



MARKET SHARES ANALYSIS

The Case of French Tourism Demand

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Abstract: This paper examines the magnitudes and determinants of changes in destinations' shares of a major tourist origin market. The Almost Ideal Demand System model is used to quantify the responsiveness of French tourism demand in Italy, Spain, and the United Kingdom to changes in relative prices, exchange rates, tourists' expenditure budget, and external events. The results indicate that effective price competitiveness is a key variable driving changes in market shares. Policymakers who wish to maintain their shares of the French market should pay particular attention to tourism pricing policies, as well as to improving the tourism offer. **Keywords:** market shares analysis, price competitiveness, Almost Ideal Demand System. © 2003 Elsevier Ltd. All rights reserved.

Résumé: Analyse des parts de marché : le cas de la demande touristique française. Cet article examine les magnitudes et les déterminants des changements dans les parts des destinations dans un marché important d'origine touristique. Le modèle du système de demande presque idéale est utilisé pour quantifier la réaction de la demande touristique française en Italie, en Espagne et au Royaume-Uni aux changements dans les prix relatifs, les taux de change, les budgets de dépenses des touristes et les événements extérieurs. Les résultats indiquent que l'efficacité de la compétitivité des prix est une variable clé pour déterminer les changements des parts de marché. Les décideurs qui veulent maintenir leur part du marché français devraient faire tout particulièrement attention à la politique des prix et à l'amélioration de l'offre touristique. **Mots-clés:** analyse des parts de marché, compétitivité des prix, système de demande presque idéale. © 2003 Elsevier Ltd. All rights reserved.

INTRODUCTION

Market shares analysis, based on the Almost Ideal Demand System model, is an important area of tourism demand research, as changes in a destination's shares of its major origin markets can bring about considerable economic repercussions. Decreases in market shares cause falls in income and employment, both in sectors that are directly related to tourism and in those that experience the indirect and induced repercussions of the fall in demand. Conversely, increases in shares require policymakers in the destination to ensure that sufficient

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capacity is available to meet the rise in demand. The effects are particularly strong when arrivals and expenditure are dominated by demand from a small number of origins, as is the case for many destination countries. Policymakers in countries that experience a decline in their market share are concerned to identify the variables underlying it, with a view to introducing counteractive policies. The Almost Ideal Demand System (AIDS) model provides useful and relevant information in this respect.

This paper will explain and demonstrate the ways in which the AIDS model can be used to examine and quantify the responsiveness of destinations' shares of their major origin markets to changes in economic variables, notably those that can be affected by policymakers: relative prices, exchange rates, and expenditure. Thus, for example, different countries' monetary authorities formulate policy that affects inflation and exchange rates, the relative price competitiveness of the country, and, hence, tourism demand. Knowledge about the magnitude of these effects is relevant to the choice of policy, particularly in countries where tourism plays a major economic role. Policymakers are also concerned with the extent to which their market shares will change as expenditure by origin country residents grows over time, with a view to identifying any origins that are a source of decline. The information from the model can help them to assess whether a fall is sufficiently great to merit the introduction of offsetting policies.

The AIDS model is innovative, as most tourism demand modeling to date has relied on a single equation approach that has been relatively *ad hoc*, lacking a strong basis in economic theory. Single equation modeling—reviewed by Crouch (1994a,b) and Sinclair and Stabler (1997)—has given rise to a disparate set of findings, to which it is difficult to attach a strong degree of confidence. In contrast, the AIDS model consists of a system of equations based on economic theory, whose assumptions can be tested (Syriopoulos and Sinclair 1993) and which can be estimated by means of the most recent econometric methods (Song, Romilly and Liu 2000; Song and Witt 2000). The model can be used at the national level as well as at more disaggregate levels and is well suited to examining demand by countries that provide major sources of tourism for specific destinations.

This paper will use the AIDS model to examine French demand for tourism, and Italy, Spain and the United Kingdom's shares of this market. France is a major tourist origin country and by 2000, the number of its tourists travelling abroad had grown to just over 30 million, with expenditure of approximately \$18.4 billion (WTO 2002). Italy, Spain, and the United Kingdom are important destinations for France, accounting for 60% of the total travelling abroad. The paper will explain the ways in which the model can quantify the magnitudes of the changes in market shares that result from changes in the relative prices, exchange rates, and expenditure of the three destination countries, as well as from changes in external events, notably recession and conflict. The implications of the results for policy formation will also be discussed. The paper will examine the pattern of French demand for the different destinations and its evolution over time. The changes

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