SUPPLY CHAIN SEGMENTATION
THE KEY TO FUTURE PROFITABILITY

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EXECUTIVE SUMMARY

The roots of segmentation run deep through corporate strategy. Over the years, its applicability to other disciplines has continued to grow and now impacts many functions, including customer, supplier and product management. This wider application has been ultimately positive, yet it has also bred confusion as to the role segmentation has in developing and managing end-to-end supply chains. This is unfortunate since it may be the ultimate tool strategists have available to design and deploy the right supply chain structures to serve a growing set of customer and corporate needs.

Supply chain objectives, for the most part, are no longer tied solely to cost reduction, but now include increasing revenues and offering differentiated services to improve the customer experience. Supply chain segmentation perhaps offers the best opportunity for the supply chain organisation to meet these concurrent objectives.

However, the prevailing operating principle for most supply chain organisations is to force multiple customer and corporate needs through a single, constrained supply chain construct that developed without foresight or proactive design. This keeps the supply chain organisation in an endless cycle of trying to optimise within a construct that is unfit for business and customer needs.

In this report, SCM World seeks to shift the mindset away from this historical one-size-fits-all approach to one that allows organisations to balance multiple constructs with multiple cost-service targets. We interviewed a number of senior-level supply chain strategists to understand how they think about supply chain segmentation, complexity management and cost to serve – three interrelated processes that reinforce each other.

Our research found that the reason this one-size-fits-all mindset continues to dominate is that supply chain is not coupled tightly enough with R&D and brand management. Requirements are frozen before supply chain has a chance to design a more effective approach to fulfilling the requirements. Segmentation helps to bridge the divide between the two sides of the innovation process, and to translate the goals, objectives and ideas of commercial and R&D leaders into reality.

The process enables the organisation to visually understand the different outcomes it will drive when it takes certain decisions. That is to say, it helps drive the organisation to make better choices around the need for scale and the need for agility, for instance.

Currently, segmentation has not yet achieved the status of a core, repeatable business process in most companies. In fact, only a handful execute this process very well. To become a core business process, segmentation must be integrated with the go-to-market process or commercial cycle that every business experiences but operates differently depending on the competitive structure of its industry.

As segmentation becomes more tightly integrated with the commercial cycle, it enables the business to make choices more effectively along the entire ideation to commercialisation spectrum.
INTRODUCTION

Segmentation has a rich history that cuts across multiple boundaries, including corporate strategy, marketing, product management and operations. In his classic text, *Competitive Strategy*, Michael Porter elevated the concept to one of the three generic strategies companies can deploy to compete in the marketplace. Porter’s “focus” strategy involves optimising a firm’s efforts along a narrower dimension, such as by a particular customer, geographic region or product segment. The two other generic strategies include differentiation and cost leadership, but Porter thought a company could not successfully deploy these strategies in tandem.

Marshall Fisher, in a famous *Harvard Business Review* article from 1997, argued that, at least operationally, firms must deploy different strategies for the different types of products contained in portfolios. Some products are commodities (functional products), others are driven by innovation (innovative products) and, owing to the different demand profiles for these product types, it’s impractical to manage the supply chains for them with the same strategy.

In 2002, Hau Lee expanded this early form of product segmentation to include not only the different demand characteristics but also the supply uncertainties unique to functional and innovative products. As of 2013, supply chain segmentation is recognised as a critical, but underutilised, tool for supply chain strategists. This report attempts to help break the psychology that keeps organisations endlessly optimising a one-size-fits-all supply chain architecture, and limits the adoption of segmentation as a core, repeatable business process.

THE LOGIC OF SEGMENTATION

For the past 5-10 years, supply chain strategists have been drawn to the logic inherent in segmentation as a way to configure supply chain architectures according to different product, market and customer characteristics. Not all customers are the same, not all channels to market are the same and not all products are the same, yet many supply chain networks and business processes have been standardised to one mode of operation.

Moreover, the competitive playing field is not uniformly two-dimensional and static across customers, markets or industries. At different points in time, customers, markets and the products they value may require a cost-conscious, service-heavy architecture designed for limited shelf space and availability, or a more costly architecture requiring as equally high service, but for more sophisticated service and fulfilment capabilities. Indeed, the permutations could be endless.

This comes as no surprise when you consider the breadth of expectations facing supply chain executives today. Respondents to our *Chief Supply Chain Officer Survey* continue to perceive their role as larger than operating cost reduction. It includes operating cost reduction, always will include operating cost reduction, but is not limited to this one objective.

As Figure 1 shows, 91% and 88% of respondents feel it is either important or very important for supply chain to help increase revenue and offer differentiated...
customer service capabilities respectively as part of its core mission. Differentiated service inherently suggests the need for segmentation of processes to deliver different outcomes. So why have so few supply chain organisations made progress with supply chain segmentation?

“Two reasons,” says Angel Mendez, Senior Vice President of Transformation at Cisco Systems. “First, most supply chains don’t begin work early enough in the innovation process [product development] and have limited input in defining product requirements. Second, most companies try to shoe horn as many requirements as possible into their existing supply chain architecture.”

This is the classic one-size-fits-all approach to supply chain strategy and design. Companies that try to force multiple requirements through one supply chain architecture ultimately get stuck in an endless loop of optimising inside a single, constrained supply chain architecture. Mendez adds: “Companies need to acknowledge that if the existing architecture is not a good fit for the requirements, then they have to start with a clean sheet of paper and design the right one.”

The most mature companies have already embraced this idea. Respondents to our CSCO study who perceive equal importance between commercial, development and supply chain organisations within their companies recognise the value of differentiated customer service capabilities to a much greater degree than those who see supply chain as subservient to other parts of the business. This 31% delta is huge, and again highlights the key role segmentation plays in organisational competitiveness.

SEGMENTATION – WHAT IS IT?

As both a topic of study and a practice to deploy, segmentation continues to confuse. Most companies have experience with customer segmentation, supplier segmentation and product segmentation. These three elements carry a history that can limit the understanding of end-to-end supply chain segmentation. A starting point, therefore, for most companies should be aligning on the scope and scale of their segmentation initiative.

According to the supply chain strategists we interviewed for this research, segmentation is a method to more effectively complete the circuit between the two sides of the innovation process: product and market. It helps to translate the goals, objectives and ideas of commercial and R&D leaders into reality through a dynamic analytical process that governs supply chain architecture decisions. This process allows supply chain to negotiate the most optimal way to deploy its resources and investments to bring innovations to market and to manage them across their lifecycles.

“At its simplest level, segmentation is just a strategic planning tool,” says Steve Hochman, Head of Supply Chain Planning at Nike Europe. “It’s a bit like a Rubik’s cube. The process helps to distil potentially infinite product-service combinations to an easily comprehensible three to five, and to focus and align investments, teams and systems accordingly. It also allows leaders in a simple, visual way to view supply chain opportunity and risk from multiple angles before plotting their course, and to do it repeatedly as products, markets and competitive landscapes evolve.”
A COMMON STARTING POINT

Most companies first approach segmentation by modelling a SKU or product category by its total unit volume against the week-to-week variation, typically for at least a quarter’s worth of sales or shipments and often up to a year. While the data for this analysis lies across organisational boundaries, the actions that arise from the analysis can be limited to the purview of the supply chain organisation, which makes it a more manageable starting point.

Analysis by volume and variation is initially agnostic to potential customer-focused segmentation strategies for cost, service or speed. The analysis uses the constraint of a SKU’s volume/variation mix to determine the best-fit process and network to address the needed agility, responsiveness or efficiency. In other words, the physical supply chain and supporting processes are segmented in different ways to get all products to the same base level performance for cost, speed and service. The most common example of this segmentation is setting different inventory policies with additional buffer for low-volume and high-variation SKUs.

The next logical step is then to optimise for specific results. For example, if the goal is 100% service level for a company that typically executes 97%, the network design and inventory targets are even further adjusted to create a higher service level than the standard. At this point, the supply chain organisation is learning how to evaluate and communicate trade-offs within the organisation and across the business. The 100% service level will require additional inventory and probably involve higher transportation costs, but supply chain can now present that option rather than continuing to manage one inventory and one cost target.

Market and customer segmentation revolves around a deeper understanding of customer need. The analysis factors in the price range the product will bear in the marketplace, promotional activity and margin expectations. This allows for a more accurate – and therefore profitable – translation of demand requirements into supply capabilities.

BRINGING SEGMENTATION INTO THE SUPPLY CHAIN

How does supply chain take an innovation and bring it to market in a way that accomplishes the service level and cost expectations of its customers and the profitability and growth expectations of its businesses? It has to actively design for the different outputs expected by the business and its customers. In most major billion-dollar-plus companies, supply chain will need to simultaneously operate multiple constructs with different service level and margin expectations.

The process of segmenting a supply chain can be broken down into three areas:

1. **Customer needs.** Understanding the value customers get from your supply chain is the fundamental guide to segmentation. Michael Porter may have argued that specialising to meet one need, such as lowest possible cost or highest possible service, would provide the greatest competitive advantage. However, today’s global marketplace is forcing supply chain organisations to compete across multiple needs.

2. **Supply chain network and operating principles.** With customer needs identified and used to define the desired outcome, supply chain execution must co-ordinate to deliver those results. By establishing specific targets at this level, both the supply chain network and people running the processes to support its design have specific goals, which enforce trade-off decision-making in each functional area.

3. **Select metric targets as a guide to trade-offs.** Key end-to-end metrics such as cost, service level and perfect order fulfilment gauge how successful a supply chain is in creating the desired outcome. These end-to-end metrics are a result of changing targets in execution and act as a diagnostic on the health of desired trade-offs.
Figure 3 depicts a model of this three-tiered approach developed by a heavy equipment manufacturer. In this segment, supply chain has identified the primary customer requirement to be the lowest-cost offering, and has set the conceptual slide rule tight to this end of the customer need spectrum. With this locked, supply chain then configures the operational settings for its network that will deliver to this requirement. The net output of the supply chain is a function of the series of trade-offs built into the system.

The same heavy equipment manufacturer designed a second segment based on a different set of customer requirements, as shown in Figure 4. The specialised service expectations of this customer segment requires supply chain to adjust the operational targets for its network in a manner that will fulfil the desired outcome. Again, the designed output is a function of the different set of decisions taken for this segment.

Figure 3 An example of cost-focused supply chain segmentation

<table>
<thead>
<tr>
<th>Customer need</th>
<th>Lowest cost</th>
<th>Service differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Inventory</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Low Lead time</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Low Asset utilisation</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Low Service level</td>
<td>High</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4 An example of service-orientated supply chain segmentation

<table>
<thead>
<tr>
<th>Customer need</th>
<th>Lowest cost</th>
<th>Service differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Inventory</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Low Lead time</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Low Asset utilisation</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Low Service level</td>
<td>High</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supply chain execution target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Cost</td>
</tr>
<tr>
<td>Speed</td>
</tr>
<tr>
<td>Availability</td>
</tr>
<tr>
<td>Differentiation</td>
</tr>
</tbody>
</table>

Untangling Segmentation and Cost to Serve

The great benefit of segmentation is that when supply chain organisations break down and reassemble supply chains into more logical groupings of capabilities determined by customer need, they capture a more accurate picture of supply chain costs than they would in the aggregate. This helps to drive cost savings more effectively. At the same time, they create a more credible profile of product and customer profitability, which can enable more intelligent pricing and service decisions.

Supply chain segmentation is therefore fundamentally entangled with cost-to-serve analysis. Mapping supply chain segments requires granular data on the cost of supply chain capabilities, while understanding the cost of specific supply chain capabilities requires accurately clustered and co-ordinated supply chains. Getting really precise with cost analysis and allocations is no easy task and requires a degree of financial acumen not often found in supply chain functions.

How do companies cost out the supply chain services their businesses use? Not everyone uses these services in the same way, an insight that becomes particularly clear as the segmentation process matures. Different supply chain architectures will and should have different cost structures, but supply chain executives find it incredibly complex to merge the segmentation of the supply chain itself with the cost segmentation associated with different capabilities.

Valuing these services is complex since it requires negotiation and agreement between parties. In an SCM World report on S&OP last year, Kevin O'Marah explored the concept of “flexibility pricing” – using lead time selection and product mix certainty as a way to structure discounts during buyer-seller negotiations. To work, this approach would require a thorough cost-to-serve model inclusive of all known cycle times, lead times, inventory costs, conversion costs and variances. This would be the basis for quantifying the cost of flexibility, both in terms of lead time to deliver and in terms of acceptable substitutes.

It’s not possible in one-size-fits-all supply chains to know definitively that the service level agreed to is commensurate with the value the customer receives from it. Cost to serve acts as a diagnostic on the supply chain architectures you have in place. It is a tool to
show where process or network changes that may negatively impact service or speed could be necessary to hit a cost target, as well as where increased service or speed may require a higher cost.

Cost-to-serve analysis also leads to more objective trade-off decision-making. For instance, it can reveal not only where to reduce costs but also where to invest, shifting cost increases to the areas that create the greatest value. An example would be setting minimum order quantities for bulk items or establishing single-unit shipping at higher costs.

This entangled process around segmentation and cost to serve leads more sophisticated organisations to package and deliver specific capabilities in a much more targeted manner. These organisations have a catalogue of services that lists the cost or range of costs for specific services. For example, no-touch demand planning might have a 1% planning overhead cost, whereas high-touch planning is set at 5%.

### SEGMENTATION DEPLOYED

In a webinar for SCM World®, PC maker Dell explained its own segmentation methodology and the way it leverages commonalities between segments so as not to incur the cost of running four unique and independent physical supply chain constructs. Working with David Simchi-Levi of MIT, Dell developed a standard matrix to depict the four supply chain constructs created to serve its customer segments, and the accompanying operational guidelines for these constructs.

Taking just one of these constructs – the configure-to-order supply chain for large accounts – we can see the operational guidelines Dell has established to meet the needs of this segment. These parameters include custom product configurations, batch size flexibility to support different customer configurations, and a customer-selected production strategy. This segment doesn’t support finished goods inventory and utilises long logistics lead times and longer planning horizons than other segments. If the customer needs it more quickly, Dell will use air freight on an exception basis.

Differences clearly exist between the segments, but even so Dell uses commonalities across the constructs to avoid creating four unique or independent physical supply chains. It leverages synergies in procurement, modular product design, the order fulfilment network, planning capacity, manufacturing infrastructure and capacity, and IT infrastructure.

Dell’s order fulfilment network in the United States, for example, consists of six nodes. Three of these nodes are dedicated to small parcel delivery and small order sizes that have been shipped direct from factories in China. The three additional nodes are multifunctional facilities with a larger assortment of service capabilities needed by multiple segments. These facilities hold stock for the retail and high-volume online segments, as well as any

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#### Figure 5: Dell’s segmentation model

<table>
<thead>
<tr>
<th>Customer segment</th>
<th>Build-to-Plan</th>
<th>Build-to-Order</th>
<th>Build-to-Stock</th>
<th>Configure-to-Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>Retail</td>
<td>Online/low volume configurations</td>
<td>Online/popular configurations</td>
<td>Large accounts</td>
</tr>
<tr>
<td>Production strategy</td>
<td>Small number of configurations designed for market</td>
<td>Configurations defined by customers</td>
<td>Small number of configurations designed for market</td>
<td>Designed for customer</td>
</tr>
<tr>
<td>Production batch size</td>
<td>Large</td>
<td>One</td>
<td>Large</td>
<td>Large</td>
</tr>
<tr>
<td>Production time</td>
<td>Smooth production to cut cost</td>
<td>Assembly is driven by individual order</td>
<td>Smooth production to cut cost</td>
<td>Quantity and schedule defined by customer order</td>
</tr>
<tr>
<td>Finished goods inventory</td>
<td>Yes (at retailer)</td>
<td>No</td>
<td>Yes (at Dell)</td>
<td>No</td>
</tr>
<tr>
<td>Lead time</td>
<td>Long (ocean) to reduce shipping cost</td>
<td>Short (air) to achieve responsiveness</td>
<td>Long (ocean) from manufacturing to stocking locations and short (parcel) to customer locations</td>
<td>Long (ocean) to reduce shipping cost</td>
</tr>
<tr>
<td>Planning horizon</td>
<td>Long</td>
<td>Short</td>
<td>Medium</td>
<td>Long</td>
</tr>
</tbody>
</table>

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customisation or special services required for some large customers. Dell designed the network in this way so it could leverage across the supply chains and meet the broader coverage needs of the parcel network.

The results have been impressive: a significant reduction in product complexity and a correspondingly significant increase in forecast accuracy, which contributed to a 30% reduction in freight costs and a 30% reduction in manufacturing costs.

THE COMPLEXITY MANAGEMENT IMPERATIVE

The Dell example exhibits a degree of simplicity valued by supply chain strategists. Even so, the process itself requires analytical sophistication, cross-functional co-ordination, clarity around commercial objectives and an understanding of customer needs that doesn’t exist in most organisations. It’s a paradox: segmentation is complex yet it offers the best – perhaps only – opportunity to herd complexity to areas where it adds value, while eliminating it from areas where it doesn’t.

The interrelationship between segmentation and complexity is clear. At heart, complexity management is a sorting and grouping exercise. Think of an unevolved library. It starts with a few books by one author on a common topic occupying one shelf in one room. At this stage of development, human sight and literacy are the only tools necessary to navigate through this simple library. Over time, the library’s collection expands exponentially, requiring a complex classification system as well as knowledge of usage to ensure growth is fuelled by a clear understanding of patrons’ needs.

Complexity is controlled not by arbitrarily stopping its growth, but by establishing gauges and operational guidelines that monitor and control where you want it and where you don’t. As the library classification system gets more and more mature, common groupings of both material and patrons become more visible to the organisation, which allows these groupings to manage in a more logical and differentiated manner.

Complexity management brings supply chain closer to R&D – an opportunity a large proportion of participants in our CSCO study feel it is necessary to grab. Between 2011 and 2013, the percentage of respondents viewing new product development and launch as an essential capability for supply chain to nurture shifted dramatically from 18% to 52%. Complexity management offers a way to begin upskilling in this area while initiating greater integration between the functions.

Most companies don’t operate at either pole of the complexity spectrum – extreme homogeneity or extreme heterogeneity – since neither would lead to sustainable, long-term growth. What companies must look for is the optimum number of supply chain segments they can keep stable without creating a situation where they are either over-managing or under-managing complexity. For companies advanced in segmentation, it becomes their tool for ongoing governance of desired trade-offs. It is how they balance cost and service.

COMPLEXITY AND DESIGN

In a recent SCM World webinar, Jim Rowan, Chief Operating Officer of bagless vacuum cleaner maker Dyson, describes the “7 Vs of complexity: volume, variation, volatility, visibility, value, velocity and vicinity”. Each one of these complexity drivers has a subset of variables that can cause supply chain complexity to explode, and if not considered during the design phase can have consequences for supply chain for the life of the product.

Rather than go through all of the “7 Vs”, let’s focus on the first two, volume and variation, since these tend to be the common analytical starting point for segmentation, as mentioned earlier. Dyson analyses the volume profile it expects to experience from different customers to determine the type of complexity that will result from this profile. For instance, seasonal upswings in volume drive a different type of complexity, particularly at the component planning level that must be factored into the design process. Moreover, as we saw in the Dell example earlier, volume will look different according to the channel the product flows through. This becomes an important input that Dyson considers at the design phase.

Variation can be driven either internally, as a result of decisions about which technologies Dyson wants to use in its products, as well as externally in the increasing drive from consumers for ever greater personalisation.

The “7Vs” analysis is critical to determining the appropriate supply chain constructs necessary to deliver innovations successfully to different markets in different time windows. That is to say, the outcome of
the analysis into these market and product complexity drivers will be a set of decision guidelines that can be appropriately aggregated for different supply chain constructs. Developing a systematic approach to managing complexity, therefore, goes hand in hand with developing a segmentation methodology. The activities reinforce each other.

**COMPLEXITY MANAGEMENT IN PRACTICE**

An early webinar contribution to SCM World’s library describes Unilever’s approach to actively managing the complexity in its portfolio⁴. Owing to its strong multilocal, multinational company culture, Unilever operates with a healthy tension between harmonisation and customisation. The company works to balance its expertise and capabilities in building global brands, global formulations and harmonised packs with its ability to meet local and regional cultural needs and tastes.

Successfully balancing these two cultural centres of gravity is critical not only to establishing decision criteria on where to invest in complexity and where to eliminate it, but also to institutionalising segmentation in a globally consistent and stable manner while creating solutions tailored to local requirements.

At the time of the webinar recording, Unilever had categorised complexity into two types: “above the skin” complexity, which shows up in the choices it offers its customers around packaging and number of SKUs (the diversity visible to customers), and “below the skin” complexity, which consists of the raw material specifications, manufacturing technologies, formulation and recipe complexity, and non-differentiating packaging.

Over time, Unilever was able to bridge these two sides of complexity to create an end-to-end integrated complexity management approach. It brought purchasing and R&D together to work with suppliers on material complexity while making brand teams work with customers to reduce SKU complexity. Projects included the harmonisation of material specifications and manufacturing technologies, and SKU financial analysis. As it drove these projects, it created a multifunctional team that included marketing, R&D and supply chain to work on product recipe and packing format strategies. These increasingly tightened the connections between the two sides of complexity as well as between the different functions.

This bridging of activities between R&D, supply chain and brand management is a critical component of a successful segmentation strategy. For Unilever, this link resulted in the structural reduction of all the major complexity drivers across the value chain. It also allowed the company to expand the analysis to include promotional SKUs, insights on market segments and market share development plans. With this end-to-end, integrated view on complexity, Unilever had a foundation in place to create and repeatedly optimise multiple supply chain constructs and enable the larger corporate strategy.
FUTURE STATE SEGMENTATION

Segmentation as a systematic, repeatable business process may seem far off for many companies, but this is the direction it is heading. In some supply chain organisations, segmentation is now the centre of gravity for supply chain strategy. For instance, cleaning products company Clorox’s 2020 supply chain strategy is balanced entirely on its market and product segmentation capability. All other capabilities rest on this foundation.

To become a core business process, segmentation must be integrated with the go-to-market process or commercial cycle that every company experiences but operates differently depending on the competitive structure of its industry. It is a process that does not exist today, but a few early movers with segmentation have begun to fold this into new product introduction. In the words of one senior executive, segmentation “has to be synced with the operating cadence of the organisation”.

When it is synced in this manner, segmentation can speed adoption of the go-to-market strategy by logically framing for the business the different decision nodes that exist across each supply chain construct. It does this by using market and product criteria, such as product lifecycle, promotional plans, margin goals and service expectations, as a set of co-ordinates that establishes boundaries or guardrails for multiple supply chain constructs. As segmentation becomes more tightly integrated with the commercial cycle, it enables the business to more effectively make choices along the ideation to commercialisation spectrum.

Moreover, segmentation enables the business to understand how innovations will cycle into the market, and how old innovations will be retired. The process itself is dynamic. As Jake Barr, former supply chain executive with P&G, and now head of Blue Ocean Supply Chain Consulting, says: “Companies must not only design supply chains that will enable the initial launch of a product tomorrow, but also understand and strategically plan for ‘what will come next’. Today, some organisations have material flows/supply chains that are three times the length of the replacement time of their products, meaning that two-thirds of everything in the chain will be ultimately obsolete without significant action.”

When segmentation is integrated with the go-to-market cycle, businesses are forced to make decisions on how to meet its objectives. A robust segmentation visualised and understood by commercial partners and general management (and it will be if it is based on the businesses’ own understanding of customer or channel segments) exposes unclear business objectives.
Stated another way, in one-size-fits-all supply chains, businesses are given too much space to avoid or delay having to make choices, and to ignore the trade-offs inherent in decision making. For example, consider the relationship between supply chain design and product pricing. Most firms design based on fixed-price assumptions or static competitive pricing scenarios, even though the market views the price as variable. That is, while realistically a price may range between $380 and $540, the supply chain is designed based on a fixed price of $500 a unit.

Says Barr: “Companies can’t loss eliminate their way out of a hole they designed into the process at the beginning. Virtually 80% of the total cost is fixed once the product is launched. These problems are easy to avoid if you ask the right initial questions.”

Segmentation’s ability to clarify by grouping and clustering sets of capabilities and the costs associated with them enables smoother decision making. It allows the business to visually understand its objectives and, more importantly, logically to depict decision points and the impact different decisions will have on its ability to meet objectives.

While wider adoption of this tool requires continued education, companies also need to learn by doing. As one executive puts it, “it was important for us to begin running water through the pipes”. In doing so, these pipes become more systematised and, in many ways, invisible to the organisation. A successful end state for segmentation, therefore, may be when the process has been institutionalised to such a degree that no one realises that they are even using it.

CONCLUSIONS & RECOMMENDATIONS

- Companies must learn to communicate clearly what segmentation is and the value it brings, or it will remain an underutilised tool. The first step to institutionalising the process is to develop a succinct description of the process and what it means to the business. This “elevator pitch” must be immediately recognisable by senior commercial and general management leaders.

- Complexity management brings supply chain closer to R&D and brand management. Drive this process forward as a way to tighten the nodes between these functions and to increase the new product introduction skills within supply chain.

- Choose a suitable starting point for segmentation by utilising the volume/variation analysis referenced in this report. In concert with complexity management strategies, it begins to frame out and make visual the need for the business to make choices rather than expect it can have it all.

- Segmentation cannot succeed without cost-to-serve analysis. Begin developing and valuating the library of capabilities that will drive decision-making and profitability analysis.
REFERENCES


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