Realizing Business Productivity Through
SUPPLY CHAIN SEGMENTATION

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SUPPLYCHAIN
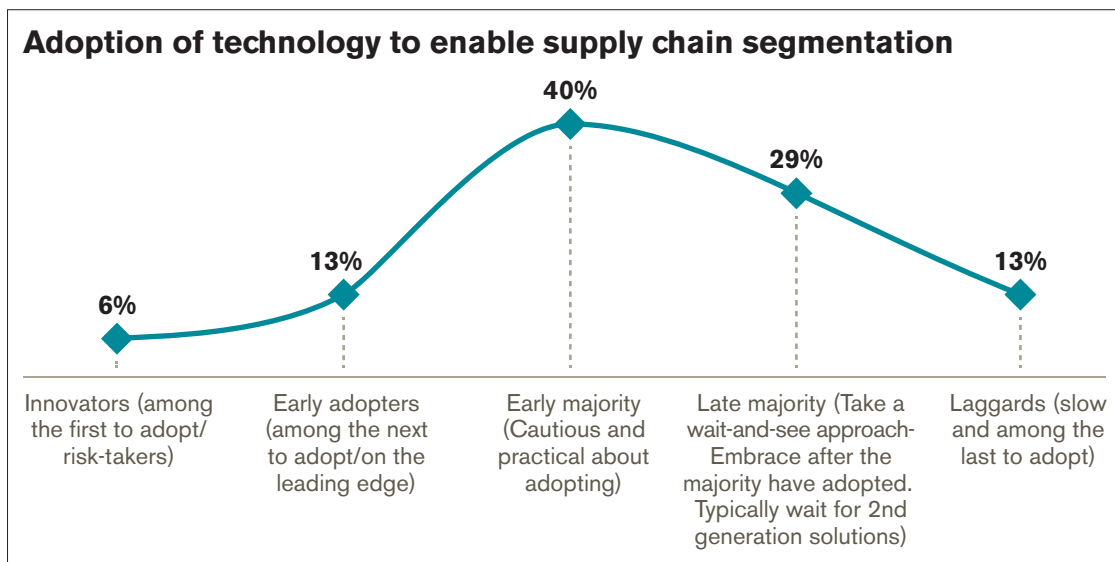MANAGEMENT REVIEW

Introduction & Background

Today's demanding business environment is pushing manufacturers and distributors to rethink their traditional, one-size-fits-all supply chains and develop networks that can deftly segment and address specific customer needs, wants, and demands. The diversity across channels and customers, for example, requires organizations to sharpen their supply chain pencils and devise ways to serve everyone from the individual consumer who buys a single item online to the huge multinational conglomerate that purchases large quantities across multiple end items. Effectively serving both ends of this spectrum requires a high-performance, segmented supply chain approach.

Gartner defines supply chain segmentation as *"Designing and operating distinctly different end-to-end value chains (from customers to suppliers) optimized by a combination of unique customer value, product attribute, manufacturing and supply capabilities, and business value considerations. In essence, supply chain segmentation is the dynamic alignment of customer channel demands and supply response capabilities optimized for net profitability across each segment."* Supply chain segmentation helps companies better sawtheir customers, develop standard lead delivery times, simplify management and reporting, curtail business costs, and attract new clients.

In a recent study sponsored by JDA Software and conducted by Peerless Research Group (PRG) on behalf of *Supply Chain Management Review,* 140 supply chain executives having management and/or purchase decision responsibilities for supply chain solutions in manufacturing and warehousing operations offered input on their current supply chain infrastructures. Specifically, the research examined organizations' adoption of a supply chain segmentation strategy and implementation, and how their investments and commitment to a segmented approach is delivering enhanced process efficiencies, better inventory management, and improved customer service.

We'll see that while a segmented supply chain approach pays huge dividends, not all operations are proactively moving in the direction of employing supply chain segmentation models. Only a small percentage (6 percent) of the individuals surveyed say their companies embrace "leading edge" or innovative supply chain strategies and technologies to enable supply chain segmentation; and, only slightly more than one out of 10 (13 percent) are early adopters who will implement shortly after those that are on the cutting edge. The majority of companies (81 percent) are reserved when considering new supply chain technologies and strategies, and are measured in their implementation with new applications.

Adoption of technology to enable supply chain segmentation

Innovators (among the first to adopt/ risk-takers)	Early adopters (among the next to adopt/on the leading edge)	Early majority (Cautious and practical about adopting)	Late majority (Take a wait-and-see approach- Embrace after the majority have adopted. Typically wait for 2nd generation solutions)	Laggards (slow and among the last to adopt)
6%	13%	40%	29%	13%

Servicing Diverse Customers and Satisfying their Requirements

High on the list of challenges that organizations face is the need to tailor processes for customers that demand a wide breadth of qualities and requirements. Subsequently, challenges exist in servicing diverse customers across key business demographics, including geographic location, nature of business, and company size. Additionally, the volume of business or revenues generated by a customer, how an order was placed, related delivery timelines, order fulfillment channel, and product customization requirements must all be factored into the manufacturer's order placement, processing, and delivery operations.

Characteristics that differentiate customers

Characteristic	Percentage
Delivery timelines (expedited vs. standard delivery requirements)	68%
Volume of business they do with us/Revenues generated	63%
Geographic location/Customers are located in different time zones	56%
Nature of customers' business/Line of business	51%
Various company sizes	44%
Product customization necessities	44%
Global diversity (dealing with regulations, customs, etc.)	40%
Manufacture/distribute different product lines	40%
Selling channels they use (online vs. storefront vs. distributor, etc.)	35%
Supply risks	32%
Diversity in how products are consumed/used (e.g., OEM vs. consumer)	22%

When it comes to offering different customer-servicing policies, companies are split. Slightly fewer than one-half (45 percent) do maintain different practices while others (55 percent) service all customers similarly.

Interestingly, while the majority of manufacturers say they treat all clients alike, the vast majority further assert that adapting for a mix of customers is very important.

Importance of having different service policies and practices for varying customers

Category	Percentage
Critical	29%
Very significant	46%
Somewhat significant	18%
Not very/Not at all significant	7%

"The diversity of our customer base has a large impact on our supply chain: 1. Customers who are online require a large number of SKUs that change. This often makes demand forecasting difficult. 2. Customers who require "branded" products increase the risk of having excess inventory. 3. Customers who have "events" that require large volumes for a short period of time (1 or 2 days) put pressure on the whole supply chain."

—Supply Chain Manager/ Computer Manufacturing

"The mix of customers greatly impacts our supply chain. Some customers are low volume/high mix. This causes a challenge with inventory level management. Conversely, the customers with high volume/low mix are easier due to easier inbound management (JIT) and supplier management."

—Global Logistics Director/ Semiconductors

"Each client requires an almost unique approach. Therefore we have learned to be HIGHLY flexible."

—Corporate Management/ Coatings, Adhesives, Sealants, Elastomers

"We have significant variation in "cost to serve" depending on geographic location and service requirements (i.e. retail vs. distribution)."

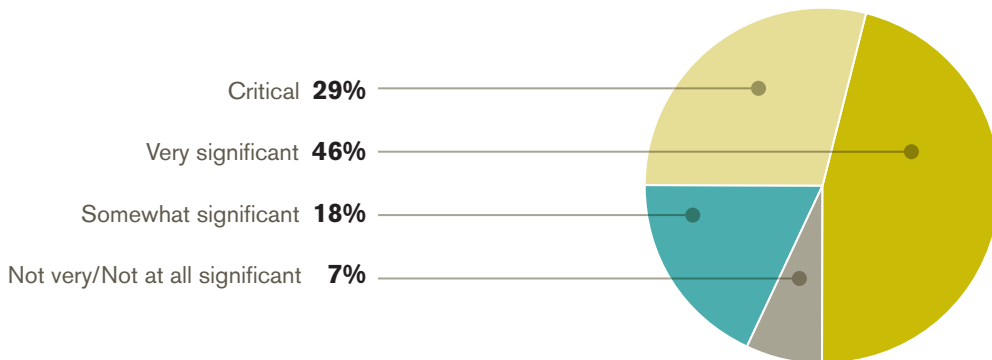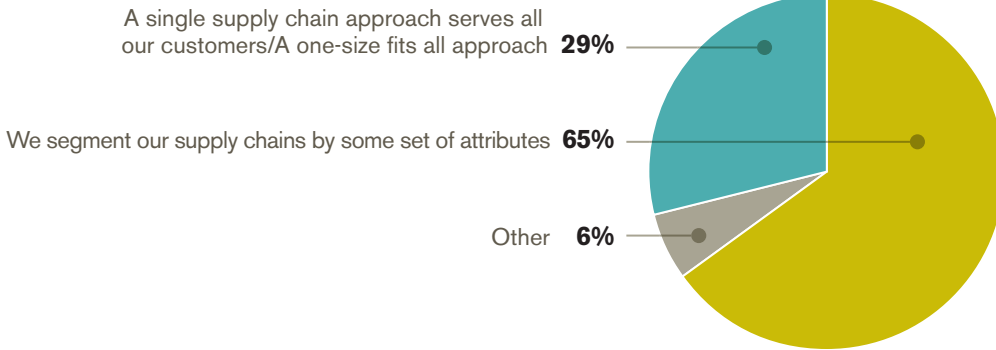**—Purchasing/Procurement Manager/Building & Construction**

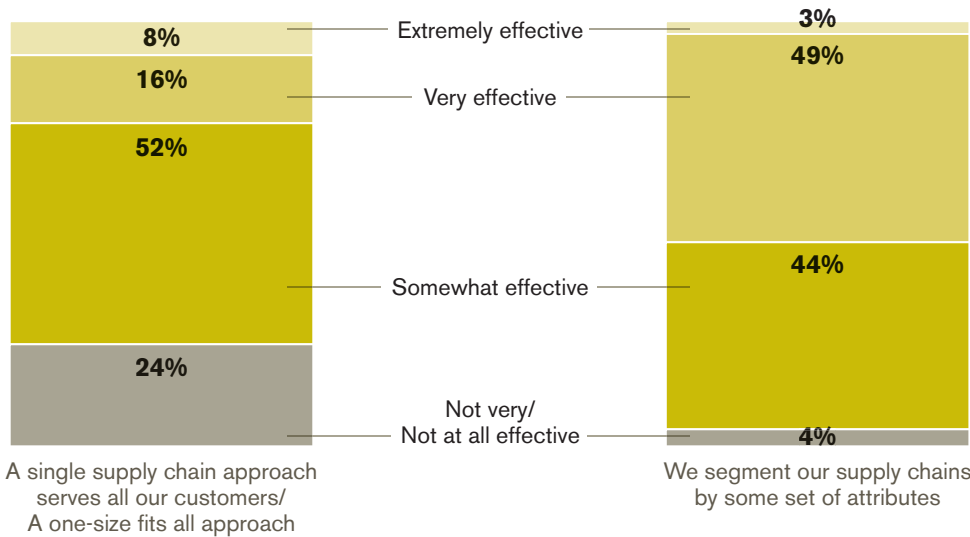## Employing a Supply Chain Segmentation Strategy

Two out of three organizations we studied operate some form of a supply chain segmentation methodology. Those managing a segmented approach use categorization criteria like product type, line of business, delivery timelines, and lead times.

Supply chain strategies organizations are employing

A single supply chain approach serves all our customers/A one-size fits all approach **29%**

We segment our supply chains by some set of attributes **65%**

Other **6%**

When asked about the effectiveness of their supply chain strategy, those running a segmentation model say their approach is effective. This is in stark contrast to those not running a segmented network. Companies that rely on a segmentation approach are realizing greater efficacy and success with their supply chain versus those following a "one size fits all" direction.

Effectiveness of supply chain based on supply chain paradigm

Extremely effective	8%	3%
Very effective	16%	49%
Somewhat effective	52%	44%
Not very/Not at all effective	24%	4%

A single supply chain approach serves all our customers/ A one-size fits all approach

We segment our supply chains by some set of attributes

Those running less effective segmented supply chains admitted that their systems are not well integrated and, as a consequence, key business-critical areas such as service and cost controls are suffering. A few also noted that while a segmented approach offers significant benefits such as improved customer service, it has caused some complexities to overall supply chain execution.

"We have a dealer network and we sell direct to areas where our dealers do not cover. There are different policies when selling to a distributor versus selling direct. Marketing strategies, customer and technical service strategies and logistics strategies are just some of the areas where this type of sales model differs."

—**Director of Operations/ Wholesale**

"We must employ different strategies and processes based on the individual customer's needs and requirements."

—**Supply Chain Manager/ Distributor, Surgical instruments**

"We have the ability to respond to client requirements and find solutions that work best for them!"

—**Supply Chain Manager/ Transportation & Warehousing**

"We have US production and international production; the segmentation allows us to react quickly to opportunities and then offer lower cost, long-term solutions."

—**Vice President/Automotive Aftermarket**

"A segmented supply chain has allowed us to service customers the way they wanted and we're able to do so for each location."

—**Supply Chain Manager/ Food & Beverage**

Supply Chain Performance

Supply chains are often thought of as key cogs in a company's profitability wheel. Companies also advantageously rate their supply chain(s) for their ability to meet customers' needs and improve overall service levels.

However, these supply chain managers are not without pain points and note that their supply chain systems suffer both productivity limitations and breakdowns. Areas in which supply chains are considered most deficient include a lack of end-to-end visibility; sub-par inventory turn levels; poor quality and availability of information; and substandard collaboration practices.

Supply chain effectiveness

	High	Moderate	Low
Playing a role in your company's profitability	66%	28%	6%
Meeting customers' needs	64%	33%	3%
Improving customer service levels	53%	43%	4%
Fulfillment efficiency	46%	51%	3%
Collaborating with suppliers	36%	50%	14%
Quality and availability of data	30%	51%	19%
Greater inventory turns	28%	51%	21%
End-to-end visibility	20%	60%	20%

Legend: ■ High ■ Moderate ■ Low

Any obstacles expressed by managers largely addressed implementing and/or managing a segmented supply chain network. Other challenges included obtaining reliable data, overcoming an insufficient technology infrastructure, and a lack of ownership or organization commonly attributed to fragmented business infrastructure principles.

"We can't provide the best service since. . . . and, we need to! We are forced to allocate different resources to this."
—**Vice President/ Trading services**

"There's just not enough consolidation of systems, and it's led to increased costs!"
—**Logistics/ Distribution Manager/Building & Construction**

"It has probably made the day-to-day management of supply chain activities a bit more complex, but it has also given us greater wisdom about each supply chain!"
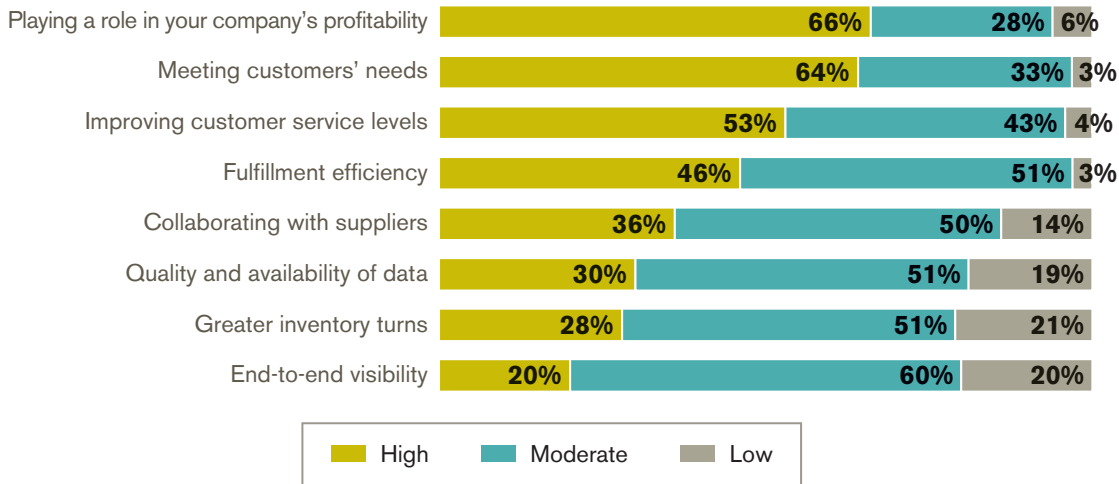—**Corporate Management/Coatings, Adhesives Sealants, Elastomers**

"Number of product offerings to satisfy the diversity of customer demands results in multi portfolio operations which increases cost and complexity."
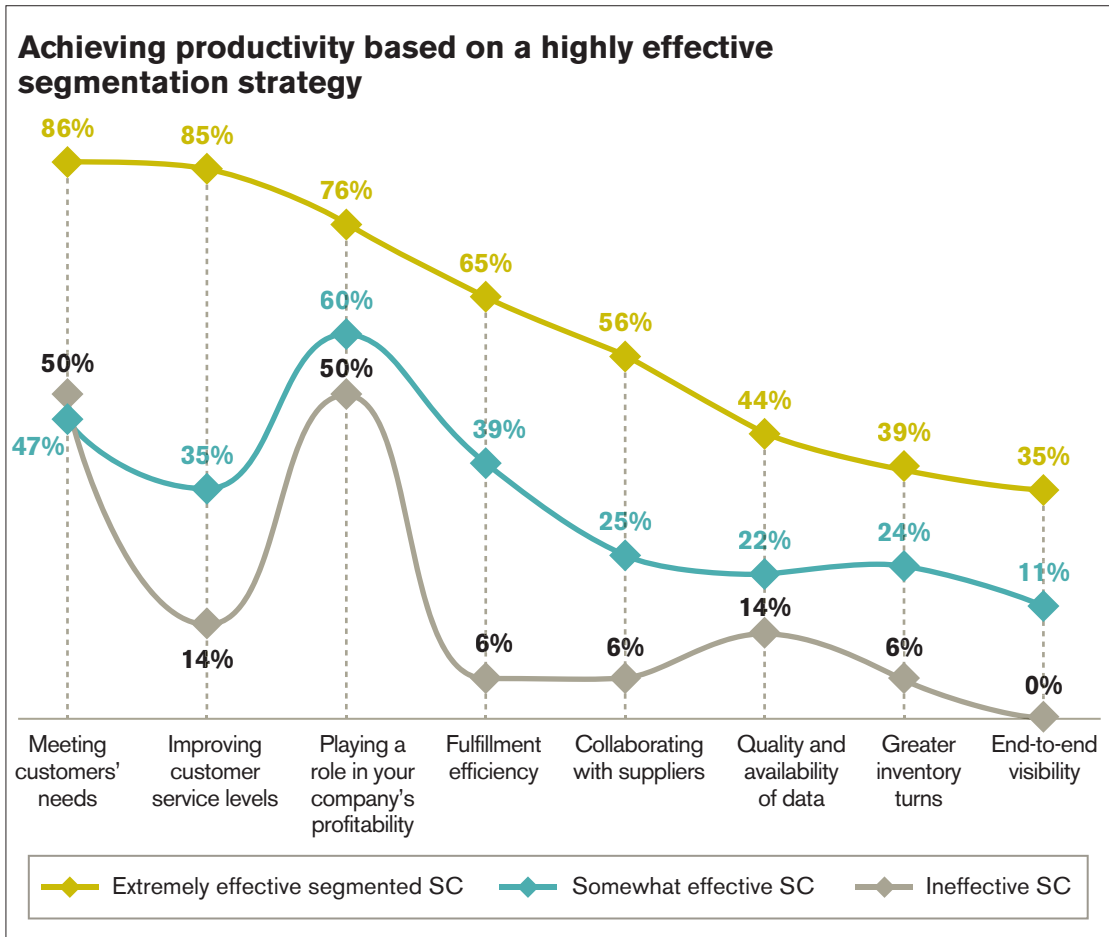—**Supply Chain Manager/ Paper goods**

"There's confusion among the varied business units. There are overlapping services that could be centralized for offering best-in-class service, efficiency and cost reductions."
—**Supply Chain Manager/ Paper goods**

"Our inability to read demand and handle reactionary requests without planning, or integrating our team is creating pressure points throughout the supply chain."
Vice President/Distributor

"Due to the culture of our leadership we have to be all things to all people, never saying "no" to any business . . . never analyzing cause and effect. Our ability to drive effectiveness and efficiency in our supply chain is severely shackled."
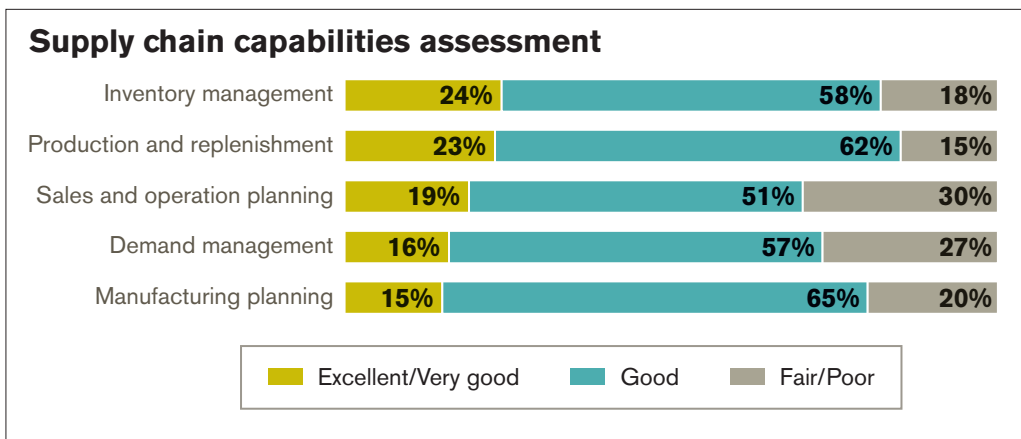—**Director of Logistics/ Wholesale**

Those who have achieved a successful segmentation strategy are seeing significant gains in each of these critical areas of productivity, and in some instances are achieving success at dramatically high levels!

Achieving productivity based on a highly effective segmentation strategy

	Meeting customers' needs	Improving customer service levels	Playing a role in your company's profitability	Fulfillment efficiency	Collaborating with suppliers	Quality and availability of data	Greater inventory turns	End-to-end visibility
Extremely effective segmented SC	86%	85%	76%	65%	56%	44%	39%	35%
Somewhat effective SC	47%	35%	60%	39%	25%	22%	24%	11%
Ineffective SC	50%	14%	50%	6%	6%	14%	6%	0%

"Fifty percent of our business is loosely forecasted. We stock up to 90 days worth of possible demand. Those customers order the day before they want product delivered OR we stock product in their warehouse. The other half is discrete demand, where we generally are given less than 8 weeks in total lead time from order until date of shipment. It's RUSH! RUSH! RUSH!"
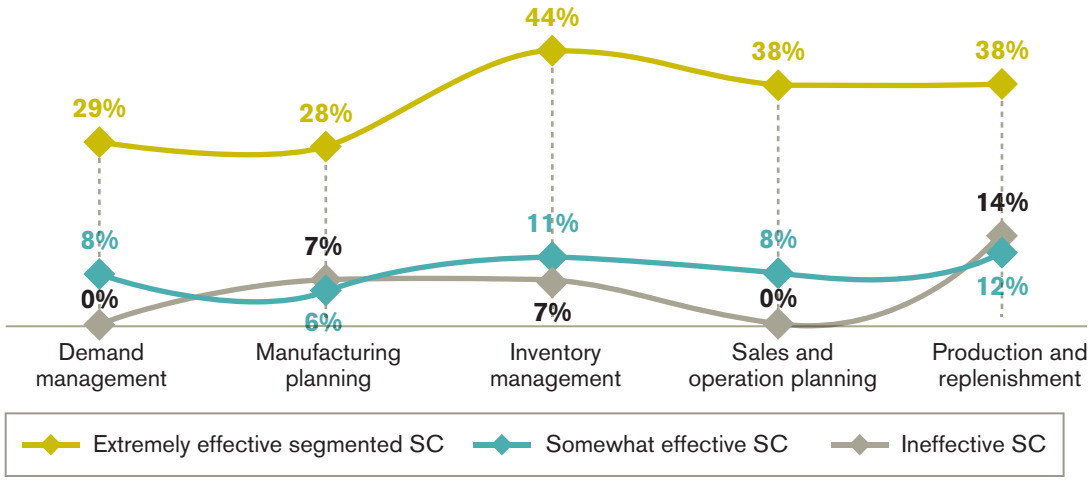
—Vice President/ Electronics

In terms of competencies, the supply chain executives we surveyed believe their systems are strongest in the areas of production and replenishment, and inventory management. Areas that are lagging and require consideration largely involve sales and operations planning, demand forecasting, and manufacturing planning.

Supply chain capabilities assessment

	Excellent/Very good	Good	Fair/Poor
Inventory management	24%	58%	18%
Production and replenishment	23%	62%	15%
Sales and operation planning	19%	51%	30%
Demand management	16%	57%	27%
Manufacturing planning	15%	65%	20%

Segmented supply chains viewed as highly effective are markedly more proficient in each of these core areas.

High levels of supply chain productivity based on effectiveness of segmentation

	Demand management	Manufacturing planning	Inventory management	Sales and operation planning	Production and replenishment
Extremely effective segmented SC	29%	28%	44%	38%	38%
Somewhat effective SC	8%	6%	11%	8%	12%
Ineffective SC	0%	7%	7%	0%	14%

Legend:
- Extremely effective segmented SC
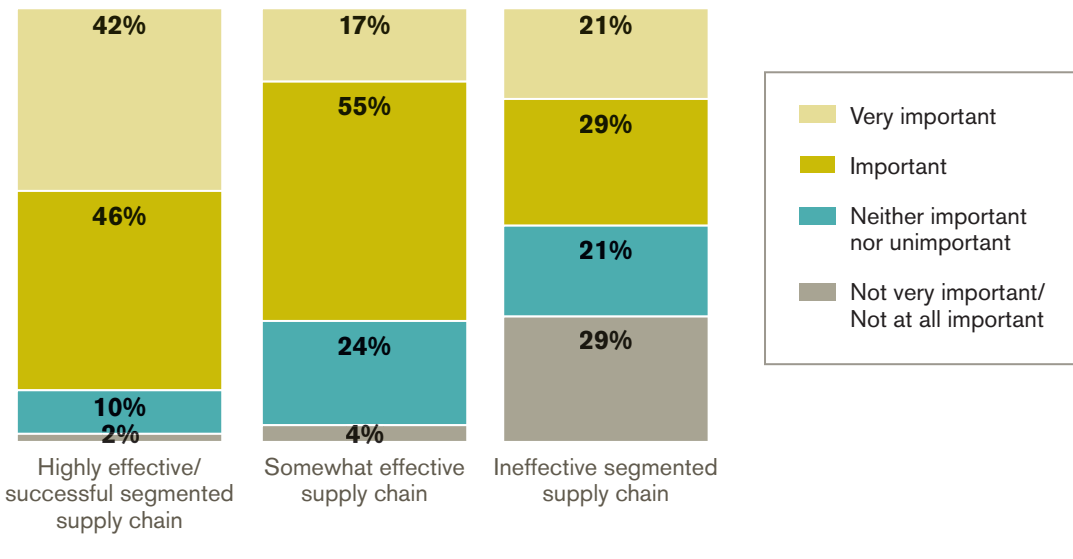- Somewhat effective SC
- Ineffective SC

"Segmentation has a critical effect for us. Our supply chain is the company's face to customers, and there is a wide range of responses and capabilities needed to appropriately satisfy each customer or customer group."

—Consultant/ Food & Beverage

Benefits in Operating a Segmented Supply Chain Network

Those able to design and execute an effective segmented supply chain network understand the value that a high performance system contributes to their business operations.
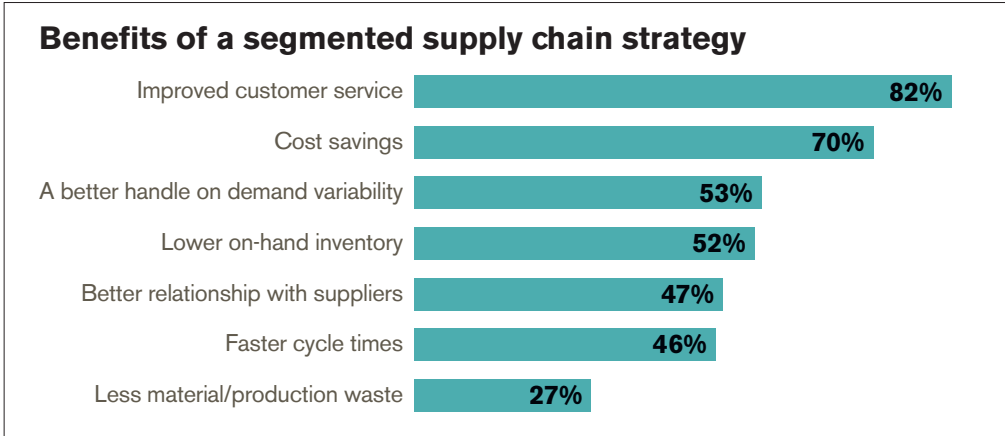
The importance of a segmented supply chain to an organization

	Highly effective/ successful segmented supply chain	Somewhat effective supply chain	Ineffective segmented supply chain
Very important	42%	17%	21%
Important	46%	55%	29%
Neither important nor unimportant	10%	24%	21%
Not very important/ Not at all important	2%	4%	29%

Legend:
- Very important
- Important
- Neither important nor unimportant
- Not very important/ Not at all important

"I think segmentation has helped. It has allowed us to publish standard lead times to our customers, which is typically one of their main concerns."

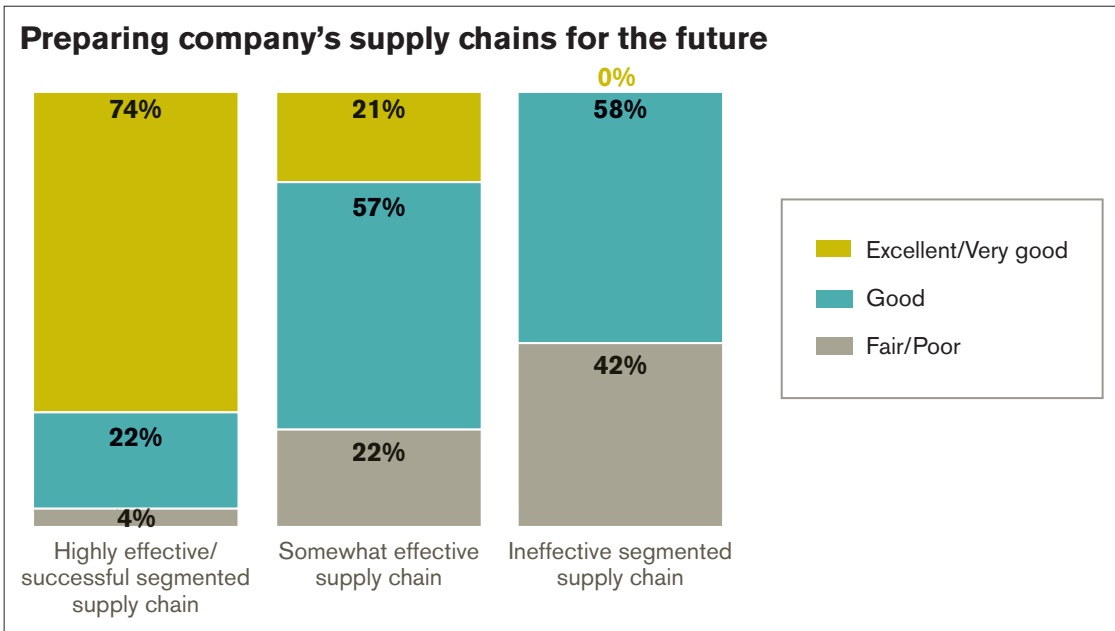—Director, Supply Chain/ Irrigation & Valves

In particular, segmented supply chain practices are advancing customer service capabilities and facilitating initiatives to gain greater control over costs. Additionally, these systems are improving inventory management capabilities while enabling higher concentration on demand management. Many organizations are focusing their attention on such achievements.

Benefits of a segmented supply chain strategy

Improved customer service	82%
Cost savings	70%
A better handle on demand variability	53%
Lower on-hand inventory	52%
Better relationship with suppliers	47%
Faster cycle times	46%
Less material/production waste	27%

"It actually simplifies management and reporting which allows a more tailored response. It has led to incremental growth and some larger new business."

—Supply Chain Manager/ Global Distribution

Those running highly effective segmented supply chains also believe they are well-positioned for the future. Planning and forecasting solutions and operational management systems such as warehouse and transportation management are the most common solutions either now running or planned for implementation within the next two years.

Preparing company's supply chains for the future

	Highly effective/ successful segmented supply chain	Somewhat effective supply chain	Ineffective segmented supply chain
Excellent/Very good	74%	21%	0%
Good	22%	57%	58%
Fair/Poor	4%	22%	42%

Conclusions

As evidenced by the JDA Software Group, Inc. study, supply chain professionals intuitively know and understand the value of leveraging a segmented supply chain, yet relatively few are actually able to use segmented supply chains to manage their day-to-day operations. We expect this to change in the coming years as an increasing number of high-profile success stories related to supply chain segmentation emerge, and as a growing number of companies figure out for themselves just how beneficial it can be to overall customer service and organizational productivity. Additionally, companies have often struggled to deploy supply chain segmentation strategies because underlying decision support technologies have not been readily available for end-to-end value chains. That has changed with the advent of new, advanced technologies over the past few years, paving the way for the next generation of supply chain innovation. Leveraging best of breed technology, an organization can use multiple virtual supply chains to provide differentiated service strategies to serve different customer, market and product segments based on different attributes. Whether the organizational mission is to reduce supply chain complexities, leverage untapped synergies, increase standardization, enhance customer value, or all of the above, supply chain segmentation, and the technology to support it, will play a critical role in helping manufacturers achieve these and other goals. By going beyond the one-size-fits-all supply chain approach and tailoring their supply chain policies in ways that actually meet the needs of individual customers, companies can effectively improve their own top and bottom lines while shoring up valuable customer and partner relationships.

Methodology

This research was conducted by **Peerless Research Group (PRG)** on behalf of *Supply Chain Management Review* for **JDA Software**, a leading provider of supply chain and retail software and services. This study was executed in November, 2014 and administered over the Internet among subscribers to Supply Chain Management Review. All respondents were prequalified for being involved in the decisions regarding their organization's supply chain operations.

Respondents are predominantly top corporate executives, directors of supply chain operations, operational or division vice presidents or general managers, and top logistics and DC managers. Respondents are employed in manufacturing (49 percent), wholesale or retail trade (17 percent), or work for a 3PL, transportation or warehousing provider (18 percent). Companies of all business sizes are represented in the study, and range from $50 million to over $2.5 billion in annual revenues.

About JDA Software Group, Inc.

At JDA, we're fearless leaders. We're the leading provider of end-to-end, integrated manufacturing and supply chain planning and execution solutions for more than 4,000 customers worldwide. We're transforming complexity to competitive advantage by ensuring you have the right products, in the right place, at the right time. Our clients benefit from comprehensive solutions, including demand and fulfillment, category management, inventory optimization, enterprise supply planning, order promising, factory planning and sequencing, sales and operations planning (S&OP), transportation, warehouse, and labor management, enabling our clients to create profitable and segmented supply chains across their enterprise. Our clients use JDA solutions to effectively address change and disruption quickly, simulate buy-make-move-store-deliver scenarios to support informed decision making, and orchestrate planning processes to optimize resources, materials and assets globally. Using JDA, you can plan to deliver. www.jda.com.

Contact Information

www.jda.com

EMAIL:info@jda.com

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