BUSINESS ECONOMICS FOR TOURISM

Semester-ii

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UNIT -II

1. Demand analysis- Meaning of Demand & Law of Demand
2. Determinants of Demand Factors
3. Elasticity of Demand
4. Demand Forecasting and its methods

DEMAND ANALYSIS-MEANING

There are two main managerial purposes for it:

1) Forecasting sales
2) Manipulating demand.

All other purposes are subsidiary to the main economic problem. viz. planning for profit.

If demand analysis which helps solving management problems is to be undertaken, an understanding of the theory of demand is quite essential.

MEANING OF DEMAND

In economic science, the term "demand" refers to the desire, backed by the necessary ability to pay.

The demand for a good at a given price, is the quantity of it that can be bought per unit of time at the price.

There are three important things about the demand:

1. It is the quantity desired at a given price.
2. It is the demand at a price during a given time.
3. It is the quantity demanded per unit of time.

For instance, the demand is stated as, say, 90 liters of milk per month or 3 litters of milk per day.

LAW OF DEMAND

- Among the many causal factors affecting demand, price is the most significant and the price- quantity relationship called as the Law of Demand is stated as follows:

- The greater the amount to be sold, the smaller must be the price at which it is offered in order that it may find purchasers,

- In other words, the amount demanded increases with a fall in price and diminishes with a rise in price" (Alfred Marshall).

- In simple words other things being equal, quantity demanded will be more at a lower price than at higher price.

DETERMINANTS OF DEMAND FACTORS

The factors that determine the size and amount of demand are manifold. The term "function" is employed to show such "determined" and "determinant" relationship.

For instance, we say that the quantity of a good demanded 27 is a function of its price i.e., Q= f(p) Where Q represents quantity demanded f means function, and p represents price of the good.

There are many important determinants of the demand for a commodity:

1. **Price of the good:**
The first and foremost determinant of the demand for a good is its price. Usually, higher the price of a good, lesser will be the quantity demanded of it.

2. **Income of the buyer:**
The size of income of the buyers also influences the demand for a commodity. Mostly it is true that "larger the income, more will be the quantity demanded".

3. **Prices of related goods:**
The prices of related goods also affect the demand for a good. In some cases, the demand for a good will go up as the price of related good rises. The goods so inter-related are known as substitutes, e.g. vacant land and house. In some other cases, demand for a good will comes down as the price of related good rises. The goods so inter-related are complements, e.g. car and petrol.

4.**Tastes of the buyer:**
This is a subjective factor. A commodity may not be purchased by the consumer even though it is very cheap and useful, if the commodity is not up to his taste or liking.
Contrarily, a good may be purchased by the buyer, even though it is very costly, if it is very much liked by him.

5. **Seasons prevailing at the time of purchase:**
In winter, the demand for woollen clothes will rise; in summer, the demand for cool drinks rises substantially; in the rainy season, the demand for umbrellas goes up.

6. **Fashion:**
When a new film becomes a success, the type of garments worn by the hero or the heroine or both becomes an article of fashion and the demand goes up for such garments.

7. **Advertisement and Sales promotion:**
Advertisement in newspapers and magazines, on outdoor hoardings on buses and trains and in radio and television broadcasts, etc.,

Have a substantial effect on the demand for the good and thereby improves sales. 28 The need to have clarity in demand analysis makes us adopt a `ceteris paribus' assumption,

i.e. all other things remain the same except one. This enables us to consider the relation between demand and each of the variable factors considered in isolation

ELASTICITY OF DEMAND

The concept of elasticity of demand is a measure of sensitiveness of demand to a change in any of the causal factors.

It shows how the amount of demand varies with respect to the variations in any of the factor affecting the demand, may be price, income or the price of a related product.

In precise terms, demand elasticity is a percentage change in quantity demanded attributable to a percentage change in an independent variable (be any factor affecting demand).

DEMAND FORECASTING AND ITS METHODS

forecast may differ based on the forecasting model you use. Best practice is to do multiple demand forecasts.

This will give you a more well-rounded picture of your future sales. Using more than one forecasting model can also highlight differences in predictions. Those differences can point to a need for more research or better data inputs.

PASSIVE DEMAND FORECASTING-

Passive demand forecasting is the simplest type. In this model, you use sales data from the past to predict the future. You should use data from the same season to project sales in the future, so you compare apples to apples. This is particularly true if your business has seasonal fluctuations.

ACTIVE DEMAND FORECASTING-

If your business is in a growth phase or if you’re just starting out, active demand forecasting is a good choice. An active forecasting model takes into consideration your market research, marketing campaigns, and expansion plans

SHORT-TERM PROJECTIONS-

Short-term demand forecasting looks just at the next three to 12 months. This is useful for managing your just-in-time supply chain. Looking at short-term demand allows you to adjust your projections based on real-time sales data. It helps you respond quickly to changes in customer demand.

LONG-TERM PROJECTIONS-

Your long-term forecast will make projections one to four years into the future. This forecasting model focuses on shaping your business growth trajectory. While your long-term planning will be based partly on sales data and market research, it is also aspirational.

EXTERNAL MACRO FORECASTING-

External macro forecasting incorporates trends in the broader economy. This projection looks at how those trends will affect your goals. An external macro demand forecast can also give you direction for how to meet those goals.

INTERNAL BUSINESS FORECASTING-

The internal business forecasting type will uncover limitations that might slow your growth. It can also highlight untapped areas of opportunity within the organization. This forecasting model factors in your business financing, cash on hand, profit margins, supply chain operations, and personnel.

DEMAND FORECASTING METHODS

There are many different ways to create forecasts. Here are five of the top demand forecasting methods.

1. TREND PROJECTION-

- Trend projection uses your past sales data to project your future sales. It is the simplest and most straightforward demand forecasting method.

- It's important to adjust future projections to account for historical anomalies.

- For example, perhaps you had a sudden spike in demand last year. However, it happened after your product was featured on a popular television show, so it is unlikely to repeat. Or your eCommerce site got hacked, causing your sales to plunge. Be sure to note unusual factors in your historical data when you use the trend projection method.

2. MARKET RESEARCH-

- Market research demand forecasting is based on data from customer surveys. It requires time and effort to send out surveys and tabulate data, but it’s worth it.

- This method can provide valuable insights you can’t get from internal sales data.

- You can do this research on an ongoing basis or during an intensive research period.

- Market research can give you a better picture of your typical customer. Your surveys can collect demographic data that will help you target future marketing efforts. Market research is particularly helpful for young companies that are just getting to know their customers.

3. SALES FORCE COMPOSITE-

- The sales force composite demand forecasting method puts your sales team in the driver’s seat. It uses feedback from the sales group to forecast customer demand.

- Your salespeople have the closest contact with your customers. They hear feedback and take requests. As a result, they are a great source of data on customer desires, product trends, and what your competitors are doing.

- This method gathers the sales division with your managers and executives. The group meets to develop the forecast as a team.

4. DELPHI METHOD-

- The Delphi method, or Delphi technique, leverages expert opinions on your market forecast. This method requires engaging outside experts and a skilled facilitator.

- You start by sending a questionnaire to a group of demand forecasting experts. You create a summary of the responses from the first round and share it with your panel.

- This process is repeated through successive rounds. The answers from each round, shared anonymously, influence the next set of responses. The Delphi method is complete when the group comes to a consensus.

- This demand forecasting method allows you to draw on the knowledge of people with different areas of expertise. The fact that the responses are anonymized allows each person to provide frank answers. Because there is no in-person discussion, you can include experts from anywhere in the world on your panel. The process is designed to allow the group to build on each other’s knowledge and opinions. The end result is an informed consensus.

5. ECONOMETRIC-

- The econometric method requires some number crunching. This technique combines sales data with information on outside forces that affect demand. Then you create a mathematical formula to predict future customer demand.

- The econometric demand forecasting method accounts for relationships between economic factors. For example, an increase in personal debt levels might coincide with an increased demand for home repair services.