Optimal Investment Strategy
Using Segmentation and Scoring Mechanism On XYZ Hardware Wholesaler Transactions

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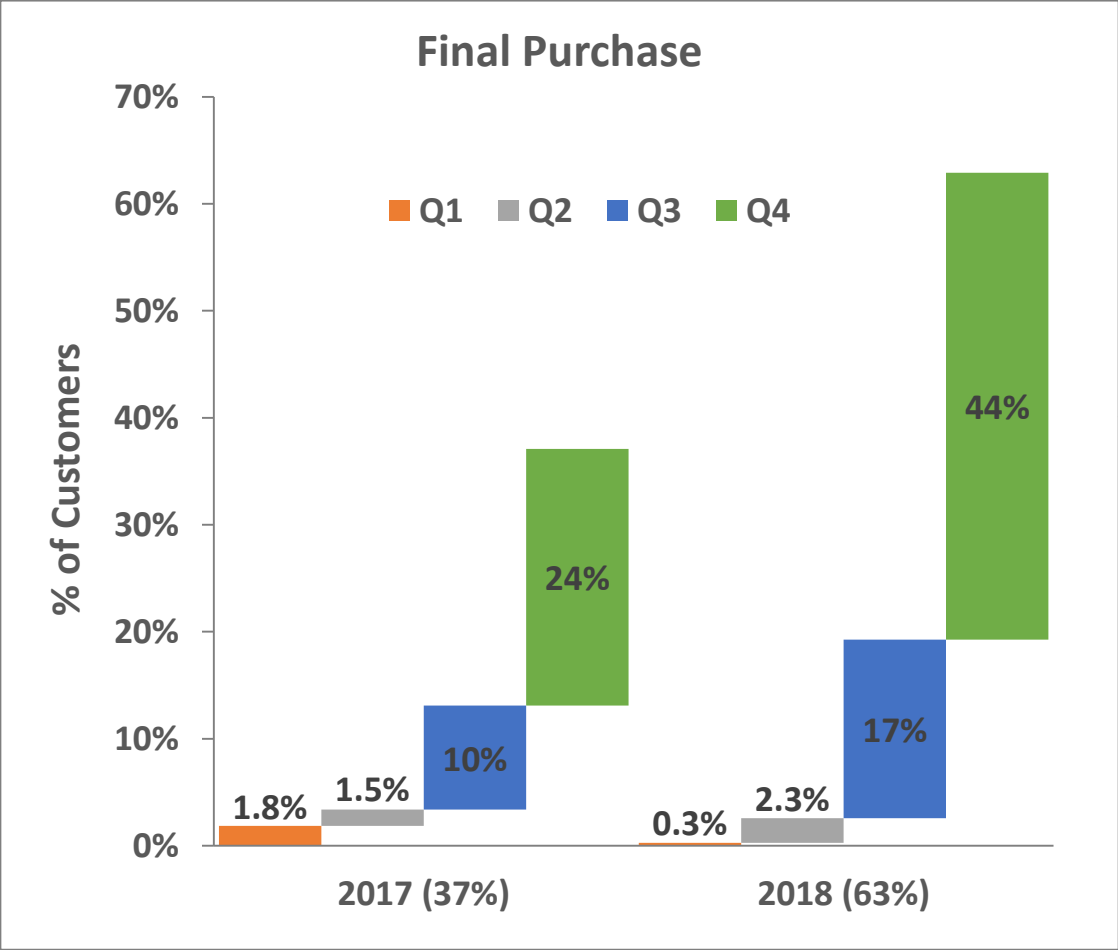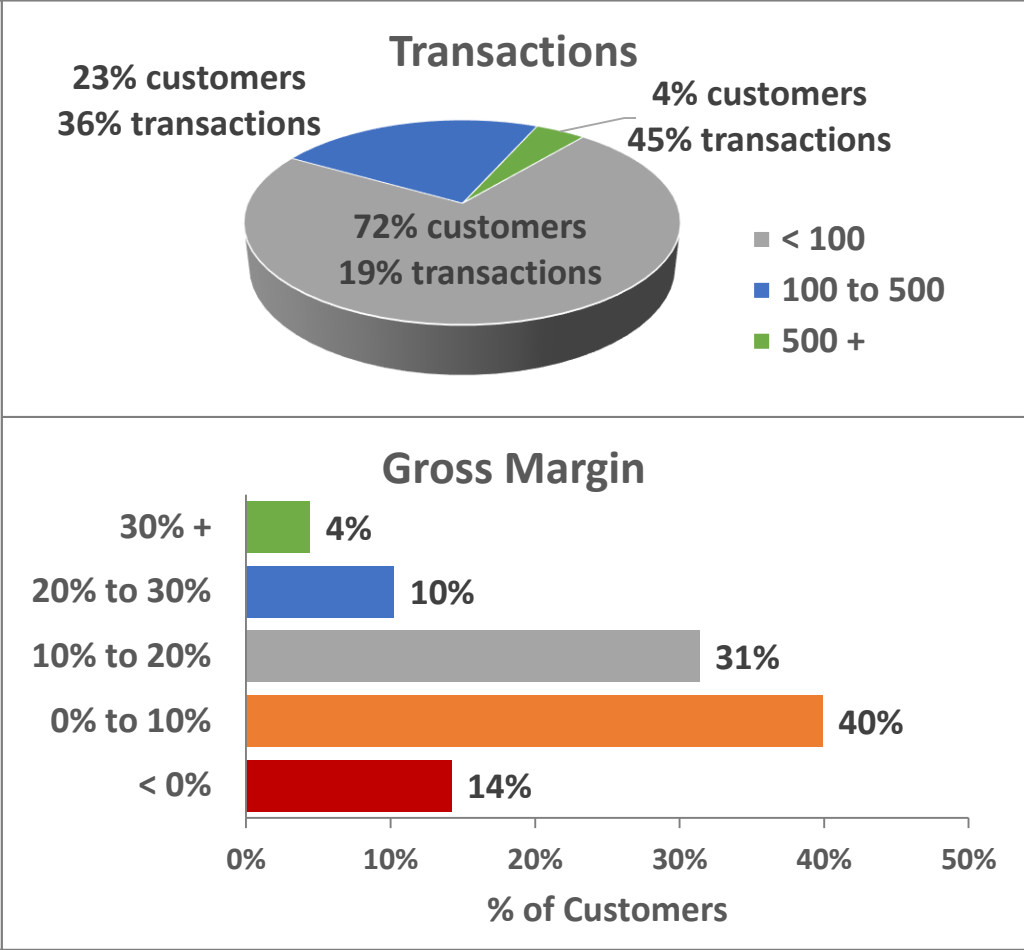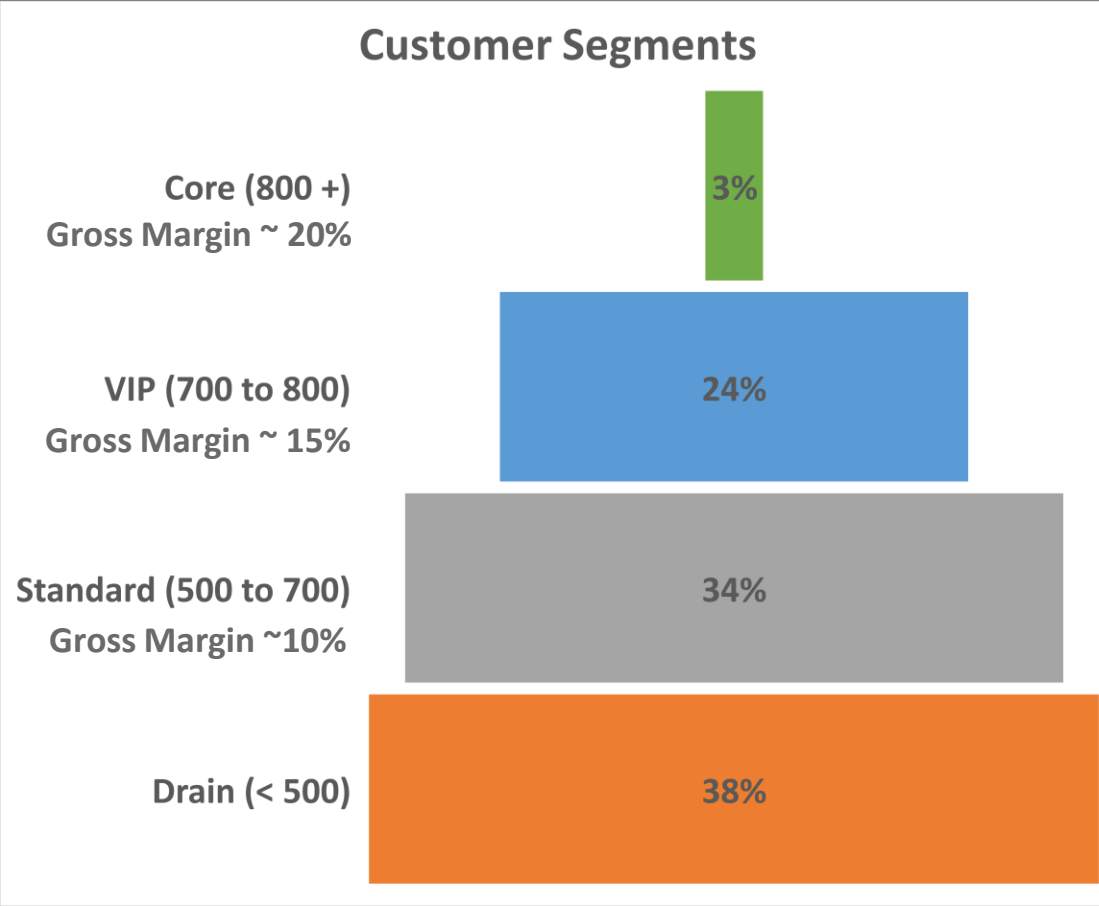Rohit Doddapaneni
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In Association With

intuilize

Customer Analysis

27% of customers did 80% of transactions

Final Purchase

% of Customers

Q1 Q2 Q3 Q4

2017 (37%): 1.8%, 1.5%, 10%, 24%

2018 (63%): 0.3%, 2.3%, 17%, 44%

Transactions

23% customers
36% transactions

4% customers
45% transactions

72% customers
19% transactions

< 100
100 to 500
500 +

Gross Margin

30% + 4%
20% to 30% 10%
10% to 20% 31%
0% to 10% 40%
< 0% 14%

% of Customers

37% of customers did not return to buy after 2017

14% of customers contribute above 20% margin

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Customer Segmentation

Customer Segments

- Core (800 +) Gross Margin ~ 20% — 3%
- VIP (700 to 800) Gross Margin ~ 15% — 24%
- Standard (500 to 700) Gross Margin ~10% — 34%
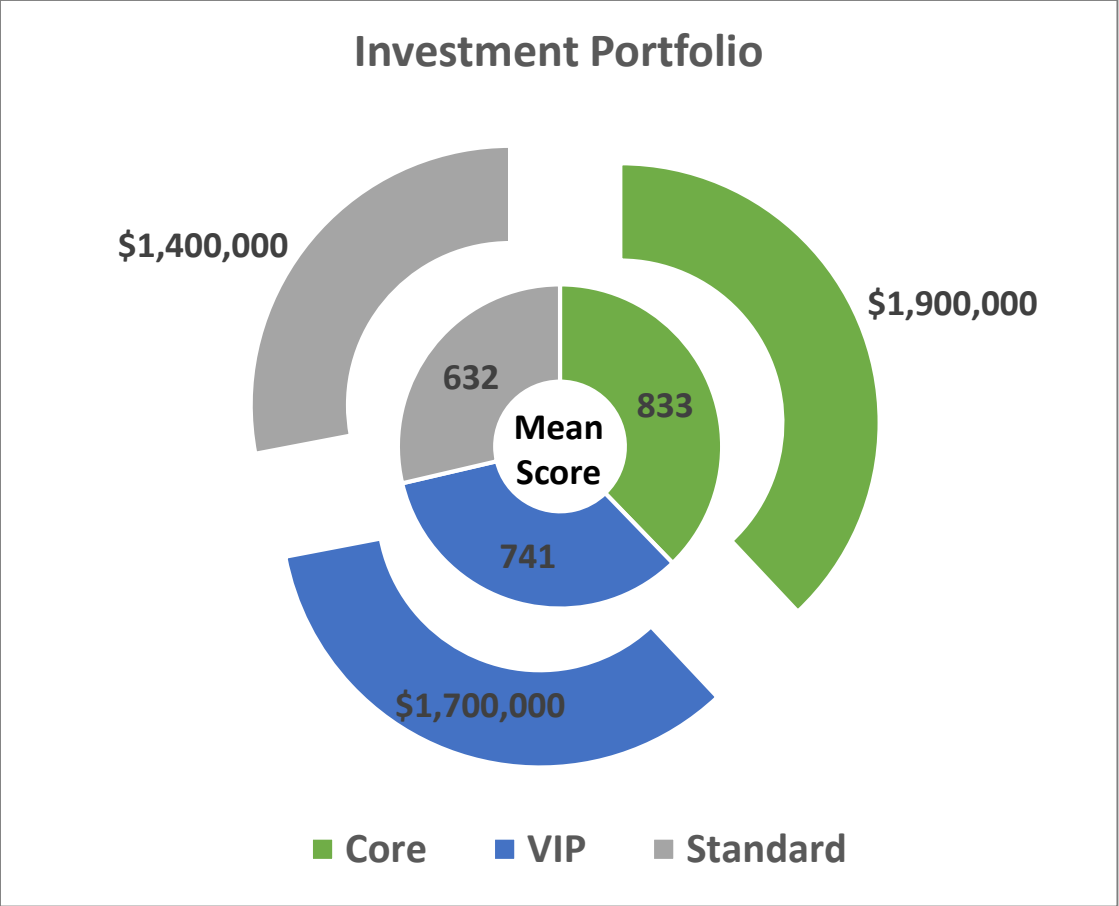- Drain (< 500) — 38%

Core: Highly valuable, drives most business
VIP: Potential ones that can reach Core status
Standard: Occasional shoppers, mild business
Drain: No recent purchases, negative margins

Investment Portfolio

- $1,400,000
- $1,900,000
- $1,700,000
- 632
- 833
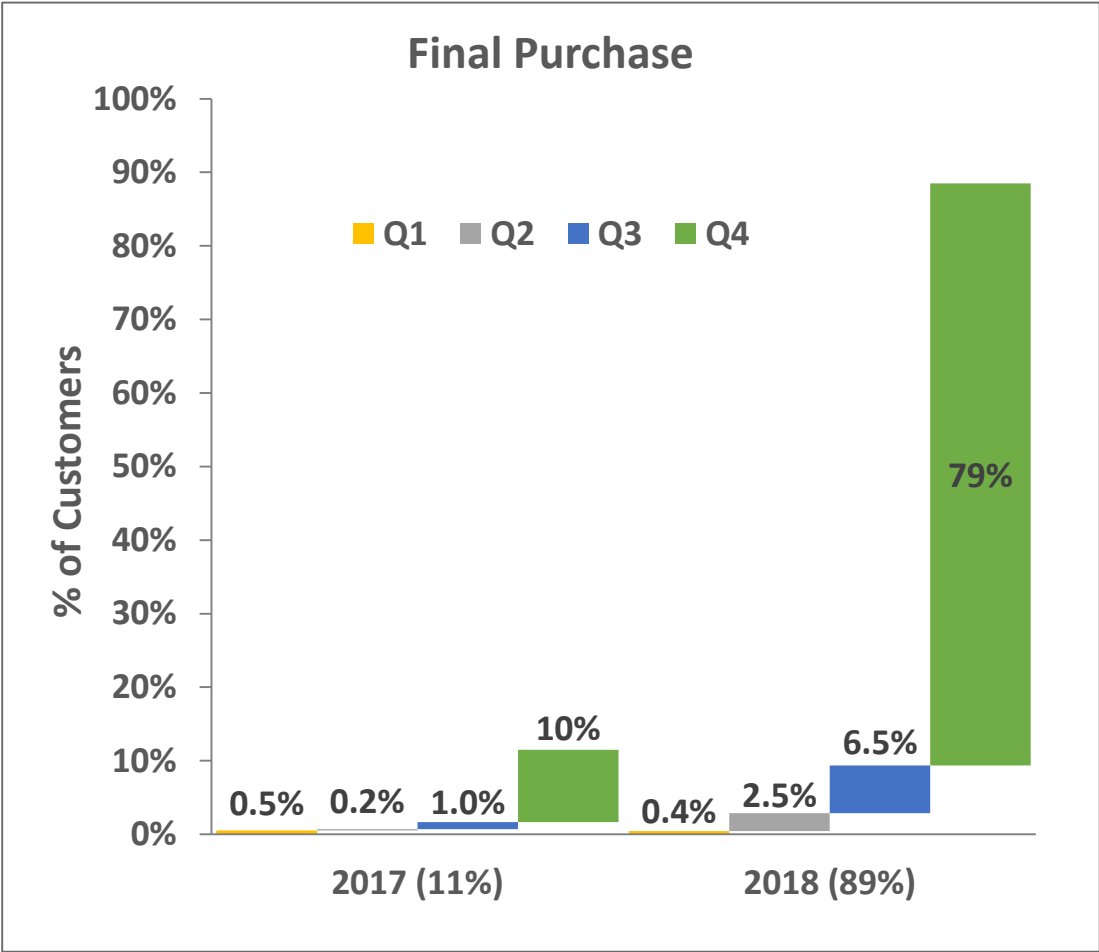- 741
- Mean Score

Core   VIP   Standard

The $5 million portfolio is divided based on Mean Score calculated using weighted Recency, Frequency, Margin
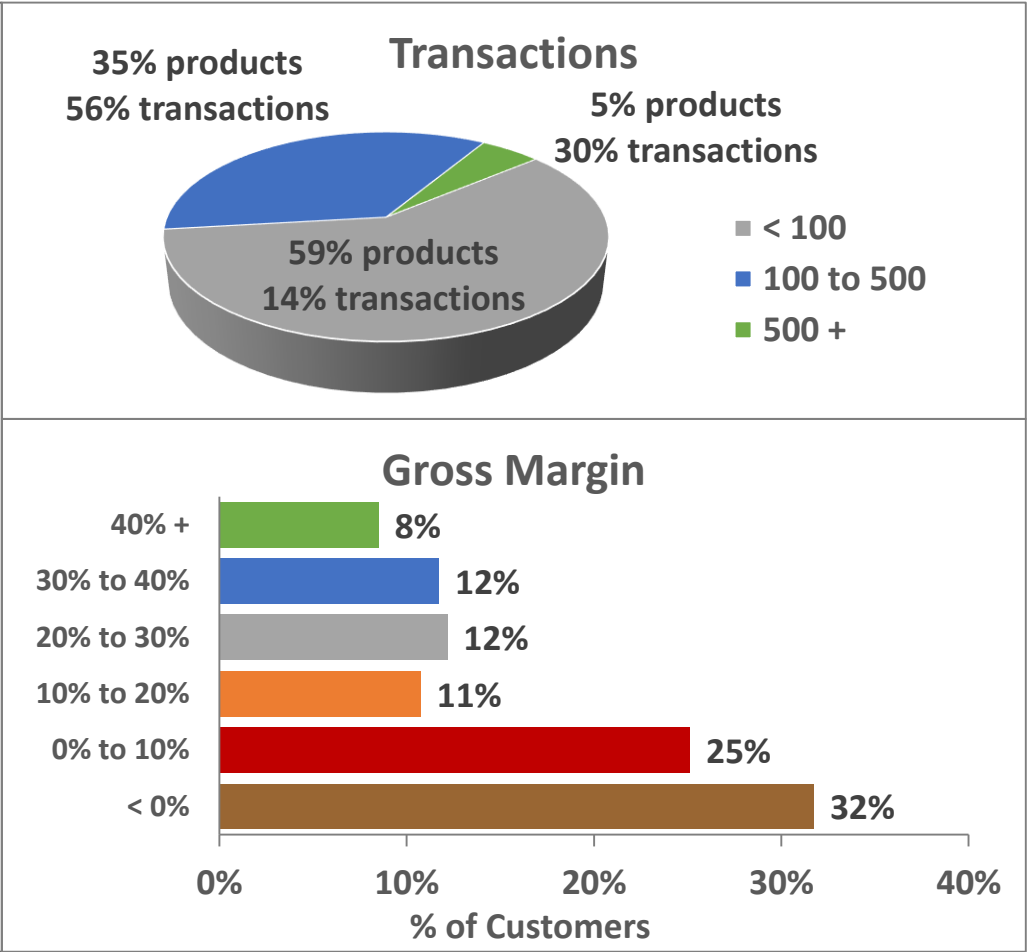
Employee Insights
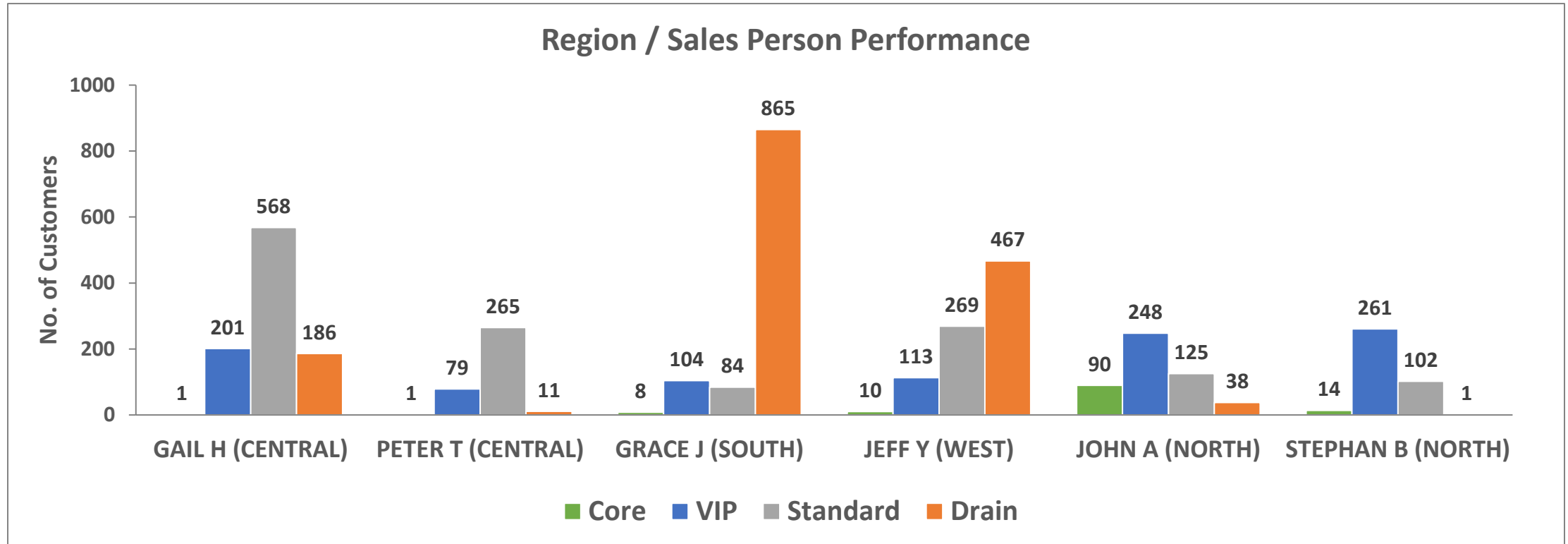
Majority of Grace's and Jeff's customers are in the Drain segment, these customers contributed in negative margins and did not purchase anything recently. Grace and Jeff need to find new customers in their regions.
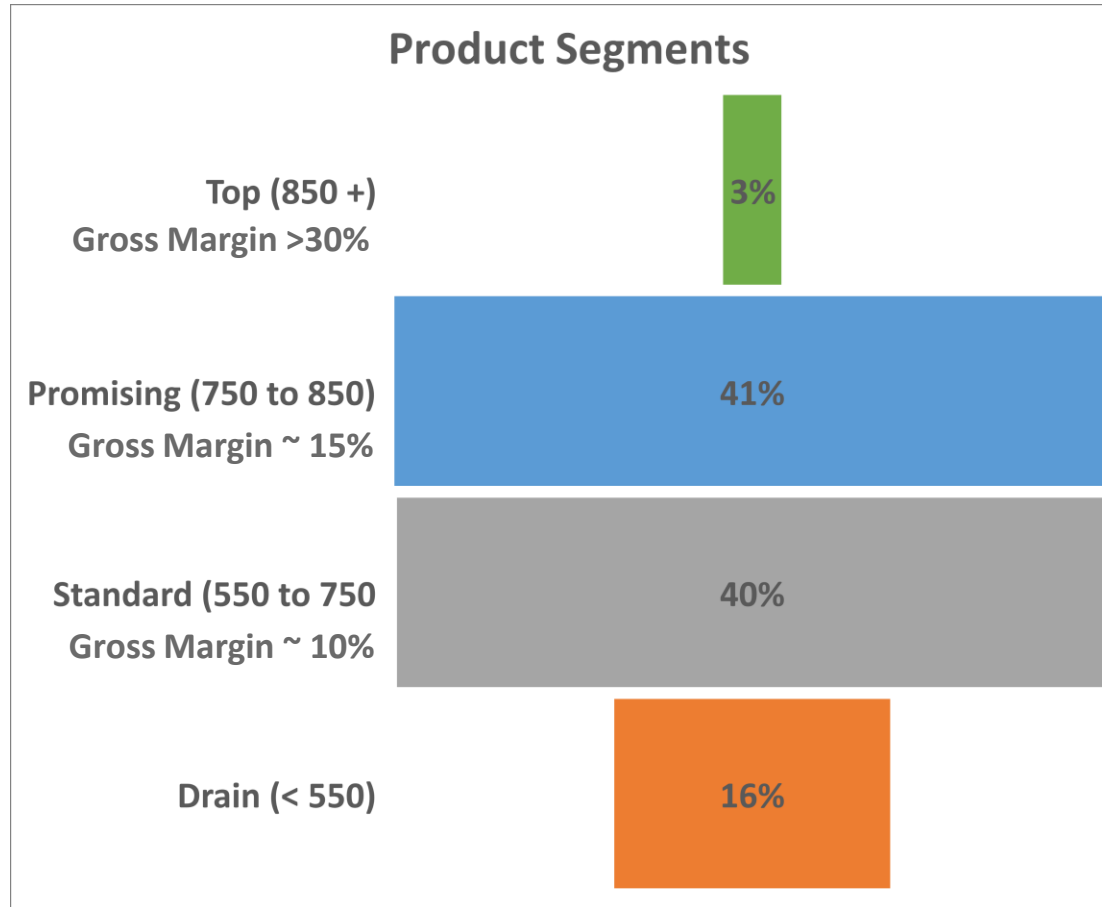
Product Analysis

5% products are involved in 30% transactions

Final Purpose

% of Customers

Q1   Q2   Q3   Q4

79%

10%

6.5%

0.5% 0.2% 1.0%   0.4% 2.5%

2017 (11%)   2018 (89%)

Transactions

35% products
56% transactions

5% products
30% transactions

59% products
14% transactions

< 100
100 to 500
500 +

Gross Margin

40% +   8%
30% to 40%   12%
20% to 30%   12%
10% to 20%   11%
0% to 10%   25%
< 0%   32%

0%   10%   20%   30%   40%

% of Customers

80% of inventory is in demand at the end of 2018

20% of products fetch above 30% margin

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Product Segmentation

Product Segments

Top (850 +)
Gross Margin >30% — **3%**

Promising (750 to 850)
Gross Margin ~ 15% — **41%**

Standard (550 to 750
Gross Margin ~ 10% — **40%**

Drain (< 550) — **16%**

Top: Fast moving, high in demand, high margins
Promising: Decent margins, better to stock up
Standard: Seasonal demand, average margins
Drain: Less in demand, low and negative margins
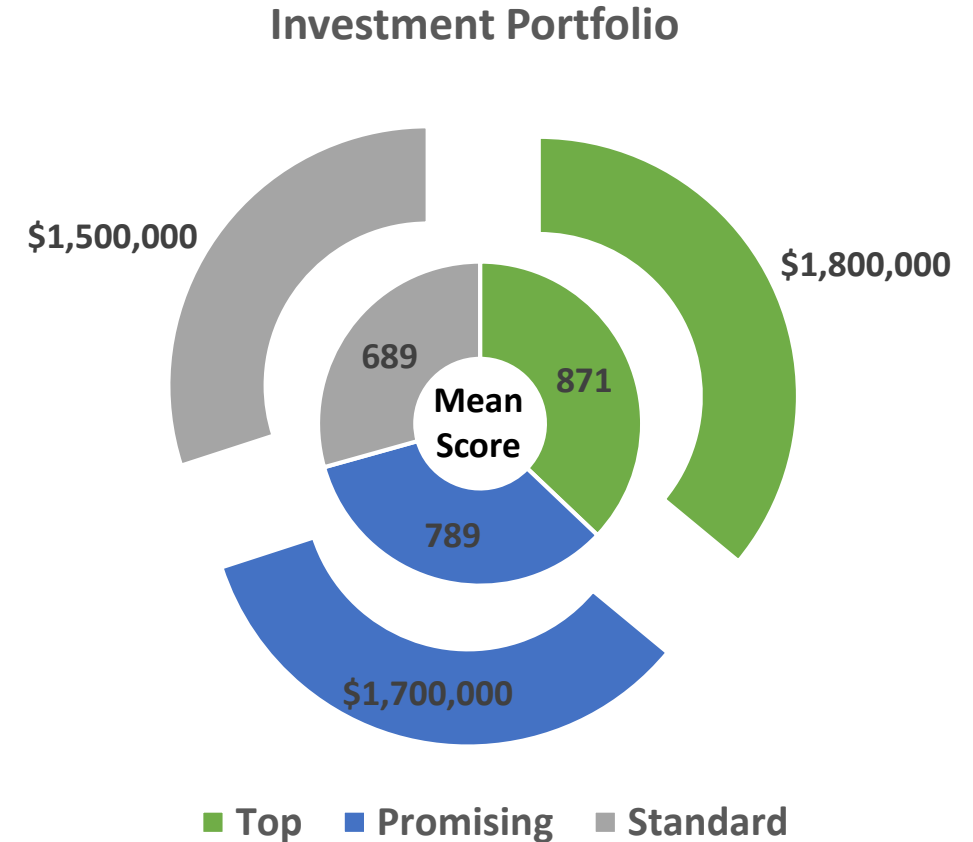
Investment Portfolio

$1,500,000

$1,800,000

689

871

Mean Score

789

$1,700,000

■ Top ■ Promising ■ Standard

The $5 million portfolio is divided based on Mean Score calculated using weighted Recency, Frequency, Margin

Warehouse Insights

Warehouse Location Performance
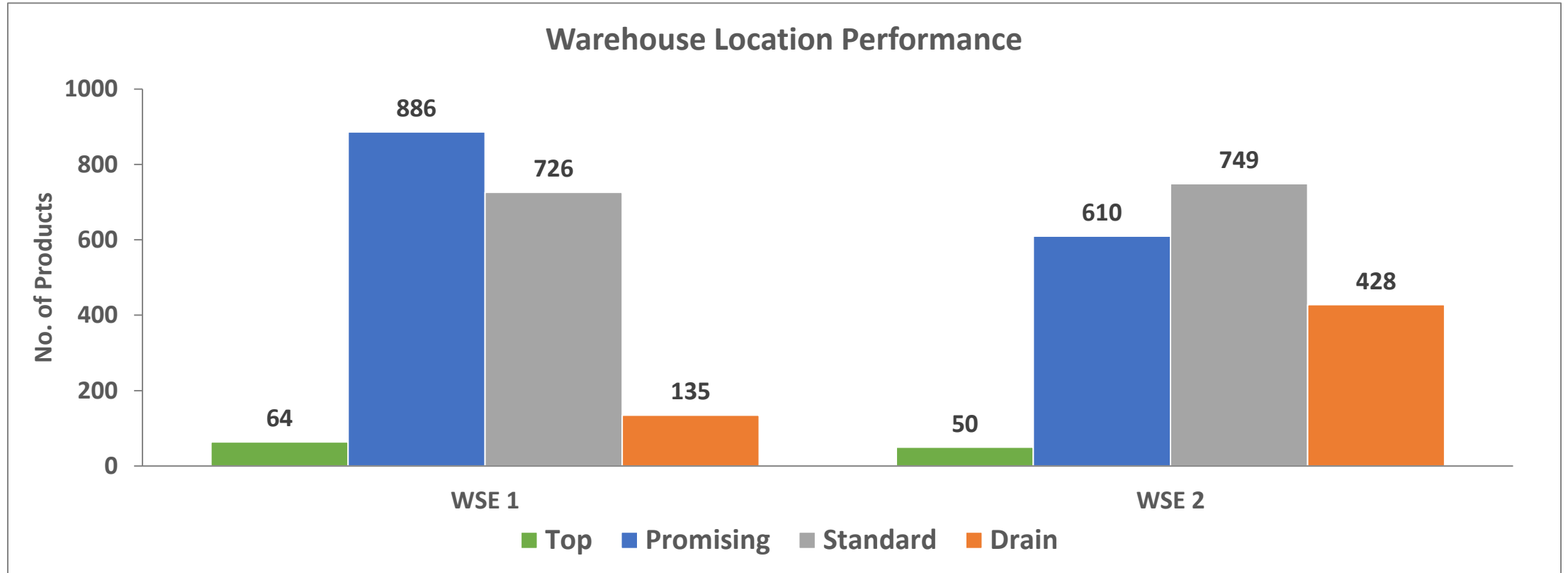
Significant portion of Warehouse 2 inventory is stocked with slow moving and low margin products, better to dispose them, invest in Top and Promising products and stock Warehouse 2 in a similar way as Warehouse 1.

Any Questions?

References

Shih, Y., Liu, C. A method for customer lifetime value ranking — Combining the analytic hierarchy process and clustering analysis. *Journal of Database Marketing & Customer Strategy Management* **11,** 159–172 (2003). https://doi.org/10.1057/palgrave.dbm.3240216