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Customer Segmentation & RFM Report

Executive Summary

Understanding customer behavior is critical for our company's continued growth. This report explores customer segmentation and RFM analysis techniques to gain valuable insights into our customer base.

Customer Segmentation: Tailoring Strategies for Different Groups

Customer segmentation involves grouping customers with similar characteristics. This allows us to develop targeted marketing strategies specific to each segment, maximizing campaign effectiveness and customer engagement.

RFM Analysis: Decoding Buying Habits

RFM analysis is a powerful tool that examines customer behavior through three key metrics:

- **Recency:** How recently a customer has made a purchase.
- **Frequency:** How often a customer makes purchases.
- **Monetary Value:** The total amount a customer spends.

By analyzing RFM data, we can identify our most valuable customers, understand lapsed buyers, and refine marketing strategies to re-engage them.

Project Goals and Approach

This project utilized an RFM dataset containing customer invoice information, including purchase date, items purchased, quantity, amount spent, and purchase location. Our goals were to:

- Segment customers based on their buying habits using RFM analysis.
- Gain insights into the buying behavior within each customer segment.
- Develop targeted marketing recommendations for each segment to increase engagement.

Data Cleaning and Segmentation Process

The initial dataset was reviewed to identify and remove irrelevant data for improved segmentation accuracy. Excluded data included:

- Rows with missing customer IDs (CustomerID = null)
- Rows with zero unit price and quantity (potentially representing returns)

Following data cleaning, a segmentation query was created to group customers based on relevant RFM values. The specific query and results are available for review in a separate Google Sheet.

Analysis

From the query result where I segmented customers using calculated recency, frequency, and monetary values, I developed a [Tableau dashboard](#) to provide a clear visualization of each segment's performance and key insights about the main customer groups. [This dashboard](#) allows for quick access to this valuable information.
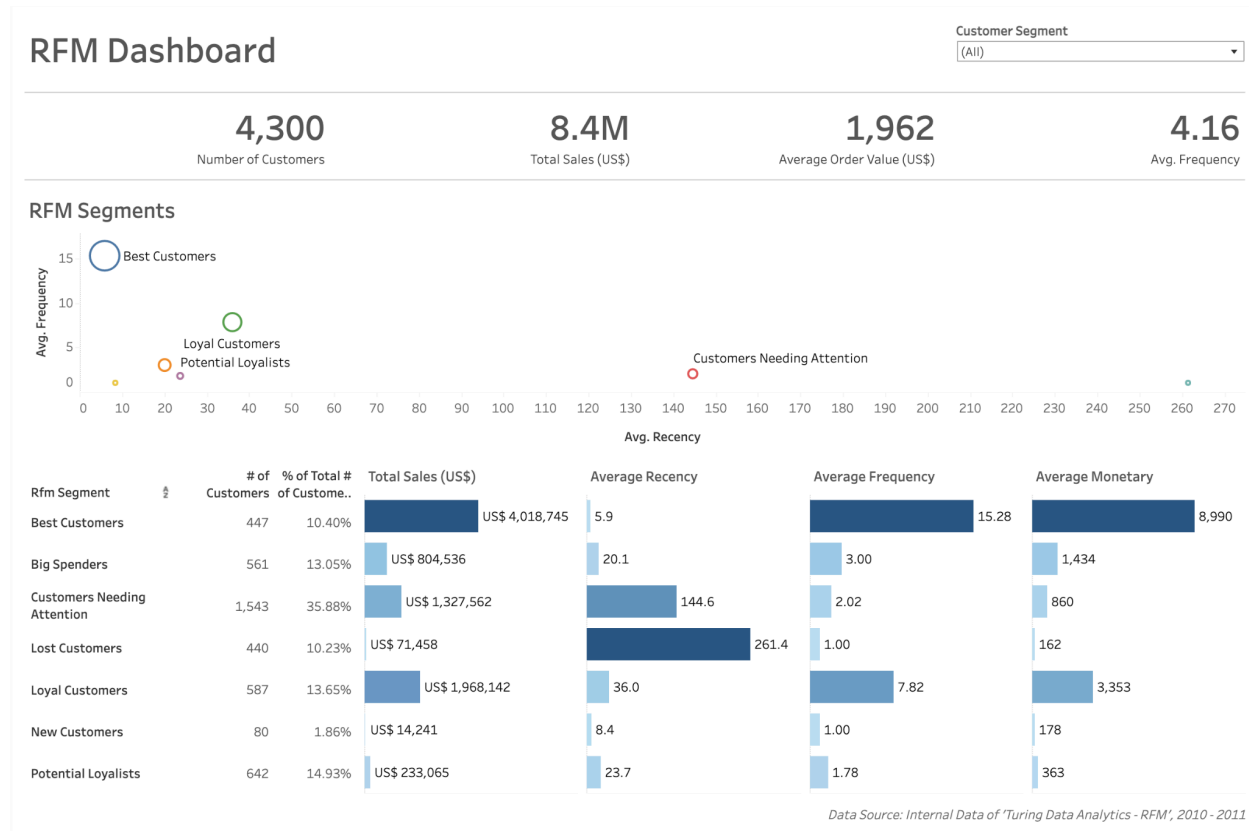

Figure 1. Screenshot of RFM Dashboard.
Source: https://public.tableau.com/app/profile/nikolina.beric/viz/RFMDashboard_17043026592560/Dashboard1?publish=yes

Key Customer Segments and Performance

The segmentation process identified ten distinct customer groups:

- **Best Customers (10.40%)** - Highest spenders, most frequent purchases, most recent purchases. Generate the most revenue and have a high average monetary value.
- **Big Spenders (13.05%)** - High spenders, but purchase less frequently than Best Customers.
- **Customers Needing Attention (35.88%)** - Above average historical values, but not recent. Re-activate with targeted offers.
- **Lost Customers (10.23%)** - Lowest RFM values. Require re-engagement efforts to revive interest.
- **Loyal Customers (13.65%)** - Spend a good amount, responsive to promotions, buy recently. High potential to become Best Customers.

- **New Customers (1.86%)** - Purchased recently, but infrequently and low spend. Require nurturing to become loyal customers.
- **Potential Loyalists (14.93%)** - Recent customers, low spend. Need brand awareness and engagement campaigns.

Recommendations by Customer Segment

Best Customers (10.40%) & Loyal Customers (13.65%) (24.05% of total customers, generate most revenue)

- **Reward programs** for Best Customers to maintain loyalty.
- **Upsell higher-value products** to Loyal Customers with growth potential.

Big Spenders (13.05%)

- **Exclusive promotions and discounts** to incentivize more frequent purchases.
- **Engage with them to understand their buying preferences** and tailor product recommendations.

Customers Needing Attention (35.88%)

- **Personalized email campaigns** with relevant product recommendations.
- **Win-back offers** based on past purchase history.

Lost Customers (10.23%)

- **Analyze reasons for customer churn.**
- **Targeted campaigns** with subtle product offers based on past purchases.

New Customers (1.86%) & Potential Loyalists (14.93%) (16.79% of total customers)

- **Welcome campaigns** to introduce them to the brand.
- **Loyalty programs** to encourage repeat purchases.
- **Personalized recommendations** based on their initial purchase.

Key Insights

- A significant portion of our customer base (35.88%) falls into the "Customers Needing Attention" segment. Personalized engagement strategies are crucial for this group.
- Best and Loyal customers (24.05% of total) generate the most revenue. Retention and upsell strategies for these segments are critical.
- Big Spenders (13.05%) present a significant revenue opportunity. Understanding their buying preferences can lead to increased purchase frequency.

- Proactive engagement with "Customers Needing Attention" can prevent churn and recapture lost revenue potential. This segment represents the largest portion of our customer base.
- Tailored re-engagement campaigns for potential lost customers (Lost Customers + Customers Needing Attention = 46.11%) can significantly improve customer retention.
- Understanding the reasons behind customer churn for "Lost Customers" (10.23% of total) is essential to improve customer retention strategies.
- New customer acquisition (New Customers + Potential Loyalists = 16.79% of total) is important for long-term growth, but retention efforts should be prioritized given the size of the "Customers Needing Attention" segment.

By implementing targeted marketing campaigns based on these insights, we can significantly improve customer engagement, reduce churn, and maximize customer lifetime value.