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for improved managerial decision- making**

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Keywords

Portfolio analysis, target market selection, geographical target markets, aggregated portfolios

Disciplines

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Evaluating geographical target markets – an aggregated portfolio approach for improved managerial decision- making

Full Paper

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Lower Austria is one of nine Austrian provinces. It is therefore responsible for the selection of the geographical target markets in tourism. This task seems simple at first, but turns out to be quite complex due to enormous uncertainties, as earlier publications demonstrated (Mazanec, 1986a and b). This article (1) proposes a practical solution for the theoretical problems of defining markets and choosing the time period, and (2) provides an analytical basis for the RTO (regional tourism organisation) of Lower Austria in focusing on particular geographical target markets.

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Introduction

Tourism is not only one of the fastest growing industries, it is characterised by the very high levels of competition among destinations. High competition requires intensified strategic marketing designed to secure a long-term competitive advantage. In the tourism industry, decisions regarding this are typically the responsibility of national and regional tourism organisations (national and regional tourism organisations, NTOs and RTOs). These organisations are defined as "agencies with the unique and indispensable role of destination marketing authorities" (Moutinho, Rita & Curry, 1996, p. 137), their main aim being "to promote the destination country in the international tourism market" (Moutinho, Rita & Curry, 1996, p. 138).

Heath and Wall (1992) provide a list of activities for tourism organisations, including the development of a tourism strategy, representing the interests of the tourism industry, development of facilities that satisfy the changing needs of tourists, and conducting marketing activities. According to the World Tourism Organisation (WTO)

(1) planning,

(2) development, and

(3) promotion

are the main functions of national tourism organisations (Morrison *et al.*, 1995, p. 606).

Austria has a very long tradition as a tourism destination and internationally ranks among the top tourist-receiving countries. Internally, the tourism industry makes a major contribution both to gross domestic product (7 percent) and to employment (directly or indirectly 14 percent of the Austrian workforce are employed by the tourism industry). Austria is a very

diverse country and is politically divided into nine provinces. Each province has its own RTO and these RTOs are responsible for tourism marketing within the province.

Lower Austria is one of those provinces, located literally around Vienna in the easternmost part of Austria. The RTO of Lower Austria has been criticised for some of its past strategic marketing decisions: more specifically, other tourist authorities and parts of the industry did not agree with the choice of geographical target markets. For this purpose a research project was conducted that aimed at providing market information and analysis for management decision making with regard to the various future geographical target market choice. At first, this task seems to be very simple. But it turns out to be quite complex due to enormous uncertainties with regard to the various definitions involved and a lack of available data forcing management into numerous subjective decisions, as earlier publications dealing with the same problem on a national level have demonstrated (Mazanec, 1986a and b).

This article reports on research work conducted for the RTO of Lower Austria and draws conclusions regarding

- (1) a practical solution for the theoretical problems of defining markets and choosing the time period to investigate, and
- (2) provision of an analytical basis for the RTO of Lower Austria in focusing on particular geographical target markets.

The aim thus does not lie in theory development with regard to tourist consumer behaviour or market reaction to particular products offered. The focus lies on the further development of a widely used tool (portfolio analysis) for improved market insight by management where only aggregated secondary data is available from the managerial perspective to conduct the study.

Method

Clearly, if time and funds were unlimited, it would have been best to conduct a survey among visitors and potential visitors of Lower Austria, learn as much as possible about these *a priori* geographical segments, and deduce managerial recommendations from the rich database that would result. However, neither time nor money was unlimited in this case (as is typical in reality) and therefore it was necessary to base this study on secondary data only. The secondary data used includes tourism statistics from various sources (mainly the WTO and the OECD).

In a first step, based on statistical data obtained from the Austrian Business Chamber, a limited number of geographical regions had to be selected for further investigation. For this purpose this study focuses on the 15 strongest tourist-generating countries for Lower Austria in terms of arrivals.

For these 15 nations, portfolio charts were constructed. However, two major problems were faced when attempting to do so:

(1) Because portfolios are static snapshot evaluations of tourist-generating countries, single portfolios risk mirroring developments unique to this specific period of time (random effects).

Therefore, simple portfolio analysis did not seem to provide sufficient insights for management in order to make strategic marketing decisions based on thorough market structure understanding (although such simple portfolio models are widely practised in industry and used as a basis for decision-making).

(2) Portfolios divide the entire chart region into (typically four) quadrants. Managerial recommendations are then based on the location of different products or strategic business units or tourism generating countries in those quadrants. However, once again, a subjective

decision has to be made that can strongly influence the interpretation of the results: the borders that define these quadrants have to be set for the specific problem at hand.

The first problem is solved by using a classical instrument for assuring stability and reliability of results: systematic repetition. In this particular case this is done through constructing a series of portfolios. Through

(1) repeating the portfolio construction for different time frames and different market definitions (where “market definition” means which competitors are included in the study), and

(2) aggregating these multiple static snapshots,

a more balanced perspective can be taken. This aggregated portfolio is then used as the basis for recommendations given to the marketing management of the regional tourism organisation. This way, managerial recommendations are far less likely to be based on over-interpretation of effects caused by single events occurring a limited number of times, or even just once. This way, the probability of reducing misinterpretation decreases dramatically. These repeated snapshots (multiple portfolios) are constructed for three different definitions of „market“ and two different periods of time (four / five years).

The way in which the second practical challenge was faced (the definition of portfolio chart border values) is described in the next section.

Evaluating geographic target markets

First of all, the tourism-generating countries that should be considered in this particular study, from the perspective of Lower Austria rather than Austria in general, had to be defined.

Those 15 tourism-generating countries were included which have contributed most to the tourist arrivals of Lower Austria: Austria, Germany, the Netherlands, Hungary, Italy, the USA, Switzerland, the Czech Republic, the United Kingdom, Poland, France, Belgium, Australia, Denmark and Russia.

Defining the market

This might be a simple problem in the case of branded goods in one particular country, but in the case of tourism this is not a straight forward task: Which other tourism destinations should be included? Should the regional market of Lower Austria take the position that tourism is a global market and therefore the entire world has to be closely observed as potential competition? In this case, the proportional contribution of Lower Austria is not even worth mentioning, which excludes this broad market definition from the reasonable alternatives. In the other extreme situation only the strongest neighbouring province could be defined as a competitor. The disadvantage of this approach is that it inappropriately limits the horizon studied. By doing so relevant competitors might be overlooked and wrong strategic decisions are likely to be made.

For this particular problem, it did not seem possible to limit the investigation to one single market definition. Therefore the market definition was defined as one of the repetitive factors in the portfolio study and three different sets of competitors were included in the study:

- (1) Eastern Austria (this includes the provinces Upper Austria, Styria and Burgenland),
- (2), Austria, Italy and Germany (These countries were chosen on the basis of findings from the Austrian National Guest Survey conducted in the years 1997 and 1998, indicating that those three countries are the most commonly chosen destinations and thus represent the most direct competitors with regard to destination choice.), and finally
- (3) Europe. Europe is the largest reasonable unit from the perspective of one single province

in Austria. Clearly, the world as a whole was too big a market to be of any operational use to the management of the regional tourism organisation of Lower Austria.

Defining the measure of success

Clearly, different measures of success could theoretically be used within the portfolio framework. In the case of tourism industry, the options turned out to be strongly limited by the available secondary data. On an international basis it is possible to choose between arrivals and overnight stays. In this particular study, overnight stays were preferred due to their stronger association with touristic revenues.

Defining the time period studied

This is the second major challenge, as the time period studied strongly influences the interpretation of the resulting portfolios. Unfortunately, due to the limited availability of (comparable) tourism statistics, this portfolio component is not readily available for researchers.

The period from 1995 to 1999 was used for both the market definition „Europe“ and „Germany, Austria and Italy“ because more recent data was not available. For Eastern Austria, however, the period from 1997 until 2001 could be included. Data sources include OECD data available through TourMIS, WTO statistics and reports from the Austrian Bureau of Statistics.

Definition of portfolio borders

For the present study, the classic BCG matrix or growth share-matrix is used (see Lilien, Kotler & Moorthy, 1992). The traditional growth share matrix divides the entire space within which the tourist-generating countries are located into four quadrants. Again, the placement of

the borders, which define the four quadrants is subjective and must remain a decision of the analyst.

Therefore, border values had to be defined with regard to two pieces of information:

- Relative market share:

The matrix was split into three sections along this horizontal axis and the most informational border values were empirically found to be 0.1 and 0.01.

- Market growth:

The vertical portfolio axis representing market growth was split by the value 0 if consecutive years are plotted. If, however, five-year periods were studied, the border value of +5 percent turned out to be more appropriate.

The importance of the generating countries (overnight stays in Lower Austria) is mirrored by the bubble diameter.

Results

Countless charts were produced following the procedure outlined above. One such example is given in Fig. 1. This chart shows the portfolio for the year 1997 and the market definition “Eastern Austria”. Relative market share is given along the horizontal axis with grid borders as 0.1 and 1, market growth along the vertical axis with the grid border of 0 percent dividing the chart into a top and a bottom half. Market growth is measured from 1996 to 1997. Relative market share values for 1997 are used to place the countries of origin along the horizontal axis.

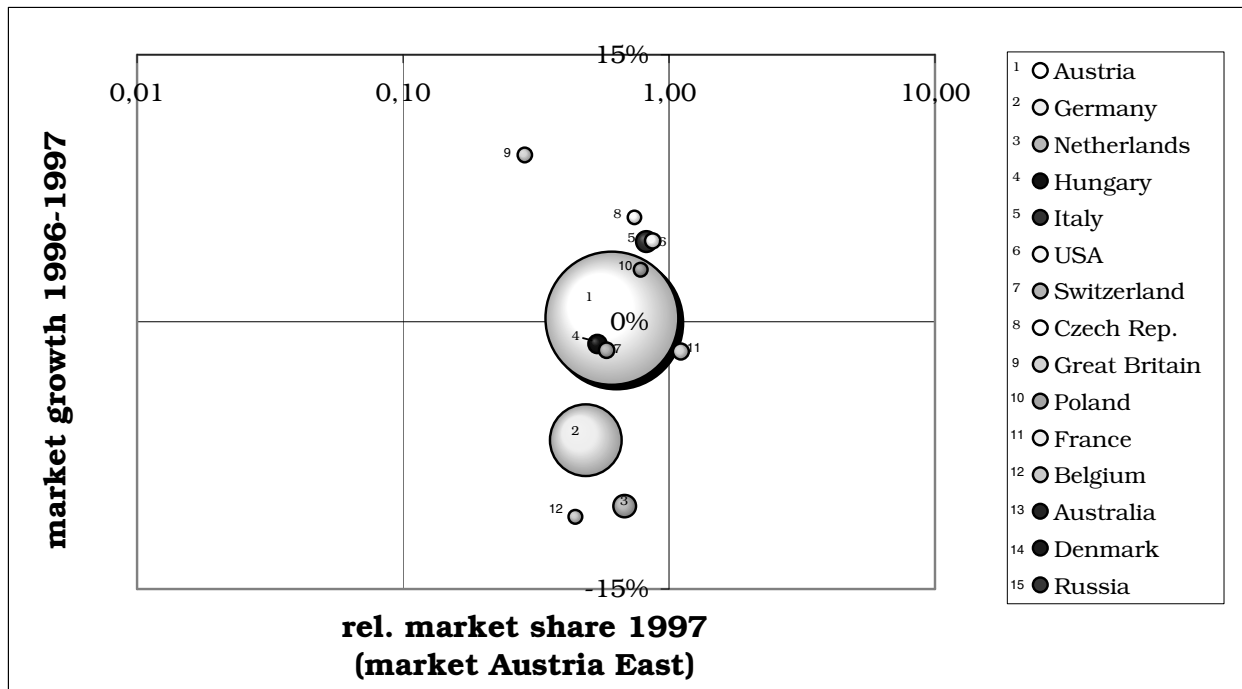


Fig. 1: Portfolio chart for 1997, region: Austria East

From this portfolio, France emerges as the strongest tourist generating market with regard to relative market share, followed by the USA, Italy, Poland and the Czech Republic. In terms of market growth, however, Great Britain is in the lead. The second strongest growth market is the Czech Republic. Austria and Germany are the most important tourist generating countries for Lower Austria in this year (measured by their contribution to overnight stays in this region), as indicated by the size of the bubbles.

Based on this picture it becomes clear that the management of the regional tourism organisation in Lower Austria is highly dependant on guests from Austria and Germany and those markets must be part of a strategic plan, even if they do not produce excellent results in terms of market growth. For the future prosperity of tourism in Lower Austria, however, it would be worthwhile to consider increasing the emphasis on Italy, the Czech republic, the USA and Poland. Great Britain displays sensational growth levels, but this market is put more

at risk by competition. The contrary is true for France: it offers an excellent competitive position but the growth rate is modest.

Of course, the portfolio discussed above represents precisely one of those snapshots that was criticised earlier because its narrow perspectives might be misleading due to the narrow perspective captured. Therefore, all the single portfolios (like Fig. 1) were aggregated over all market definitions and periods of time. One of these aggregated portfolios is provided in Fig. 2, where the same quadrants are used as for the single portfolios. Note that the position within the quadrant cannot be interpreted: the precise location within the chart is meaningless.

However, the representation of these tourist generating countries in each one of the six quadrants is one of two essential pieces of information that emerge from this picture, indicating the overall market growth rate and the overall relative market share position over multiple time periods and market definitions. This frequency is depicted as height of the columns. For instance, Hungary turns out to be located at a high relative market share and high market growth rate position repeatedly, as the column in the top right hand corner is the highest among the nations included in Fig. 2. However, as indicated by the pie slices, this is only true if the competitive region (market) is defined as either Austria, Italy and Germany or Europe as a whole. In the case of the eastern part of Austria taken as a competitive region of primary interest, Hungary is not represented in this “top-quadrant” at all. The pie slices thus indicate the market definitions for which each particular quadrant location was determined.

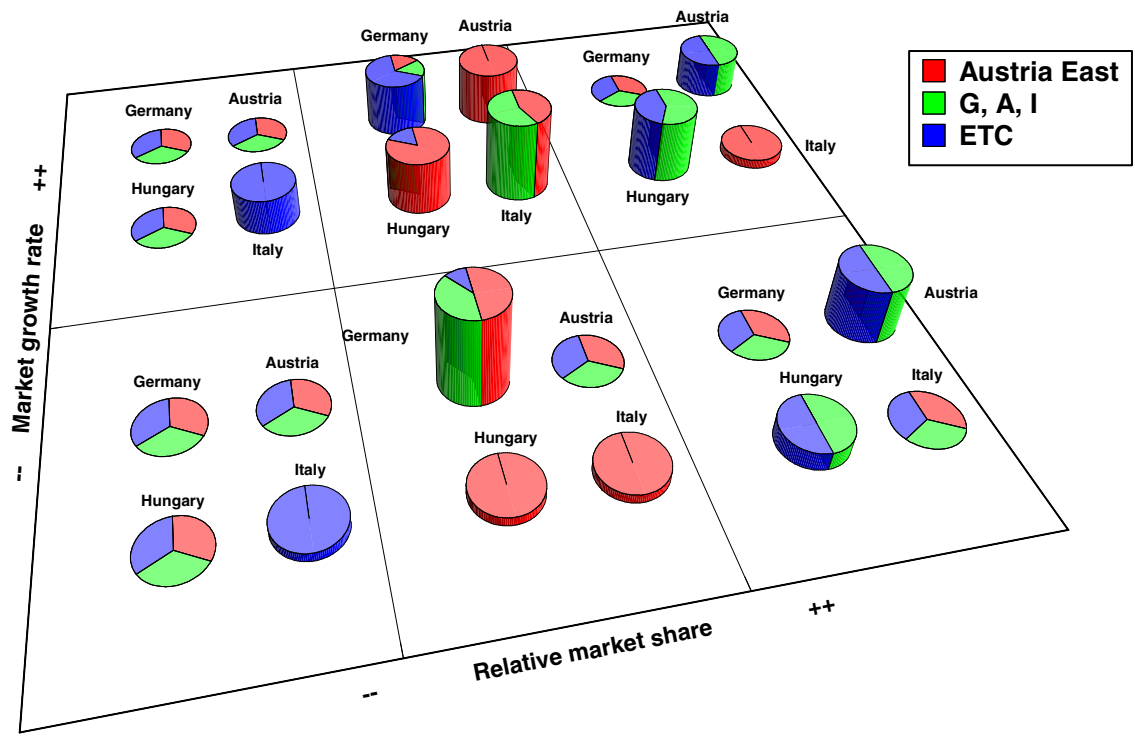


Fig. 2: Aggregated portfolio chart for Germany, Austria, Hungary and Italy.

The analysis renders very interesting results. It becomes clear, however, that another managerial decision has to be made before geographical target segments can be recommended: Is the strategy oriented toward the present or the long-term competitive advantage of Lower Austria as a tourist destination?

In the case that the present revenues from tourism are of primary concern, Lower Austria should focus on Austrian and German tourists. These countries are characterized by high market share and, more importantly, from the short-term perspective (and unfortunately not visible in the aggregated chart, but only in the single portfolio charts) their present contribution to tourism overnight stays is extremely strong (depicted by the bubble size in the single portfolios). However, these markets' growth levels are not impressive. On the contrary, and this is true for Germany in particular, low growth is an indicator that relying on these countries in future is not a safe strategy. Therefore Germany and Austria are excellent

candidates for today's survival and touristic wealth but not very promising in terms of the future tourism success of Lower Austria as a destination.

From a long-term perspective, a number of (mainly „young“) tourist-generating countries emerge as highly attractive options for the future: Czech Republic, Poland, Italy, the Netherlands, the USA and Hungary. These countries have exceptionally high growth rates but typically have not yet reached a strong market share position nor is their present contribution in terms of overnight stays high. However, if these markets are targeted now, in their early stage of development, they certainly have the potential to develop into positive geographical target markets of the future for Lower Austria.

Conclusions

Geographical target markets for Lower Austria have been studied and evaluated from the perspective of present contribution to strengthening tourism at this destination as well as the point of view of future potential. This was achieved by using a standard portfolio approach and further developing it in order to avoid the major two problems associated with it: (1) the fact that it only presents a snapshot in terms of time frame captured, and (2) the arbitrariness of choosing market definitions and grid borders for portfolio charts.

Both problems were addressed by choosing a replicative approach. A number of portfolios for different periods of time and different market definitions were constructed and an aggregated portfolio chart was developed to depict the overall attraction of tourist generating countries for Lower Austria. In this way, managerial recommendations can be determined that are based on a multifaceted analysis of the market situation rather than on one arbitrary snapshot, consequently improving the quality of managerial decision making.

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