



# **CUSTOMER BEHAVIOUR ANALYSIS AND STRATEGIC MARKETING FRAMEWORK 2025: BRIDGING THE LOYALTY GAP**

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## Executive Summary

SmartStream is currently at a strategic crossroads in the smart home technology market. This analysis identifies a significant **Loyalty Gap**: our most active and frequent buyers are currently situated in the Bronze loyalty tier, are currently situated in the Bronze loyalty tier, averaging 12.27 transactions. In contrast, our high-tier Gold members show the lowest satisfaction scores (2.65) and declining digital engagement. Furthermore, while revenue is heavily concentrated in the Nest USA category (over \$1.12 million), we identified highly engaged but low-spending micro-segments, such as "Budget Buyers," who interact frequently with digital channels but contribute minimal revenue.

To address these findings, this report proposes two data-driven strategies. First, a **Customer Storytelling Campaign** will leverage high digital engagement from Budget Buyers to drive social proof and conversion. Second, the introduction of a **Bronze Plus tier** will reward our most frequent shoppers before they become disengaged, creating a clearer path to long-term loyalty.

By implementing these recommendations, SmartStream targets the following measurable outcomes:

- A 15% increase in Tier Migration, moving Bronze members into higher value spending brackets.
- A 10% Reactivation Rate for Lapsed Buyers through targeted digital engagement.
- Improved Gold Tier Satisfaction, raising the current score of 2.65 to 3.15 through enhanced value propositions.

These initiatives will transform SmartStream's marketing from broad outreach to a personalised, high conversion engine that rewards customer consistency and increases lifetime value.

While these strategies provide a clear path to growth, a secondary priority for leadership is the enhancement of our data infrastructure. Transitioning from measuring gross revenue to **Net Profitability** is essential. By integrating return data and qualitative sentiment, SmartStream can mitigate the risk of overestimating high spenders who may have high return costs, ensuring future marketing spend is allocated to the most genuinely profitable segments.

## Analysis of Customer Behaviour

### Data Cleaning and Inspection

Initial checks confirmed all customers had unique IDs with no duplicates or missing values. Seventy-three customers had never used the chatbot but were retained for engagement analysis. The transaction dataset included 25,998 purchase records across 15,979 transactions and 1,362 customers. Some transactions involved multiple product lines. All transactions were correctly matched to customers. For subsequent analysis, the decision was made to retain the full customer base by joining the two datasets to keep both active and inactive customers visible.

### Loyalty Tier Performance

The analysis shows significant differences in behaviour across loyalty levels:

- **Bronze Members:** These are the most active and valuable customers, averaging 12.27 transactions and spending \$1,660. While their average spend per transaction was moderate at approximately \$125, they purchased frequently and showed strong engagement across all channels. They also used discounts more than any other group, averaging 9.45 uses.
- **Gold Members:** Despite being in a higher tier, these customers showed weaker performance. They spent an average of \$1,472 and had an average of 10.83 transactions. They also had the lowest satisfaction score of 2.65. Digital engagement was lower compared to other tiers.
- **Silver Members:** This group recorded the lowest total spend of \$1,382 and the lowest purchase frequency of 10.71. Their satisfaction score of 2.76 was slightly better than Gold but still below Bronze.
- **Non-Loyalty Customers:** These individuals made fewer purchases but had the highest average spend per transaction of \$131.93. This group also had the highest satisfaction score of 2.82 and responded well to email and advertising campaigns.

### Patterns Across Customer Groups

The analysis explored behaviour through the lens of Recency, Frequency, and Monetary (RFM) scores, tenure, and gender:

- **RFM Segments:** Power Users spent \$15,000 on average. Frequent Shoppers averaged around \$8,000. Budget Buyers spent below \$320.
- **Tenure:** Long-term customers had an average tenure of 31 months and spent \$1,677, making them the most valuable group by duration.
- **Gender:** Male and female customers had similar overall spending levels. Males averaged \$3,202 and females \$3,126. Female customers used chatbots slightly more often and opened marginally more emails, but no significant behavioural differences exist between genders in terms of digital interaction.

### Micro-Segments and Product Performance

Several high-value micro-segments emerged, specifically long-term female Power Users who spent over \$19,000. Additionally, Budget Buyers and Lapsed Buyers showed strong digital engagement despite lower spending.

Product performance is heavily concentrated. Nest USA was the top-performing category, generating more than \$1.12 million in total revenue. Apparel followed with \$334,000, then Office with \$162,000, and Drinkware with \$109,000. Categories such as Android, More Bags, and Housewares each generated under \$5,000.

## **Strategic Recommendations**

### **Recommendation 1: "Why I Love My SmartStream" Storytelling Campaign**

It is recommended that SmartStream launch a customer storytelling campaign that encourages users to share personal experiences with our smart home products. This strategy addresses the current absence of qualitative data like reviews or complaints, which limits our understanding of customer satisfaction drivers. By inviting submissions of photos, short stories, or videos, SmartStream can capture customer sentiment that transaction data alone cannot reveal.

This campaign is specifically designed to leverage the high engagement of specific micro-segments identified in the analysis. Power Users, such as long term female customers who average 5.57 email opens, serve as highly credible brand advocates. Simultaneously, the initiative targets digitally active but lower spend groups like Lapsed Buyers, who recorded the highest chatbot and survey usage. Featuring their stories provides a soft reactivation trigger, signalling that SmartStream values meaningful connection over pure transaction volume. This creates a library of user-generated content that builds trust across all segments while positioning the brand as a customer-centric innovator in a competitive market.

- **Implementation:** Feature these stories on the website, in marketing emails, and across social channels.
- **Target KPI 1 (Conversion):** Achieve a 20% higher conversion rate on story-based marketing emails compared to standard promotional content.
- **Target KPI 2 (Reactivation):** Target a 10% reactivation rate for Lapsed Buyers who currently interact with digital tools but do not purchase.

### **Recommendation 2: Bronze Plus Tier and Progression Nudges**

It is recommended that SmartStream create a new Bronze Plus tier for high-performing Bronze members and introduce monthly reminders to show progress toward higher loyalty levels. Our analysis highlights that Bronze customers are currently our most valuable group, averaging 12.27 transactions, yet they remain in the lowest loyalty category. Creating a Bronze Plus sub-tier for those exceeding 14 transactions or \$1,800 in spend rewards, this high activity early prevents the disengagement observed in our Silver and Gold tiers.

In contrast to the active Bronze group, Gold customers currently report the lowest satisfaction at 2.65 and lower digital engagement. This indicates a failure in tier differentiation or perceived value. By introducing monthly personalised nudges,

SmartStream can keep tier progression visible and motivating. These nudges act as momentum builders, showing customers how close they are to the next reward. Small, low-cost benefits like early access to sales or priority service for Bronze Plus members can meaningfully strengthen relationships without significantly impacting margins. This proactive approach reinforces the loyalty of high-potential Bronze users while re-energising underperforming mid-tier members who might otherwise drift away.

- **Implementation:** Reward Bronze customers who exceed 14 transactions or spend more than \$1,800 with early access to sales or priority service.
- **Target KPI 1 (Growth):** Achieve a 15% Tier Migration Rate, moving active Bronze members into higher value loyalty brackets.
- **Target KPI 2 (Satisfaction):** Increase the Gold tier satisfaction score from 2.65 to 3.15 by making tier benefits more visible and motivating.

## Data Gaps and Future Considerations

The current dataset lacks information on product returns, exchanges, or refund requests. This limits the ability to evaluate true customer profitability. Without this context, Power Users may be overestimated in terms of value if they also have high return rates. A high number of returns may also signal underlying issues with product quality or the shipping journey that are currently invisible.

Additionally, the dataset lacks qualitative feedback, such as product reviews or service complaints. Including this data in the future would allow for deeper insights into customer experience and help identify at-risk segments before they stop purchasing. By capturing return data and customer sentiment, SmartStream can move from measuring gross revenue to measuring net profit per customer.