SUPPLY CHAIN SECTOR SEGMENTATION – Tiered Supply Chain Management

Supply chain management executives, whether their firms are manufacturers, retailers or wholesalers, face ongoing challenges. Their companies pursue additional business and lower costs. They must deal with supply chains that are complex and may be global in scope. The company has competition -- domestic and international, large and small -- that are direct challengers and ones that nibble at the edges. A supply chain chief must manage a horizontal process in a vertical organization.

In addition, they must deal with demands from internal and external sources--many of which create distracting and sometimes conflicting noises--with regards to service and costs. The noise can be situational or repetitive; it may be on topics that have nominal profit benefit. It can even become a cacophony. But no matter the source or cause, the static distracts and interferes with the supply chain organization and its performance with important issues and requirements, both strategic and tactical. The scope, complexity, competition and noise are ongoing. This continuous test of agility is compounded by limited resources.

Against the challenges, supply chains must utilize best practices, including—

- Increase inventory velocity
- Improve supplier performance
- Compress cycle time
- Maximize inventory yield
- Utilize meaningful metrics
- Implement lean logistics / supply chain management
- Segment the supply chain

Sectoring supply chains is a superior best practice. The benefits go beyond supply chain performance and very positively impact the company in important ways. It has both master plan and operations importance and impact. Segmenting can be used by all companies, regardless of size, industry, market or type.

This is not unbundling the supply chain by function. It is putting focus and aligning resources where important and filtering much of the background noise. The need is to know where to put the emphasis. That is what segmentation does.

For many companies, a supply chain is a supply chain, regardless of channels with customers, markets, regions or other delineator. Many companies view their supply chain infrastructure—assets, people and technology-- as homogeneous--based on costs, operational considerations or other purposes. There is little or no differentiation as to end uses or users with a monolithic supply chain approach. It is the “be everything to everyone”—“one size fits all”—method with
its co-mingling of all customers, products and markets that creates much noise, stretches resources and weakens results.

Some firms misunderstand what segmentation is. As a result, they think of fragmenting as unbundling or even as not using their existing supply chain structure. They stiffen at creating another supply chain. That is not segmenting. Splintering is using the supply chain in a targeted way to best support company strategy and maximize return. Segmentation is also much more than granularity. It is focused, multi-tier supply chain management.

Some firms segment supply chains to handle special situations—

- Retailer splintered based on product category
- E-tailer with significant international sales dissected by destination country
- Consumer goods firm, that both sourced and manufactured, fragmented by demand variability
- Wholesaler sectioned based on inventory turns

Those are good uses of splintering. Even more significant benefits can be had by emphasizing high-value customer sectors. The result is segmentation based on important, key factors that CEOs, COOs and CFOs care about, such as higher profits and reduced working capital.

**Segmentation Analysis #1**

**Profits**

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  Possible       Very Interested
  TARGET

  Likely No Interest

  Possible
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The analysis identifies sectors that the company and supply chain should emphasize. It is actionable. The profit analysis to find large, profitable segments can be done by category, market, product, domestic/global region or other key targets for the business. Note, sectors do not reflect company structure as to divisions or business units. From that start, deeper drilling can be done into subsectors. Segmentation needs accounting recognition of the key customers and sectors so that proper tracking of the financial benefit is done.

**Segmentation Analysis #2**

**Working Capital**

![Diagram showing segmentation analysis with quadrants for Very Interested, Possible, Likely No Interest, and Interest.]

With this hierarchical recognition, the supply chain can be positioned in tiers with regards to each level of customer or other breakout. Supply chains work on a “pull” basis and are driven by customers, however those are defined. Segmentation aligns the supply chain design and operation with each tier. This would be done across the entire supply chain, and not just to select...
parts, such as suppliers. Otherwise the full benefits to the company would be mitigated with incomplete implementation of the segmentation and tier program.

Segmentation enables companies to identify, focus and prioritize key sectors and to tier, align, and, if needed, build supply chain resources and capabilities to successfully serve the sectored customers, cross-channels or markets. Instead of applying a standardized supply chain service across all segments, it provides clarity of purpose and enables the company to match the supply chain service with each segment’s requirements. Targeting and tiering create a greater profit, realistic competitive advantage. It improves supply chain cost, capital and performance.

Supply chain segmentation is a best practice--and more. It works for consumer goods companies and for industrial goods firms. It works for B2C and for B2B activities. Segmenting is implicitly an aggressive, dynamic tactic and supports a robust company strategy that delivers strong service and customer satisfaction, higher growth and margins, and deeper brand and multi-channel penetration.