UNIT 6 FORECASTING FOR TOURISM AND ITS PRODUCTS

Structure

6.0 OBJECTIVES

After studying this Unit you will be able to understand:

● what is forecasting for tourism,

● how is it done,

● why is it needed, and

● different ways in which it is used.

6.1 INTRODUCTION

"Forecasting" means future prediction. It is quite essential to be able to predict futuristic developments in the planning process. Because a plan is worked out, based on certain assumptions. These assumptions are assumed on the basis of forecasting. Especially in marketing, to design a marketing plan accurate forecasting is very crucial. The forecast may predict certain behavior of customers or specific moves planned by competitors. One has to also consider the policies of government or general socio-economic, legal or environmental developments which lead to peculiar trends. For example, the number of people traveling to specific destinations will change according to certain seasonality. If we consider social seasonality, we know that more people are going to travel during vacation period. If we take into account climatic seasonality we know that in summer people from hot plains will want to escape to hill stations to enjoy cooler air.

The visa regulation policies of government may affect number of international tourists. The exchange rate will affect the number of inbound or outbound tourists. Thus to understand the possible behavior of customers we have to consider various factors and make a forecast which will help in designing suitably accurate plans. Accordingly in high tourist season tourism industry should be ready to receive larger number of tourists, and in low season they should prepare for low sales turnover. Also since the products in tourism are various services, they have characteristics which make it difficult to stock the product. But the industry has to prepare itself for highs and lows of demand in various ways. So we can say that **forecasts of tourism demand are essential for efficient planning by airlines, railways, hoteliers, tour operators tourist transport operators, food and catering establishments and other industries connected with or dependent on the hospitality and tourism markets.** This Unit familiarizes you with different variables in forecasting, different methods in forecasting and the importance of forecasting in tourism.

6.2 FORECASTING FOR TOURISM

Tourism industry is a multi facet industry which besides the destination has three main sectors: Transport, Accommodation and Intermediary services. Tourism "Products" are

are directly dependent on the overall turnover of tourism industry which in turn depends on number of tourists and the money they spend. Also though these sectors of the industry are offering different products, they are closely interdependent on each other to run the business smoothly.

For example, if travel agents and tour operators do the promotion, tourists are drawn to the destination, who will use the transport services and then accommodation and local services. So the promotion will benefit not only travel agents or tour operators but also transport and accommodation sector. If a destination does not have good transport services then the accommodation sector at the destination may not get sufficient business and vice-a-versa. Apart from interdependence of these main sectors on each other there are numerous other complex reasons which affect the trends in tourism industry. But mainly for marketing forecasting is required to work out the Product Design and to understand the demand for that particular product. In fact forecasting is a vital component in the decision making process for planning, organizing or marketing of tourism products and services.

For example if an airline is starting its services on a new sector it will want to know the traffic operating on that sector and the type of traffic. Then only they can plan the frequency and quality of their services. Similarly for a hotel, the number and type of customers will be necessary to work out the product offers. Thus, for tourism industry the important factors are number of travellers and type of travellers. You ought to know that at any given time in future what volume of tourists you expect and to how much you can cater. Once this overall scenario is predicted, then the individual organizations can work out their own marketing mix of 'Product, Price, Promotion and Place and compete with each other for market share. Hence forecasting is needed to plan, develop and operate tourism facilities and services. Other advantages of forecasting are that it can help:

● minimise the risk of over supply,

● in optimum utilization of available resources,

● maximize tourism demand, and

● regulate the influx of tourists - according to the carrying capacity.

The **World Tourism Organization (WTO)** issues tourism forecasts at a global level making projections in terms of tourist generating regions and destination regions. However, **this exercise is completely ignored in the area of domestic tourism in India.**

6.3 FACTORS WHICH INFLUENCE TOURISM

To predict tourism demand it is essential to understand various factors which will affect the number of travelers and the flow of travelers. Some of these factors are:

● Politics and legal environment,

● Social and safety factors,

● Geographical and climatic factors,

● Accessibility and accommodation,

● State of economy, and

● New developments in industry etc.

1) **Politics and Legal environment** is one important factor that affects the movements of tourist flows. Political conditions, the type of government and travel regulations (like visa, foreign exchange etc.) effect the free movement of travellers. For example China has very recently only encouraged inbound tourism; In India also there are certain regions which are not open to tourists or one needs a permit to enter those regions. In fact the general political condition of a country to a great extent determines the inflow of tourists.

2) **Social and Safety factors** are directly related to mental and physical security of the tourists. These factors also affect the trends of tourist flows. For example the flow of tourists to the Kashmir valley has gone done where as Himachal Pradesh has picked up.

Certain social activities attract tourists. If there is a special social event like a festival, meet or a conference the tourist industry at that location should be ready to receive higher tourist inflows.

3) **Geographical and Climatic conditions** decide the seasonality of flows, such as tourist flow from areas of hot plains will go to hill stations in summer or tourists from colder countries will escape to sunny beach resorts during winter etc. By making proper observations the forecasting of tourist arrivals can be made to undertake planning of additional tourist inflows.

4) **The Economic environment** also affects the trends of tourist flow — particularly from the tourist generating regions. Also the exchange rate between two currencies can alter the cost of holidays thus a holiday package may become cheaper or more expensive which also affects the tourist traffic.

5) **Accessibility and Accommodation** are the two basics of tourism. Any change in these affects the tourist traffic tremendously. The change in frequency of transport services or beginning of any new services is bound to affect tourist traffic alongwith the distance and time of travel. Long haul destinations face a problem in this regard. In fact a major draw back for India in the American and European markets is the long haul travel to India from these tourist generating regions. Similarly availability and rates of accommodation will also make an impact on tourist flow.

6) **New developments in the industry** such as setting up of a new attraction say an amusement park or any other theme park will definitely bring in more tourists. Opening of new destinations like "Sun City" in South Africa has lured lot of traffic from India. It is important that the industry players watch such changing trends and competition to do forecasting.

Check Your Progress-1

1) List some areas in tourism marketing where forecasting is required.

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2) Describe the factors which affect the preparation of forecasting.

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6.4 DIFFERENT METHODS OF FORECASTING

Basically forecasting could be of various duration such as,

Short term	-	Seasonal
Medium term	-	Annual
Long term	-	More than 2 - 5 years.

The methods used for tourism forecasting can be similar to methods used for forecasting of other products, but they have to be applied to suit the industry set - up. They can be as follows:

a)   Surveys,

b)   Time-series,

c)   Correlation,

d)   Market tests,

e)   Judgement based on experience.

a)   **Survey** can be conducted by Government organizations, or small private firms. These are very helpful in finding out the preferences of tourist and their impressions about various tourism services.

   The DOT carries out surveys through a team at departure lounges of international airports where tourists have already finished the visit to the country and have time to answer questions of surveyors.

   The airlines and hotels continuously take a feed back from customers to understand their opinions which can be helpful in product design.

   Various surveys can be conducted for customers, sales force and experts to predict the requirement of quantity and quality of a product.

b)   **Time-series**: By using historical data and sorting it on time basis, highs and lows of seasons can be better understood, especially tourism industry which is highly seasonal can benefit from such details. To promote sales figures in low season and prepare for onslaught of tourists in high season this is necessary.

c)   **Correlation**: This method can help in linking the tourist flows to certain variable factors such as per-capita incomes etc. This is also vital in working out the marketing plan and mix of product, price, place of distribution and promotion.

d)   **Market tests** are conducted to understand demand in the market and the products of competitors. This can give definite clues of product design, pricing etc.

e)   A very common method which is used regularly is using judgement based on prior experience of senior executives or senior planners.

   The advantage of this method is, it is very quick, and does not follow detailed technical analysis. But it may not be very reliable at times.

Different forecasting methods may produce different forecasts for the same period. So pragmatism is reassured in selecting the appropriate forecasting method, based on specific forecasting situation.

6.5 APPLICATIONS IN TOURISM

Necessity of forecasting and its applications for any marketing planning are important but it is more so for tourism because of the peculiar characteristics of the product. The product can not be stocked, it is highly perishable. So only with the help of accurate forecasting marketing planning can be accurate.

We will discuss here various applications in the field of tourism.

For an organization which is operating tours, various factors such as product designing, pricing methods and places of promotions should be planned out systematically. If a tour operator is selecting the sector of tour he has to think of popularity of that sector, number of competitors and then only take the decision. At the same time forecasts regarding prospective buyers of the tour packages are essential for his business.

Other aspects to be considered are pricing and quality. We see that with liberalization policy of our government the market trends in India are changing very fast. The main aspects of quality and pricing are following international norms therefore to complete effectively both these should be brought to global levels.

Tour operators offer special rebates for early bookers. Lure customer with lucky draws etc. To survive in strong competition it has become necessary to understand the trends of product design, pricing and promotion. Also discount and rebate norms should be well related to sales figures, otherwise organization may end up going into loss.

Forecasting is also vital for strategic activities of expansion, diversification and merger etc. If these are worked by accurate forecasting then they become successful otherwise the performance of the organization suffers.

Thus forecasting has very varied applications from taking strategic decision, predicting sales, trends in product design styles, pricing and promotion. it can be used to work out the various details of sales budgets etc. Budgeting is always based on forecasting.

In tourism to fill up the minimum sales figures in low season, ingenuous ways are worked out. The resorts and hotels offer very high discounts and special rates for conferences, seminars booked in non-season periods. It is seen that generally business tourism has comparatively less fluctuations compared to other areas so they can be used to make-up the gap.

Also anticipating high influx of tourist in season various organizations plan in different ways. Transport operators have to run additional services, resorts etc. make arrangements of temporary kind of accommodation such as tents etc., which needs to be planned well in advance by projecting proper demand patterns.

Also most important aspects of application is projecting demand, the capacity of organization with regards service production and then planning to get the targeted market share which is possible.

The forecasting should be evaluated on basis of historical data to come out with more accurate predictions. The projected figures should be checked with feed back to understand their accuracy.

Check Your Progress-2

1) Discuss three techniques of forecasting.

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2) Give two examples from tourism industry where forecasting helps in planning.

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6.6   LET US SUM UP

Planning is always based on certain assumptions, and these assumptions can be fixed only with the help of proper predictions which depend on forecasting methods. In service industry like tourism the planning process is very vast and time and resource consuming. Therefore plans have to be worked out well in advance. Projecting demands of general traffic of tourists is generally done by central or state governments. The other level of product designs, seasonal trend and styles are worked out by individual organizations coming out with various products. The performance of the organizations is largely dependent on the process of forecasting. Therefore it should be done methodically and accurately. Lastly, checking the accuracy of forecasts made earlier is also vital to make further forecasts.

6.7   ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress-1

1) Read Sec.6.2 and based on your experience write the answer.

2) In Sec.6.3 we have discussed various factors which influence tourism. This will help you in explaining the factors that affect the preparation of forecasting.

Check Your Progress-2

1) See Sec.6.4

2) You have ideas of various segments of tourism industry. Read Sec.6.5 and selecting two examples show how forecasting is needed for effective planning.