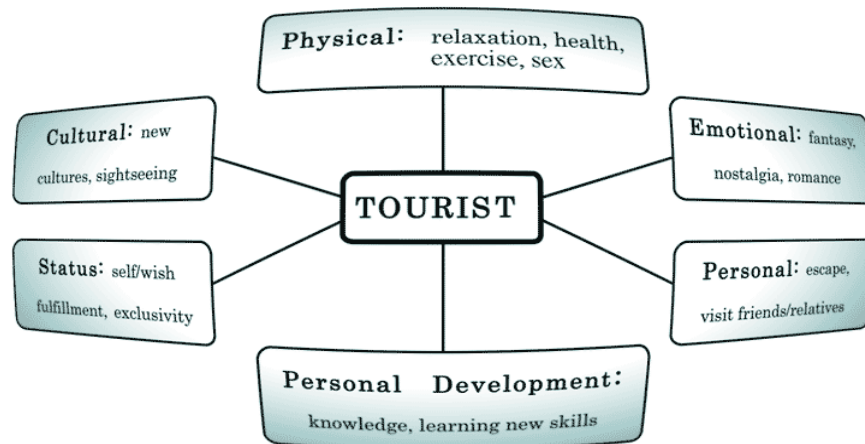
of people who are generally unable to travel due to circumstances beyond their control.

The first group would include those sections of the population who would like to be involved in the tourism process but for some reason or another cannot. Since they may participate at a later date, their situation is referred to as representing potential demand. Deferred demand describes the second sub-category of suppressed demand in that travel is postponed due to problems in the supply environment. Potential and deferred demands are difficult to measure and it is for that reason that they are rarely taken into account. The third type is latent demand. It relates to the spatial and temporal expression of demand at a specific site, for example, demand for either tourist accommodation or a tourist service at a specific destination.

3. Factors that Motivate People to Travel

There are as many reasons for engaging in tourism, as there are tourists. Different people participate in tourism for different purposes. Seemingly, every purpose comes with specific tourism demand. One of the most common demands is for accommodation. Whatever the intention, tourists should be accommodated in one way or another. The most common reasons for travel away from home are:

- For leisure, recreation and holidays
- To visit friends and relatives
- For business and professional engagements
- For health treatment
- To undertake religious and other pilgrimages
- Other more personal motives

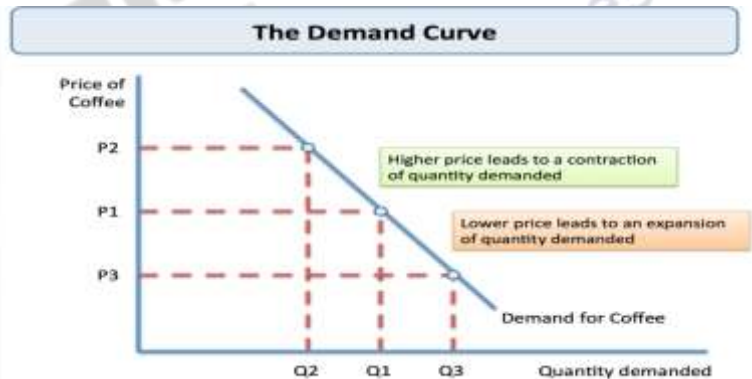


Travel Motivators

The activities that tourists engage in form the basis for tourism demand. Perhaps it is important at this juncture to reiterate the definition of tourists. The term 'tourist' is described as "any person travelling to a place other than that of his/her usual environment for less than twelve consecutive months and whose main purpose of travel is other than the exercise of an activity remunerated from within the place visited" (Poon, 2005:67). This suggests that tourists are people who need a 'home away from home'. Thus they visit to tourism destination with particular expectations, which trigger demands.

4. Tourism Demand

The demand for tourism can be defined in various ways, depending on the economic, psychological, geographic and political point of view of the author. The geographic perspective defines tourism demand as the total number of persons who travel or wish to travel, and use tourist facilities and services at places away from their places of work or residence (Cooper et al. 1993).



One of the important issues relating to tourism as mentioned in a number of official proclamations and demands is the individual's right. In 1980 the Manila Declaration on World Tourism stated that the ultimate aim of tourism was "the improvement of the quality of life and the creation of better living conditions for all people" (Cooper et al. 1993: 14). This sentiment is reflected in the tourism vision as stated in the 1996 South Africa Government's White Paper on Tourism. Cooper et al. (1993) identified two types of demand curves. The first one is the direct demand curve that states that a tourism product can be ascribed to the relationship between two variables like 'price' and 'quantity'. This is a relationship in the economic demand schedule. The second one is the inverse demand curve that states that the quantity of demand for tourism drops with an increase in the price associated with tourism, and vice

versa. According to Prosser (1994), the character of tourism demands will continue to change. Schwaninger (1989) predicted these changes in tourism demand as follows:

- Tourism demand will continue to grow and become increasingly differentiated.
- There will be greater market specialization and segmentation with a stronger emphasis on more active pastimes rather than passive holidays.
- Packaged holidays will be customized to accommodate greater individual freedom through a modular product design.

5. Tourism Supply

Tourism supply has to do with the provision of the key elements of the tourism industry by the host governments or destinations. Such provision should extend to maintenance, promotion and management of the tourism facilities and resources. Tourism resources that are necessary for tourism supply range from natural to man-made. Infrastructure required would include telecommunication, accommodation and transportation.



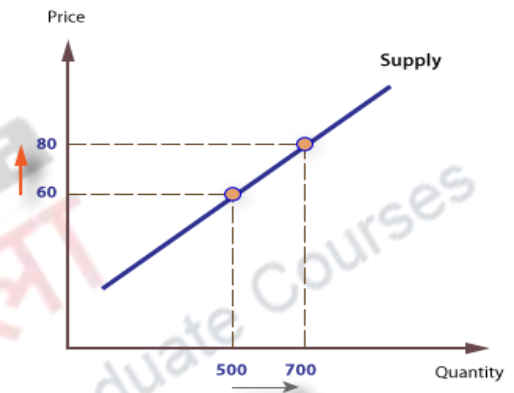
Tourism reception services include travel agencies, tourist offices, hire companies and visitor managers. The one underlying characteristic of tourism supply that distinguishes it from other services is the way in which the mobile populations who visit destination areas consume a tourism product, service or experience. In contrast, the supply elements are often fixed geographically at certain places (e.g. hotels, restaurants or visitor attractions). This means that businesses are required to sink considerable capital costs into different forms of tourism services and centers of production on the basis of the expectation that the destination will appeal to visitors and assist in the promotion of their individual product and service.

The “tourism supply chain” concept originated from economics. It has been used to explain how different businesses enter into contractual relationships to supply services, products and goods, and how these goods are assembled into products at different points in the supply chain. Tourism is well suited in the supply chain because the product,

service or experience that is consumed is assembled and comprises a wide range of suppliers.

Supply Curve

The supply of tourism products basically involves how various components of the tourist product are placed at the disposal of tourists. Tourism suppliers can be classified under the following headings: Hospitality, Transport and Attractions/Products. As far as hospitality is concerned, this is where a tourist will look at the appropriate forms of accommodation, different types of food service provisioning, entertainment and leisure activities. The suppliers of hospitality products such as accommodation, service and entertainment or gaming must be well located in relation to other components of tourism product. The suppliers of accommodation vary from privately owned organizations to large hotel chain groups or consortiums. On the other hand, the food service industry, which includes drinking places, restaurants, coffee shops and other food outlets, is strongly linked to the accommodation sector. Ultimately, accommodation forms the core of the tourism supply chain where it occupies a more central position.



Tourism supply can also be explained through the “distribution system” in tourism analysis. The distribution system makes the supply of tourism available and accessible to the demand side. Because tourism is an intangible product, information is the only thing on which potential tourists can base their decisions to make their arrangements. There are four components in the tourism distribution system namely, suppliers of tourism services, the distributors of information, travel intermediaries and consumers. Gunn and Var (2002) suggested that tourism supply components can be classified according to the following four different elements (natural, human, technological and cultural resources):

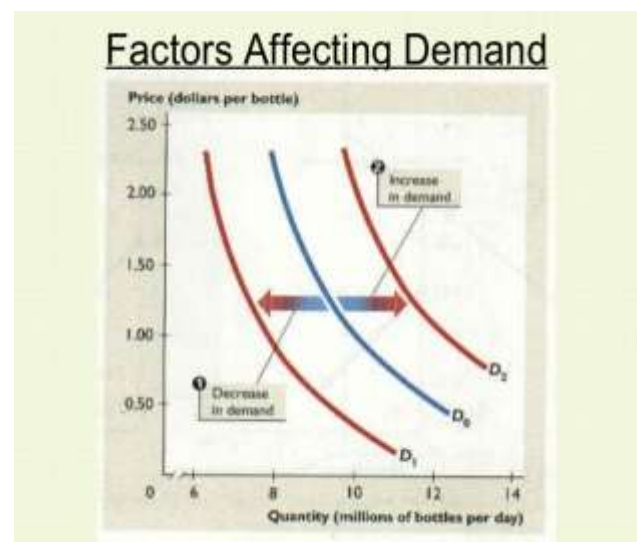
- Natural or environmental resources constitute the fundamental measure of supply. With the contemporary rise in environmental awareness, nature conservation, eco-tourism natural resources are being used more sustainably to ensure they continue to be of benefit in the future. Tourism supply in this regard embraces elements like the physiographic of the area, landforms, flora, fauna, water bodies, air quality and similar natural phenomena. In essence, the availability of such resources is of paramount importance to the success and continuity of tourism as a spatial industry.
- Built or man-made resources such as infrastructure includes all underground and surface development constructions such as water supply systems, sewage disposal systems, power lines, roads, communication networks and many other commercial and recreational facilities. Particularly needed by tourism is a superstructure to include facilities constructed primarily to support visitation and visitor activities. Primary examples are airports, parking lots, parks, hotels and other places of entertainment.
- Transportation is a critical component of tourism supply, as without it tourists cannot reach their tourism destinations. Aeroplanes, trains, buses and other modes of transportation are part of this category.
- Hospitality and cultural resources are integral to a tourism offering. It is the people and the cultural wealth of an area that makes it possible for tourism to take place. Tourists are hosted where there is security and often comfort. The attitudes of residents to visitors need to be desirably cordial. The friendliness, courtesy, sincere interest and willingness to serve and to be better acquainted with visitors are crucial factors in tourism supply.

6. Factors Affecting Tourism Demand.

- **Individual Factors**

Education and Awareness

Education of personnel and their professional development comprise the most important factor that both directly and indirectly reflect the competitiveness of



tourism products. Only educated personnel in Hospitality and Tourism enable the development of new technologies, innovative products and services, aiming to increase competitiveness of the tourism product, company and country.

Mobility

Transportation plays important role in enriching the travel experience of a tourist, depending on the mode of transportation and the frequency of use. Transportation can turn into a separate tourist attraction element; cruising, orient express trains, boat trips along the river and etc. are the best examples to tourist attractions. The effective factors in choosing the transportation mode in tourism are given below

i. **Age, Gender, Religion and Size**

The population in the cities and towns is segmented based on age, sex, education, occupation, religion, etc. each group has different needs and wants, and tour operators design tour packages to fulfill the need and wants of the potential buyers. Therefore, the different tourism products and services depend upon the composition of the population.

Income and Employment, Disposable Income, Household Income

ii. Demands for goods are directly related to the income of the tourists. If income increases the demand for the commodities may also go up and vice versa. Rise in income stimulates purchasing power.

iii. **Taste**

Tastes vary from person to person. The subject of changing tastes happens with the effect of population aging. Age is just one among other various socio-economic factors that influence travellers' tastes. Sex, marital status and level of education also result in different tastes across population. They can further change as a consequence of rising living standards, advertising or innovation (Song et al., 2009). There are so many influencing factors that it is very difficult to measure a variable to indicate tastes.

• **Economic Factors**

i. **Cost of Products.** Price is an important factor affecting demand for the commodity. It is generally understood that demand for the commodity increases

- with the fall in price and vice versa. It may not happen if other things do not remain the same.
- ii. **Competitive Price.** Change in the price of substitute commodity affects the demand for other commodities. For instance, increase in the price of fresh juice may increase the demand for canned juice. In the same way, changes in the price of complementary goods also change the demand of the commodity.
 - iii. **Expected Change in Price** Expected change in price is the projected price of the commodity in future. It is understood that if the price of any commodity is expected to rise in the future, it may decrease the demand for the particular commodity and vice versa.
 - **Geographic Factors**
 - i. **Seasonality.** Seasonality is related to inventory management taking certain time series with repetitive or predictable patterns of demand into considerations. Seasonality is typically measured by the quantity of interest for small time intervals, such as days, weeks, months or quarters. Almost every travel agent can expect to have seasonal fluctuations in their demand. Everything from peak holiday sales activity to droughts in sales due to seasonal weather changes can influence what demand the market will have for your products.
 - ii. **Accessibility, Location and Distance.** Distance and price have frequently been identified as the major factors affecting tourists' decision-making process. There is potential to increase tourism to the destination and can be used to identify marketing initiatives and travel promotions more efficiently.
 - iii. **Attraction Available.** Tourism does not occur randomly. Some regions, destinations, or sites appear to be more successful than others in offering tourism activities. The identification and analysis of existing patterns of tourism resources are critical steps in assessing the potential for attracting tourists to a given area (Gunn1988).
 - iv. **Urban or Rural population or Economy.** The structure of societies is continuously changing. The world population is projected to grow to 8.3 billion in 2030 and life expectancy is projected to increase in most of the world. Households and families are becoming more diverse, and migration is changing

the face of societies. All these changes will impact upon the types of tourists, origin place, destinations place, types of accommodation and the activities.

- **Destination Factors**

- i. **Image.** Image is a vital ingredient to the tourist destination. Destinations are chosen usually by motive matching. Transformation in marketing strategy management can improve destination image.
- ii. **Promotion: Travel Channels, Awareness, Deals** The importance of destination promotion in its own right, enables stakeholders in the visitor economy to benefit from concerted marketing of a place. However, the dividends of destination promotion extend far beyond the benefits that accrue to visitor-related industries and their suppliers.
- iii. **Channel of Impact.** By developing the visitor economy, destination promotion supports development of transportation infrastructure, providing greater accessibility and supply logistics that are, in turn, important in attracting investment in other sectors.
- iv. **Technology - Mass Media Communications.** Technology has played a vital role in spreading awareness about travel and tourism in the society. A major influence over demand for travel and tourism is the increased reach of television and, more recently, the Internet -World Wide Web.

Information and Communications Technology (ICT)

ICT developments also influence the tourism demand. Based on the ever-growing technological developments, its effects over tourism demand include:

- Business growth prospects for both for large and small businesses.
- Virtual presence of businesses web sites with the help of ICT—especially for MSMEs
- Opportunities for both the private sector businesses and public sector marketing organizations.
- Direct Marketing may reduce the role of traditional intermediaries
Relationship marketing in vogue.

- v. **Development Level** Tourism has the causal relation with economic growth. In addition, the natural and heritage-related resources for tourism are limited and not reproducible. As an economy grows, the growth effects of leisure tourism are expected to diminish due to a lack of continued productivity improvement in the tourism industry.
- vi. **Safety and Security** Crime, terrorism, food safety, health issues and natural disasters are the main areas of concern. Governments, travel agents and news media periodically issue warnings about the risks associated with international tourism. Tourists are urged to buy guidebooks and obtain vaccinations as precautions against such risks.
- vii. **Quality of Product** Quality of amenities at the host destination including accommodation will influence demand. There should be a range of attractions for a certain degree of market differentiation.
- **Political Factors**
Government Regulation Tourism is a multi-dimensional activity, controlled by formulating suitable Government Policy / Regulatory Factors. These policies are crucial and important in understanding the national and international framework within which demand evolves for travel and tourism.

Government Policy / Regulatory factors cover the following activities:

- Create and Establish Linkages
- People Participation in Tourism Development
- Public and Private Sector Partnership
- Role of the Government in industry promotion
- Visa, Formation, Health checks, Currency, Prohibitions
- Transport regulation, Accessibility, Bilateral agreements

7. Factors Affecting Tourism Supply

i. Price of the given Commodity

The most important factor determining the supply of a product is its price. As a general rule, price of a product and its supply are directly related. It means, as price increases, the quantity supplied of the given product also raises and vice-versa. It

happens because at higher prices, there are greater chances of making profit. It induces the firm to offer more for sale in the market

ii. Prices of Other Goods

As resources have alternative uses, the quantity supplied of a product depends not only on its price, but also on the prices of other products. Increase in the prices of other products makes them more profitable in comparison to the given product. As a result, the firm shifts its limited resources from production of the given product to production of other product. For example, increase in the price of other product will induce the farmer to use land for cultivation of wheat in place of the given product.

iii. Government Policy

Increase in taxes raises the cost of production and, thus, reduces the supply, due to lower profit margin. On the other hand, tax concessions and subsidies increase the supply as they make it more profitable for the firms to supply product.

iv. Objectives of the Firm

Generally, supply of a product increases only at higher prices as it fulfills the objective of profit maximization. However, with change in trend, some firms are willing to supply more even at those prices, which do not maximize their profits. The objective of such firms is to capture extensive markets and to enhance their status and prestige.

v. Natural Conditions.

Climatic conditions directly affect the supply of certain products. For example, the supply of agricultural products increases when monsoon comes on time. However, the supply of these products decreases at the time of drought. Some of the destinations are climate specific and their growth purely depends on climatic conditions.

vi. Transport Conditions

Refer to the fact that better transport facilities increase the supply of products. Transport is always a constraint to the supply of products, as the products are not available on time due to poor transport facilities. Therefore, even if the price of a product increases, the supply would not increase.

8. Summary.

The understanding of demand and supply in tourism depends on your geographical, economical, political and psychological perspective. Demand for tourism refers to the number of people traveling or wish to travel and utilize tourist facilities away from their locality such as place of work or residence. According to the 1980 Manila Declaration on World Tourism, its main aim is to improve people's quality of life and creation of better living conditions for all. Factors affecting demand and supply in tourism vary from place to place. A common influencer of demand and supply in tourism is external factors like market forces and economic conditions, which determine financial and physical flows.

