



## Logistics Association of Australia Ltd

# CUSTOMER SEGMENTATION – NOT JUST FOR SALES & MARKETING

Glenn Baird, winner of the 1997 International Study Award, discusses the concept of customer segmentation from a logistics perspective in this the third report from his overseas study tour. The International Study Award is sponsored by CHEP Australia.

During February, I had the opportunity to make presentations to both the New South Wales and Victorian meetings of the LMA. The concept of customer segmentation from a logistics perspective was touched on.

This month I would like to explain the concept further and share with you the approach a US firm has taken to implement a "configured" supply chain.

Segmentation of the customer base for pinpointing marketing and sales activities is well understood. Similarly, logistics services provided can be tailored to specific customers or customer segments.

A joint research project between Stanford and Northwestern Universities and Andersen Consulting is currently underway. The focus of the project has been on two industries - the PC industry and the consumer and packaged goods (in Australia, known as fast moving consumer goods [FMCG]).

Preliminary results suggest that the study will conclude that competitive advantage can be driven by retailers and manufacturers collaboratively designing the supply chain and allocating fulfilment activities to the most efficient entity (location) in the supply chain; an organisation has a finite set of viable SC solutions it can implement.

It may benefit from multiple SC structures depending on product, customer and consumer franchises.

One US firm that has moved down this path is Georgia-Pacific (G-P). Its Packaged Products Division presented the progress of an implementation of configured supply chains at the CLM conference.

The key to Georgia-Pacific's approach is "One size should not fit all."

For different customers, premium service means different things.

Providing all customers with the same service is excessive.

For some customers, one company-wide service level, no matter how high a standard, can still lead to shortfalls in desired service.

G-P initiated a customer segmentation exercise driven predominantly by its overall business strategy. Competitive pressures in the industry (consumer paper products) were experienced from Procter and Gamble, Kimberley Clark and others. ECR and improved Supply Chain Management were capabilities G-P identified a need to internalise.

At a corporate strategy level, G-P set an objective of efficient distribution.

At a lower level, this required delivery of:

- consumer customer profiles;
- development of a "strategic attractiveness" and 'cost-to-serve' segmentation model; and
- a distribution network strategy.

Customer segmentation was achieved through identification of service and logistics requirements, both current and future.

Larger customers were interviewed - smaller customers completed surveys on a sampling basis.

Four customer groupings emerged from the process. G-P classified them as follows:

| Customer Group | EDI Services | Inventory Turns (um) | Order Cycle (Days) | Logistics Services | Product Sophistication level |
|----------------|--------------|----------------------|--------------------|--------------------|------------------------------|
| Optimisers     | 12           | 65                   | 2                  | 23                 |                              |
| Internalists   | 8            | 42                   | 5                  | 13                 |                              |
| Guardians      | 3            | 30                   | 7                  | 4                  |                              |
| Others         | 1            | <20                  | 7+                 | 0                  | 4                            |

The study also generated a clear list of Supply Chain services to be provided.

G-P was then able to:

- identify and measure extra/uncommon activities;
- identify and categorise cost drivers;
- define service delivery processes;
- map incremental cost elements (using standard and ABC methods);

- tabulate cost matrix for operational and annual review use.

With these inputs and capabilities clearly defined, G-P was able to move forward to tailor its distribution network strategy. This includes development of alternative distribution networks to meet the newly defined customer needs.

Strategically, G-P sees great benefits from increasing customer satisfaction. At the same time, removal of "wasted" logistics costs for performing cost-add rather than value-add activities can be achieved.

The company's key enabler throughout the process has been improved IT systems and particularly decision support systems. Customer segmentation can not be achieved without such information. G-P utilised what they referred to as a "logistics toolkit" called CAPS in their distribution network modelling.

I was reminded at the Melbourne IMA meeting about the benefit of such case studies being presented at the CLM.

For some Australian firms, these steps may not be too far in front of our own progress. For others, they will show the way. However, in totality they give us encouragement and a guide to what is possible and a hint to the preliminary steps required.