

hawkeye planner



## CUSTOMER SEGMENTATION FOR SERVICE

Almost all companies have some basic product segmentation. Normally this is an ABC classification by volume, where A items make up 20 percent of the products but 80 percent of the volume. More sophisticated companies have more specific ABC coding—by sales dollars or even by profit margin. In general, companies do not explicitly consider segmentation for a key metric in the supply chain: service. Service segmentation is an important design strategy that can result in huge savings and ultimately a competitive advantage. This segmentation should include a review of both products and customers to accurately assess the market.

Most manufacturers of Consumer Package Goods (CPG) goods understand the basic idea of service segmentation by customer—they know that if customers like a big box store don't get the highest service, the supplier may get penalized by additional charges, shelf space, or both. Their customer segmentation is simple—the big box stores of the world get product first, then all other customers. This method is too simple to be effective. In fact, companies should take a look at both their products and customers in a service matrix to understand how to optimize inventory and other costs.

Products can be split into three categories: **High** for key products in terms of volume, margin, or innovation; **Medium** for steady, core products; and **Low** for order fillers, low volume or low margin products. Service levels can be set in varying degrees for this side of the matrix. However, keep in mind that some Low items will be on the same order as High items, and the minimum service level set may drive all products if backorder policies are not set.

Customers can also be split into several categories, sometimes more than one. **Partner Customers** represent those with high volumes and margins and those with whom the supplier has a long term growth interest. **Core Customers** are those who provide a steady source of income but may not be considered growth opportunities. **Sporadic Customers** are those who do not provide a steady volume and are therefore are not given preferential treatment for service (in some cases additional lead time is given for order fulfillment). **Low volume customers** require small lot sizes and multiple items and may be even charged a premium. Finally, **Prospective Customers** represent the potential for increased percent volume to the total business and may be given special consideration until they move into another class.

With product and customer segmentation, a company can review their offerings in 9 to 15 combinations. Partner customers ordering High products should follow one strategy while sporadic customers ordering High products should follow another. Each group should be considered to maximize asset utilization and profitability. Managing product and customer segmentation can help minimize cost. Service levels by category can also reduce inventory without compromising key customers. Note that this analysis can start in the supply chain area but will need input and support from Sales, Marketing, and Finance. Ultimately, these policies should be reviewed, customized, and updated frequently.