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## Measuring segment attractiveness

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### Abstract

Market segmentation has been widely employed to give tourism destination planners market understanding, identify attractive target segments, and develop a marketing offer customised to their needs. While a number of authors have proposed general criteria for assessing the attractiveness of segments, measurable indicators of attractiveness have not been proposed to date. This study uses a set of indicators to make "Segment Attractiveness" measurable and illustrate the usefulness of the proposed measure in the context of a generic tourism destination and a destination focusing on reachability. Results indicate (1) the proposed indicators discriminate between different market segments, thus guiding destination managers, and (2) weighting of indicators can help destinations with specific aims select segments in line with their priorities.

### Keywords

Market Segmentation, Formative Measures, Segment Attractiveness

### Disciplines

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### Abstract

Market segmentation has been widely employed to give tourism destination planners market understanding, identify attractive target segments, and develop a marketing offer customised to their needs. While a number of authors have proposed general criteria for assessing the attractiveness of segments, measurable indicators of attractiveness have not been proposed to date. This study uses a set of indicators to make “Segment Attractiveness” measurable and illustrate the usefulness of the proposed measure in the context of a generic tourism destination and a destination focusing on reachability. Results indicate (1) the proposed indicators discriminate between different market segments, thus guiding destination managers, and (2) weighting of indicators can help destinations with specific aims select segments in line with their priorities.

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*Track: Tourism Marketing*

## **1. Introduction and Background to Market Segmentation**

Market segmentation, the process of classifying customers into groups with similar needs, is a strategy that has been around since the 1950s (Smith, 1956) and has its foundational roots in the sciences with the development of classification schemes and the organization of plants, chemicals, and so on.

Since these first studies, market segmentation has been eagerly adopted in tourism (Bieger & Laesser, 2002; Dolnicar, 2002; Frochot, 2005; Leisen, 2001; Loker & Perdue, 1992). The advantage of segmenting the market of tourists is evident in the competitive advantage realized from focusing resources on those market segments which would be most receptive to the offerings of the tourism destination. Tourists are segmented according to many different *a posteriori*, or data-driven (Dolnicar, 2004), segmentation bases such as benefits of travel, behaviour while on holiday, preferred activities, and several *a priori*, or commonsense (Dolnicar, 2004), segmentation bases such as demographics and country of origin.

No matter which criterion is used, the aim of market segmentation is to identify one or more attractive segments to target. Criteria for assessing segment attractiveness have been proposed by a number of (mostly textbook) authors. For example, Kotler, Brown, Adam and Armstrong (2001) postulate four criteria: measurability, accessibility, substantiality, and actionability. Morritt (2007) recommends adding defensibility, durability and compatibility. Wedel and Kamakura (2000) advocate the effectiveness characteristics of identifiability, substantiality, accessibility, responsiveness, stability and actionability, and Frochot and Morrison (2000) supported the use of these six criteria, but called for more criteria specific to tourism. To the authors' knowledge, however, this call has not been answered to date. Still no clear indicators have been proposed that tourism marketing managers could use to choose the most suitable segments for them to target. The aim of this paper is to fill this gap by (1) proposing a set of indicators that could be used by marketing managers to assess segment attractiveness, and (2) assessing empirically whether these indicators lead to managerially useful findings for both a generic tourism destinations and tourism destinations with more specific aims, such as reachability or ability to communicate with tourists.

### ***1.1. Research Question #1: Proposing Indicators***

The identification of indicators was guided by the concept of formative measurement (Coltman, Devinney, Midgley, & Venaik, 2008; Diamantopoulos & Winklhofer, 2001). This approach assumes that indicators cause or define latent variables, and a change in the latent variable does not necessarily mean a change in all the indicators. However, if there is any change in the indicators, the latent variable changes too. Furthermore, indicators are not interchangeable, an exclusion of an indicator impacts on the latent variable (Coltman, Devinney, Midgley, & Venaik, 2008). All three conditions are met if segment attractiveness is to be quantified.

Indicators were developed by interviewing managers of regional tourism organisations in the state of New South Wales in Australia. Managers were asked to describe their ideal or perfect tourist. The main attributes of an attractive tourist were categorised under six themes which then formed the indicators in the index: expenditure, travel style, environmentally friendly behaviour, ambassador, reachability, and image match.

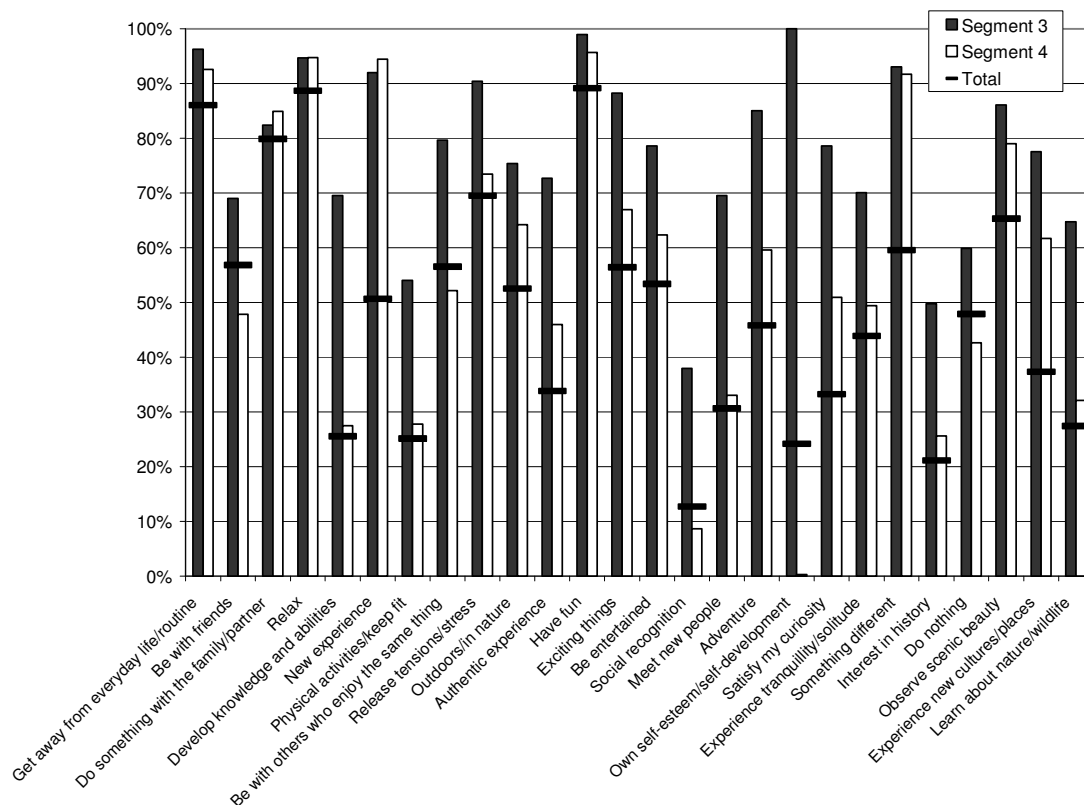
The indicator labelled “expenditure” is created because of the involvement of direct expenditure realised when taking part in activities, where more activities or experiences mean more expenditure in the area. However, the indicator “expenditure” is further divided into two sub-indicators: breadth and level of expenditure. Further probing discovered that a tourist interested in seeing the area and getting involved in activities also classifies as an ideal tourist, as too does one that spreads their expenditure over a number of touristic venues and not just one area. Positive word of mouth was another highly attractive attribute of a dream or idea tourist and responses like, “Will tell their friends” and “Connect with destination” are captured in the indicator labelled “ambassador”. The third indicator is “travel style” and is made up of the travel preferences that signify an ideal or dream tourist; namely, repeat visitation, the frequency of travel and the penchant for holidaying outside of peak tourist season. The indicator “environmentally friendly behaviour” indicates a shift towards environmental sustainability. The last two indicators are “reachability” and “image match”. “Reachability” signifies the ease of communication with the tourist segment (mainly by the Internet), and “image match” was selected by participants as the image the destination portrays to the target market must be in line with what the ideal tourist desires from the destination.

### ***1.2. Research Question #2: Empirical assessment***

A questionnaire was developed in a way as to measure the proposed indicators described above. In addition general questions about travel behaviour, travel motivations, and personal characteristics of the respondents were asked, including age, gender, annual household income, marital status, education level, occupation, family structure, and media consumption were collected. The questionnaire was pilot tested with 10 individuals to check completion time, ease of use via the internet, online flow and the sequence of question items, and question wording. The final sample (n=1003) consisted of Australian residents over the age of 18 years who were accessed through a permission-based internet panel; a panel which is multi-sourced to ensure its members are demographically representative of the Australian population. Data was entered into the Statistical Package for the Social Sciences (SPSS) version 15.0 for Windows (SPSS Inc, Chicago, IL).

Segments were constructed based on responses to nine benefit variables. Benefit segmentation is frequently used as a segmentation base due to the belief that it has the potential to better define destination segments and guide promotional strategy (Gitelson & Kerstetter, 1990; Loker & Perdue, 1992) as it identifies travellers’ motivations and satisfaction (Gitelson & Kerstetter, 1990; Jang, Morrison, & O’Leary, 2002; Loker & Perdue, 1992). The benefit statements used in the questionnaire were based on a review conducted by Frochot and Morrison (2000). Participants in the study had the option of selecting either “Yes, applied to me for my last vacation” or “No, did not apply to me for my last vacation”, in a binary answer format to each benefit statement. Segmentation analysis was conducted using Topology Representing Networks (TRN) extended version 1.0 beta for Windows (Mazanec, 1997). A four cluster solution was selected because it led to the lowest uncertainty reduction score across a range of segment numbers. The profiles for Segments 4 and 3 are provided in Figure 1 where the black column represents Segment 3, the white column Segment 4 and the horizontal bars indicate the total sample average.

**Figure 1: Segment description**



As can be seen, members of Segment 3 are mainly interested in being with their friends, developing their knowledge and abilities, being with others who enjoy the same thing, meeting new people, experiencing new cultures and places. They also desire social recognition, and strongly value their own self-esteem and development. Members of Segment 4 on the other hand are interested in new experiences, doing something different, experiencing new cultures/places, satisfying their curiosity, observing scenic beauty, having an adventure, having fun, and being outdoors and in nature.

If the proposed indicators are useful for destination marketers, the value results from them should be able to discriminate significantly between the four segments. We computed the attractiveness of each segment twice, once assuming that all indicators are valued equally by destination management (generic destination) and once assuming that destination management cares mostly about the reachability of the tourists (a communication-focused destination).

The first indicator, “Expenditure”, consists of components: (1) breadth of expenditure and (2) expenditure per capita per day. Expenditure per capita per day is measured as the amount spent per person per day. Breadth of expenditure consists of (1) activities (the sum of participation in a list of activities), (2) shopping (the number of times gone shopping), and (3) eating out (the number of times the participant has eaten out). “Environmentally friendly behaviour” consists of one component score of environmentally friendly actions (21 actions in total). “Ambassador”, another single item indicator, is the addition of five answer alternatives of participants’ communication with others about their last vacation. “Travel style” consists of three components: (1) tendency to take vacations outside peak holiday season, which is a combination of their tendency to holiday outside of school holidays, taking vacations during the week and whether the last vacation was taken outside of school holidays), (2) travel frequency, average number of domestic vacations taken per year, and (3) repeat tourist tendency, whether they return to the same destination for other vacations. “Reachability”

consists of two components: participant use of the Internet as an information tool for vacation planning and participant use of the Internet as a tool to book accommodation. The indicator “Image match” consists of the addition of one to one (1 – 1) matches between the perceived image of the destination of interest and their ideal vacation destination. The total attractiveness value is computed by adding the values for each of the six indicators (rescaled to 0-1 to ensure that they are all equally weighted in the case of the generic destination) leading to a final score of between zero and six. For the reachability or communication-focused destination 100% of the weight was assigned to the “Reachability” indicator.

The results for both the generic and the reachability focused tourism destination are provided in Table 1.

**1: Means scores of Reachability-driven destination and Generic Destination groups**

Cluster	Mean (Reachability Tourism Driven destination)	Mean (Generic Destination Score)
1	3.83	2.18
2	3.52	2.00
3	4.25	<b>2.35</b>
4	<b>4.49</b>	2.32

As can be seen, the proposed indicators are able to discriminate well between the four clusters in the benefit segmentation. Statistical significance of the observed difference in Table 1 was confirmed using an Analysis of Variance. The p-value for the generic destination was smaller than 0.001, the p-value for the reachability-driven tourism destination was also smaller than 0.001. These results indicate that a generic tourism destination that does not emphasize any particular area in selecting tourist segments would be advised to target Segment 3, whereas a tourism destination that is particularly interested in increasing the communication channels to tourists should target Segment 4.

Once the segment is chosen, it can be profiled in detail to enable efficient targeting using marketing mix tools. For instance, Segment 4 members are relatively old (30% are older than 55 years), have relatively low incomes (27% between AUD\$40,000-60,000, where 44% are employed in full-time work. Members from this segment prefer to source their vacation information for planning from destination information brochures (71%), and 95% of this segment also source their information from the Internet. Interestingly, this segment accounts for the most Internet use for vacation planning across all four segments (34%). A relatively large proportion of Segment 4 considers their ideal holiday to be peaceful and quiet (88%), and to be laid back and relaxed (90%). During their vacation, this segment expresses a relatively high preference for relaxing and doing nothing (80%), and eating at upmarket restaurants (49%), and general sightseeing (88%).

Segment 3 members are comparatively younger (23% are between 25-34 years old), where 44% are employed full-time, and the segment has relatively more full-time students (8%), and 25% have an income of between AUD\$40,000-60,000. Interestingly, a relatively large proportion (40%) of Segment 3 indicated they source their travel information for planning vacations from exhibitions and fairs, and 73% source their information from tourist information centres. Internet usage for information about travel planning is popular amongst this segment with 91% of members sourcing information from the Internet. A relatively large proportion of Segment 3 consider their ideal holiday to have great nightlife (48%), and waterside camping (61%), cultural diversity (58%), to be innovation focused (52%), and action packed (56%). In terms of activities participated in while on holiday, 53% of this

segment enjoyed bushwalking, 53% visited farms, 32% camped, 12% indicated their preference for snowboarding/skiing, 18% for exercising, 15% indicated adventure activity participation and 42% attended fairs and festivals. This segment also indicated their participation in visiting industrial tourism attractions (49%), and visiting wildlife parks (48%), and attending organised sporting events (26%).

## **2. Conclusions and Recommendations for Future Research**

We proposed a set of indicators to help destination marketing managers choose the most attractive segment to target with their marketing mix, namely (1) travel style, (2) environmentally friendly behaviour, (3) expenditure, (4) ambassador, (5) reachability, and (6) image match. We then used survey data to test whether the proposed indicators discriminated between market segments.

Results indicate that the proposed indicators are a useful tool for destination marketing managers in selecting target market segments either in a generic way or by accounting specifically for the priorities a certain tourism destination set. For example, Segment 4 in the empirical data set used for illustration emerged as the most attractive group to target if a tourism destination is interested in increasing the reachability of potential tourists. Members of Segment 4 express their interest in going on vacations that will give them a new experience. However, when on holidays, this segment does not participate in many activities, preferring to relax and just sightsee. Segment 3 (in the empirical data set used in the present study) is identified as the most attractive segment if a destination is interested in optimizing the segment based on the full range of segment attractiveness indicators. Members of Segment 3 expressed an interest in many benefits of vacationing. On vacation, Segment 3 members participate in many activities, including adventure sports and watching sporting events. Segment 3 desires a destination with great nightlife and also an action-packed vacation.

We can conclude from the present study that the indicators used were able to discriminate between benefit segments, thus enabling tourism marketing managers to use them as a tool for the selection of target segments.

The present study is limited in the following ways: (1) we only used one data set and (2) we only used a benefit segmentation to empirically illustrate the usefulness of the proposed indicators. Also, (3) we only illustrated the case where reachability is prioritised by a tourism destination. Future work should therefore apply the proposed indicators to a range of empirical situations, a range of segmentation bases and investigate whether the proposed indicators can be used for a wide range of alternative priorities set by tourism destinations.

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