
UNIT 2 MARKET SEGMENTATION

Structure

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2.0 OBJECTIVES

After reading this Unit, you will be able to:

- know about the general market segmentation theory,
- appreciate the need for market segmentation in tourism,
- learn about the various variables used for segmenting the tourism markets.

2.1 INTRODUCTION

The marketing objectives of any organisation (Dept. of Tourism, Tour Operator, Travel Agency, Hotel etc.) in tourism include:

- understanding the tourists' needs, wants, tastes and attitudes,
- achieving sustainable growth in tourist arrivals,
- increasing tourist traffic during lean seasons,
- attempting to increase the length of stay of tourists,
- dispersing tourists to new destinations, and
- increasing their own profits, image and popularity etc.

For achieving such objectives you ought to know the market(s) which your organisation wants to cater. In the absence of this your focussing can be wrong. This in turn will effect your entire marketing strategy, say from product design to distribution and yields. The term, market can be used in various respects. For example it can be used to refer to:

- tourist markets i.e. the tourist generating countries or regions,
- a network of intermediaries who buy and sell your product, or
- the nature of demand for your service product, say, market for the hotel or the airline.

The market for a product further, relates to the **functions served by the product and the other competitive products**. At the same time, we know that a market consists of buyers or prospective buyers. Every organisation likes to get as many buyers as possible. However, it is **not feasible to reach all prospective buyers because of their wide dispersion and varied buying requirements**. In fact the buyers or customers differ from each other in many respects like different:

- needs and wants,
- purchasing power,

- buying attitudes,
- holiday tastes, and
- motives for travel, etc.

They may be, and in tourism we know they are, located in different regions. Hence, the organisation, **instead of competing everywhere, needs to identify the most attractive customers that it can serve most effectively.** In other words, the organisation needs to **focus its efforts in marketing to a well defined group of potential customers.** This is where an understanding of Market Segmentation becomes necessary.

This Unit deals with the various aspects related to Market Segmentation. It starts with a discussion on the general theoretical aspects of Market Segmentation. Further, it takes into account the various approaches of market segmentation adopted by the producers of products and services in the area of tourism.

2.2 SEGMENTATION THEORY

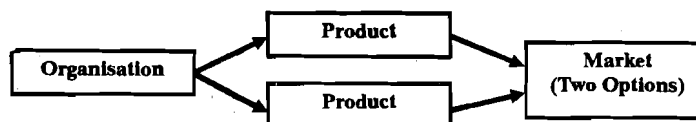
According to Victor T C Middleton "Market segmentation is the process whereby producers organise their knowledge of customer groups and select for particular attention, those whose needs and wants they are best able to supply with their products".

Hence, Market segmentation involves a division of the prospective market into identifiable groups. In simple words it can be defined as the division of a market into groups of segments having similar wants. This theory is opposed to a diluting of efforts by appealing to an entire market. It is based on a realisation of the fact that a product can be sold more effectively if efforts are concentrated towards those groups which are most potential. Philip Kotler is of the view that different "competitors will be in the best position to go after particular segments of the market" and each "organisation, instead of trying to reach every one, should identify the most attractive parts of the market that it could effectively serve". At the same time he mentions that this is not always the practise. The organisations, in their thinking about operating in a market have generally passed through the following three stages :

- 1) **Mass Marketing :** This is a marketing style where the organisation makes efforts to attract every eligible buyer to use its product which has been mass-produced and will be mass distributed. Here no attention is paid to consumer preferences.

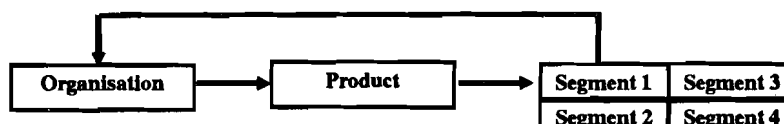


- 2) **Product Differentiated Marketing :** In this marketing style the organisation produces two or more products for the entire market. These products might have different characteristics but they are not designed for any different group(s). Rather they only provide alternatives to every buyer in the market.



- 3) **Target Marketing :** Here, the organisation:

- differentiates amongst varied market segments,
- focusses on one or more of these segments (targets), and
- develops the product to meet the needs of the target market.



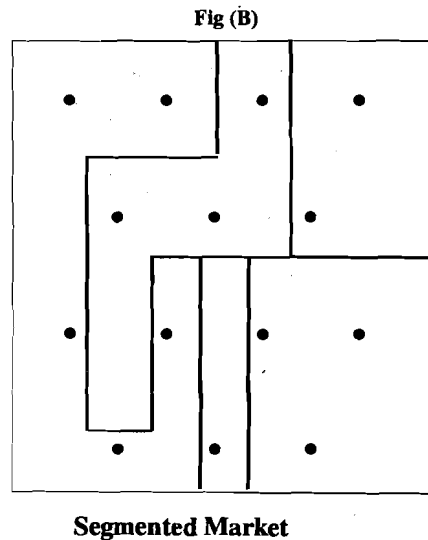
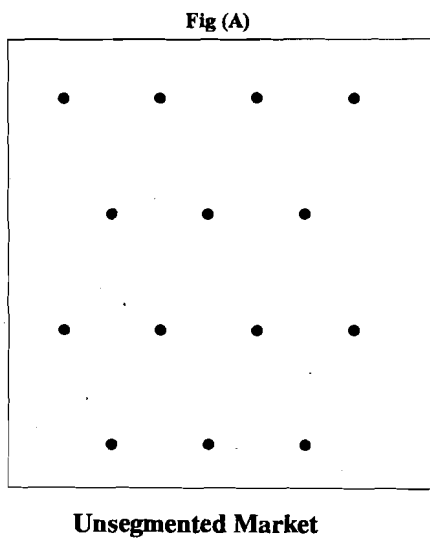
In tourism, the organisations practise each style of marketing though the emphasis on target marketing is gaining ground. Let us take the example of Indian Railways vis-a-viz the tourist market.

- Under stage-1, trains are available for everyone to travel .
- Under stage-2, the railways offer Deluxe, Rajdhani or Shatabdi trains.
- Under stage-3, trains like **Palace on the Wheels** or the **Royal Orient** are there which have a set target of customers from among the up budget tourist market.

This shift of emphasis is because of the benefits in market segmentation:

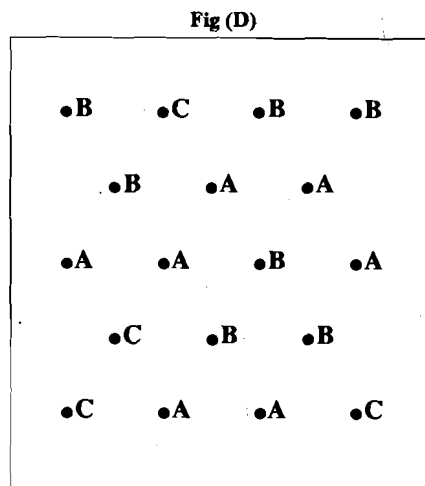
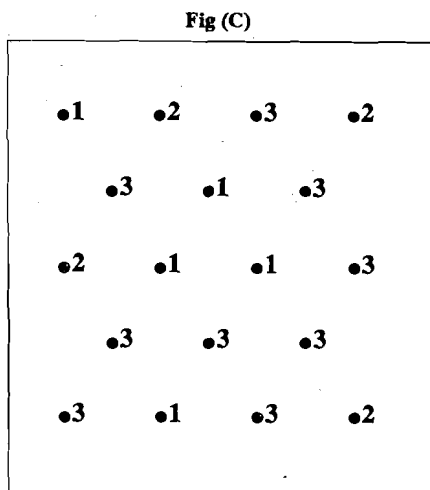
- By selecting the market niches i.e. suitable markets, an organisation can exploit the market much better,
- An organisation can focus its strategies more appropriately on target groups, or
- Customer loyalties can be instituted through segmented marketing because the product matches the needs of that segment.

However, it must be noted that the same customer can be there under different descriptions for various segments as illustrated in the following figures.



Compare Figures c and D. You will find that out of the 9 tourists with sun and sand motives (3), 3 belong to higher income group (A), 4 to middle income group (B) and 2 to lower income group. Can you give similar figures for Adventure and Culture?

(Answer on next page)



Market Segmentation by tourists' motives:

1. Adventure
2. Cultural
3. Sun and Sand

Market Segmentation by tourists' income groups:

- A. Higher income
- B. Middle income
- C. Lower Income

2.3 MARKET SEGMENTATION : APPROACHES

The purpose of market segmentation in tourism marketing is to:

- segment the markets generating tourists, and
- identify the prospective tourists according to lifestyles, socio-economic status, attitudes about travel, etc.

This is done to best qualify these tourists for high prospect customer status. This high potential prospect is defined in terms of how closely his/her vacation preferences and lifestyles match up to what the destination has to offer. In other words, **the purpose is to go for cost-effective marketing. This can be achieved by designing, promoting and delivering the tourism products or services in such ways that the identical needs of the target groups are satisfied.**

A crucial aspect here is what is grouped in forming market segments. Consumers are not mutually exclusive categories and what is grouped together is the customers' probability of purchasing different types of product offers. Hence, **it is necessary to understand what is wanted and who is going to buy it.** A marketing person has to gain knowledge about this and he or she can approach this problem by asking certain questions like:

What:

- factors influence the tourist demand?
- services do the tourists expect?
- is the basis for tourists comparing your product with other products?
- benefits do the tourists seek?
- risks do the tourists perceive?
- are the tastes of the tourist?

How :

- do tourists buy?
- much are the tourists willing to spend?
- many vacations do the tourists take in a year?
- does promotion and advertising effect the tourists' demand?
- does the product fit into the life styles of tourists?

Where :

- is the decision made by tourists to buy?
- do the tourists seek information about the product?
- do the tourists buy the product?

When:

- do the tourists take a vacation?
- do the tourists make a decision to buy the product?
- is the product repurchased?

Why :

- do the tourists buy your product?
- do the tourists choose one destination over the other?
- do the tourists go to a particular destination?
- do the tourists prefer one type of service and not the other?
- do the tourists buy your competitors' products?

Answer

Adventure:	
Total	5
Higher income	3
Middle income	2
Lower income	0
Cultural	
Total	4
Higher income	1
Middle income	2
Lower income	2

Who :

- buys your product?
- buys your competitor's products?
- are likely to buy your product?
- may not be interested in your product?

You must remember here that this list of questions is only suggestive and the nature of questions will depend on the nature of your product and certain specific situations. Besides, you will need the back up data and information for finding answers to these questions which may not always be possible. But you should not be discouraged by the limitations.

Depending upon a study's purpose, various approaches are employed in the tourism industry to identify market segments. Segments can be defined either by **descriptive or casual factors**. Descriptive factors simply describe the characteristics of the person found in a segment. The "why" of a person's action, however, is better obtained through additional use of casual factor information which identifies the motivation behind a decision.

A practical and Actionable Segmentation requires profiling of both:

- Past visitors, and
- Prospective visitors.

This is done to ensure proper matches and to determine the actual size of each high potential segment, in terms of:

- Geographics,
- Demographics,
- Psychographics, and
- Travel Habits.

In other words, we can say that the:

$$\text{Target for Marketing} = \text{Characteristics} + \text{Demographic profile} \\ \text{(of Consumers, Products and Services)}$$

The studies of marketing experts like Kotler and Chisnall show that in order to make any segment actionable for marketing, each segment must be:

- 1) **Discrete**, i.e. the separate identity of the sub-group must be established by using any criteria like income, purpose, interest, etc.
- 2) **Measurable**, i.e. the characteristics that distinguish the sub-groups should be measurable through the available data.
- 3) **Viable**, i.e. the projected earnings to be achieved should be more than the costs of designing the market mix.
- 4) **Appropriate**, i.e. showing the inseparability of the tourism product which should contribute to the overall image in the market.

Check Your Progress - 1

- 1) What do you understand by market segmentation?

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2) What type of questions would you ask before grouping the tourists into market segments?

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2.4 MAJOR VARIABLES

According to Kotler, there is "no single way to segment a market. A marketer has to try different segmentation variables, singly and in combination, hoping to find an insightful way to view the market structure".

The major variables used for segmenting the market for tourism products and services are:

- 1) Geographic Segmentation
- 2) Demographic Segmentation
- 3) Psychographic Segmentation
- 4) Behavioural Segmentation
- 5) Price Segmentation.

2.4.1 Geographic Segmentation

A company can decide to operate in one or a few geographic areas or operate in all but pay attention to local variations in geographic needs and preferences. The market is segmented in various geographic entities like country, state, region or city etc. This segmentation is based on the idea that customer needs differ according to geographic regions. For instance, for the purpose of overseas tourism marketing, the Department of Tourism, Government of India, has divided the overseas markets into the following regions:

- 1) The Americas
- 2) The UK
- 3) Europe
- 4) Middle East
- 5) Far East
- 6) Australasia

Each region is under a Regional Director, and one or two markets in each region are looked after by a Director or an Assistant Director.

Indian tour operators also tend to concentrate in one or two markets. Some concentrate in the North American market, whereas some concentrate in the UK and Continental European market. Geographic segmentation is also done as per the nature of the tourism product. For example, mountain resorts will be marketed not in Switzerland but in countries which have no mountains. Similarly the desert safari of Rajasthan is marketed in countries like Germany, France or UK which have no deserts. The situation in Domestic tourism marketing is no different. J & K Tourism will market its products in states like Gujarat or Madhya Pradesh and not in Himachal Pradesh. Further, due to language specialisation, some concentrate in French speaking markets, German speaking markets or Japanese speaking markets.

In certain cases, local, tour operators determine their marketing plans and activities on the basis of the size of a city's population, under 1 million, 1 million to 3 million, etc.

2.4.2 Demographic Segmentation

In this case the tourism market is divided into various groups keeping in view the **demographic variables**. These variables include age, sex, family size, family life cycle, income, occupation, education, religion, race, and nationality. The demographic segmentation is probably the one most frequently used method of market segmentation because of two reasons:

- i) Consumer wants, preferences, and usage rates are associated with demographic variables.
- ii) This method is easy in measurement and interpretation of the data.

For instance, India being a long haul destination from most of the major markets like the Americas, Europe, Far East and Australasia, the travel to India is very much determined by:

- Income
- Age,
- Education, and
- Occupation.

A typical segmentation of the European market for India is as follows:

Age	:	Those between 25 to 59 years.
Sex	:	Both male and female
Family size	:	2 to 5 members
Family life cycle	:	Single or married but without children below the age of 14.
Income	:	DM 4000 and above.

It is seen that the majority of tourists who travel to long haul distances like India are **DINKS**, (Double Income No Kids).

Occupation	:	Professionals, Executives, business proprietors, civil servants, teachers, professors, etc.
Education	:	Higher secondary and above.
Nationality	:	Germans, French, Italians, Dutch, Swiss, Spanish and Swedes.

2.4.3 Psychographic Segmentation

Under this category of segmentation buyers are divided into different groups on the basis of their **social status, life styles, and/or personality characteristics**. For example, by using income and occupational variables the social status is segmented into upper, upper middle, middle or lower classes. Life styles can be determined on the basis of interests, activities and product preferences. Similarly, marketing is also done keeping the personality characteristics in view. For example, adventure sports related tourism products will target the tough and strong or adventure seekers only. However, it must be noted here that tourists within the same demographic segment may have a different psychographic profile.

From the tourism marketing point of view, the need driven segments have little apparent appeal since this part of society lacks purchasing power as well as interest power. **Outer-directed** consumers are the most potential tourists. **Inner directed** consumers by contrast are those people who in their lives place far greater emphasis on their individual needs as opposed to external values. **Although in terms of overall numbers this group represents only a small part of the total market, it is often seen to be an important sector in terms of its ability to set trends.** It is this group also which currently is showing the fastest growth rate within the society, while the number of need-driven consumers declines and outer-directed remains about the same. For example, those who go for **Ayurvedic treatment** tours are usually inner-directed and their number may be small in the beginning but these are the people who have set a trend for health tourism.

Naturally tourism marketers would like to identify those who are self-made, successful, socialite, mainstreamers, aspirers, or innovator type of people because they are the ones who are most likely to purchase tours to far away countries.

Tourists are segmented on a psychological basis with an idea that **among certain types of tourists there can be found some common attitudes**. Say among the age group of 18-26 there may be some who avoid risks and want to have a vacation full of leisure. Such group will form one segment while the other may consist of those who enjoy risks and look for adventure. Such mental attitudes determine the buying patterns of the tourists and hence arises the need for psychographic segmentation.

2.4.4 Behavioral Segmentation

In this type of segmentation, prospective buyers of tourism products are **segmented on the basis of their knowledge, attitude, use, or response to the tourism product**. A number of behaviouristic variables are used for market segmentation :

- i) **Occasions** : Buyers may be divided according to occasions for which they may need a product. For example, a person usually travels on an occasion concerning business, vacation or family. Thus, we segment tourists as business tourists, holiday tourists or VFR (visiting friends and relatives) tourists.

Sometimes the buyers are classified on the basis of critical events which mark life's passages such as marriage, separation, divorce, acquisition of home, injury, illness, change in career, retirement, etc. Imaginative tour operators have, therefore, created packages like honeymoon tours for those who have recently been married; natural therapy or Ayurvedic treatment tours for those who are looking for improvement of health after illness or stressful life; or spiritual tours to Ashrams, etc. for those who look for spiritual solace.

- ii) **Benefits** : Benefit segmentation identifies the:

- major benefits that the consumers look for in the product,
- kinds of people who look for each benefit, and
- major brands that deliver each benefit.

According to Kotler many products are made up of three "core benefit segments":

- i) **quality** buyers,
- ii) **service** buyers, and
- iii) **economy** buyers.

A quality buyer is more concerned by the product image and not the cost.

A service buyer would choose a product that provides a good service. In other words they look for the best value for their money and accordingly want a service that matches the product.

An economy buyer would like to keep the costs down.

Besides the benefits sought by the tourist, certain other associated characteristics also help in devising the marketing strategies. These include :

- 1) **User Status** : Tourists may be segmented as First time visitors or repeat visitors, ex-visitors or potential visitors etc. on the basis of user status.
- 2) **Usage Rate** : They may be segmented on the basis of the usage rate. For example, Airlines and hotels classify their clients as **Frequent Travellers or less frequent travellers or one time travellers**.
- 3) **Loyalty status** : This describes the tourists preference for a particular product or service in spite of lurrements to shift to other products. A company should study the characteristics of its own hard-core loyals and devise marketing strategies to maintain their loyalty. For example, some airlines have Frequent Traveller Programme in which

they offer benefits like excess baggage allowance, priority in confirmation of seats or special waiting lounge for their frequent traveller clients.

Kotler describes the degrees in loyalty as follows:

- **Hard-core loyals** i.e. the ones exclusively devoted to the organisation.
- **Soft-core loyals** i.e. those who may be devoted to two or three organisations.
- **Shifting loyals** i.e. those who gradually move to favour one organisation over another organisation.
- **Switchers** i.e. those who have no loyalty to any organisation.

By studying its soft core loyals, the company can pinpoint which brands are most competitive with its own. Some airlines and hotels try to convert their soft-core loyals into hard-core loyals by offering free mileage or free accommodation when they accumulate a certain number of mileage or night stays.

A company should also study customers who are shifting away from its brand because that will give the company valuable insights into its product and marketing weaknesses. However, the effort should always be to treat every tourist as special and make him or her feel special in order to inculcate loyalties for your product.

- 4) **Buyer-Readiness Stage** : At any given time, people are in different stages of readiness to buy a product. Smart marketeers always know when to launch their products. For example, private domestic airlines in India started their service when they realised that domestic air travellers were in a readiness stage to travel by private airlines if an alternative to Indian Airlines services was available. According to Kotler among the potential buyers some are:

- unaware of the product,
- aware,
- informed,
- interested,
- desirous, or
- intending to buy.

This distribution of prospective customers into stages of readiness helps in designing the marketing programme.

- 5) **Attitude** : Customers in a market can be classified by their degree of enthusiasm for the product. They may be **enthusiastic, positive, indifferent, negative or hostile**. If a company can correlate attitudes with demographic descriptions, then it can increase its efficiency in locating the best prospects. For example all tour operators and travel agents will find it much easier to sell India tours to those who have an enthusiastic or positive attitude towards India.

2.4.5 Price Segmentation

Price ranges often come handy in segmenting the tourism markets. For example there are:

- those who are high spenders and are prepared to pay high prices. They are described as up budget tourists,
- those who want to take a low priced vacation, and
- those who may take a moderately priced vacation.

According to Middleton "when deciding to market new products, or enter a market for the first time, producers have to make a fundamental strategic choice as to where on the prevailing price spectrum they should aim their marketing effort." It is this choice that "largely determines which segments they will be dealing with, and has immediate implications for the nature of the products to be provided and the form of any promotion and distribution. Price ranges communicate to the consumers the quality expectations of a product alongwith the producers image. For example if a tour operator intends to target high

spenders, the quality of the services he or she packages (hotel room, coach, guide and escort service etc.) must match the quality of that price range.

2.5 OTHER DETERMINANTS

The tourism market is also segmented on the basis of the **travel habits** of the tourists. These include :

- i) **Distance travelled** : The tourists are classified as **long-haul travellers, mid-haul travellers or short haul travellers** on the basis of the distance that they travel. For India, Europe, Far-East or USA are long haul market segments whereas Nepal or Bangladesh are short haul.
- ii) **Duration of trip** : Tourists can be segmented as those who take short break holidays of 2 or 3 days or long trips of 21 days and more. Those taking short holidays will not be long haul travellers.
- iii) **Time of travel** : Tourists can also be segmented as those who travel during summer holidays or winter holidays. In Europe those who take long trips usually travel during the summer season since the vacation period is longer in summer than in winter.
- iv) **Organisation of trip** : Tourists are also segmented as Individuals or Group tourists on the basis of organisation of their trips. Some individual tourists ask travel agents to package their whole tour but they will be travelling independently without joining any group. There are some tourists who may buy flight tickets only and there are tourists who will buy the package for a limited period only, such as transfers on arrival and departure and hotel accommodation for first two nights only, etc. These can be Luxury Tours or Economy Tours.
- v) **Travel Motives** : Tourists are classified on the basis of their motives to travel. They may travel for the reason of curiosity, education, health, religion, sports, relaxation, shopping, pursuing hobbies and various other reasons motivated by personal tastes and temperament. In a survey conducted in the German markets, the motives given were getting away from every day life, relaxing, experiencing nature, recharging one's batteries, getting into the sun, exploring new countries, enjoying good food, having time for each other, mixing with other people, playing sports, enjoying clean air and clean water, having fun and entertainment, learning about new cultures, resting and not doing anything, beauty care, getting a sun-tan, having time to reflect, preventing illness, refreshing memories, practicing hobbies, flirting and romance, and doing active sports and fitness training. That is why tour operators design tour programmes as Cultural Tours, Wild Life Tours, Beach Tours, Adventure Tours or combinations of these tours to suit the customers' tastes and motives.

It must be noted here that an organisation can apply one, two or more variables simultaneously for market segmentation. But for selecting the basis for segmentation certain methods are useful like:

- intuition,
- experience,
- market research, and
- trial and error, etc.

At the same time, an organisation should also assess its resources, size, growth potential, capacity, risks, competition, infrastructure and support systems etc.

Check Your Progress - 2

1) What do you understand by psychographic segmentation?

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2) Discuss the relationship of price with market segmentation.

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2.6 LET US SUM UP

This Unit gave you an idea about the general market segmentation theory and its correlation with tourism marketing. Market segmentation helps in identifying and understanding the needs of the consumer and also helps in profiling the tourists. Market segmentation is an essential activity to be undertaken for planning, designing and delivering a marketing mix. You have seen that there are different approaches to segment tourism markets along with various variables. However, at times these variables are interdependent or simultaneously applicable. Market segmentation is not only relevant for international tourism markets but also for domestic tourism markets.

2.7 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress - 1

- 1) Base your answer on Sec. 2.2.
- 2) You should take into account the what, when, etc. questions mentioned in Sec. 2.3.

Check Your Progress - 2

- 1) See Sub-sec. 2.4.3 for your answer.
- 2) Check your answer with the contents of Sub-sec. 2.4.5.