



SUPPLY CHAIN SEGMENTATION



Purpose

In this context, segmentation is defined as "something" that can be divided into separate units. It is a breakdown of the total supply chain into several supply chain solutions. Segmentation is the ability to deliver differentiated supply chain solutions based on various decision possibilities.

Participant(s)

Supply chain management and top management.

Application

The tool should be used continuously, before, during, and after a specific supply chain innovation project.



Method

When supply chain management and top management need to decide on how to segment the company's supply chain, the three models presented in the table on the next page can be used as inspiration. The models have different starting points: Product based segmentation, customer based segmentation and market parameters. The table shows the dominating parameters within the three models.

It is important to bear in mind that one strategy does not exclude another. Different products at different stages of the product lifecycle can lead to several strategies being used simultaneously.

When supply chain management and top management have investigated and decided on the focus of the company and what parameters should guide the segmentation, a decision can be made as to which supply chain strategy should be used.



Generic supply chain segmentation models

Lean	Agile	Leagile
<ul style="list-style-type: none">• Standard products• High volume• Low contribution ratio• Cost based strategy	<ul style="list-style-type: none">• Customized products• Low volume• High contribution ratio• High variability• Rapid reaction to unpredictable demand	<ul style="list-style-type: none">• Unpredictable demand• High variability• Order lead-times• Modularity that allows postponements

Source: prepared on the basis of Hill (1985), Fisher (1997), Mason-Jones et al. (2000), Christopher & Towill (2002), Pagh & Cooper (1998), Christopher et al. (2006).



Segmentation focus and parameters

Segmentation focus	Primary segmentation parameters
Product-based	<ul style="list-style-type: none"> • Product design: standard or customer • Quality • Volume • Variation • Contribution margin • Product lifecycle / phase of the product lifecycle • Low variability in demand increases the opportunity for planning and the application of Lean (Womack & Jones, 1996) • High variability in demand places demand in the supply chain, and philosophies on agile supply chains can be applied
Customer-based	<ul style="list-style-type: none"> • Lead-time for delivery • Delivery frequency • Buying behaviour • Refill lead-time • Lead-time on order-to-delivery. This creates opportunity for postponement
Market-based	<ul style="list-style-type: none"> • Market qualifier and order winner criteria. Market qualifiers are factors that are required in order to achieve a certain standard in the industry. Order winners are the factors that are critical to winning an order, and therefore require better performance than the competition. • Structure • Brand



Benefits

The advantage of supply chain segmentation is that it allows management to work strategically with the supply chain of the company.

Output

The output of this tool is a breakdown and overview of the company's supply chain. Supply chain segmentation provides input to the overall company strategy and should be in accordance with this.

