BUSINESS ANALYSIS REPORT

CUSTOMER SEGMENTATION ANALYSIS REPORT

Contents

Customer Segmentation Analysis Report

1. Executive Summary

The customer segmentation analysis was conducted for House & Homely Ltd. to better understand customer behavior and tailor marketing strategies accordingly. The analysis involved clustering customers into distinct segments based on demographic and behavioral data, such as age, purchase frequency, average order value, days since last purchase, and product variety.

The K-means clustering algorithm identified four distinct customer segments. These segments were analyzed to uncover key characteristics and behaviors, providing insights into potential opportunities for targeted marketing and improved customer retention strategies.

2. Data Overview

The dataset used for the analysis included the following features:

- **Age**: Customer's age.

- **Gender**: Customer's gender (Male or Female).

- **Location**: Customer's location type (Urban, Suburban, Rural).

- **Purchase Frequency**: Average number of purchases per month.

- **Avg Order Value**: Average value of each order.

- **Days Since Last Purchase**: Days since the customer's last purchase.

- **Product Variety**: Number of different products purchased by the customer.

3. Segmentation Results and Analysis

Based on the K-means clustering with four clusters (optimal k), the customer base was segmented into the following groups:

Proportion of Customers in Each Cluster
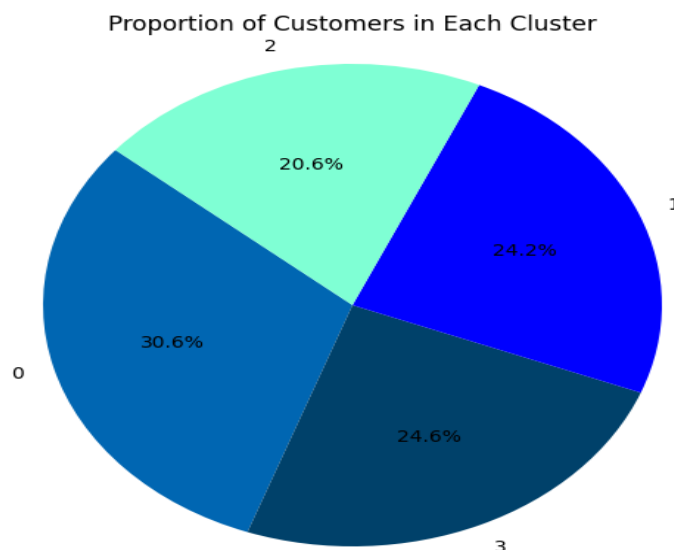
Cluster 0: High-Value Loyal Customers

- **Characteristics**:
    - High purchase frequency: Customers in this segment shop frequently.
    - High average order value: These customers tend to make high-value purchases.
    - Moderate product variety: They buy a variety of products but not extensively.
    - Recent purchases: Days since last purchase is relatively low, indicating recent activity.
- **Insights**:
    - This cluster represents a highly valuable group for the business, contributing significantly to revenue. They are loyal and have a strong purchasing power.
- **Recommendations**:
    - **Loyalty Programs**: Introduce exclusive loyalty programs to reward these customers and encourage continued engagement.
    - **Exclusive Promotions**: Offer early access to sales or special discounts tailored to their preferences to maintain loyalty.

Cluster 1: Moderate-Value Frequent Shoppers

- **Characteristics**:
    - Moderate purchase frequency: These customers shop regularly but not as frequently as Cluster 0.
    - Moderate average order value: They tend to spend an average amount per purchase.
    - High product variety: They explore a wide range of products.
    - Moderate recency: The time since their last purchase is average.
- **Insights**:
    - This segment consists of customers who are open to exploring new products and are moderately engaged with the brand.
- **Recommendations**:
    - **Cross-Selling Opportunities**: Promote product bundles and cross-sell items based on their diverse purchase behavior to increase order value.
    - **Targeted Marketing**: Use personalized marketing strategies to recommend products that align with their varied interests.

# Cluster 2: Price-Sensitive Infrequent Buyers

- **Characteristics**:

- o Low purchase frequency: These customers shop infrequently.

- o Low average order value: They typically spend less per purchase.

- o Moderate product variety: They buy a moderate range of products.

- o Long time since last purchase: Their last purchase was a while ago, indicating a risk of churn.

- **Insights**:

  - o This cluster represents price-sensitive customers who are not very engaged. They may be more influenced by promotions and discounts.

- **Recommendations**:

  - o **Discounts and Promotions**: Offer targeted discounts and promotions to incentivize purchases and increase their engagement.

  - o **Reactivation Campaigns**: Develop reactivation campaigns focusing on encouraging them to return, such as limited-time offers or personalized discounts.

Cluster 3: New or Inactive Customers

- **Characteristics**:

  - o Very low purchase frequency: These customers have shopped only a few times.

  - o Low average order value: Their spending per order is low.

  - o Low product variety: They tend to buy a limited range of products.

  - o Very high time since last purchase: This cluster includes many inactive customers who have not made a purchase recently.

- **Insights**:

  - o This cluster consists of customers who may have tried the brand but did not continue purchasing or have not engaged recently.

- **Recommendations**:

  - o **Welcome Back Campaigns**: Run campaigns to welcome these customers back, such as offering discounts on their next purchase or highlighting new arrivals that might interest them.

  - o **Feedback Mechanism**: Introduce a feedback mechanism to understand why they have not made recent purchases and address potential issues.

4. Key Insights and Overall Analysis
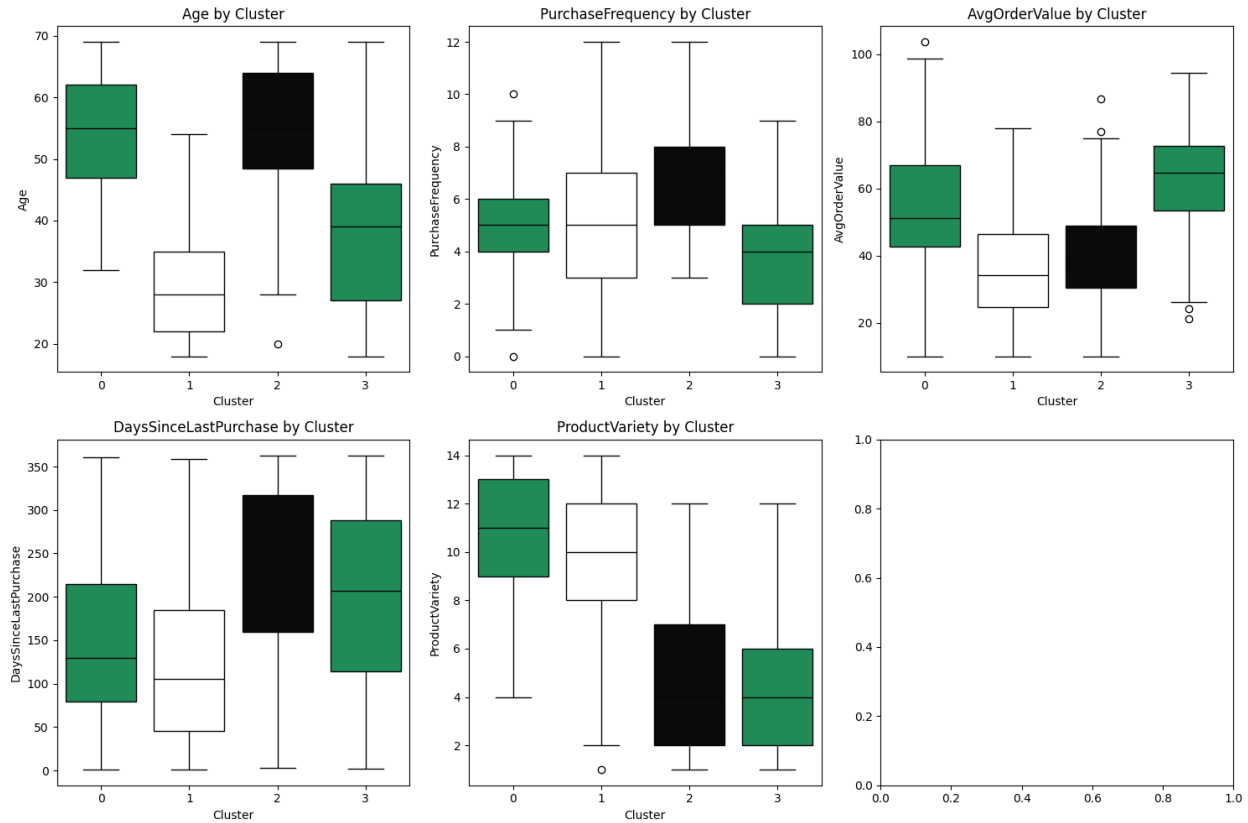
- **High-Value Segments**: Clusters 0 and 1 represent valuable customer groups that contribute significantly to revenue. Focusing marketing efforts on these groups will likely yield high returns.

- **Retention Opportunities**: Clusters 2 and 3 indicate opportunities to improve customer retention. These groups can be targeted with re-engagement strategies and offers to convert them into more loyal customers.

- **Tailored Marketing Strategies**: The diverse behaviors across clusters suggest that a one-size-fits-all marketing approach is not optimal. Instead, segment-specific strategies will help maximize customer lifetime value and engagement.

5. Recommendations for Future Actions

- **Implement Segmented Marketing Campaigns**: Utilize the insights from each cluster to create personalized marketing campaigns. Focus on loyalty programs for high-value customers, cross-selling for diverse buyers, and promotions for price-sensitive and inactive customers.

- **Monitor Segment Performance**: Continuously monitor the performance of each customer segment over time. Adjust marketing strategies based on the changing behaviors and needs of each cluster.

- **Collect More Data**: To refine the segmentation further, consider collecting additional data on customer behavior, such as online browsing patterns, response to email campaigns, and customer feedback.

- **Invest in Customer Relationship Management (CRM)**: Implement or enhance a CRM system to effectively track customer interactions, segment-specific behaviors, and the impact of targeted campaigns.

6. Conclusion

This customer segmentation analysis has provided valuable insights into the different customer groups within House & Homely Ltd.'s customer base. By implementing targeted strategies and continuously refining them based on customer data, the company can enhance customer satisfaction, increase revenue, and improve overall business performance.