

Customer Segmentation:

The First Critical Task of Strategy

Reasons for Customer Segmentation

- **Don't commoditize your customer. You should not treat every customer equally.**
- **Customers are different in many ways:**
 - Needs
 - Capabilities
 - Business economics and strategies
 - Willingness to engage in business with you
 - Demographic characteristics: size, profitability, participation in various vertical markets, geographical coverage
- **The most attractive customer usually is the one that has the greatest gap between its needs and your ability to satisfy them.**

Criteria for Customer Segmentation

Among the most critical dimensions for customer segmentation we have:

Customer Attitudes

- Castrol - How we want to treat the customer

Customer Needs and Degree of Self-Sufficiency

- Unilever de México - Segmentation by channels
- Siemens Power Generation - Segmentation by needs and type of customer

Different Degrees of Value Added

- Waste Management Co. - Different degrees of customer bonding
- DMK - Different degrees of customer bonding

Customer Behavior and Their Buying Practices

- Synthes - Different customer buying patterns



DMK:

Outsourcing Information Technology from China

Task #1: Customer Segmentation

Customer Segmentation

Tier 1: Exclusive Partner

- Japan based orgs requiring outsourcing of IBM mainframe applications
- Opportunity for customer lock-in
- IBM JV
- Existing customers: GE Japan, JBCC, AIG

Tier 4: Body Shoppers

- Transactional relationship to provide supplemental staff without much end-client relationship
- Existing customers: IBM

System Lock-In

Total Customer Solutions

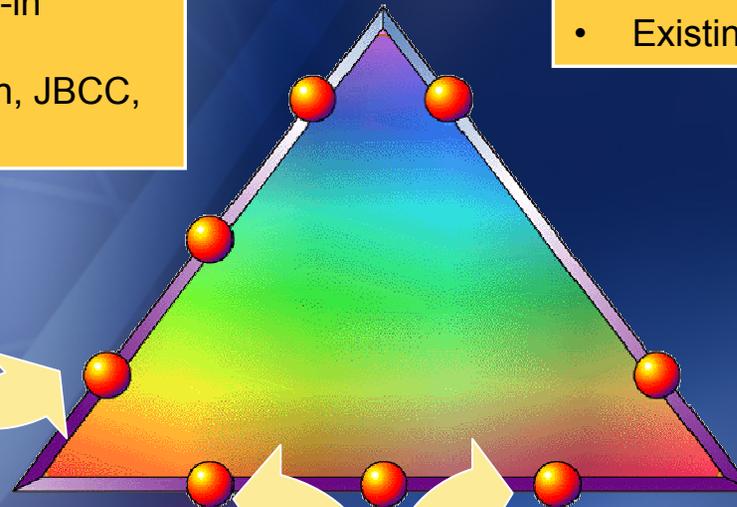
Best Product

Tier 2: Strategic/Integrated Partner

- Long term symbiotic partnership with high value added
- Existing customers: GE China, GE US, Kawasaki, Unisys

Tier 3: Project Solution Seekers

- Full project ownership and solution delivery responsibility without established (but potential) for long-term client relationship
- Existing customer: Toyota, Honda, US prospects, Dept. of Transportation China



Customer Segmentation

Business Dimension for Tier 1 - “Exclusive Partner”

Customer Dimension	Description
Products	Critical partner to client providing highly integrated, customer specific, high-value added turnkey solutions for legacy mainframe applications in Japanese market
Services	24x7 Maintenance of mission-critical mainframe legacy applications. Application extension through analysis, design and development of new, integrated modules.
Customer	Japanese Corporations in Financial Services, Insurance, etc. industries
Channels	Direct, Referrals from highly satisfied existing clients
End Users	Japanese Corporations, Japanese Government organizations
Complementors	IBM (as an h/2 and s/2 partner), existing clients, Accenture
Unique Competencies	<ol style="list-style-type: none">1. Combination of deep knowledge of mainframe applications and deep understanding of Japanese culture (not available to other companies in China).2. Very high level of quality (only CMM level 5 and Six-Sigma company in China) combined with all the other cost advantages available to Chinese companies not available anywhere else in the world.

Customer Segmentation

Value Proposition for Tier 1 - “Exclusive Partner”

Value Proposition Element	Description
Experiences	Seamless extension of Client team with integrated culture, skilled technologists with deep understanding of clients business.
Value Delivery Systems	<ul style="list-style-type: none">• Dedicated client-focused team immersed in all aspects of client’s culture• Network integration to seamlessly extend client environment• Open communication of all relevant information on both sides• Executive sponsor, CEO oversight, an full corporate reach• CMM and Six-Sigma delivery methodologies for delivery• Value added reselling of hardware and software for one-stop-shopping
Value Appropriation	<ul style="list-style-type: none">• Value gained by customer: Superior ROI, improved time-to-market, Security, Resource stability• Value gained by DMK: Exclusive long-term relationship, higher margins, predictable revenue• Value shared by both: Shared IP, shared learning, shared risk

Customer Segmentation

Business Dimension for Tier 2 - “Strategic Partner”

Customer Dimension	Description
Products	Long-term relationship with client to provide customized and integrated solutions across multiple business units
Services	<ul style="list-style-type: none">• T&M and Fixed price application development across multi-phase projects• Joint application development enabled through deep understanding of client culture and methodology• Dedicated retained teams as extension of clients IT organization
Customer	GE US, GE China, Kawasaki, Unisys
Channels	Direct
End Users	N/A
Complementors	Other GE partners, IBM, other software partners, Accenture
Unique Competencies	<ol style="list-style-type: none">1. One of 12 exclusive outsourcing vendors of GE2. Six-Sigma/CMM level-5 quality combined with China's cost advantage.

Customer Segmentation

Value Proposition for Tier 2 - “Strategic Partner”

Value Proposition Element	Description
Experiences	Integrated teams of skilled technologists with deep understanding of client’s business
Value Delivery Systems	<ul style="list-style-type: none">• Dedicated client-focused teams fully trained in clients methodologies and processes• Joint development plans• Cross-training and periodic two-way knowledge transfer• Business Relationship Manager, CEO oversight and full corporate reach
Value Appropriation	<ul style="list-style-type: none">• Value gained by customer: Superior ROI, improved time-to-market, Security, Resource stability, Shared risk, Continuous improvement• Value gained by DMK: Access to client network as sales channel, credibility, learning• Value shared by both: Co-development of shared standards and processes

Customer Segmentation

Business Dimension for Tier 3 - “Project Solution Seekers”

Customer Dimension	Description
Products	Individual project solutions without committed long-term relationship
Services	T&M and Fixed price application development of discrete projects
Customer	Toyota, Honda, Department of Transportation China, US prospects
Channels	<ul style="list-style-type: none">• Direct• Consulting partners such as IBM• Strategic partners such as GE
End Users	N/A
Complementors	IBM, GE, other software partners, Accenture
Unique Competencies	Six-Sigma/CMM level-5 quality combined with China’s cost advantage.

Customer Segmentation

Value Proposition for Tier 3 - “Project Solution Seekers”

Value Proposition Element	Description
Experiences	End-end-end delivery of a project with high quality and competitive price
Value Delivery Systems	<ul style="list-style-type: none">• Structured processes and teams with high quality of performance• Ability to quickly ramp-up on clients business and culture• Process for seamless transition at end of project• Dedicated project team manager with executive oversight
Value Appropriation	<ul style="list-style-type: none">• Value gained by customer: Experimentation , learning, flexibility, reduced time-to-market, high quality, ROI• Value gained by DMK: Opportunity for long-term relationship, ROI, learning• Value shared by both: Shared learning in business domain and new technology

Customer Segmentation

Business Dimension for Tier 4 - “Body Shoppers”

Customer Dimension	Description
Products	Individual resources to supplement existing project teams and fill skills gaps (transactional)
Services	<ul style="list-style-type: none">• T&M and retained resources for fixed time durations• Provide specific technology development skills on projects
Customer	IBM Japan, NEC
Channels	<ul style="list-style-type: none">• Direct• Consulting partners such as IBM
End Users	Corporations
Complementors	N/A
Unique Competencies	<ol style="list-style-type: none">1. Consulting partnerships2. Technology skill differentiation

Customer Segmentation

Value Proposition for Tier 4 - “Body Shoppers”

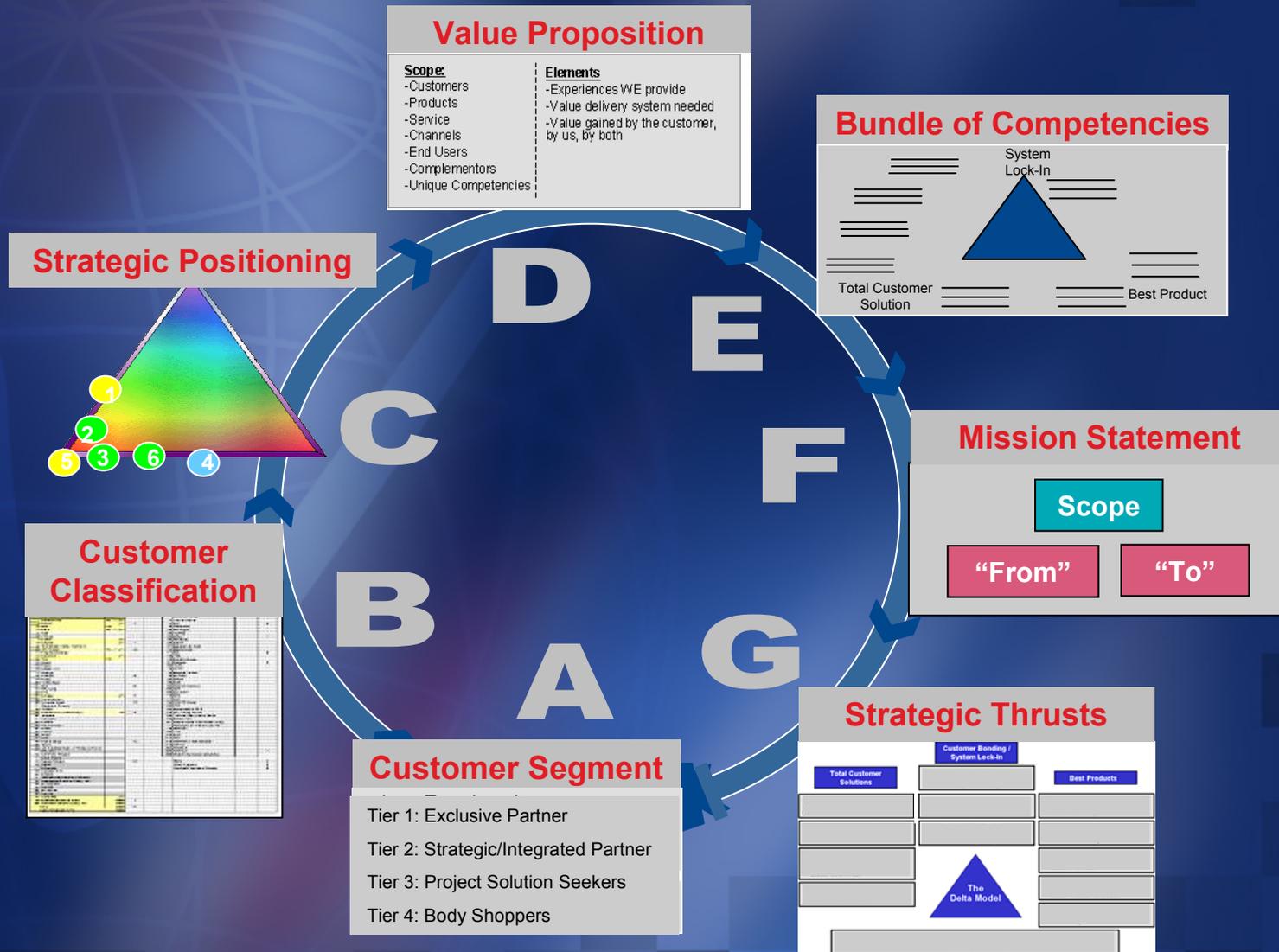
Value Proposition Element	Description
Experiences	Supplement team with individual resources and fill gaps with skill expertise
Value Delivery Systems	<ul style="list-style-type: none">• Strong bench that can be tapped on demand• Mix of skills and expertise
Value Appropriation	<ul style="list-style-type: none">• Value gained by customer: Resources of demand and skills on demand• Value gained by DMK: Opportunity to up-sell, learning, improved bonding• Value shared by both: Exchange of skills

Synthes

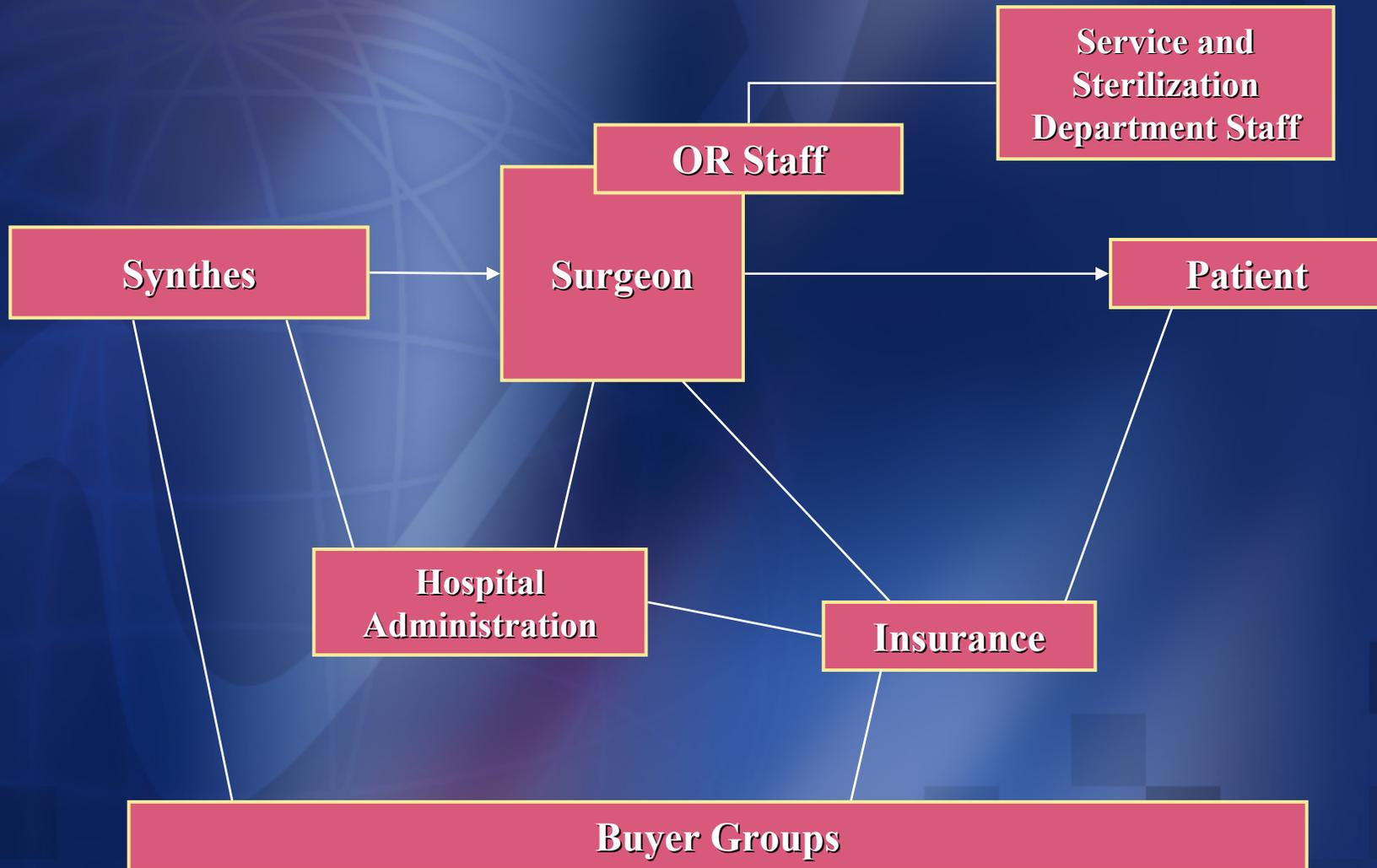
Segmentation According to Customer Behavior and Their Buying Practices

Task #1: Customer Segmentation

From the Customer Segmentation to Strategic Agenda



Trauma



Who is our customer?

Who makes the decisions for traumatology implants and instruments?

Trauma Customer Segmentation

Customer Tier	Description
<p>(1) Professors & Opinion Leaders</p>	<ul style="list-style-type: none"> • Working at University Hospital, Teaching • High number of procedures • Active surgeon with own core specialty <ul style="list-style-type: none"> – Large segments of specialty within his/her influence • Respected among peers • Active in research & development <ul style="list-style-type: none"> – Publications – Active as scientific speaker • Independent! • Loyal because he/she is convinced of superiority of products • Respected by hospital administration • Key decision maker regarding implant suppliers
<p>(2) Non-User (high volume)</p>	<ul style="list-style-type: none"> • Bond to competition • For reasons of: <ul style="list-style-type: none"> – Strict budget control – Clinical practice/teaching schools • Using high volume of implants
<p>(3) Young High Potential</p>	<ul style="list-style-type: none"> • Innovative • Ambitious; Go beyond daily business • Interested in research & publication • Looking for recognition from: <ul style="list-style-type: none"> – Opinion leaders/professors – Peers – Industry (financial sponsoring) • Need to have a “godfather” • Preparing/Learning to be a specialist • Looking for R&D support (financial, implants, etc.)

Trauma Customer Segmentation

Customer Tier	Description
(4) Buyer Groups	<ul style="list-style-type: none">• Negotiating body for a group of hospitals• An organization designed to increase the purchasing power of hospitals and to optimize purchasing and administration costs for hospitals• The one paying the bill• Focus on bundling (products, logistics, tenders)
(5) “Massmarket” Surgeon	<ul style="list-style-type: none">• High volume• Synthes makes high turnover with them• Broad range of procedures• Mostly large public hospitals
(6) Low Volume & Local Hospital	<ul style="list-style-type: none">• Community hospital• Use commodities/standard products• Buy single items from all products
(7) Patient (undergoing elective surgery)	<ul style="list-style-type: none">• E.g., Education of projected end users

How do we bond with these different customers?

Trauma: Tier 1 Prof. / Opinion-leaders

Business Dimension	Tier 1: Professors / opinion-leaders
Products	Full range, pioneer products
Services	<ul style="list-style-type: none"> • Facilitate education, provide and support access to AO • Support for R&D (financial, implants, documentation & engineering)
Customers	<ul style="list-style-type: none"> • ~ 250
Channels	Direct <ul style="list-style-type: none"> - Sales consultant and sales manager relationship - Project leaders (Product manager & engineer, top management) - Support CEO, Senior Mgmt (occasionally)
End users	Polytrauma and high degree of complication
Complementors	<ul style="list-style-type: none"> • AO Network <ul style="list-style-type: none"> AO - grants/fellowships - AO International education (table instructor) - AO publishing • Powertool business • Access to reference hospitals • Software provider (documentation, digital services) • ORP staff • Scientific publications
Unique Competencies	<ul style="list-style-type: none"> • High end products • Development and engineering capability • Technical education at all levels (from sterilisation departments to surgeons) • Logistics / loan sets • Highly trained consultants (clinical and product specific)

Trauma: Tier 1 Prof. / Opinion-leaders

Customer Tier 1 Professors and opinion leaders	Value Proposition
Set of <u>experiences</u> we will provide to the tier	Provide latest innovative clinical solutions in a collaborative spirit
Set of <u>value delivery systems</u> needed to provide the experiences	<ul style="list-style-type: none">• Sales force (experienced & highly qualified)• Innovative products• AO Foundation networking• Davos course experience and AO research center• Engineering development capacity and know-how
Value appropriation	<ul style="list-style-type: none">• Value gained by the customers:<ul style="list-style-type: none">- Recognition by peers patient and industry• Value gained by us:<ul style="list-style-type: none">- loyalty & input- support for development & sales/teaching• Value shared by both:<ul style="list-style-type: none">- productive partnership

Trauma: Tier 4 Buyer Groups

Business Dimension	Tier 4: Buyer Groups
Products	Full range of proven products
Services	<ul style="list-style-type: none">• Logistics and payment conditions / long-term contracts• Bundling through BUs• Customized Info Package
Customers	According list of countries
Channels	<ul style="list-style-type: none">• Sales consultants• E-Business Manager• Logistic Manager
End users	Full range of patients
Complementors	<ul style="list-style-type: none">• Powertool, Spine, CMF• Electronic healthcare market places (GHX)• Provider of hospital Management Systems
Unique Competencies	<ul style="list-style-type: none">• Completest range of proven products• Competitive prices• Technical support by highest sales network• Logistics

Trauma: Tier 4 Buyer Groups

Customer Tier 4 Buyer groups	Value Proposition
Set of <u>experiences</u> we will provide to the tier	Dealing with a professional one-stop-shop for osteosynthesis and powertools
Set of <u>value delivery systems</u> needed to provide the experiences	Regularly updated info package (catalogue, prices, surgical techniques)
Value appropriation	<ul style="list-style-type: none">• Value gained by the customers: rebates based on volume• Value gained by us: increased market share, long term contracts• Value shared by both: less administration

Spine Customer Segmentation

Customer Tier	Description
(1) Surgeon Thought Leaders	<ul style="list-style-type: none">• Host Site for Spine Fellowships• Publish Clinical Papers• Usually Based in Academic Centers• High Profile in Spine Community through educational seminars, society meetings, etc.• Usually work with competition• Working in private or university practice
(2) High Volume Spine Surgeons	<ul style="list-style-type: none">• Completed Spine Fellowships• Use more than \$500,000 of implants• Based in spine centers• Usually in private practice• Generally well compensated
(3) High Potential Surgeons	<p>Likely To Become High Volume or Thought Leader</p> <ul style="list-style-type: none">• Doing Spine Fellowship or relatively new to spine practice• Rarely in Residency
(4) Part Time Spine Surgeons	< 50% Volume is Spine

Spine: Tier 1 Surgeon Thought Leaders

Business Dimension	Tier 1: Surgeon Thought Leaders
Products	<ul style="list-style-type: none"> • Catalog Products • Custom Devices • New Technology Developments
Services	<ul style="list-style-type: none"> • Educational Courses as faculty and to send others to attend • Fellowship Support • Research Support • Test Markets • Clinical Documentation • Outcome Studies • Specialty Study Groups
Customers	See separate attachment
Channels	<ul style="list-style-type: none"> • Sales Management • Senior Spine Management • AO Spine • Product Development Involvement • Professional Services • Local Sales Consultant
End users	Surgeon
Complementors	AO Foundation, MTF, Societies, Trauma, CMF, HCOL, Business Dynamics, Study Groups
Unique Competencies	<ul style="list-style-type: none"> • Principles Over Product • Local Clinical Expertise • High Quality Educational Offerings

Spine: Tier 1 Surgeon Thought Leaders

Customer Tier 1 Surgeon Thought Leader	Value Proposition
Set of <u>experiences</u> we will provide to the tier	<ul style="list-style-type: none"> • An association that feels new and special • Sense of community between many surgeons with each other and with AO Spine and Synthes Spine • Influence on Product Development • Involvement with new technologies • A reliable partner to support their spine programs
Set of <u>value delivery systems</u> needed to provide the experiences	<ul style="list-style-type: none"> • Fellowship Association and Financial Support • Outcomes/Database Service and Financial Support • Product Think Tanks / Development Groups • Educational courses and symposiums • “New AO Spine” • Remuneration for Services Rendered / IP • Research Funds
Value appropriation	<p>Value gained by the customer</p> <ul style="list-style-type: none"> • Identify with larger community • Ego reward as part of development , education • Support for larger program <p>Value gained by us</p> <ul style="list-style-type: none"> • Influential surgeons associate new technology development with Synthes • Upcoming spine surgeons look favorably upon Synthes Spine

Spine: Tier 2 High volume spine surgeons

Business Dimension	Tier 2: High volume spine surgeons
Products	<ul style="list-style-type: none"> • Catalog Products • Custom Devices • New Technology Developments
Services	<ul style="list-style-type: none"> • Educational Courses to occasionally teach and to attend • Fellowship Support • Research Support • Test Markets • Clinical Documentation • Outcome Studies • Specialty Study Groups
Customers	
Channels	<ul style="list-style-type: none"> • Sales Management • Senior Spine Management • AO Spine • Product Development Involvement • Professional Services • Local Sales Consultant
End users	Surgeon
Complementors	AO Foundation, MTF, Societies, Trauma, CMF, HCOL, Business Dynamics
Unique Competencies	<ul style="list-style-type: none"> • Principles Over Product • Local Clinical Expertise • High Quality Educational Offerings

Spine: Tier 2 High volume spine surgeons

Customer Tier 2 High volume spine surgeons	Value Proposition
Set of <u>experiences</u> we will provide to the tier	<ul style="list-style-type: none"> • Association with Synthes Spine that feels special • Sense of affiliation between Surgeon, AO Spine and Synthes Spine • Feels company listens to ideas • Involvement with new technologies
Set of <u>value delivery systems</u> needed to provide the experiences	<ul style="list-style-type: none"> • Outcomes/Database Service and Financial Support • Product Think Tanks / Development Groups • Educational courses and symposiums • Remuneration for Services Rendered / IP • High attention from local sales consultant • Visits from senior sales management
Value appropriation	<p>Value gained by the customer</p> <ul style="list-style-type: none"> • Recognized by AO Spine and Synthes Spine • Ego reward of being valued by company <p>Value gained by us</p> <ul style="list-style-type: none"> • High volume surgeon likely to use many of our products • Protects business from competition • Builds brand loyalty to Synthes Spine

Recent Trends for Synthes in Customer Segments

Buyers:

- Individual hospitals & small hospital groups
- Large hospital networks (e.g. Kaiser)
- Group Purchasing Organizations (GPOs)

Trends:

- Consultants, accounting systems and agents increase price transparency
- More salaried doctors working for hospitals vs. per case surgeon entrepreneurs decreases surgeon decision making power
- Electronic marketplaces starting to gain critical mass

Synthes Philosophy:

- Preservation of direct customer relationship
- No membership in value added networks (e.g. GHX, Novation)

Lessons from Customer Segmentation

- **The customers' behaviors and buying practices often provide relevant criteria for segmentation.**
- **This allows you to detect the special needs of each customer tier, which are translated into specific value propositions.**
- **Your segmentation does not need to be limited to the actual customer (the one who pays). It might also include relevant complementors.**