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OLIVER WIGHTPAPER series

Demand Segmentation:

ahead of the curve



Inspiring
Business
Excellence



Debbie Bowen-Heaton

The future is demand segmentation

We're living in the age of the consumer; and our businesses are in their hands. Empowered, demanding and always right, this new individual requires a shake-up in the way things are run. Of course, the value of good customer service has long been known, but in light of the recent global economic downturn, fast-evolving technology and changing habits of consumers, organizations need to become more focused than ever before on how to respond to their customers. Demand segmentation - classifying products, customers and channels into groups that share similar characteristics - is the surest way to manage this.



Todd Ferguson

But segmentation is not just about responding to the varying needs of consumers today. It's about anticipating long-term trends, thinking ahead of the game and predicting what customers want, even before they do, so there is time to respond and align the firm's business model and supply chain, accordingly.

In the past, it was enough to use a standard, single-model approach and structure the extended supply chain based on costs or operational considerations. Nowadays, to effectively meet demand service needs, across products, format, response and method, it is essential businesses understand that not one customer, channel to market, or product, are the same, and thus a 'one-size-fits-all' supply chain is no longer adequate.

Having segmented on needs and made the decision to respond differently, it is then time to structure the supply chain to deliver this response. And it is a segmented supply chain response that is needed to effectively manage product and service complexity and meet customer needs.

It takes time for the extended supply chain to respond, but the fruit is sweet. Not only is the business better equipped to meet customers' expectations now and in the future, but by capturing sets of capabilities and the costs associated with them, segmentation enables better decision making, instils simplicity in complex supply chains, increases operational efficiency and drives competitive advantage.

In order to achieve this, and truly understand customers' needs in tomorrow's rapidly changing market, demand segmentation must be intrinsically linked with the business strategy and become a core business process. Only when demand segmentation, driven by marketing, is fully integrated with the commercial cycle and runs through the bloodline of the business, can consumer needs be met effectively and profitably; not just now, but in five, 10 and 15 years' time.



Customers at the heart

Organizations claiming to be driven by the customer are commonplace; to the extent it's become something of a cliché. But how many really are?

All too often, businesses are so focused on their product they lose sight of their business value proposition and how well it aligns with the expectations of its different customers.

Not only do customers, channels to market, and products differ greatly from one to the next, but the competitive playing field remains volatile too. At different points in time, customers will have different expectations. For example, notwithstanding its inglorious role in the global financial crisis, the banking industry has adapted well from being a people business, dealing with customers face-to-face, to being heavily dependent on call centers for telephone banking, to now being IT savvy with online banking and smartphone apps. The implications of these shifting consumer habits have been significant on the banking industry and the supply chain response to these needs. Not only have banks had to realign organizational competency to changing banking habits, they also have to anticipate long-term trends to enable their business to respond effectively and efficiently in the future; both take significant time, energy and focus.

There are many scenarios to consider: perhaps the business needs to give priority to a particular customer segment; perhaps it needs to respond within minutes for some segments and weeks for others; perhaps for one segment the product range is the most important thing, whilst for another it's cost.

With so many concurrent business objectives, supply chain optimization is no longer simply about cost reduction. It involves developing a segmented supply chain response to improve the customer's experience. Companies that try and design the end-to-end supply chain to accommodate the best for all these segments, or bend their single supply chain response to multiple requirements, will inevitably fail for all.

Marketing takes the lead

The sales and marketing strategy is the spine of the business and this is where segmentation has to take place.

As figure 1 illustrates, the sales and marketing teams are responsible for deploying the sales and marketing strategy. Moreover, customer and consumption demand is in turn, directly influenced by marketing mix activities; therefore, demand management must be a sales and marketing process.

Once the market and product strategy has been defined, in line with the business strategy and commercial plans, sales and marketing must develop their responses in support of the strategy. This is where

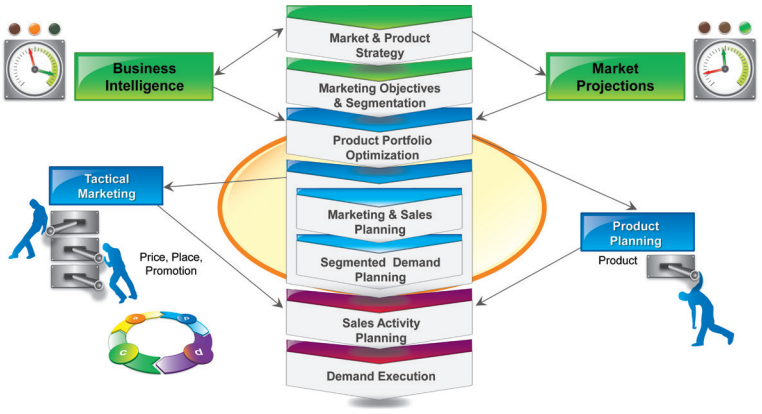


Figure 1: Deploying the sales and marketing strategy

segmentation unfolds - segmenting customers and markets to effectively tailor the marketing mix. Organizations need to look at all the business intelligence and objectives to identify relevant demand segments. Variables such as buying habits, lead-time and service-level requirements, purchase history, geography and demographics, should be considered.

Responsibility for this has to fall to the marketing team, as it is upon its insight that segmentation depends. Everything should be driven by the 'customer value experience', and the product portfolio optimized based on what truly adds value from the customer's perspective.

Here segmentation needs to be coupled tightly with (or even lead) new product development. In doing so, segmentation has the power to align the two sides of the innovation process, product and market, helping develop the ideas of product development and R&D into reality, through a structured process that governs supply chain decisions. Led by sales and marketing and running as a core business process, segmentation enables the supply chain to negotiate the optimal way to deploy its resources and investments to bring new products and innovations to market, and to manage them across their lifecycles.



However, when a business is operating in basic demand mode (not recommended), sales and marketing are usually involved little in demand planning; instead it is typically someone within a logistics or supply chain function who is doing the forecasting.

Even when marketing does drive the process, it is often seen as coming up with a demand plan because the supply team needs a forecast. It's not customer focused, it's about helping out the supply and demand teams so they know what to ship. To be successful, segmentation must be thought of intuitively from a sales and marketing planning point of view, and as the tool to create long-term competitive differentiation.

A good marketing person will very often say, 'Segmentation? But we do this!' However, whilst they may be segmenting the market, it is rare they are truly integrating it with demand. They're often not sharing it with the business and certainly not with the extended supply chain. Consequently, the supply chain implications of market segmentation remain neglected.

A case in point, Oliver Wight was working with a global company whose numbers were in decline. Traditionally, it had depended on the impulse market – consumers going in to a shop and picking up products at the checkout. But shoppers' buying behaviors have changed; consumers are shopping online or they're going to the self-service checkouts in store, so they're not exposed to the product right in front of them. As a result, the occasion to buy is very different. The company failed to anticipate this and declining sales have resulted. Had they anticipated these changing consumer trends and shopping habits, the marketing team could have worked more collaboratively across the end-to-end supply chain and gained competitive advantage; even increased sales through a segmented response to changing needs.



The need to look ahead

Thankfully, the business is now looking at the problem and trying to respond, but realizes if it had sales and marketing driving demand in the early days, plus the processes in place to really plan ahead, it would have pre-empted consumers shopping differently – and much sooner.

Instead of thinking about the long-term demand plan, the sales and marketing team was in crisis mode; too busy battling short-term customer service issues to consider what it needed to do from a supply point of view to ensure products were where they needed to be, when they were needed.

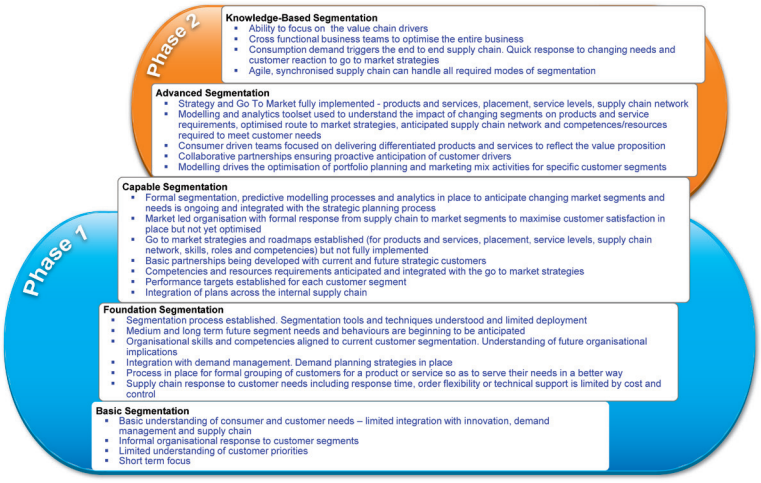
When a business is disconnected and working in silos, it is not possible to move beyond the near term and focus on an advanced, forward-looking level of segmentation because people and teams aren't working together and the supply chain is not integrated. It is only when a business starts to achieve integration between its product, demand and supply teams, that it can begin to reap the true benefits of segmentation.

This is where Integrated Business Planning (advanced S&OP) can play a valuable role. A common-sense process for planning and managing the entire organization, Integrated Business Planning integrates diverse processes and different plans from the individual business functions to form one integrated company plan. Its five monthly review meetings provide an effective forum to measure performance, highlight gaps and drive continuous improvement in the demand management process, and indeed, the segmentation process.

The maturity journey

At Oliver Wight, we use maturity maps to help an organization understand its maturity and capability, and that of its supply chain partners. Naturally, the segmentation efforts of businesses at different stages of maturity will differ, (see figure 2). Those in Phase 1 will not yet have mature enough processes to consider true segmentation; instead focus is on the short-term with a basic understanding of customer needs. For those companies which have lots of demand variability in the here and now, breaking down customer segments will be beneficial for demand plan accuracy. But as a company matures, the benefits to be gained from segmentation extend well beyond this.

As a company moves from the fire-fighting, disconnected management processes at the bottom of phase one, eliminating unplanned events and doing the routine things routinely,



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Figure 2: The maturity journey - segmentation

processes will be mature enough for capable segmentation. A formal insights management process can be put in place to really start to anticipate changing customer segments. By now there should be real understanding of what the future model looks like, and a formal response to customer segments to maximize customer satisfaction, with integration across the internal supply chain. Go-to-market strategies and roadmaps will be established for products and services, placement, service levels and the supply chain network.

Not until a business matures into Phase 2 with the right tools (as well as people and processes) in place, can it really begin to reap the big benefits of advanced segmentation. At this stage, it is time to look at modeling, both potential outcomes and potential responses to segments and designing the optimal supply chain to respond to this. Modeling is used to help make strategic decisions, for example: 'If we move online what is the optimal supply chain response? What options do we have in terms of distribution channels? What choices do we need to make?'

Whilst establishing excellent processes and behaviors first is vital, as a business matures to the top of phase one, IT tools, which support real-time scenario planning, will not only radically advance the benefits to be derived from Integrated Business Planning, they will support knowledge-based segmentation.

The implemented tools need to be able to model the business's future performance based on a variety of possible scenarios. Technology, like that from AIMMS, includes the means to manage qualitative information, such as assumptions, risks and opportunities, as well as the development and comparison of multiple scenarios. As a result, organizations, which have progressed their Integrated Business Planning process to a high level of maturity, can expect the support they need to deliver the next wave of segmentation benefits.

A healthy future

You only have to look at multinational pharmaceutical company, GlaxoSmithKline (GSK), to understand the benefits that can be reaped from advanced segmentation.



Many years prior to the public smoking ban in the UK, GSK began looking at smoking trends across the world - increasing public intolerance, associations with health issues and the cost to the public health sector. It then began lobbying the UK Government to ban smoking in public places, pulling together studies on the cost of smoking to the NHS. Meanwhile it continued to develop its smoking cessation products and began sponsoring doctors' clinics' 'quit smoking' groups. By the end of 2008, smoking had been banned in in the UK in all enclosed public places as well as pubs, bars and restaurants. The result? An increased demand for smoking cessation products, something which GSK's vast product range could provide. GSK was not just segmenting the market as customers' habits changed, it had been thinking about this years before; pre-empting demand and aligning its supply chain accordingly.

Playing the long game

The ongoing benefits of segmentation require sales and marketing to become intensely focused on the value chain; not only thinking about what adds value for tier one customers, but considering tier two customers as well.



With the short-, medium- and long-term trends, built into the demand planning process, this can then be shared with the supply chain with open discussions on how to respond. 'Are there products and services that need changing? Are there new products, new marketing messages, or new activities which could be introduced?' Then, questions regarding the supply chain implications: 'if the business moves into different product ranges, categories, markets or customers, what skill set does it need?' Not just new technology, the business needs to consider its manufacturing capability or whether it needs to outsource production or logistics to a third party. From a sales and marketing point of view as well, just because a company is capable of selling one product in a particular market, country or channel, doesn't mean it can sell a different one through another channel.

The great benefit of segmentation is that having broken down the market into more logical groupings based on customers' varying requirements, the business can capture more accurate profiles of product and customer profitability, which in turn, enables more intelligent pricing and service decisions across the extended supply chain.

Looking ahead, there needs to be an ongoing review of market segmentation. Remember, segmentation takes place at the core of the business, and so gathering insights and intelligence, and monitoring change should be a continual process. Whilst a company may have identified customer segments today, as more insights, trend predictions and product developments emerge, the business strategy needs to reflect this.

Segment to satisfy

Getting the true benefits from segmentation – the really exciting stuff – takes a long time. Supply chains need time to respond; introducing new products and services can require a whole new set of skills, new distribution channels and indeed, different strategies to market those particular products, and this won't happen overnight. Implementing an Integrated Business Planning process can provide the fundamental integration required between product, demand and supply teams, and the maturity in business processes needed to advance segmentation. Looking ahead, businesses can anticipate future trends and define the precise supply chain response needed to satisfy the customer of tomorrow, ultimately gaining true competitive advantage and staying ahead of the curve.

About Oliver Wight

At Oliver Wight we believe sustainable business improvement can only be delivered by your own people; so unlike other consultancy firms, we transfer our knowledge to you.

Pioneers of Sales and Operations Planning, Oliver Wight professionals are the acknowledged industry thought leaders for Integrated Business Planning (IBP). Integrated Business Planning allows your senior executives to plan and manage the entire organization over a 24-month horizon, while Oliver Wight's Supply Chain Optimization ensures your supply chain is designed and structured to deliver best-in-class customer service with minimal costs.

Using the Oliver Wight Maturity Model to pursue our globally recognized Class A standard for best practice will determine a tailored improvement journey for you to develop your organization's processes, and reach and sustain excellent business performance. With a 40-year track record of helping some of the world's best-known organizations, Oliver Wight will help you define your company's vision for the future and deliver performance and financial results that last.

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