



# **CUSTOMER SEGMENTATION**

## **: PROJECT REPORT :**

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# 1. INTRODUCTION

In today's highly competitive retail environment, understanding customer behavior has become a critical factor for business success. Organizations increasingly rely on data-driven insights to make informed decisions related to pricing, promotions, product assortment, and customer engagement. Customer segmentation plays a vital role in this process by grouping customers based on similar purchasing patterns, preferences, and behaviors, enabling businesses to design targeted and effective marketing strategies.

This report presents a detailed analysis of customer shopping behavior using a dataset comprising over **3,900 transaction records** from the **U.S. retail market**. The dataset includes a wide range of customer attributes such as age, gender, purchase amount, product category, payment method, seasonal preferences, location, discount usage, and purchase frequency. By leveraging this rich set of features, the analysis aims to uncover meaningful patterns and trends in customer behavior.

The primary objective of this study is to **segment customers into distinct groups** using clustering techniques, allowing businesses to better understand different customer types and their shopping habits. In addition, the report identifies **product categories that would benefit most from discount strategies**, helping optimize sales performance and inventory management. Special emphasis is also placed on analyzing **card-based spending behavior across various age groups**, along with the influence of **seasonal and geographical factors** on purchasing decisions.

Advanced analytical techniques, including **K-Means clustering**, are applied to classify customers into multiple segments based on their purchasing behavior and preferences. The insights derived from this analysis are further visualized using an interactive **Power BI dashboard**, enabling intuitive exploration of key performance indicators and trends.

Overall, this project demonstrates how customer segmentation and data analytics can support **strategic decision-making**, improve marketing effectiveness, enhance customer satisfaction, and ultimately drive business growth in the retail industry.

## 2. DATASET OVERVIEW

The dataset used in this project represents customer shopping behavior within the **U.S. retail market** and consists of **approximately 3,900 customer transaction records**. It is a comprehensive dataset designed to capture demographic information, purchasing patterns, payment preferences, and responses to promotional activities. Such a diverse set of attributes enables a holistic analysis of customer behavior and supports effective customer segmentation.

### 2.1 Customer Demographics

Demographic attributes provide insight into the characteristics of customers and help identify patterns related to age and gender.

### 2.2 Purchase Behavior

Purchase-related attributes describe what customers buy and how frequently they shop.

### 2.3 Location and Seasonal Information

These attributes provide contextual insights into when and where purchases occur.

### 2.4 Payment Preferences

Payment-related attributes reveal how customers prefer to complete their transactions.

### 2.5 Promotional and Discount Usage

These attributes help measure customer sensitivity to promotions and discounts.

### 2.6 Importance of the Dataset

The combination of demographic, transactional, and behavioral attributes makes this dataset highly suitable for **customer segmentation and clustering analysis**. It enables the identification of distinct customer groups based on spending habits, promotional responsiveness, and shopping frequency. The insights derived from this dataset support data-driven decisions related to **pricing strategies, personalized marketing, inventory planning, and customer retention initiatives**.

### 3. OVERALL BUSINESS PERFORMANCE

The overall business performance was evaluated using key performance indicators (KPIs) derived from the transactional dataset and visualized through an interactive Power BI dashboard. These KPIs provide a high-level understanding of sales volume, revenue generation, and customer purchasing behavior across different product categories.

#### 3.1 Key Performance Indicators

- **Total Transactions:** The dataset records approximately **8 million transactions**, indicating a high level of customer activity and strong engagement with the retail platform. This metric reflects the scale of operations and the frequency with which customers interact with the business.
- **Total Revenue:** The total revenue generated amounts to **233,000 USD**, representing the cumulative value of all completed purchases. This figure serves as a critical indicator of overall financial performance and business sustainability.
- **Total Items Purchased:** A total of **4,000 items** were purchased, suggesting that customers frequently engage in multi-item purchases. This insight is useful for understanding basket size and cross-selling opportunities.
- **Total Sales Count:** With **3,900 recorded sales**, the data highlights a consistent flow of transactions, reinforcing the reliability of the dataset for meaningful analysis and segmentation.

#### 3.2 Category-wise Sales Performance

An analysis of sales across product categories reveals significant variation in customer demand:

- **Clothing** emerges as the **highest-performing category**, contributing the largest share of total sales. This indicates strong customer preference and consistent demand for apparel products.

- **Accessories** and **Footwear** follow as moderately performing categories, suggesting stable but competitive market demand.
- **Outerwear** records the **lowest sales contribution**, which may be influenced by seasonal dependency, pricing factors, or limited customer preference.

### 3.3 Business Insights

The dominance of the Clothing category highlights its importance as a core revenue driver for the business. In contrast, the lower performance of Outerwear suggests an opportunity for improvement through targeted discount strategies, seasonal promotions, or enhanced marketing efforts. Understanding these category-level performance differences enables businesses to optimize inventory management, pricing decisions, and promotional planning.

Overall, the business performance analysis provides a strong foundation for further customer segmentation and strategic decision-making

## 4. DISCOUNT STRATEGY

Discount strategies play a crucial role in influencing customer purchasing decisions, clearing slow-moving inventory, and improving overall sales performance. Based on the analysis of category-wise sales data and customer purchasing behavior, **Outerwear and Footwear** have been identified as the most suitable product categories for discount implementation.

### 4.1 Category Selection for Discounts

- **Outerwear** shows the lowest contribution to total sales among all categories. This category is highly dependent on seasonal demand, with sales typically peaking during colder seasons and declining during warmer periods. As a result, unsold inventory may accumulate during off-season months.
- **Footwear**, while performing better than Outerwear, demonstrates moderate sales volume and high competition within the retail market. Customers in this category are often price-sensitive and more likely to respond positively to discounts and promotional offers.

### 4.2 Rationale for Discounting

The decision to apply discounts to these categories is supported by the following observations:

- Lower sales volume compared to other categories such as Clothing and Accessories
- High sensitivity to seasonal trends and changing customer preferences
- Increased likelihood of purchase when promotional offers or discounts are applied

### 4.3 Expected Business Impact

Strategic discounting in Outerwear and Footwear is expected to:

- **Improve inventory turnover** by reducing unsold stock
- **Increase customer engagement** by attracting price-conscious buyers
- **Boost short-term sales volume** during off-peak seasons

## 5. CARD SPENDING ANALYSIS

Card-based payment methods play a significant role in modern retail transactions, offering convenience, security, and ease of use. An analysis of customer payment preferences across different age groups, seasons, and locations reveals important insights into card spending behavior.

### 5.1 Card Usage by Age Group

The analysis shows that customers in the **25–34** and **35–44** age groups exhibit the **highest usage of card-based payment methods**, particularly **credit cards and debit cards**. These age groups typically represent working professionals with stable income levels and higher purchasing power, making them more comfortable with digital and cashless payment options.

Younger customers in these age ranges also tend to prefer faster and more convenient transaction methods, which explains the dominance of card payments. In contrast, older age groups show comparatively lower card usage and a higher inclination toward alternative payment methods.

### 5.2 Seasonal Impact on Card Spending

Card spending demonstrates a clear seasonal pattern:

- **Spring and Summer seasons** record the highest levels of card transactions.
- These seasons are often associated with increased shopping activity, including seasonal fashion purchases, travel-related shopping, and promotional sales events.

Seasonal sales campaigns and festive offers further encourage customers to use card payments, particularly when discounts or cashback offers are available.

### 5.3 Location-Based Trends

Geographical analysis indicates that **urban locations** show significantly higher card spending compared to rural or semi-urban areas. This trend can be attributed to better digital payment infrastructure, higher adoption of banking services, and greater exposure to online and cashless payment systems in urban regions.

#### 5.4 Business Implications

The insights from card spending analysis suggest several opportunities for businesses:

- Promote **card-based offers** specifically targeting the 25–44 age group
- Align **seasonal campaigns** with Spring and Summer to maximize card transactions
- Partner with banks or payment providers to offer **cashback or reward programs** in urban markets

Overall, understanding card spending behavior helps businesses optimize payment strategies, enhance customer experience, and increase transaction efficiency.



## 6. CUSTOMER CLUSTERING

Customer clustering is a key analytical technique used to group customers based on similarities in their purchasing behavior and preferences. In this project, **K-Means clustering** was applied to segment customers into distinct groups, enabling a deeper understanding of customer patterns and facilitating targeted marketing strategies.

### 6.1 Clustering Methodology

K-Means clustering is an unsupervised machine learning algorithm that partitions data into a predefined number of clusters by minimizing the distance between data points and their respective cluster centroids. Prior to clustering, relevant features such as **purchase amount, frequency of purchases, payment method, discount usage, and promotional behavior** were standardized to ensure equal contribution to the clustering process.

Based on evaluation metrics and business interpretability, the number of clusters was set to **three**, resulting in meaningful and actionable customer segments.

### 6.2 Identified Customer Segments

#### 1. High-Value Loyal Customers

This segment consists of customers who exhibit **high purchase frequency and higher average spending**. They primarily prefer **card-based payment methods** and show **low dependency on discounts or promotional offers**. These customers contribute significantly to overall revenue and demonstrate strong brand loyalty.

#### Characteristics:

- High purchase value
- Frequent shopping behavior
- Low discount sensitivity
- High revenue contribution

## 2. Price-Sensitive Customers

Customers in this segment are highly influenced by **discounts and promotional offers**. They tend to make purchases when incentives such as discounts or promo codes are available. Although their individual purchase value may be moderate, their response to promotions makes them valuable during sales campaigns.

### Characteristics:

- High discount and promo usage
- Moderate purchase frequency
- Strong response to seasonal offers
- Cost-conscious buying behavior

## 3. Occasional Buyers

Occasional Buyers represent customers who purchase infrequently and show lower overall spending. Their buying behavior is often influenced by specific needs, seasons, or locations rather than consistent shopping habits. This segment presents an opportunity for customer engagement and conversion into repeat buyers.

### Characteristics:

- Low purchase frequency
- Irregular shopping patterns
- Mixed payment preferences
- Lower overall spending

## 6.3 Importance of Clustering Results

The clustering results provide valuable insights into customer behavior and allow businesses to tailor marketing strategies for each segment. By understanding the dominant characteristics of each group, organizations can optimize promotional efforts, improve customer retention, and enhance overall business performance.

## 7. TARGETED MARKETING STRATEGIES

Targeted marketing strategies enable businesses to deliver personalized offers and communications based on customer behavior and preferences. Using the customer segments identified through clustering analysis, tailored marketing approaches can be designed to maximize engagement, retention, and revenue for each group.

### 7.1 Strategies for High-Value Loyal Customers

High-value loyal customers contribute significantly to overall revenue and demonstrate consistent purchasing behavior. The primary goal for this segment is **retention and long-term engagement**.

#### Recommended Strategies:

- Implement **loyalty and rewards programs** offering points, cashback, or exclusive benefits
- Provide **early access** to new product launches and seasonal collections
- Offer **personalized recommendations** based on previous purchases
- Introduce **membership-based perks** such as free shipping or premium support

These strategies help strengthen customer relationships and increase lifetime value.

### 7.2 Strategies for Price-Sensitive Customers

Price-sensitive customers are highly responsive to promotional incentives and discounts. The objective for this segment is to **drive purchase frequency during promotional periods**.

#### Recommended Strategies:

- Offer **discount-based campaigns** and limited-time deals
- Use **promo codes and seasonal sales** to encourage purchases

- Send targeted notifications about price drops and clearance sales
- Bundle products to provide perceived value without heavy discounts

Such strategies effectively motivate this segment to convert and increase sales volume.

### 7.3 Strategies for Occasional Buyers

Occasional buyers have lower engagement levels and irregular purchasing patterns. The focus for this segment is **re-engagement and conversion into repeat customers**.

#### Recommended Strategies:

- Send **reminder emails or notifications** highlighting new arrivals or popular products
- Offer **first-time or comeback purchase discounts**
- Use personalized messages based on past purchase behavior
- Simplify the purchase journey to reduce friction

### 7.4 Overall Marketing Impact

By aligning marketing strategies with customer segment characteristics, businesses can improve campaign effectiveness, optimize marketing budgets, and enhance customer satisfaction. Targeted marketing ensures that the right message reaches the right customer at the right time, resulting in improved conversion rates and long-term business growth.

## 8. BUSINESS RECOMMENDATIONS

Based on the insights obtained from customer segmentation, payment behavior analysis, and sales performance evaluation, the following business recommendations are proposed to improve overall efficiency, customer engagement, and revenue growth.

### 8.1 Optimize Discount Strategies

Discounts should be strategically focused on **low-performing categories** such as Outerwear and Footwear. Rather than applying uniform discounts across all products, category-specific and time-bound discounting can help:

- Increase demand for slow-moving inventory
- Reduce stock holding costs
- Improve inventory turnover

Targeted discounts should also be aligned with customer segments that are more responsive to promotions.

### 8.2 Promote Card-Based Payment Offers

Given the high card usage among **younger and middle-aged customers (25–44 age group)**, businesses should actively promote card-based payment offers. Recommended actions include:

- Partnering with banks and payment providers for cashback offers
- Providing exclusive card-payment discounts
- Encouraging digital and cashless transactions for faster checkouts

Such initiatives can improve transaction efficiency and enhance customer experience.

### 8.3 Leverage Seasonal Trends

Seasonal analysis shows that customer spending peaks during **Spring and Summer**. Businesses should plan major marketing campaigns, product launches, and promotional events during these high-demand seasons. Seasonal strategies may include:

- Launching seasonal collections
- Running festival and holiday-based promotions
- Adjusting inventory levels to match seasonal demand

### 8.4 Implement Personalized Marketing Using Segmentation

Customer segmentation should be integrated into marketing and sales strategies to deliver **personalized experiences**. By tailoring offers and communication to specific customer segments, businesses can:

- Improve customer engagement
- Increase conversion rates
- Enhance customer retention and loyalty

Personalized marketing ensures that customers receive relevant offers, leading to higher satisfaction and long-term business growth.

### 8.5 Strategic Business Impact

Implementing these recommendations enables data-driven decision-making and allows businesses to optimize resources effectively. A structured approach to discounts, payments, seasonality, and segmentation helps create a competitive advantage in the retail market.

## 9. CONCLUSION

This project successfully demonstrates the importance of **customer segmentation and data analytics** in understanding consumer behavior and supporting informed business decisions. By analyzing a comprehensive dataset of over 3,900 customer records from the U.S. retail market, meaningful insights were derived related to purchasing patterns, payment preferences, seasonal trends, and promotional responsiveness.

Through the application of **K-Means clustering**, customers were grouped into distinct segments based on their shopping behavior. This segmentation enabled the identification of high-value loyal customers, price-sensitive customers, and occasional buyers, each with unique characteristics and business significance. These insights allow organizations to move beyond generic marketing approaches and adopt **personalized, targeted strategies** that better align with customer needs.

The integration of **Python-based analytics** and **Power BI visualization** played a crucial role in transforming raw data into actionable insights. Performance analysis highlighted key revenue-driving categories, identified low-performing segments suitable for discount strategies, and revealed the impact of age, season, and location on card-based spending behavior.

Overall, this project illustrates how data-driven customer segmentation enhances **marketing efficiency, customer satisfaction, and operational effectiveness**. By leveraging analytics tools and strategic insights, businesses can optimize pricing strategies, improve customer retention, and achieve sustainable long-term growth in a competitive retail environment.

# THANK YOU