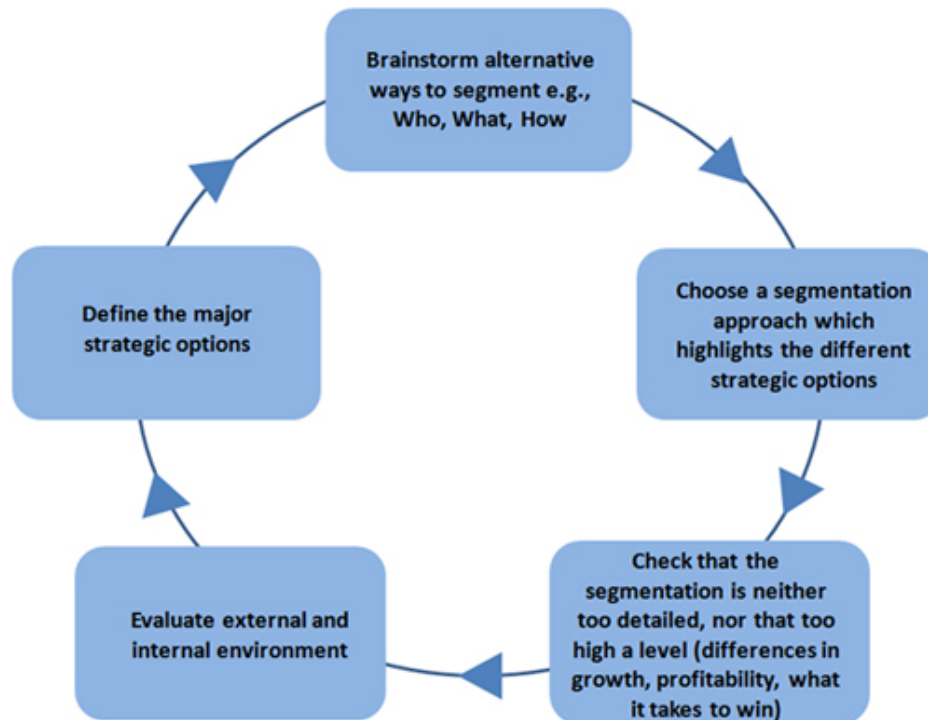


Segmentation: Iberia case example

A useful way to summarise the approach to segmentation described in the book is the following exhibit:



To apply this to Iberia:

Step one. Brainstorm alternative ways to segment the business. Normally segments can be defined on three axes: by customer need, type of product/service, or how the organisation participates in the business e.g., which stage of the value chain – which can be summarised as “Who/What/How”:

- Who (customer need/markets) could be segmented by business versus leisure traveller or, by region (Europe), Country (Spain) or city (Madrid). If you want to be more detailed you could distinguish between weekend and weekday, early morning and mid-day, etc i.e., ultimately each flight is an individual segment! Or, going further, every passenger has unique needs – so each passenger is a segment!
- What (product/service) does not add much new insight – you could distinguish between economy, business and first for example, but this is similar to the segmentation from thinking about Who. You could also think about point to point versus via a hub.
- How (what value chain structure) is a way to think differently about segments – but it tends to provide overlapping ideas to the previous two approaches. For example – there is a difference between point to point and hub in the “how” – but we have already picked that up in thinking about the What. We could also think about stripped down travel versus luxury business travel – again, that has been picked up again in thinking about the What. It is, however, a useful check that you have not missed anything.

Step two: Choose a segmentation approach which highlights the different strategic options. What are the main choices that Iberia can make? I would argue that, in the context of the case, the main choices are which regions to focus on. Ultimately this will come down to particular routes – but for the moment, you can divide this into higher level category such as “Domestic” or “Europe”. There is also a choice to be made on whether one emphasises business versus economy class – but in practice, it is hard to see that a dramatic choice can be made (e.g., to drop one of these classes) – so it is more a second order decision about which to emphasise.

So, the segmentation could be:

- Domestic
- European
- Inter-continental

...with a secondary choice about the primary class to focus investment on (business versus economy)

Step three: Check that the segmentation is neither too detailed, nor at too high a level. There could be a more high level choice e.g., “be an airline” versus “be a travel company”. This would suggest that we consider a higher level segmentation where air travel is one segment, and other forms of travel, such as rail or road, another. ,.

There could also be a more detailed segmentation e.g., to split intercontinental into Latin America versus North America versus Asia. There could well be differences in the growth rate, average segment profitability and what it takes to win in each of these sub-segments, and it would be possible to choose between them, so this seems to be a sub-segmentation worth making.

These different ways of segmenting all seem to add something – so we need to keep an open mind as we progress through the analysis to see what further insight segmenting in different ways like this might bring.

Some sub-segments seem to be less important at this stage. For example, splitting things in more detail with Latin America e.g., “Brazil” versus “Argentina” seems to be too detailed. It is unlikely that Iberia would stop flying to one of these destinations – they would be part of a broader Latin America strategy.

So – we end up with a refinement that we may want to segment at a higher level (e.g., “airlines” versus “rail”) and at a slightly lower level (segmenting out different continents such as Latin America).

Step four: Evaluate external and internal environment and, Step five: Define the major strategic options. These two steps are what we will do in the rest of the strategic analysis. After we have done these two steps we can come back and review our segmentation in more detail. For example, if we end up thinking that it is important to choose whether or not to serve Northern Europe we may have to segment “Europe” into “Northern” versus “Southern”.