LOGISTICS SERVICES SECTOR SEGMENTATION

To Develop a Strong Value Proposition for Strategic Purposes

3PLs and other logistics service providers (LSPs) have a continuous sales cycle to pursue new business. The cycle is driven because of underlying, systemic issues, namely—

- Commodity service business where price is the key delineator
- High customer turnover
- Eroding profit margins

Eighty percent of customer business will be like this. The effort is to find that twenty percent that can make a difference. There is little or no differentiation versus competition. The need is to create a brand identity that separates your company from the other firms offering similar services. This analysis will identify and capture the key segments that have high customer retention and solid profitability.

Too many logistics providers stay with the business model they have developed as to service offerings and customer / market targets. There may be adjustments made; but it is still the same intrinsic model and sales approach, including an anything and everything for everyone/one stop shop and including chasing volume for the sake of volume. Traditional sales approaches and marketing analyses handcuff a logistics service provider’s ability to identify significant market sector opportunities. All this perpetuates the commodity service dilemma.

**Value Proposition.** There should be recognition of something underlying, subtle and somewhat evasive with many customer endeavors that lays the basis for problems. There is the lack of a value proposition (VP) by the 3PL or LSP.

The VP is not about the freight. It is not about the pallets of product. It is not a marketing spin. It is outward facing—toward the customer, not inward facing about the 3PL. Value Proposition is not about the service provider, the service provided or the assumed benefits of the service. It is not about market share or imitating competitors or indiscriminately pursuing customers or flogging asset utilization.

The value proposition must be focused on the customer, not on the 3PL. A solid VP turns the discussion away from price and toward the customer and his need. It creates a value in using the 3PL that no other LSP has and which the customer will pay for.

An LSP can use the value proposition to differentiate itself from the competition and to break away from the zero-sum game of customer and market share pursuit. It should increase the quantity and especially the quality of sales leads. The VP is not a slogan or tagline. It requires 3PLs and LSPs to understand their services and what these are worth to customers and what
customers really want and need. The value proposition separates the 3PL from commodity-service competitors and breaks the 3PL from a self-defeating price competition game that pressures profit margins.

Value proposition is strategic positioning and should have its roots in the company strategy. The VP is customer centric and requires understanding the customers’ businesses. It targets real customer needs and does not apply to every customer or provide a universal sales methodology. It should be unique or distinctive. It may seem to have a niche approach. The VP should be measurable for the customer to see its impact and benefit. A clear, deliverable value proposition provides defacto branding.

Developing the value proposition is challenging. Determining what customers want and need takes effort. Again, it is not about 3PL-perceived benefits and is not for all customers. It should be measurable and answer the question on why a customer should use a particular service provider. A strong value proposition can overcome real or perceived similarities as compared to competitors.

**Segmentation.** One way to create a value proposition is to look at the market and customers in a different way. Segmentation is important to finding the opportunities that lead to viable value propositions. It creates a focused view of specific customer sectors and logistics capabilities. This means that the overall design and operation will support growth, retention and profitability targets.

The broad customer market is divided into subsets of companies with a common characteristic that will identify their need or demand for certain services. With this segmentation, services can be tailored and matched to the applicable sector. The LSP can then align its services or develop new capabilities to gain these customers’ business.

This is much more than a granularity evaluation and is different than multi-channel marketing. The segmentation takes a different, fresh look at customers to find those whose needs are not being met—and to then create innovative supply chain services--and the value proposition--for them. These are unique customers that respond differently to the traditional sales mixes and that may justify separate service offerings.

Segmentation analysis should not just a marketing exercise. Follow through is required to be successful with strategic implications and importance. The purpose is to gain strategic insight and to identify customer sectors that have been under recognized and under served. This is different than the traditional way of finding customers that match what an LSP does. It is not the usual type of segmentation. It is not about traditional market classifications or industry verticals. The sectoring identifies key opportunities to pursue and that can create both a value proposition and sustainable brand identity. It is part of a strategic execution.
Not about usual market segments---and industry verticals.—with pic and text box

It is about the customer and his needs. It is not about the LSP and what he can do. Different segmentations can be done. These would indicate market sectors that have strong potential as high retention, profitable customers. It also identifies the capabilities and services needed.

The 3PL that wants to find, develop and participate in that key segment must objectively assess what it is doing. Benefits of the segmentation and the ensuing value proposition are—

1) improved customer relationships
2) increased customer retention
3) higher margins, sustainability
4) brand identity
5) distinct competitive advantage

An analysis would include demographics, such as customer size, operating variables, such as customer capabilities and supply chain/purchasing approaches, such as structure.

Results would be shown in matrices, such as these two segmentations—

**Segmentation Analysis #1**
Product value, for example, brings implicit differences to the customers’ target, to what is expected and the integrated services required that go beyond the functional transport, warehousing and forwarding.

The above analysis, as shown in the matrix, would identify markets of interest and of nominal interest. Large market size sectors—and their customers--with high product value would be very strong candidates as customers for the logistics center. Large size with less value and large value with less size could yield customers also. Small size and small value would not likely be viable for the logistics center.

**Segmentation Analysis #2**
Complex supply chains are not the traditional arena for 3PLs. This sector is defined by time, number of trading partners and locations, a plethora of SKUs, and multiple distribution channels.

Market segments with high supply chain complexity would be very strong candidates for a value proposition. Large size with less complexity and large complexity with less size could yield customers also. Small size and small complexity would not likely be viable for a value proposition.

The results of these analyses would facilitate a “reverse” value proposition approach and design by building backwards from markets/customers—as compared to a forward which is based on the LSP’s capabilities. It would identify needed capabilities that otherwise may not be recognized, yet that are vital for the VP. The consequence of such segmentation would be multiple value propositions to position the company. This adds to the success of the program.

Conclusion. Logistics service providers have a choice. They can pursue market segmentation as presented above with its benefits. Or they can do nothing and maintain the status quo is a recipe for continuing problems. Or as Shakespeare said—
Nothing will come of nothing
King Lear
Act 1, Scene 1