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A formative index of segment attractiveness: optimising segment selection for tourism destinations

Katie Cliff
University of Wollongong, katiel@uow.edu.au

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University of Wollongong

**A FORMATIVE INDEX OF SEGMENT ATTRACTIVENESS:
OPTIMISING SEGMENT SELECTION FOR TOURISM
DESTINATIONS**

A thesis submitted in fulfilment
of the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

from

UNIVERSITY OF WOLLONGONG

By

KATIE LAZAREVSKI

B.COM (MKTG), HONS

SCHOOL OF MANAGEMENT & MARKETING

2009

DECLARATION

I, Katie Lazarevski, declare that this thesis submitted in fulfilment of the requirements for the award of Doctor of Philosophy, in the School of Management & Marketing, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged below. The document has not been submitted for qualifications at any other academic institution.

Signed: _____

Date: _____

ABSTRACT**A FORMATIVE INDEX OF SEGMENT ATTRACTIVENESS:
OPTIMISING SEGMENT SELECTION FOR TOURISM
DESTINATIONS****By****Katie Lazarevski**

The tourism industry experienced tremendous growth until 2008. Since then, the global financial crisis has impacted upon travel and tourism flows and the industry must learn to adapt to these changes. As people cut back on travel, competition for customers will intensify. Regional tourism organisations are responsible for destination marketing on behalf of smaller tourism operators in their regions. Therefore, tourism organisations must develop strategies to attract tourists. One of these is to find the most attractive segments to target to attract them to their destinations. Market segmentation is used to segment the tourism market into smaller, more manageable groups. A review of existing literature found that while theoretical guidelines exist, managers still have difficulty understanding the market segmentation process. In addition, implementation of segmentation solutions is problematic.

The aim of this thesis is to empower tourism managers by offering a novel, practical tool to assess market segment attractiveness. In particular, three objectives were achieved. First, characteristics of an attractive tourist segment, according to destination management, were determined. Secondly, a formative index of segment

attractiveness was developed. Lastly, this Segment Attractiveness Index was empirically assessed and externally validated. The Segment Attractiveness Index was developed to overcome the difficulties managers currently face in evaluating segment attractiveness.

The study was conducted using a mixed method approach. Qualitative fieldwork was conducted with managers through focus groups and interviews to gain an understanding of the characteristics of attractive tourists. Quantitative fieldwork was conducted using an online panel to collect data to empirically validate the managerial usefulness of the Segment Attractiveness Index.

Interviews revealed that there is a gap between market segmentation theory and practice in assessing segment attractiveness: managers find it difficult to apply theoretical criteria to assess market segment attractiveness. Findings revealed 24 attributes are used by these managers to characterise attractive tourists. Segment Attractiveness is not a naturally occurring construct, therefore, it needs to be conceptualised and operationalised using a formative measurement approach. In conceptualisation, the 24 characteristics of attractive tourists were reduced to six themes that formed the basis of a formative measure. Survey participants were segmented using cluster analysis, based on a number of *a priori* and *a posteriori* segmentation bases. Clustering resulted in 28 usable segments which were assessed using the Segment Attractiveness Index in four different scenarios. In scenario one where all indicators were valued equally, an older, active market had the highest Segment Attractiveness Index score. In the second, third and fourth scenarios, indicators were allocated different weights. In each scenario, segments constructed using *a priori* segmentation bases had

the highest Segment Attractiveness Index score, indicating that the managerial usefulness of the *a priori* segmentation bases should not be underestimated.

The Segment Attractiveness Index was constructed of six indicators: *spending behaviour, moral obligation to behave in an environmentally friendly manner, travel habits, ambassador, reachability via the Internet* and *image match*. The information for each indicator was captured in the quantitative survey.

Limitations of the study included a small sample size for the managerial interviews in the qualitative phase and the nature of the online panel in relation to bias on the internet-specific questions, therefore, future studies would be recommended to adopt the Segment Attractiveness Index in other countries, on a larger scale and apply the proposed indicators to other empirical situations.

This thesis contributes to market segmentation theory by conceptualising and operationalising the concept of segment attractiveness in a way not previously undertaken. The Segment Attractiveness Index offers tourism managers a practical, theoretically grounded tool to detect the most attractive segments for their destination, and better inform their marketing strategy.

The Five-step Guide to assess segment attractiveness bridges the gap between marketing theory and practice by making the segmentation process more managerially-friendly. The Segment Attractiveness Index can be customised to the destination's unique tourism offering and tourism managers can benefit from using the index by focusing their efforts on the segment that best matches their destination strategy. Ultimately, the Segment Attractiveness Index can aid tourism destination managers in creating and maintaining a competitive advantage.

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