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## Väitöksiä - Dissertations

# Developing Market Segmentation in Tourism: Insights from a Finnish Rural Tourism Study

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This dissertation explores options for improving the success of market segmentation research by testing different market segmentation methods and effects of information and communication technologies (ICTs) in tourism research. The purpose is to increase the success of market segmentation research in the field of travel and tourism. The context is rural tourism in Finland, which is regarded as an important source of revenue for many rural areas and a field where information on data-driven market segmentation is practically non-existent. This dissertation consists of four papers, all discussing the topic of market segmentation in tourism. The theoretical basis lies within the discipline of marketing and relies on the assumption that markets are heterogeneous, and that through market research it is possible for businesses to diversify their offerings to suit the needs and wants of specific segments in a way that creates value both for the customer as well as the company. Market segmentation is one of the cornerstones of marketing the management paradigm and its usefulness has been demonstrated repeatedly both in the academic literature and by practitioners. This study adapts a postpositivistic research paradigm to study the possibilities for improving market segmentation theory and methodology. By means of a literature review and two surveys of Finnish rural tourism websites data is collected on the impact of ICTs on market segmentation in tourism as well as the needs and wants of Finnish rural tourists. This study provides evidence that the academic market segmentation literature does indeed identify segments that also exist in practice, thus bridging the gap between academic and practice, and contributes to the way market segmentation is conducted in travel and tourism.

*Keywords: market segmentation, rural tourism, eTourism, ICT, travel motivations*

Market segmentation basically means that, among customers, or in a population, certain factors can be used to group people together, so that people belonging to one segment are similar to each other while the groups differ from each other as much as possible. Segmentation may be defined as the process of dividing a total market, such as all visitors, or a market sector, such as holiday travel, into subgroups or segments for purposes of marketing management. The aim of segmentation is to facilitate more cost-effective marketing through the formulation, promotion, and delivery of purpose-designed products that satisfy the identified needs of target groups. In other words, segmentation is justified on the grounds of achieving greater efficiency in the supply of products to meet identified demand and of achieving increased cost effectiveness in the marketing process. The primary bases for segmentation include demography, geography, behavior, lifestyle, personality, and benefits sought (Middleton, 2002). Market segmentation is fundamentally something for managers. Researchers have focused on finding segmentation solutions that managers of tourism companies can use in different contexts. As is evident from this study, both managers and researchers have almost unlimited options when deciding on the segmentation base, choosing segmentation variables, choosing validation variables, choosing measurements for different items and statistical methods for analyzing the data as well as for measuring segmentation success.

Dhalla and Mahatoo (1976) identified are two schools of thought in market segmentation research. The behaviorally oriented school pursues insights into the basic processes of consumer behavior and marketing needs come only second, whereas the decision-oriented school focuses on how the differences among consumers can be used to increase the productivity of the firm's marketing programs. This study positions itself in the decision-oriented school and focuses on how identifiable differences and similarities among consumers can be used by tourism companies and implemented in their marketing programs.

According to Dolnicar (2002), two ways to classify individuals for segmentation purposes are a priori or commonsense segmentation, and a posteriori, data-driven or post hoc segmentation. In commonsense segmentation the grouping criteria are known in advance: possibly gender, age, and annual income. In data-driven segmentation the composition of segments is not known in advance and the starting point is typically an empirical data set with quantitative techniques used to analyze it in order to derive a grouping. It is also possible to use a combination of the two or use the same method twice to further divide market segments into smaller segments.

Sara Dolnicar (2002) questioned whether market segmentation in tourism has been done properly in the past, and if there is still room for improvement. Market segmentation methodology especially still includes several unresolved issues. There have also been rapid developments in information and communication technologies. The literature is not clear on the effects of ICTs on market segmentation, and on what online market segmentation actually means. IT-enabled marketing innovations have

caused current marketing paradigms to lose much of their explanatory and predictive powers (Holland & Naude, 2004).

The context in this study is rural tourism. Rural tourism has been regarded by academics as an important research context (Park & Yoon, 2009). Rural areas in Finland have excellent conditions for producing remarkable tourism products, but there are also many challenges, and, in marketing such products in the Internet, information on the online usage behavior of rural tourists, and especially on rural tourism segments, is essential.

This dissertation aims to tackle several research gaps identified in the market segmentation literature. These include, among others, the need for research on the impact of the Internet on the application and role of segmentation (Dibb & Simkin, 2009), the need for motivation based segmentation studies in rural tourism (Park & Yoon, 2009), the validation of segmentation results (Dolnicar, 2004), determining how segments develop over time (Dolnicar, 2004), which segmentation bases to use (Moscardo et al., 2001) and to comprehend the gap between market segmentation research and practice (Dibb & Simkin, 2009). This study aims to further develop market segmentation research theory and practice in the field of tourism studies. The main research question is: How to increase the success of market segmentation in tourism? This research question is answered through five subquestions: How have ICTs affected market segmentation in the travel and tourism marketing literature? What kind of rural tourist segments can be found by combining push and pull motivations as a segmentation base? How to measure segment stability over time? How stable are travel motivation segments over time? and How do segments based on travel motivations differ from segments based on travel activities? These questions are answered in the four papers included in this dissertation.

Three different data collection methods were used: a literature review of segmentation articles published during the 21st century and two surveys conducted during summer 2009 and from spring to fall 2011. In the literature review three prestigious tourism marketing and research journals were examined: the *Journal of Travel Research* (JTR), the *Journal of Travel & Tourism Marketing* (JTTM) and *Tourism Management* (TM). The goal was to find out how market segmentation researchers in tourism have incorporated ICTs and the Internet into their studies. Of the 188 segmentation studies published since the year 2000 altogether 58 papers were further analyzed as they had been affected by ICTs. The empirical data for this study was collected using two different surveys. The first survey, conducted during summer 2009, was placed on the website [Lomarengas.fi](http://Lomarengas.fi). The second survey, conducted during summer and fall 2011, was placed on [lomarengas.fi](http://lomarengas.fi), [savonlinna.travel](http://savonlinna.travel) and [tahko.com](http://tahko.com). The surveys were quite long and included many questions aimed to measure the travel motivations, destination attributes, travel activities, online behavior and socio-demographics of Finnish rural tourists.

Several different methods were used in the four papers included in this study. In the first paper content analysis was used to classify different effects of ICT on market segmentation in tourism. The second, third, and fourth papers focused on the use of cluster analysis in market segmentation research and online market segmentation. A large number of different cluster analyses were conducted on the data over and over

again and segments were validated using analysis of variance and chi-square tests, as well as discriminant analysis.

The importance of market segmentation as a part of marketing strategy of companies justifies this study. Companies really need know who their customers are, what kind of value such customers want and how to reach them with the right messages. Segmentation is also a very popular topic in the marketing literature, especially in tourism marketing. Effective tourism marketing and management require an understanding of the existing market segments.

The basic premise of this study is that there is still a long way to go in market segmentation despite extensive research on the topic during the past 50 years. There are two theories behind this dissertation: firstly that markets are heterogeneous and secondly that companies can optimize their Marketing Mix on the basis of these differences. The purpose of this study was to develop how market segmentation is conducted in the field of tourism research and to bridge the gap between scholarly research and practice. The contribution of this study lies in the answer to the main research question of How to increase the success of market segmentation in tourism? Market segmentation is successful when it achieves the goals set for it. The literature gives several different criteria for successful market segmentation. This study contributes to increasing the success of market segmentation in several ways. It examines aspects of market segmentation design, qualification, and attractiveness. According to the results of this dissertation success of market segmentation can be increased in the following ways:

1. In order to target different segments, more information on Internet use behavior is needed and also tracking segments using ICT tools.
2. When clustering respondents using K-means cluster analysis on Likert-scale data, researchers need to study the effect of response style effects more closely.
3. Binary answer formats provide more accurate segmentation solutions than do Likert-scale answer formats and should be preferred in market segmentation.
4. Researchers need to be more aware of the differences between different segmentation bases and their suitability for different research scenarios.

This study addresses several topics and issues recognized in the literature to be connected to market segmentation and contribute to the field of study by proposing how to improve market segmentation methods and how to conduct market segmentation research. This dissertation is the first to examine the use of ICTs and market segmentation on this scale, and also the first to examine market segmentation methods to this extent. In order to create and deliver value for customers, companies need accurate, reliable, and stable information on their customer segments and on how to produce and promote value for these different segments. The recent developments in marketing thinking have not diminished the usability of market segmentation; all people indeed are different, but through correctly conducted segmentation analysis it is possible for companies to identify similarities between very different people and to use these similarities to understand the consumer better and gain competitive advantage.

Knowledge on market segmentation is critical for the success of companies, in tourism as well as in other industries. By improving their market segmentation methods both companies and academics can achieve an even better understanding of markets and the segments within those markets. In spite of the ground covered by this dissertation, much remains to be done in the field of market segmentation. More attention should be paid to online marketing and the significance of ICTs in market segmentation. If the segmentation solution chosen really applies to customer behavior and if the results can be trusted will always be an open question. More research is needed on the topic, and especially on the effectiveness of academic market segmentation in practice. New online tools enable easy comparison between the different segmentation solutions implemented on a tourism website. With these tools the benefit of recommendation systems or a new website design based on segmentation results can be calculated. This kind of research is also needed to bridge the gap between segmentation theory and practice.

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