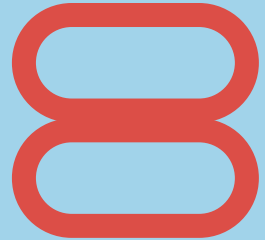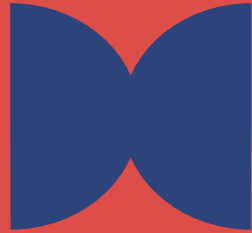# Customer segmentation case study

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Agenda

Problem

Approach

Segmentation

Strategy

Results

Note: While case study is demonstrative of my previous work, all figures have been changed to protect confidentiality.

Challenge: Decreased retention & rising costs

Post–Covid, this B2C retailer was facing a major challenge with sales. With organic demand decreasing and interest rates increasing, **pressure on the market meant customers were spending less**.

Discounts became the primary lever utilized to drive revenue, favored for its quick results. Marketing was forced to **prioritize these sales over customers** to drive short term revenue wins which forced stronger acquisition to cover heavy churn.

This was reflected in a **reliancy on paid media spend** and an unhealthy customer base that were dependent on steeper and steeper discounting.

New & returning customers over time

- ■ Returning Customers
- ■ New Customers
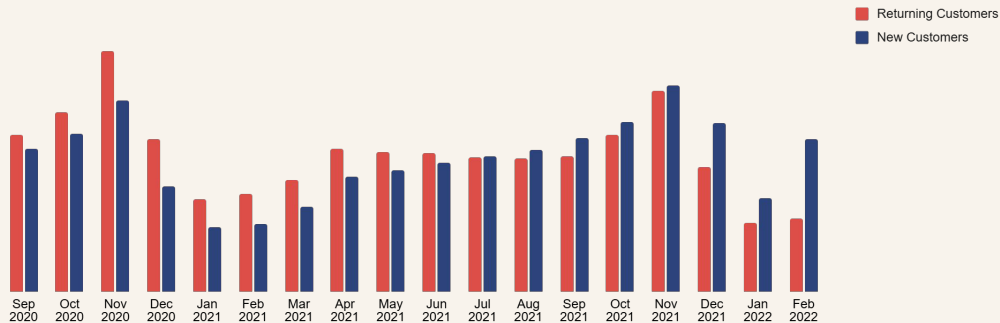
Spend & Cost per conversion (CPC) over time
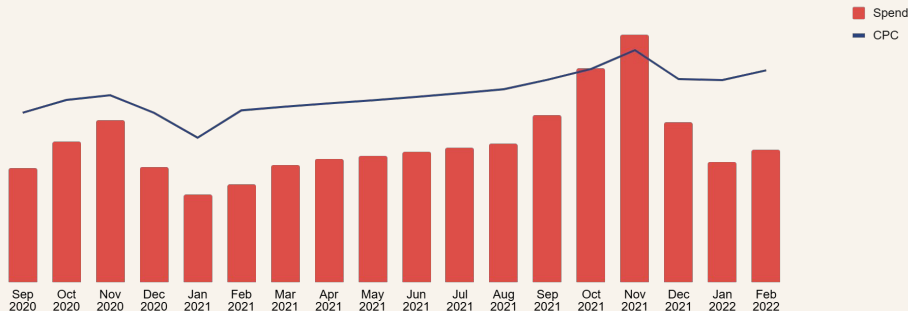
- ■ Spend
- — CPC

Opportunity: Declining loyalty highlights need for strong segmentation

Further the returning customers that were coming back were decreasing their spend year over year. Of **the customers from 2020, over 50% decreased their spend in the following year** representing millions in lost revenue.

Without a defined loyalty program to incentivize customers, **there was no systematic way to identify and respond to differences in customer value over time**, making it difficult to tailor marketing strategies that maximize retention, engagement, and revenue.

Customers from 2020 and changes in spend in 2021

Revenue from customers in 2020

Maintained revenue

Lost revenue

Increased revenue
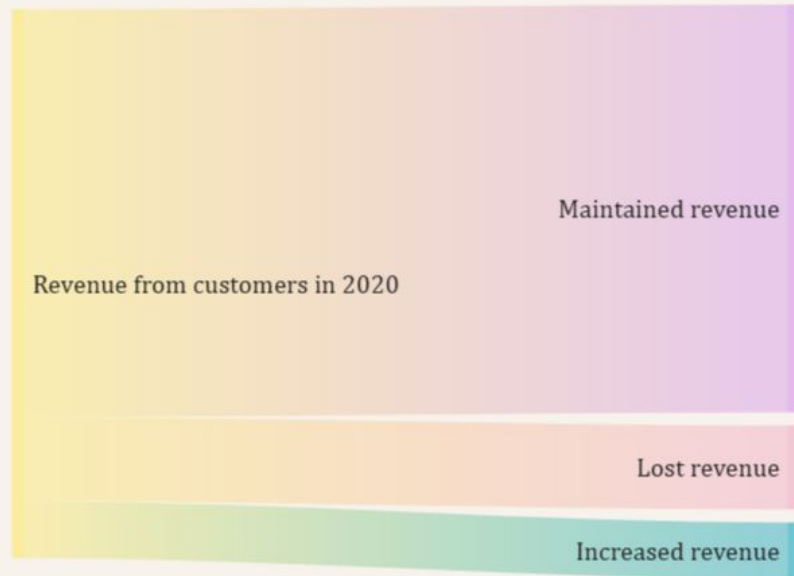
Developing the constraints in line with the business

We needed a way to breakdown our customer base into segments that would achieve a more personalized customer experience within resource and revenue restraints within as many channels as possible.

Segmentation would have to be:

- Sizeable enough to meet scale and resource
- Differentiated enough to justify tailored treatments
- Flexible enough to adapt to internal or external changes
- Stable enough to track and measure over time
- Easily understood for a wide group of business stakeholders

Approach 1: Viewing customers through historical lens

Historical value
(Value segments)

Segmentation based off percentile ranking of customer's last 12 months of spend.

	Percent of customers	Percent of last 12 months of revenue	Average customer value
Tier 1	1%	17%	$X,X00
Tier 2	4%	19%	$X,X00
Tier 3	20%	31%	$X00
Tier 4	25%	17%	$X00
Tier 5	50%	16%	$X0
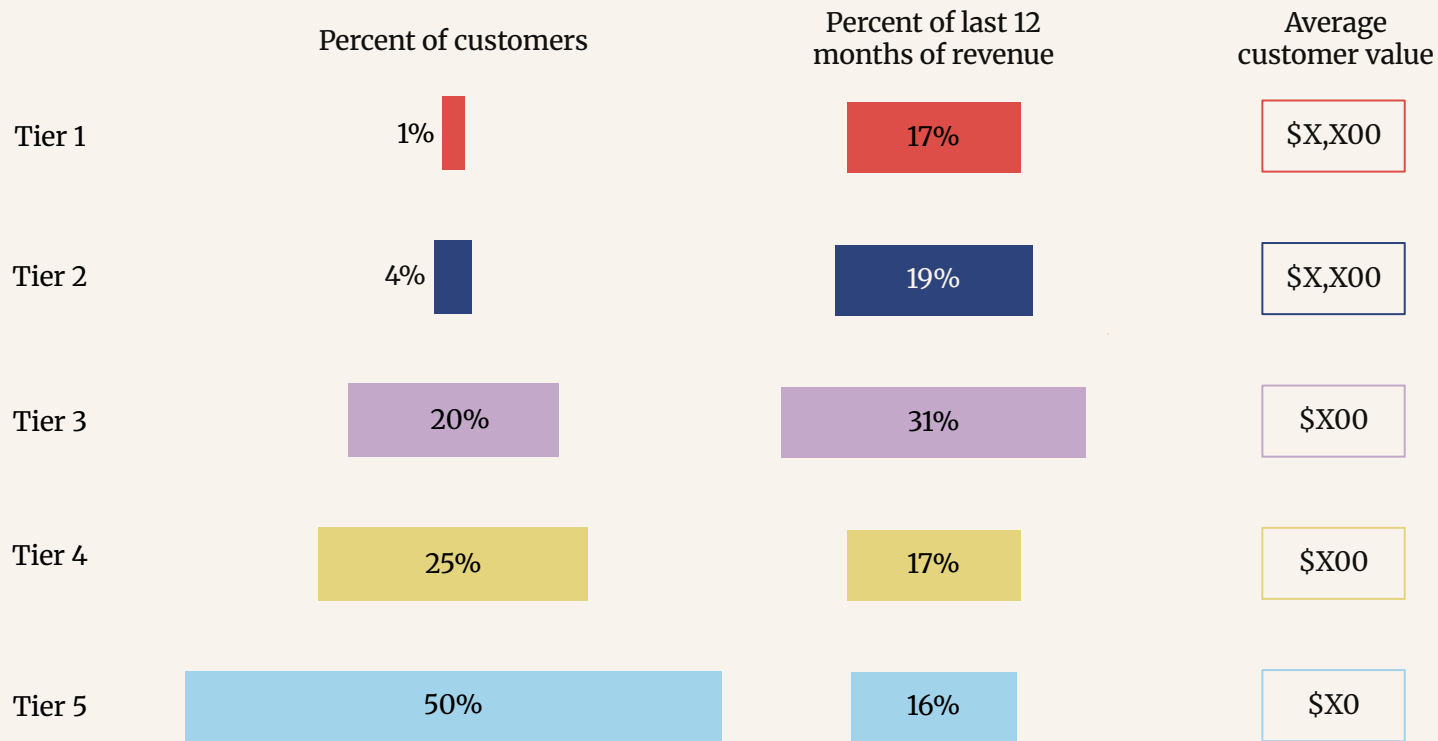
Top 4 historical value tiers show consistent needs & wants and clear opportunities for growth

Percent of customers

Tier	Percent
Tier 1	1%
Tier 2	4%
Tier 3	20%
Tier 4	25%
Tier 5	50%

Customer behaviour

	Shopping frequency	Engagement frequency	Categories shopped	Other
Tier 1	1x per month	1x per week	5	Frequent wishlister, engaged with owned media channels
Tier 2	Every other month	1x per month	3–4	Consistently engaged by emails/push
Tier 3	3–4x per year	Every 6–8 weeks	2–3	Will visit when need arises or during sales
Tier 4	2x per year	3–4x per year	1–2	Only engages during sale periods
Tier 5	1x per year	1–2x per year	1	Varied demographically

Approach 2: Viewing customers through future lens

Predictive lifetime value
(LTV segments)

Segmentation based off percentile ranking of predictive lifetime spend determined by predictive model based off previous customer behaviour.

Predictive lifetime value	Percent of customers	Percent of last 12 months of revenue	Average current customer value
Tier 1	1%	5%	$X,X00
Tier 2	4%	10%	$X00
Tier 3	20%	45%	$X00
Tier 4	25%	27%	$X00
Tier 5	50%	13%	$X0
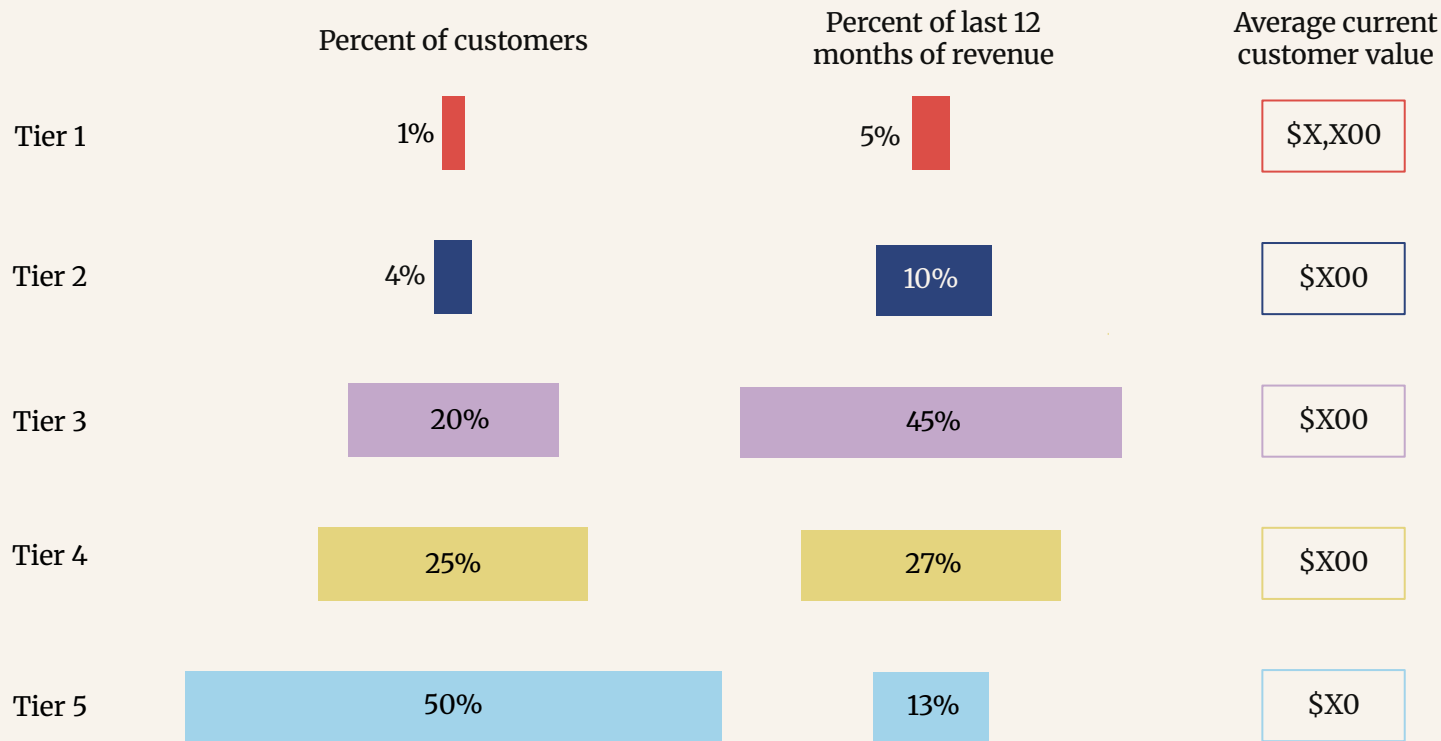
Predictive aspect introduced too much variety into segments

Percent of customers

Tier	Bar	Percent
Tier 1		1%
Tier 2		4%
Tier 3		20%
Tier 4		25%
Tier 5		50%

Customer behaviour

Shopping frequency	Engagement frequency	Categories shopped	Other
3–12x per year	1–4x per month	3–5	Engaged with owned media
2–8x per year	6–12x per year	2–4	Engaged variety of media types
1–6x per year	2–10x per year	1–3	Engages during sales / non–peak times
1–3x per year	1–8x per year	1–3	Only engages with paid media
1x per year	1x per year	1	Only has shopped once, very little data

Combination of historical value + predictive lifetime value held the most opportunity

Historical value
Segmentation based off percentile ranking of customer's last 12 months of spend.

Sizeable enough	✓	Percentile ranking allowed flexibility of sizing
Different enough	✓	Significant differences between groups
Flexible enough	✗	Able to adapt to overall historical revenue, but unable to determine potential high value customers
Stable enough	✓	Consistency in definition and ability to call back on historical data
Easily understood	✓	Easy enough to simplify for stakeholders

Predictive lifetime value
Predictive modelling to determine customer lifetime spend (in $) based off previous customer behaviour.

Sizeable enough	✓	Percentile ranking allowed flexibility of sizing
Different enough	✗	The same segment would have customers that had been loyal for 5 years and customers that had only shopped once.
Flexible enough	✓	Able to identify future opportunities
Stable enough	✗	Would require constant updates without ways to look back on historical values and introduces risk as cannot be validated for 3-6 months minimum
Easily understood	✗	Predictive modelling can be unclear

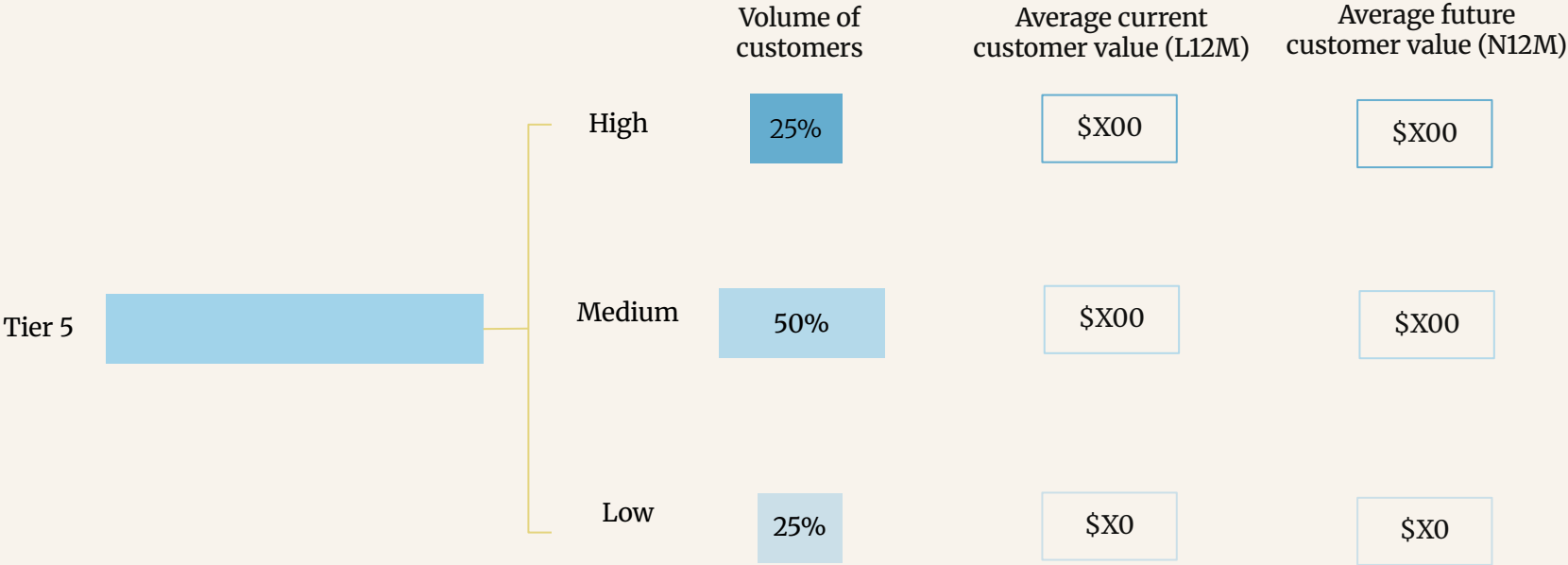## Historical value + Predictive lifetime value
Utilizing historical value for top four tiers and breaking down tier 5 into LTV segments

Sizeable enough	✓	Percentile ranking allowed flexibility of sizing
Different enough	✓	Significant differences between groups
Flexible enough	✓	Able to adapt to internal and external factors and identify potential opportunities from current low value customers
Stable enough	✓	Consistency in definition and ability to look historically at top tiers
Easily understood	✓	Easy enough to understand especially for high value customers

Refining Tier 5 to spotlight potential opportunity customers

Utilizing further percentile ranking to breakdown Tier 5 into three quadrants

		Volume of customers	Average current customer value (L12M)	Average future customer value (N12M)
	High	25%	$X00	$X00
Tier 5	Medium	50%	$X00	$X00
	Low	25%	$X0	$X0

New segmentation strategy

Ordered by priority in terms of revenue

	Revenue per customer	Customer needs & wants	Primary channels	Next best action
Tier 1	$X,X00	Wants regular exposure to new arrivals, personalized recommendations, and a rewarding shopping experience	Email, Push, SMS, Organic Social	Feel rewarded as a valued customer
Tier 2	$X,X00	Wants curated suggestions and timely promotions in multiple categories to encourage more frequent purchases	Email, Push, SMS	Purchase from a new category
Tier 3	$X00	Wants relevant recommendations and occasional compelling offers across larger variety of categories	Email, SMS, Paid and Organic Search	Purchase outside of sale period
Tier 5- High	$X00	Opportunity to convert into stronger customer if relevancy and trust in brand is established quickly	Affiliates, Paid & Organic Search	
Tier 4	$X00	Wants clear value messaging during major sale periods without constant messaging	Email, Paid Search, Affiliates	Purchase during sale period
Tier 5 - Medium	$X00	Probability to turn into Tier 3-4 customer in the next 12 months if value in brand is established	Paid & Organic Search	
Tier 5- Low	$X0	Chance of purchasing in the next 12 months is low, likely to churn	Paid channels	ROI not strong enough to pursue

Channel strategy on a page

	Segments	Strategy	Desired outcome	Metrics to measure
Owned media				
Email	Tiers 1–4 & Tier 5 – High	Develop segmented journeys for each tier based off customer's needs & wants while encouraging next best action	Increase repeat purchase	Open rate, CTR, Conversion rate
Push	Tiers 1–3	Develop journeys focused on wishlists and new arrivals based off top three tiers next best action	Increase engagement between purchases	Open rate, CTR, Conversion rate
SMS	All	Utilize for time-sensitive sales and personalised offers for higher tiers	Drive conversion during promotional periods	CTR, Redemption rate
Organic Social	All	Highlight value and breadth of offering to all tiers	Build trust and value in brand	Engagement, Follower growth
Organic Search	All	Capture intent for high value tiers & drive awareness for all other tiers	Capture intent for high value tiers and bring lower value into repurchase	Traffic, CTR%, CR%
Paid media				
Paid Search	Tiers 3–5	Target lower value tiers with strong offers and suppress higher tiers who have already developed brand affinity	Drive repurchase for lower value tiers	CTR%, CR%, Cost per conversion
Affiliates	Tiers 4–5	Leverage affiliates network to capture intent from value seekers during peak promotional periods	Drive repurchase in peak promotional periods	CTR%, CR%, Cost per conversion
Paid Social	Tiers 2–5	Drive awareness of breadth of categories and encourage purchases outside of key promotional periods	Drive category discovery, intent and awareness	Impressions, CTR%
Display	Tiers 3–5	Drive awareness of breadth of categories and encourage purchases outside of key promotional periods	Drive category discovery, intent and awareness	Impressions, CTR%

New segmentation drove strong results across channels

Blended cost per conversion dropped by -8% driven from suppression test across Paid Search

Partnered with Paid Search to launch a suppression test with the hypothesis that Tier 1 customers already have strong brand loyalty and top-of-mind awareness, so spending to acquire them via Paid Search was unnecessary.

Test results showed CR% and Revenue per customer was consistent across control and variant, proving the theory.

Test was ramped to 100% of Tier 1 driving the blended cost efficiencies and tests began on Tier 2 customers.

Tailored lifecycle journeys drove +20% level retention

Partnered with CRM team to drill down further on needs and wants of different tiers to help develop a personalized journey for each tier.

What was one generic repurchase journey became 4 unique experiences for the different tiers.

Tier 1: Focus on wishlists, new arrivals and rewarding customers

Tier 2: Driving engagement with new features & categories

Tier 3 & Tier 5 (High): Driving app downloads, engagement with wishlist

Tier 4 & Tier 5 (Middle): Driving value and key promotional period

+12% increase in cross-selling driven from Paid Social activity

When Paid Social had previously run cross-selling creatives, the uptake had been insignificant and budget was reallocated.

With the introduction of new segmentation, the test was re-run focusing on Tier 2.

They tested targeted audiences who had shopped Womens to cross shop Beauty, audiences who had shopped Kids to cross shop Home and audiences who had shopped Mens to cross shop Sports.

All audiences saw a significant lift in cross-shopping activity and the creative was introduced into the regular cadence of ads.

Retained customers drove multi million dollar increase in revenue YoY

Following the implementation of the new strategy, under 40% of customers decreased their spend in 2022 vs over 50% decrease the year prior. Additional over 15% of customers increased their revenue year over year.

In terms of revenue, this resulted in a **multi million dollar increase** in only 10 months.

Maintained vs lost revenue from customers in 2021