

Profit Segmentation – Unlocking High Value Customers

Business Problem:

Insurance companies often lack clarity on which customers generate long-term profit and which customers cost more than they contribute. Without this insight, they treat all customers equally—leading to wasted marketing spend and poor retention of valuable customers.

Project Objective:

To build a profit segmentation system using Excel that identifies high, mid, and low-value customers based on how much premium they pay and how much they cost the company in claims. The project aims to:

- Accurately quantify **Profit Contribution** per customer.
- Segment customers into **Profit Tiers (High, Mid, Low)**.
- Explore relationships between profit and customer behaviors (income, tenure, inactivity, etc.).

Deliver actionable dashboards that help marketing, sales, and retention teams focus on **high-ROI segments**

Business Questions

1. Who are our most profitable customers, and what defines them?

Key Insights

- A tiny group of just **10 customers (0.13%)** brings in **₹2.4 Lakhs**, nearly **1% of total profit** — proof that a few loyal customers can make a big financial impact.
 - The **High-Value segment** (40% of all customers) is responsible for a massive **₹2.31 Crores**, or **64% of company profit** — these are our most important customers.
 - Customers with **over 1 year of tenure** generate **₹3.61 Crores**, covering nearly the **entire profit base**, while **new customers (0–6 months)** result in a **net loss** of ₹3,190 — long-term loyalty clearly wins.
 - Surprisingly, **Inactive customers** are generating more profit (₹5,040 avg.) than **Active ones** (₹4,463 avg.) — we may be losing silent but high-value customers.
 - **Mid-income customers** have the **highest profit per person** (₹4,917) and contribute over **₹1.09 Crores**, beating both low and high-income groups — they offer the best value for acquisition and retention.
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Action Recommendations

- **Prioritize High-Value, mid-income, long-term customers** — they bring the most consistent profit. Invest in loyalty, premium service, and exclusive offers.
 - **Re-engage inactive customers** — they contribute over **₹1.9 Crores** but may be slipping away quietly. Use email, retargeting, or win-back campaigns.
 - **Cut back on spending for new or Low-Value customers** — they often deliver poor ROI and negative profit.
 - Apply the **High / Mid / Low segmentation** across all departments to focus on the right customers and make smarter decisions.
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2.What percentage of our customers generate the majority of our profit?

Insights

- **40% of customers (3,068 out of 7,651)** are classified as **High Value** and contribute **₹23.1 Crores**, which is **64% of total profit**.
- **59% of customers (4,529)** fall into the **Mid Value** category and contribute the remaining **₹13.1 Crores (36%)**.
- **Less than 1% of customers (54)** are **Low Value** and together generate a **net loss of ₹9,895**.

Recommendations

- Prioritize **retention, loyalty, and premium service** for High Value customers — they drive the majority of profit.
 - Design **targeted campaigns or personalized offers** to move Mid Value customers into the High Value tier — even small upgrades can boost overall profitability.
 - Review the Low Value segment to **identify patterns causing loss**, and limit service or acquisition spend on these profiles to prevent further drain on margins.
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3. Are we at risk of losing valuable customers due to inactivity or disengagement?

Insights

- **₹26 Crores (72% of total profit)** comes from customers who are either **inactive or showing early warning signs of churn**.
- Among High Value customers, only **28% of profit is from active users**, while the remaining **₹16.5 Crores** comes from those **at risk or inactive**.
- **Inactive customers alone contribute ₹19 Crores** — they're profitable but currently not engaged.
- The **Warning segment adds ₹6.9 Crores** — if left ignored, these customers could churn soon.

Recommendations

- Launch **reactivation campaigns** for inactive but profitable customers using email, calls, or exclusive benefits — this segment holds ₹19 Crores in profit.
 - Proactively reach out to Warning group customers using **early alerts based on activity drops** to prevent churn.
 - Create a **simple risk dashboard** combining activity status and profit tier to help teams prioritize outreach.
 - **Exclude Low Value inactive customers** from retention efforts — their contribution is minimal or negative.
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4. Which customer groups or regions are consistently unprofitable?

Key Insights

- **Four-Door Car customers earn below-average profit.**
 - Their average profit is between **₹3,464 and ₹4,153**, compared to the overall average of **₹4,742**.
 - This low-profit pattern appears across **all states**, including California, Oregon, Nevada, and Washington.
- **Two-Door Car customers are also low performers across all segments.**
 - Their average profit is generally **below ₹4,100**.
 - Example: *Two-Door Car + High School (Washington)* = ₹3,926.
- **Certain education and vehicle combinations are consistently weak.**
 - *Bachelor + Four-Door Car* and *High School + Two-Door Car* often generate **less than ₹3,800** in profit per customer.
- **No entire state is unprofitable**, but some hide weak customer groups inside.
 - *Nevada and Washington* have multiple low-performing segments, even though their state averages appear healthy.

Recommendations

- **Avoid targeting Four-Door and Two-Door Car customers.**
 - These groups earn **₹500 to ₹1,200 less** per customer than average.
- **Stop marketing to weak combinations like *Bachelor + Four-Door* and *High School + Two-Door*.**

- These customers are **expensive to acquire** but bring **low returns**.
 - **Focus on SUV and Luxury SUV customers.**
 - Their average profits range from **₹6,000 to ₹12,000+**, making them the most valuable.
 - **Use these insights to improve targeting and pricing strategies.**
 - This will reduce wasted spend and increase total profit per customer.
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5. Where should we focus marketing and retention to maximize return on investment?

Insights

- **High Value customers (40%)** contribute the most — ₹23.1 Cr or **64% of total profit**.
- Customers who've stayed **more than 12 months** bring **₹36.1 Cr** — nearly **all the company's profit**.
- **Mid-income customers** contribute **₹11 Cr**, showing they are both large in number and highly profitable.
- **Inactive and Warning customers** together bring in **₹26 Cr**, but they are not currently engaged.
- **Active customers** bring only **₹10.3 Cr**, showing the biggest value lies in those **at risk of leaving**.
- **Low-tenure (new) customers** and **Low Value segments** are unprofitable — they create losses instead of profit.
- Car types like **Two-Door and Four-Door cars** often have **lower profits** than SUVs or luxury vehicles.

Recommendations

- Focus on **High Value, long-term, and mid-income customers** — they give the best returns.
- Run **retention campaigns** for inactive and warning groups — they are worth ₹26 Cr if we keep them.
- Avoid spending on **new or low-value customers** who hurt overall profit.

- Shift acquisition towards customers who match the **profitable profiles** (SUVs, long-tenure, mid-income).
 - Use the profit segmentation in every team — so marketing, sales, and service **target the right customers.**
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