

Application of Segmentation in Supply Chain – Research and Early Learnings



May 2012



Agenda

- Definitions / Interpretations of Segmentation
- Hollister's Journey (so far)
- Questions



Gartner's definitions

■ Designing and operating distinctly different, end-to-end value chains optimized by a combination of:

- Unique customer value
- Product attribute
- Manufacturing and supply capabilities
- Business value considerations

■ The dynamic alignment of customer channel demands and supply response capabilities, with each segment optimized for net profitability.

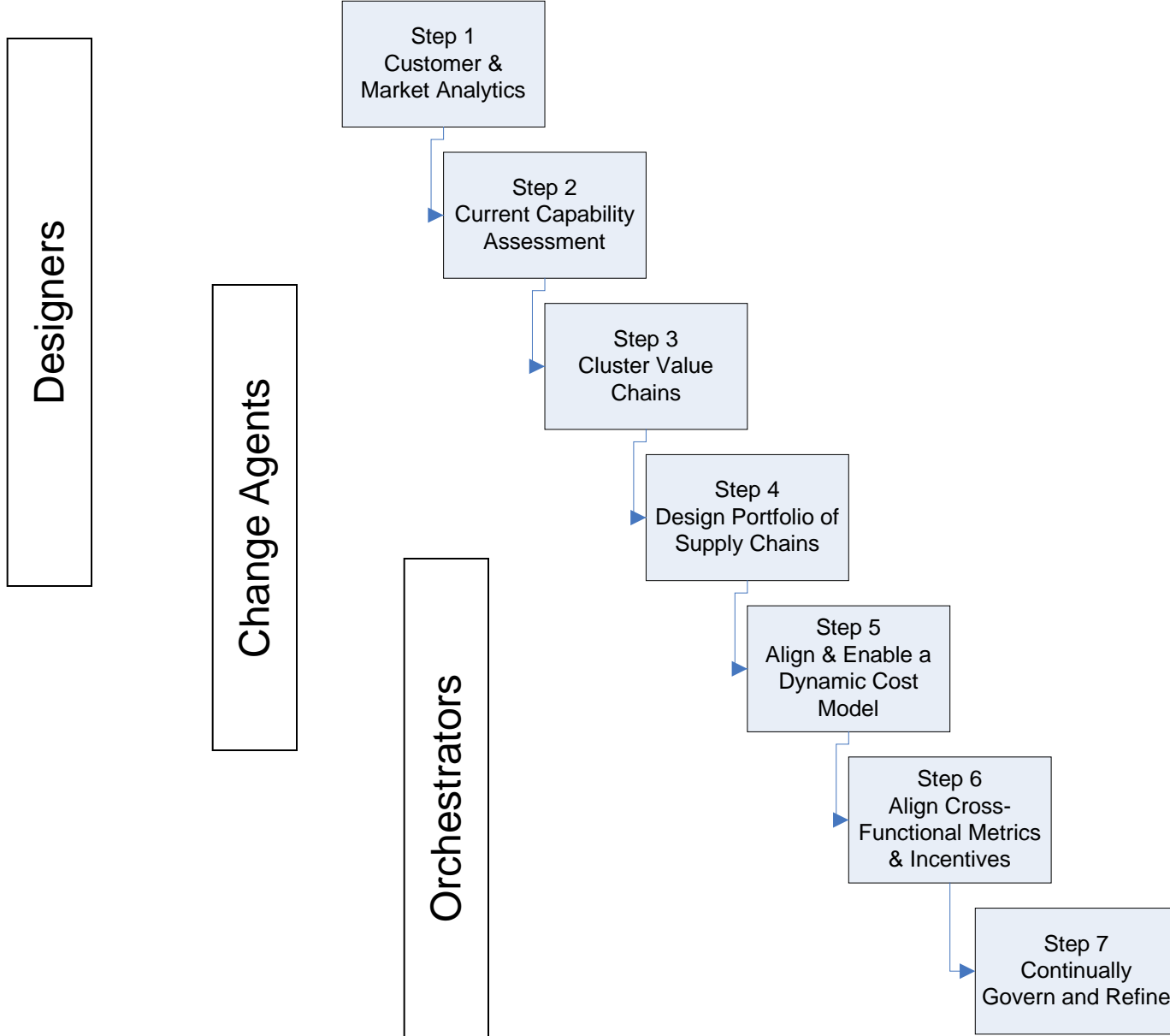
■ A way to balance efficiency and agility.

Formal

Simpler

Simplest

Seven steps





Step 3 Cluster Value Chains

- Product ABC classification
- Product lifecycle
- Tender/bid vs. replenishment
- Customer by volume
- Customer by service requirement
- Speed of delivery
- Value added services
- Delivery requirements

Hollister's Journey – Starting Line



- Longstanding focus on 97% fill rate for all products in all markets
 - But performance commitments were/are rolled up to higher level
- Portfolio complexity has grown beyond the dominant product line
- Wide variety of channels throughout the world
- Focus on global processes and systems

Hollister's Journey – The Conversation



97% Service Level for everything for everyone



“Why don’t we provide 100%? When I need my cholesterol medication it better always be there! We should treat our customers better!”

- Very Important Board Member



What are the strategic questions we are trying to answer here?

Hollister's Journey – The Conversation



How can our customers benefit from segmentation?

We under serve some and over serve others. Should we just keep focusing on reducing cost as a practical approach?

Reimbursement prices are flat to falling.
What is everyone else doing with segmentation?

Our products are largely commodities.
Should we focus segmenting just on distribution?

Customers show little interest in shifting share based on supply chain segmentation or collaboration. Should we bother?

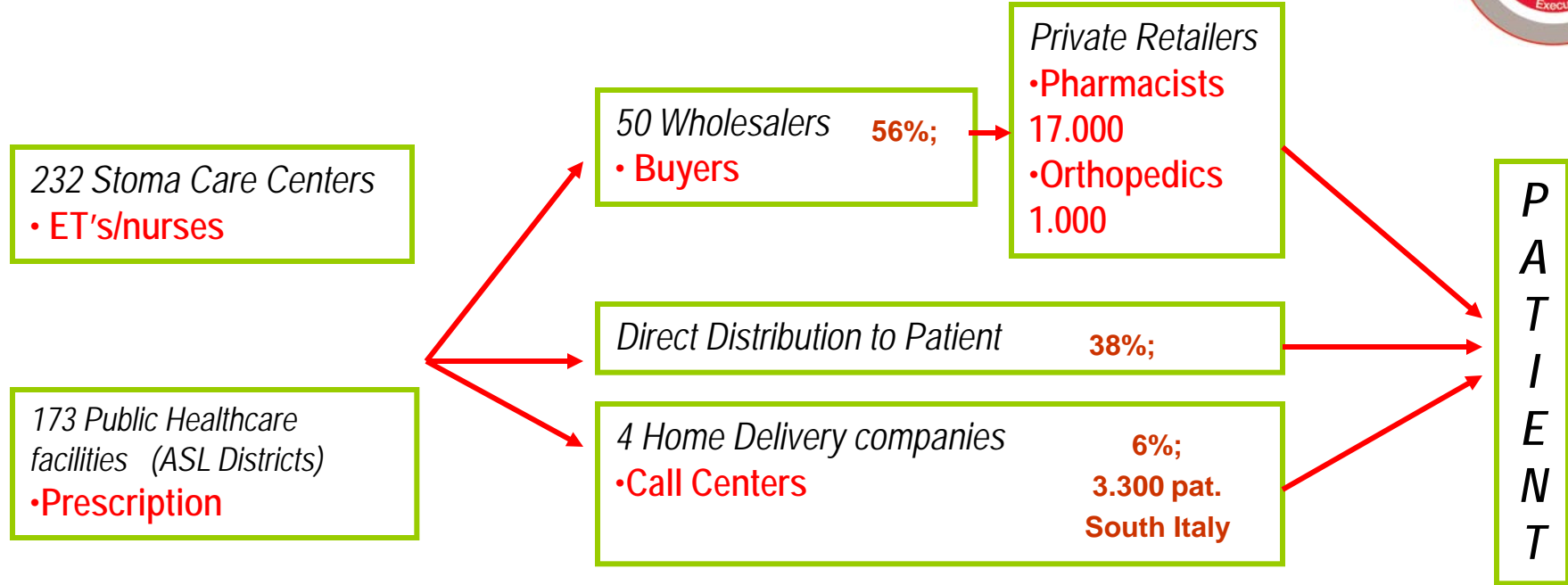
...but Customers like us visiting and working on process improvements.

Italian Ostomy Market

56.000 Ostomy patients



Consumer Care Continuum/Community



Patient Associations
• 2 National

6 Ostomy Companies

Hollister's Journey – Steps to Date



■ Education

- Gartner, reading

■ Incremental Changes

- Fill rate performance target extended one level
- Engaged the business unit resources to establish common understanding of service expectations

■ Communication

- Focused within Supply Chain
- Educated the business units on the concepts



Hollister's Journey – Next Steps

■ Education

- Gartner, reading
- Market dynamics

■ Assess systems capabilities

- Master data alignment with clusters

■ Assess process capability

- Cost tradeoffs to have more order fulfillment processes

Hollister's Journey – Predictions



- Measurement and order fulfillment commitments at additional levels
 - Hospital vs. Distributor

- Value chain designs based on lifecycle
 - New vs. established products by market

- Value chain designs based on type of business
 - Tenders vs. Replenishment