Market segmentation possibilities in the tourism market context of South Africa

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Abstract

Market segmentation has been a topic of discussion amongst academics for some time now. It is generally accepted that it is a concept that is easily understood, but difficult to apply in practice. There are several opinions about the reasons why it is difficult to apply. It starts with the differences in the meaning of the definition of market segmentation. Difficulty may also be found in the way that segmentation should be done. Different academic researchers and authors suggest diverse approaches and criteria that could be used to segment markets. Moreover, the technical difficulty of some of these approaches may put it beyond the reach for many marketers, purely it may require the insight and expertise from specialist in their field. This article looks at market segmentation approaches and some of the factors that make it difficult for marketers to apply segmentation theory. It then discusses segmentation in a broader tourism market context before focusing on the segmentation studies for the South African market. It concludes that market segmentation is in its infancy in the South African market and suggests ways forward for meaningful research.

Keywords: Market segmentation, tourism market, South Africa
Introduction

Market segmentation is commonly used as an accepted tool of marketing strategy development. Since it was first mentioned by Smith in 1956 (Smith 1956) as an alternative to the known marketing strategy practices of the time, it has become a common and accepted instrument to deal with a mass market. While Smith labeled market segmentation as a strategy, Kotler (1989) was of the opinion that it is an analytical activity before the development of a marketing strategy. Although market segmentation does not have a uniquely accepted definition (Casabayó, Agell & Sánchez-Hernández 2015) it is generally accepted as grouping a mass market into smaller and more manageable segments. Market segmentation is regarded as a key element of a marketing strategy (Palmer, Millier 2004) and as a foundation for superior financial performance (Cravens, Piercy 2013). Market segmentation is part of a marketing management process that ties in with the notion of segmenting the market, selecting segments to target and positioning the organisation in the markets that are targeted (Cravens, Piercy 2013). It is often also referred to as marketing’s STP (Segmentation, Targeting and Positioning) process. It answers one of the first questions that all marketers must ask – Which customers are we going to target and serve? Market segmentation deals, inter alia, with the optimal utilization of organizational resources as available resources (time, money and manpower) could be used to focus on selected market segments only. When Smith (1956) suggested market segmentation as an alternative to a one size fits all marketing approach, it was based on the accepted practice in industrial (business-to-business) markets to produce to order. In business-to-business (B2B) markets, the economic theory of imperfect competition resulted in marketers intuitively applying some principles of market segmentation as a way of doing business. In his example, the different types and size orders from clients to which a company had to adjust represented different market segments. His argument that customer groups should have similar profiles and respond the same to a marketing mix applies (Smith 1956).

For this article, the definition of market segmentation will be used from authors that are widely recognized for their work. Armstrong and Kotler (2015) mentioned that market segmentation is the division of a market into smaller segments of buyers who has distinctly similar needs, characteristics or behaviors that may require separate marketing strategies or marketing mix combinations.

It is important to note that a market segment is not a physical entity that exist next to other segments, but it is rather a definition of a need in a large market that is easier to focus on – thus making it easier for marketers to serve them as best as possible (Kotler 1989). As an example, a person can have different needs for the same tourism service. In one instance, a person may stay over at a resort while on business. In the next instance, the person may go to the same resort with colleagues as part of a workshop or team activity. In yet another instance, the same person may go to the same place with his family for a holiday. In each case, it is the same person and the same resort, but it caters for three distinctly different needs. According to McDonald and Dunbar (1998), this would represent three different market segments, as segmentation, in their understanding, is based on market needs.

Problems with market segmentation

Although market segmentation is a simple enough concept to understand, it proves quite difficult to apply. The first level of difficulty can be seen in the dissimilar ways that different academic researchers’ define the concept. For instance Kotler (1983) defines market segmentation as a subdivision of a market into distinct subsets of customers, where any subset can conceivably be selected as a target market to be reached with a distinct marketing mix.
The definition suggests that market segmentation is an analytical instrument that paves the way for the selection of segments to target.

Schiffmann and Kanuk (2000) define market segmentation as a process of dividing a potential market into distinct subsets of consumers and selecting one or more segments as a market target to be reached with a distinct marketing mix.

Their definition suggests that market segmentation defines segments with the purpose to allocate resources to serve them – which is more than analysis, because the initial analysis is used to decide on resource allocation to develop a distinct marketing mix.

These subtle differences could have an influence on the way that marketers understand and apply the concept. While the academic debate is still ongoing, it should be kept in mind that marketing practitioners use the concept (which is distilled from the definition as a starting point) to develop their markets, their offerings to the markets and ultimately their business success.

A second dimension of the complexity to this seemingly straightforward concept, is the differences between segmentation a business-to-consumer (B-2-C) market and a business-to-business (B-2-B) market. Within B-2-C segmentation, for instance, the well-known marketing authors Armstrong and Kotler (2011) suggests using variables such as geographic distribution, demographic differences, psychographic attributes and behavior to divide a market into segments. Staying with B-2-C segmentation, Dibb and Simkin (2009) also suggested similar variables, but added personality, lifestyle, motives, benefits sought, attitude towards a product/service, purchase occasion and patterns of consumption. Both approaches relies on substantial amounts of fairly solid data.

Moreover, some variables (psychographic attributes and attitude towards a product/service) may require the insight from consumer psychologists or other specialists that have the authority to comment about human attitude as a driver for behavior. This requirement may put the practical use of these approaches beyond the reach of many mainstream marketing practitioners. Hoyer and Macinnis’ (2010) explanation of personality provides support for this opinion. Personality, according to their Values and Lifestyle Survey (VALS) model, should be combined with values and lifestyles. This model uses two factors to analyze the behavior of United States consumers. The first factor, known as resources, is combined with a second factor – motivation – to identify consumers who could fit into any one of eight segments. The use of such a model requires specialist input, something that an ordinary marketer may not be qualified to do.

Looking at B-2-B market segmentation, there are also differences there between academic authors. While Dibb and Simkin (2008) suggests business demographics, operating variables, purchasing approach, situational factors and personal characteristics of the buyer as factors to consider, Cravens and Piercy (2013) use market complexity and market turbulence (market characteristics) to decide on market segments. Hoffman, Batesman, Wood and Kenyan (2009) agreed with McDonald and Dunbar (2004) on one approach only, and that is to identify the different needs in a broad market and treating these differences as unique market segments. Their argument is based on the usefulness of any one of the segmentation variables ability to predict whether customers in the segment will buy a product/service. There are thus not only differences in approaches within broad markets, there are also differences between them. Together these challenges could make it quite confusing for marketing practitioners in the tourism market sector to apply the academic theories of these concepts in their endeavors to develop and grow their income. Tourism marketers have to make sense of both B-2-C and B-2-B markets, as they tend to cater for both. Kotler
(1989) did not suggest in vain that, although market segmentation is a critical marketing skill, many marketers are confused on how to integrate market segment planning and implementation. Since Kotler (1983) suggested quite early on that market segmentation will only be successful if a segment can be measured, if it is substantial and if it is accessible, it means that marketers must be able to access and use information that can supply answers to their (and their stakeholders’) questions.

Further to this, market segmentation methods are also classified as either a priori or post-hoc (Green 1977) and into predictive and prescriptive methods (Wedel and Kamakura) in Liu, Kiang and Brusco (2012). In a-priori market segmentation, customer categories such as age and income are decided on intuition rather than data analysis. Predictive methods analyze relationships between independent variables and one or more dependent variables. Predictive methods allow marketers and other decision makers to predict the potential profitability of a marketing mix based on something like market demographics or past behaviors. Descriptive methods do not distinguish between dependent and independent variables and are simply used to describe customer segments in some detail with variables such as age, income, gender and so on.

Given this plethora of segmentation options, it makes it fairly difficult for any marketer to decide what to use and which method will work best. It suggests that marketers need to understand the strengths and weaknesses of each suggested method in order to make an informed decision about the method that will be the most productive for their market segmentation needs. It goes without saying that a marketer should also acknowledge his or her own strong points and ability to use the best approach. Unfortunately, as McDonald and Dunbar (2004) observed, different segmentation bases have different levels of effectiveness.
Segmentation in a tourism context

The growth and promises of growth in the tourism industry should have exited many tourism marketers by now. The jump from 10.6 million foreign holiday visitors in 2010 to 13.2 million in 2013 (Statistics South Africa, 2014) is quite promising. It would therefore make sense to focus on a smaller part of the market that can be concentrated on instead of attempting to get as much as possible from the whole potential market (see Figure 1). As Masiero and Nicolau (2012) reiterated, tourists are looking for activities that suit their varying needs the best – and thus different groups form. The question that should be asked is which market segmentation approach works best for marketers in the tourism industry. Tkaczynski, Rundle-Thiele and Beaumont (2009) found that most tourism stakeholders used between two and four segmentation variables to segment their markets. Tourism stakeholders included tour operators, accommodation suppliers and regional tourism marketers. Their research focused on one tourism region in Australia.

The focus of their segmentation efforts from respondents was on domestic tourists, not international markets. Although international tourism only accounted for 16% of the market (in 2007) it was still more than 195 000 visitors (Tkaczynski, Rundle-Thiele & Beaumont 2009), which should signal significance and potential growth. Significant because it is a fair number of individuals and potential because it is only 16% of the market and therefore provide scope for growth. The most used segmentation variables were age (a demographic variable) and activities sought (a behavior variable). After that followed location (a geographic variable), the purpose of the trip (psychographic) and income (another demographic variable). Other variables were regarded as almost equal in importance from the respondents’ point of view. No segmentation was done using education (a demographic variable). It was interesting to note from their research (Tkaczynski, Rundle-Thiele & Beaumont 2009), that there were few commonalities in the way that different tourism stakeholders (remember that it was one specific tourist area in Australia that was used as a case study for the research) segmented the market. Of particular interest was the mismatch between the market segmentation (and subsequent targeting in its marketing messages) which was done by the area’s regional marketing organization and other stakeholders. As an example, the backpacker segment featured strongly in tourism stakeholders’ focus, but it was not part of a group identified by the regional marketing organization. It could be that the regional marketing organization used historical segment classifications for their analysis and that the backpacker service suppliers started targeting this segment after it became apparent that there is such a segment (from demand). The articles, however, is not clear on the reasons for the mismatch.

An article by Dolnicar (2004) summarized market segmentation approaches from several researchers in the tourism industry. The research was based on articles about tourism market segmentation that were published in the Journal of Travel Research, a major journal for research publications in the tourism industry. Articles covered the 15 years before 2004, when Dolnicar’s article was published. Following on to Green (1977), she mentions that there are basically two segmentation approaches. One is a priori, meaning common sense (based on prior knowledge) while the other is a posteriori or post-hoc segmentation, which is data driven segmentation. Combinations of these two basic approaches can be used for market segmentation, but it originates from these two approaches. Her review of the articles indicated a more than half of the articles were based on a priori studies, while only one article (5% of all articles scrutinized) was based on the use of data only. The balance of articles were based on a combination of a priori and data driven segmentation approaches. From her analysis she suggests that a combination of the two approaches is more likely to
reveal information that can be really useful for tourism marketers. Imagine (her analysis revealed) that you, as a marketer who wish to use the advantages of market segmentation, could get details such as it is portrayed in the examples below:

- **Segment 1** are older travelers (average age 49 years). They stay on average one day longer at their destination than other tourists. Because the segment has prior experience with the destination, they tend to spend the same as the average spent by the group of tourists that were used for the data analysis. Their activities include hiking and going for walks (as part of their vacation) and they tend to spend more time to visit spas.

- **Segment 2** has younger travelers (average age 36 years). They tend to stay for shorter periods, but spend on average 20% more per day. They also tend to go on holiday in groups of friends who travel together. They participate more in sports activities and tend to frequent evening entertainment.

Any marketer should at this stage start to make up his/her mind as to the media that could be used to reach various selected market segments with advertising, the type of message that will be used to attract the attention of these 2 diverse groups and which tourism services to develop and offer should appeal to them. Link that to Masiero and Nicolau’s (2012) insight that tourists make activity choices based on the price that each choice requires and that knowledge of price sensitiveness of groups could result in tourism marketers identifying the best segments according to its price sensitivities, and the advantage of proper segmentation becomes obvious.

The conclusion that is drawn is that it makes more sense to use common sense (a priori) approach and combine it with data analysis to be able to gain a deeper understanding of segments (Dolnicar 2004). In stark contrast to Dolnicar, Liu, Kiang and Brusco (2012) emphasized strictly data driven post-hoc approaches in their research. They argue that marketers must, inter alia, understand the similarity method and the clustering process underlying market segmentation. The clustering procedure is fairly complex and has been acknowledged as such by researchers such as Kleinberg in (Liu, Kiang & Brusco 2012). To take care of clustering complexities, a multi-objective clustering algorithm that uses multiple criteria to measure the quality of the cluster interrelation was developed. Intuitively it seems that such methods should deliver fairly solid market segmentation clusters, because it withstands rigorous of data analysis.

However, as reitered by so many researchers, market segmentation is easy to define, but difficult to apply. This difficulty could well frustrate marketers to a degree where they start to agree with Reibstein, Day and Wind’s (2009) sentiment that marketing academics offer few solutions to address the pressing challenges that faces marketing managers. They urged marketing academics to develop concepts and methods that provide valuable insights into critical challenges and not only focus on whether the suggested methods are the most advanced in terms of research methodology.

### Research on market segmentation in the tourism industry in South Africa

Looking at recent research into market segmentation in South Africa, three studies will be discussed. The first is by Rogerson and Kotze (2011) where they looked at segmentation of the hotel industry in light of the dramatic political changes which lead to post-apartheid South Africa and the many opportunities and challenges that it brought the tourism industry. They cited Cunhill (2006) and Berger and Chirotaro (2007) that concluded that market segmentation has played a key role in the hotel industry’s marketing strategy internationally. It was the prominent driver for hotels'
international expansion, brand growth and increased profits.

Rogerson and Kotze (2011) acknowledge the changes in the South African hotel industry from 1990 to 2010. Most significant were the number of rooms per hotel and the quality of hotels – signaling a response to a market that was, for many years, isolated from mainstream international visitors. The average number of rooms per hotel became more and the star ratings of hotels also migrated towards five star ratings. The total number of hotel rooms in the hotel industry has also risen from almost 42 000 in 1990 to more than 73 000 in 2010 (Rogerson 2013). The concentration of hotel ownership and geographical distribution were other changes. Ownership shifted from many individual owners to a few corporate owners and hotels started to concentrate in the larger metropolitan areas of Johannesburg, Cape Town, Durban and other metros. Their discussion then focuses on the different hotel accommodation types with particular emphasis on boutique style hotels, all-suite hotels and limited service hotels. The classification suggests market behavior and/or psychographic segmentation variables as motivation for the establishment of these product/service groups. As their discussion did not attempt to link specific tourism profiles, needs or behavior (segments) to the different hotels, their research discussion could be seen as a product classification rather than market segmentation. Research results shared later by Rogerson (2013) about the budget hotel industry is obtained from the supply side. An analysis of the industry as it developed after the end of the apartheid era is supported with a detailed analysis of changes the geographic distribution of different star rated hotels in the provinces and some metropolitan areas. The analysis is supported by interviews with management of the budget hotel industry. Critical knowledge of market segments and what the market segments look like is not provided.

The research from Lötter, Geldenhuys and Potgieter (2012) provides clues to sub-segments within a market segment for a niche tourism service, namely adventure tourism. According to Andrews in (Lötter, Geldenhuys & Potgieter 2012) adventure tourism refers to travelers who visit remote, exotic and sometimes also dangerous areas in order to experience the unexpected. It could include physical activities, cultural exchanges and/or an engagement with nature. Their research focused on adventure tourists from a specific area (Pretoria). The topic of adventure tourism is scarcely covered in literature (Lötter, Geldenhuys & Potgieter 2012), which makes it more challenging for South African tourist operators who cater for this specialist market need to identify marketing communication, product/service mix and other marketing touch points with customers in this segment.

They acknowledge other researchers’ insights into segment characteristics for the adventure tourism market. For example Swarbrooke, Beard, Leckie and Pmfret’s and Loverseed’s research indicated self-actualization and personal fulfillment (psychographic variables) as segmentation discriminators, but conceded that it is still difficult to link specific behavior to these descriptors. Lötter, Geldenhuys and Potgieter’s (2012) research focused solely on demographic variables and assigning different demographics to respondents. The focus is in line with the findings from Tkaczynski, Rundle-Thiele and Beaumont’s (2009) literature review summary which shows that most researchers focused on demographic variables in their analysis of market segments. Results from the responses of just over 230 respondents from Lotter, Geldenhuys and Potgieter’s (2012) research indicated the following:

- The male/female breakdown was 50/50
- 32% of respondents were 30 years old and younger (they linked this to generation Y)
57% of respondents were between 31 and 52 (they linked this to generation X)  
Almost 10% were between 53 and 69 (Baby Boomers)  
The balance was 70 years and older  
Almost 52% was Afrikaans speaking; just more than 24% were speaking other languages and the balance was English speaking  
Just over 67% had a matric (grade 12) or less qualification  
Almost 60% of households had more than 1 income earner  
Most respondents earned between R10 000 and R20 000 (gross) per month  
Almost 25% were married with children

Several other demographic variable details, such as life cycle stage characteristic, were ascribed to the respondents. In the end they conclude that adventure tourism companies cannot appeal to all groups (Lötter, Geldenhuys & Potgieter 2012).

Their research classified respondents under several demographic variables, without profiling specific segments that could be clearly identified and targeted. For instance, their link to generations X, Y and the Baby Boomers are not explored any further, it is merely an association with age groups. As they mention, it is difficult to target specific market segments as individuals’ motives and behaviors differ. The comment relate to that of Dolnicer (2004) when she suggested that segmentation variables should preferably a combination of a priori (prior knowledge or intuition) and data analysis to provide rich and valuable data.

Their research provided breakdowns of demographic attributes - which could well have been decided on a priori - without linking that to behavior, specific needs (other than the broad descriptor of adventure tourists) or on exogenous response behavior (Liu, Kiang & Brusco 2012).

Conclusions

Market segmentation, as a well-known marketing instrument, is easier understood than implemented. The difficulty in applying segmentation tools could stem from differences in interpreting the concept from different academic researchers’ definitions and how these definitions could be interpreted by marketing managers. Secondly, there are different variables and methodologies that can be used to base segmentation on. Another factor that could contribute to the difficulty that ordinary marketers have in applying segmentation theory, is that it often requires the input and expertise of specialists, such as psychologists or statisticians.

There are, however, methods, data and other resources which may make it easier for marketers to develop market segment profiles. Once done, it would be easier to select the segments that could be focused on. Research on market segmentation in the tourism markets has shown that it could be done when a priori approach is combined with data analysis to gain deeper insight into market segment profiles and behavior.

There is fairly little published research available on South African tourism market segments. This suggests that there is some research still required to provide South African tourism marketers with sufficient tools and insight to get the benefit of market segmentation.

Suggestions for future research

Research on market segmentation in the South African tourism industry is scant (Rogerson, Kotze 2011) and (Lötter, Geldenhuys & Potgieter 2012) and in its infant shoes. There are several gaps in the understanding of the market, how it splits up into segments, what the segments’ profiles are and how it translates into behavior (Dibb and Simkin 2008). Secondary information for tourism to South Africa seems to be only available on a macro level. For instance, the breakdown for number of tourists to the
country is available from 2005 to 2015 (Statistics South Africa. 2014). It informs about tourist arrivals in broad categories such as holiday, business, transit, border traffic, work, contract work and study arrivals only. Further base information that would be required should include other categories of tourist needs; these could be categories such as adventure tourism, eco-tourism, religious tourism, as probable examples. It should ideally break down tourist arrivals from countries and regions. Currently the document (Statistics South Africa. 2014) does not have any more details that can be used to begin to develop possible market segments. It should be kept in mind that arrivals from any one continent or region can only be regarded as a classification, and not as segmentation (McDonald, Dunbar 2004). The first suggestion for research would be to correlate information from tourism statistics to South Africa with possible segments, such as visitors to cultural, religious, and natural or any other tourist need.

A next refinement would be to dig deeper into the data that is available for tourist to South Africa to try and make sense of the probable market segments. This could be attempted using a priori classifications and refine it with data analysis, as suggested by Dolnicar (2004) and Liu, Kiang & Brusco (2012).

Lastly, the data created should be tested in the market to either accept or reject a segmentation hypothesis that was created with a priori segmentation and further refined with data analysis.

References


