

A SINGLE SUPPLY CHAIN IS NOT ENOUGH

# 'It's all about CUSTOMER SEGMENTATION'

► Successful companies such as Zara and Schneider Electric are organised from a customer segmentation perspective. Meanwhile, many firms are caught up in short-term thinking because of their single, failing supply chain. Those were the two key observations during the EMEA Supply Chain & Logistics Summit held in Barcelona in June 2016.

By Martijn Lofvers

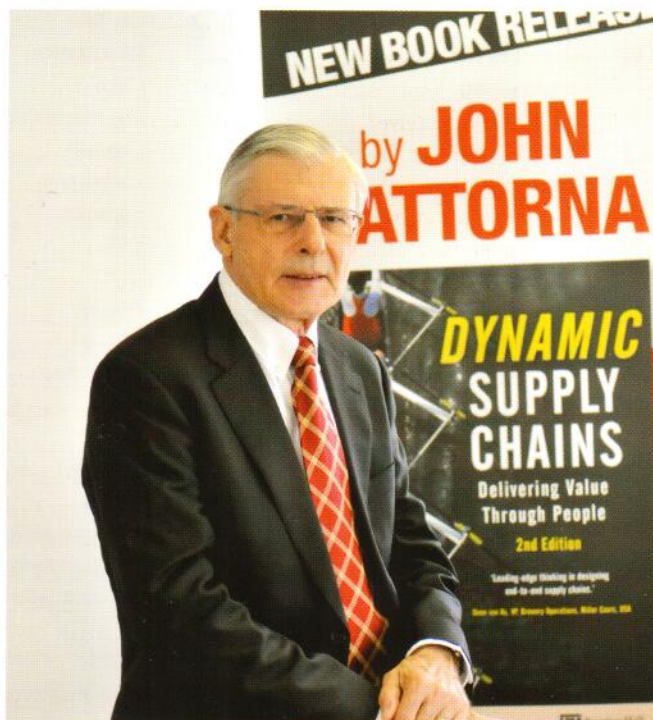
"It's all about customer segmentation," was how John Gattorna, professor of supply chain management in Sydney as well as various other places, summed it up during the European supply chain conference in Barcelona. "End-to-end supply – the complete value chain from the customer's perspective – is the only correct approach. The problem is that many companies are stuck with just a single supply chain, 'one size fits all'. That was disastrous during the economic crisis when companies were forced to act. All the different projects just made things worse. You can liken it to a golf swing: the harder you slice the ball to the left, the more it shoots off to the right."

## Different approaches to customers

According to Gattorna, who has conducted lots of practical research into company supply chains, the only solution is to take an 'outside-in' view of the organisation and to subsequently reduce complexity. "It's a matter of 'reverse engineering' the supply chain, from the customer's perspective. That's design thinking. You have to recognise customer patterns and you'll then see that it's all about customer segmentation. A single supply chain is not enough. Based on the theory of the Swiss psychiatrist and psychologist Carl Jung, companies experience four or five dominant forms of customer behaviour that account for 80 percent of their business. Myers-Briggs developed this into a classification of people's personalities in order to form teams. However, most company structures originate from the time of the industrial revolution and are completely outdated."

Gattorna cautioned that customers are very dynamic and their buying behaviour can change quickly. "That's why Zara works with customer-specific multifunctional teams of around 30 people each. After a couple of years the team members go back into a vertical role such as production, logistics or sales. The functional silos that are commonplace within companies often beg the question: 'How can we ever expect to communicate with the customer if we can't even communicate internally?'. Schneider Electric, a manufacturer of electronics for energy management, has internally identified specific customer segments with widely differing customer behaviour."

A company has to choose a clear approach for each different type of customer buying behaviour. "A preference for collabora-



John Gattorna presented in Barcelona the updated version of his book 'Dynamic Supply Chains'.

tion calls for customer relationship management. A lean process suits transactional buying behaviour, and in the case of dynamic buying behaviour then agility is required," commented Gattorna. He was also very critical of many pointless key performance indicators (KPIs): "In the case of collaborative customers, the most important KPIs are customer retention and a larger share of wallet. Lean revolves around 'on time in full' and forecasting accuracy. And highly demanding customers want speed."

## Integrated business planning

Numerous companies are involved in integrated business planning (IBP), the strategic cycle of meetings which is the mature version of sales & operations planning. Nevertheless, it seems that many companies remain caught up in short-term thinking, due to failing execution at operational level caused by their 'one size fits all' approach to the supply chain. "IBP is a simple process but it is difficult to implement in complex organisations, especially in ones with a matrix structure," stated Andy Walker from the consultancy firm Oliver Wight which devised S&OP and IBP. "In the IBP process, your reference point must always be the company strategy based on a minimum of a two- to three-year horizon."