Benefit segmentation of Japanese pleasure travelers to the USA and Canada: selecting target markets based on the profitability and risk of individual market segments

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Abstract

Many previous research studies have offered alternative approaches to segmenting travel markets, but few have provided any decision rules for selecting target markets. This study used factor-cluster analysis to define three benefit-based segments of the Japanese outbound travel market (novelty/nature seekers, escape/relaxation seekers, and family/outdoor activity seekers). The demographic and trip-related characteristics of these markets were compared. Four criteria were then used (profitability, risk, risk-adjusted profitability index, and relative segment size) to reach a decision on the choice of the optimum target market. © 2002 Elsevier Science Ltd. All rights reserved.

1. Travel market segmentation and targeting

The primary goal of market segmentation is to identify the segments that are most interested in specific goods and services and to focus marketing efforts on them in the most effective way. Market segmentation allows travel marketers to understand the needs and wants of different travel groups and to efficiently communicate with them. Kotler (1999) defines market segmentation as the subdividing of a market into distinct subsets of customers, where any subset may conceivably be selected as a target market to be reached with a distinct marketing mix. In other words, market segmentation makes it possible to find homogeneous smaller markets thereby helping marketers to identify marketing opportunities and to develop products and services in a more tailor-made manner.

One important issue with market segmentation is how best to subdivide travel markets. Many alternative segmentation criteria have been suggested in the tourism literature and these include geographic characteristics (Reid & Reid, 1997), demographics (Taylor, 1987; Anderson & Langmeyer, 1982), psychographics (Silverberg, Backman, & Backman, 1996; Schewe & Calantone, 1978), expenditure (Mok & Iverson, 2000; Legoherel, 1998; Spotts & Mahoney, 1991; Pizam & Reichel, 1979), benefits (Yannopoulos & Rotenberg, 1999; Shoemaker, 1989, 1994; Woodside & Jacobs, 1985; Haley, 1968), activities (Hsieh, O'Leary, & Morrison, 1992), and communication channels (Hsieh & O'Leary, 1993). But what is the most effective segmentation criterion? It is clear from this brief review that there is not one criterion or variable with which all past researchers agree. However, several authors have suggested that benefit segmentation is one of the best segmentation bases (Morrison, 1996; Loker & Perdue, 1992). According to Haley (1968), the rationale behind this segmentation approach is that benefits sought by consumers are the fundamental reasons for the existence of true market segments and they determine the consumers' behavior much more accurately than do other descriptive variables such as demographic and geographic characteristics. Some tourism researchers also claim that benefit segmentation is a more appropriate approach for defining destination segments and

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developing marketing strategies because it identifies travelers' motivations and the satisfaction of what they need and want from their travel trips (Ahmed, Barber, & Astous, 1998).

Market targeting is the next step after the travel market has been segmented (Kotler, 1999). Before the choice of segments is made, the relative profitability of each potential target market must be considered. The ultimate objective of market segmentation is usually to make the most money from the selected target markets. Suppose a destination has two types of travelers: one is teenaged travelers staying in campgrounds, pursuing outdoor activities and spending relatively small amounts of money; the other is middle-aged travelers visiting cultural attractions, purchasing many souvenirs while lodging at upscale hotels. To which of these two markets should priority and limited resources be allocated (Legoherel, 1998)? The answer depends on the strategic direction of the destination, its resources and priorities. However, the choice will in some part be based on the expected economic returns compared to the costs of attracting each market. The criterion of substantiality must also be met: a segment must be large enough to be profitable (Kotler, 1999). Thus, potential profitability is one of the most important criteria in selecting target markets. The risk level associated with potential earnings is another factor that must be taken into account when comparing potential profitability and the choice of a market segments. Even though the expected economic earnings may be great, this may be meaningless if the chance of earning them is low. Therefore, profitability and risk play a vital role in evaluating the attractiveness of each segment and selecting the best target market.

2. Study objectives

To date, there has been no reported research on the evaluation of travel market segments in terms of profitability and risk. To fill this research gap, while providing a potentially useful benefit segmentation of an important long haul travel market, the research team decided to analyze Japanese pleasure travelers and to assess the profitability and risk level of the resulting benefit segments. Japan is an important origin country for primary destinations in both the USA and Canada in terms of economic contributions. This study makes a unique contribution to the tourism research literature by identifying benefit segments of Japanese travelers to the USA and Canada and then evaluating the resulting segments using the profitability and risk concepts. The five major objectives of this study were to:

1. Identify the benefit segments of Japanese pleasure travelers to the USA and Canada.

2. Profile the benefit segments.
3. Determine if there were statistical differences among the segments in terms of socio-demographic and trip-related characteristics.
4. Evaluate the benefit segments on the basis of profitability, risk, and market size.
5. Identify the optimum benefit segment.

3. Review of related research studies

3.1. Benefit segmentation in travel and tourism

A number of studies have been conducted using benefits as a segmentation base in travel and tourism. Frochot and Morrison (in press) reviewed several of these articles published in academic journals. After discussing the basic principles of benefit segmentation and the methodological issues associated with segment identification, they explained the potential advantages and disadvantages of using benefit segmentation. They argued that benefit segmentation is most helpful in designing and modifying facilities and attractions, vacation packaging, activity programming, and service quality measurement. However, explaining that trends, fashion, and other factors influence the benefits sought from destinations, they identified the instability of benefit segments over time as one of the limitations of this approach. The periodic updating of the benefit segmentation analysis was recommended. The other perceived disadvantage was the difficulty of generalization of the outcomes. Since most benefit segments are specific to a certain destination or the case being analyzed, the results of one study cannot be directly applied in other research.

Gitelson and Kerstetter (1990) examined the relationship between socio-demographic variables, benefits sought and subsequent behavior. Using factor analysis, they identified four benefits sought by North Carolina visitors: relaxation, excitement, social, and exploration. Women rated the relaxation dimension as more being more important than the men. No significant differences existed between benefits sought and level of education, while the income variable was significantly different for the exploration factor.

Yannopoulos and Rotenberg (1999) conducted a benefit segmentation study on the near-home tourism market. Using data collected from residents of Upper New York State, these researchers segmented the market into five clusters, which were named intangible amenities, active materialists, entertainment and comfort, cultured materialists, and entertainment and shopping. This research study indicated that age and household income were significant but gender, education, and composition of household were not significantly different across the five clusters.