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Segmentation of Customer Base

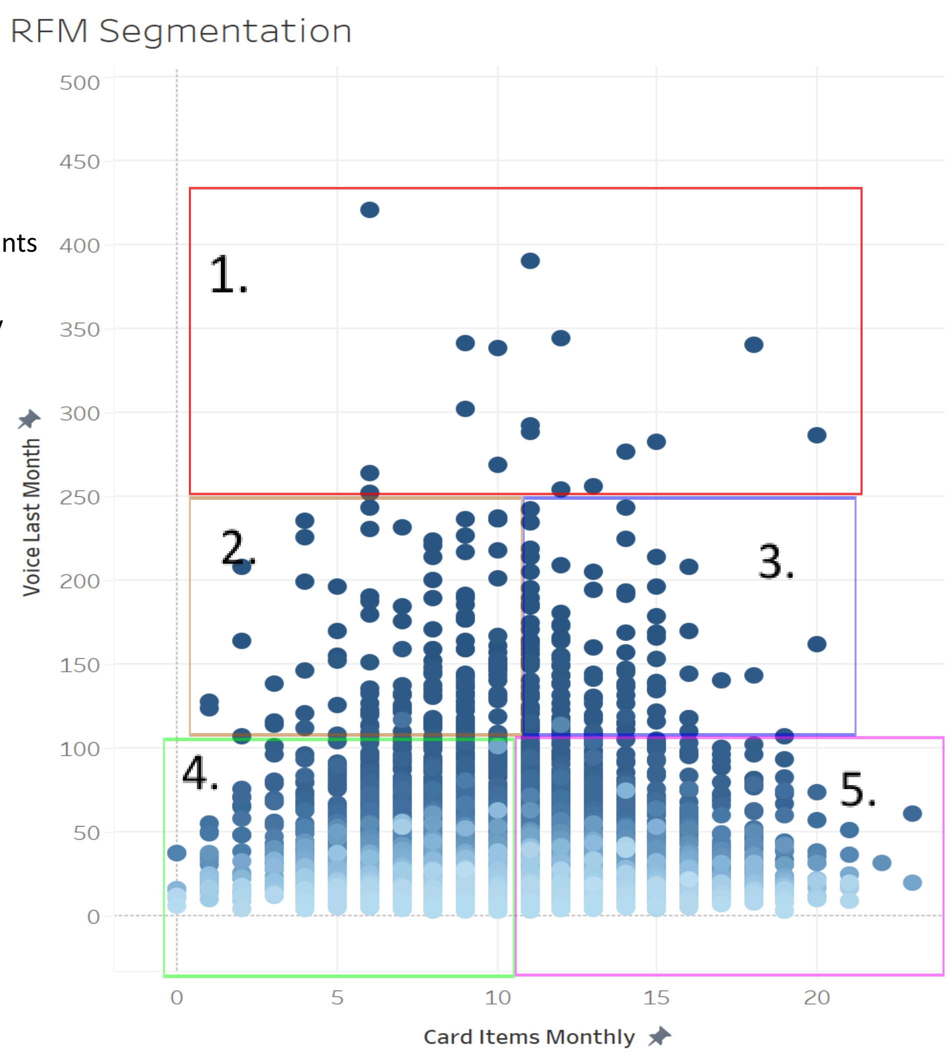
INTRODUCTION

Analysis of our customer base crucial for the success of our company. With such an immense amount of customers, it is clear we must be organized and knowledgeable about what kind of people we are serving. That being said, it is also extremely difficult to provide one general label to such a large number of customers. This is where our analysis technique of segmentation can help us. By segmenting our customers into smaller groups, we can gain a better understanding of the different types of people who use our service and identify any patterns that may be present within the segment. In turn, this will allow us to transform these data points into knowledge and learn more about what makes a good customer. The goal of this is to determine the most effective segment to market towards as well as what marketing towards each segment will provide for us.

RFM SEGMENTATION

Firstly, our team chose to use a technique called RFM Segmentation. This is a process by which we group all of our customers on Recency, Frequency, and Monetary value. For this analytical effort, we used Voice Over Tenure for monetary value (in the thousands), Voice Over Last Month for recency, and Card Items Monthly for frequency. RFM allows us to take a deep dive into our customer base and break it down into segments that we can further focus on. It also can help us determine the loyalty of each customer type

*Color represents Voice Over by Tenure



Segments

1. **Big Spenders**

    This segment of customers represent our top spenders both recently and in total. This is the only segment that does not factor in Card Items Monthly. This is because for the Big Spenders, the frequency of purchase does not necessarily tell us anything. Most of the Big Spenders are around the median in terms of Monthly spending, with a slight skewness towards the upper quartiles. Because they spend so much with our company, we can disregard their frequency of purchases when segmenting.

    It is also worthy to note that these may be some of our most loyal customers. All of them spent over $300 last month alone and have very high Voice Overs throughout their tenures. This shows their loyalty throughout their time as customers as well as their deep pockets that we rely on to fund our business. Not much marketing needs to be done to this segment, but it is very important that we retain these customers as they supply us with an immense amount of profit.

2. **Reluctant Spenders**

    The Reluctant spenders segment contains the customers who had a high to average Voice Over Last Month ($100 to $250), but low frequency of spending. We can gain from this that while this group may have higher Voice Overs than the average customer, they are reluctant to spend their money frequently. Marketing to this segment can be tricky as maybe some of them are put off by advertisements, but their high Voice-Over by tenure displays loyalty within the segment. Based on this, in my professional opinion, we do not need to do much advertising to this group. While marketing to them would be an effective way to raise their monthly Voice Overs, our advertising efforts may be used more effectively in a segment who is less reluctant to spend their money.

3. **Frequent Spenders**

    This third segment contains our customers who, like the Reluctant Spenders, have higher monthly voice overs than most customers. The difference here is that these customers use their cards to make purchases much more frequently than those in segment two. While this difference between segments may seem slight, there's a huge advantage in advertising towards people who purchase with us more frequently. If we take a look at our most profitable segment by customer (Big Spenders), we can see that almost all of them have an average or above average frequency in purchases. We can decipher some correlation here and assume that the more frequently a customer purchases an item, the more their Monthly and Total Voice-Over will increase. Based on this, we believe the Frequent Spenders segment to be the most effective to advertise to. If we are able to raise these people’s monthly bill to over $300, hence moving them up to the Big Spenders category, it would be immensely profitable for our business.

This segment has the most potential for profits as these people show they are not afraid to take out their wallets, which are already above average in terms of Voice Overs. There is still room to grow for customers within the segment and many of them display signs of loyalty with their high tenure Voice Overs. This high potential mixed with loyalty and wealth, makes the Frequent Spenders our #1 priority when advertising.

4. **Reluctant Thifters**

Segment 4 contains our customers who spend less than $100 per month as well as purchase the least frequently. Some of these customers may be new and some of them may be a bit older, so it is dangerous to assume there is any kind of loyalty among this segment. This makes it a target for our marketing efforts as building loyalty is important for any company. However, like segment 2, these people may be more reluctant to make purchases and this hesitation can cause doubt among customers. When making ads that target this group, we should keep this non-loyalty in mind and try to establish trust in order to eliminate some of their hesitations.

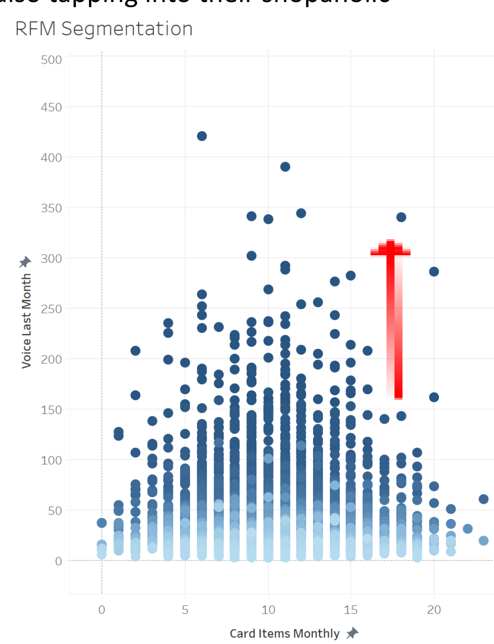
5. **Frequent Thifters**

The Frequent Thriftters are the customers who use their card more frequently than average, but do not spend a lot of money. Like segment 4, it is dangerous to assume loyalty among this group, but I believe it may be easier to earn compared to the Reluctant Spenders. Customers who use their card frequently may be more susceptible to advertisements, and this is something we look to exploit with our marketing efforts. By targeting frequent spenders, we are in turn targeting customers who are more likely to obtain bigger Voice Overs. This will slowly increase our profits and as mentioned earlier, help customers move up in segments until they become one of our Big Spenders.

The potential of this group is slightly lower than the Frequent Spenders segment, but still high compared to other segments. This is shown by their lower Voice Over totals and reluctance to spend large amounts of money. Despite this, the high frequency of purchase gives them a lot of potential as it shows they are not afraid to spend money on cheaper services. The most effective way to advertise to this segment would be to push a lot of equipment or services that are on our "cheap-side". This hopefully by-passes some of this reluctance to spend a lot while also tapping into their shopaholic nature.

GOAL

The goal of our marketing scheme is to advertise to our customers in order to raise their Voice Overs. This can also be thought of as moving customers up in segments. We will specifically target the customers who tend to spend money more frequently than others and try to encourage them to add additional equipment or services to their monthly bills. Hopefully, this will convince the frequent spenders that they need our services and eventually, turn them into Big Spenders.



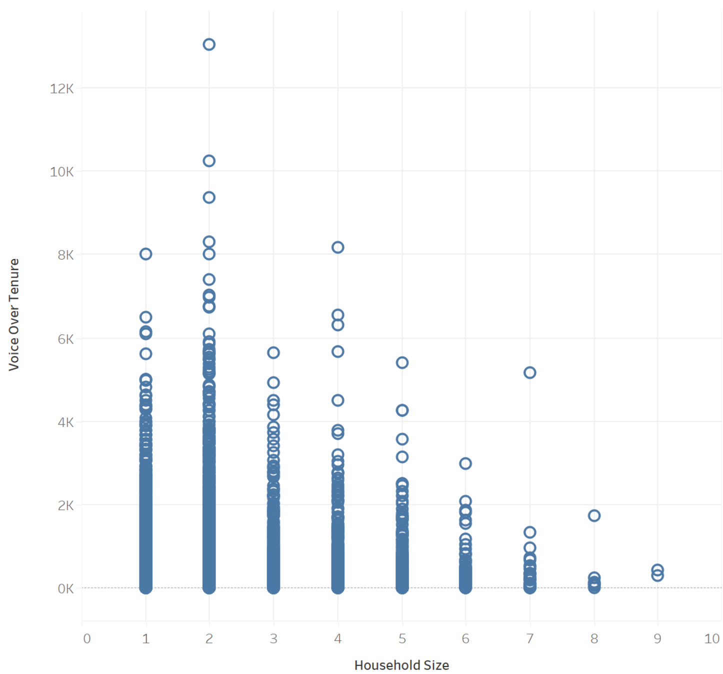
LIFE STAGE SEGMENTATION

While RFM can produce segmentation for projecting Loyalty and effective Marketing Resources, Life Stage Segmentation is just as valuable to our company. This method of segmentation helps us to determine the outlying demographics among our customer base. Communication between our corporate office and these customers has to be as calculated as possible. Since we know there are an infinite number of personalities and viewpoints within the human race, segmentation of our extremely large customer base is vitale if we are to effectively communicate.

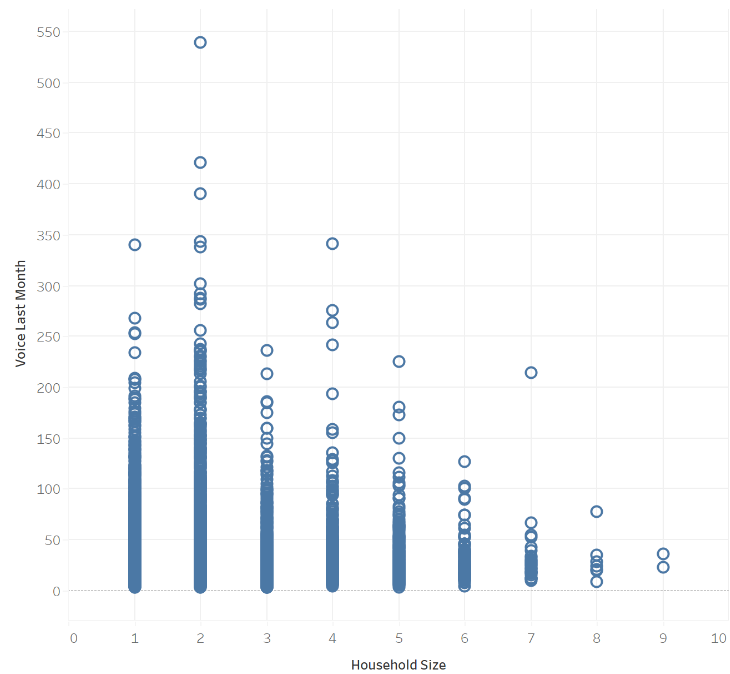
Household Size

It is also crucial that we determine which demographic groups should be targeted in our marketing ads. Life Stage Segmentation allows us to search through our customer's data and pull the demographics we find the most profitable or have the potential to be. This will position us to market towards the most profitable kind of customer and provide us with maximum returns.

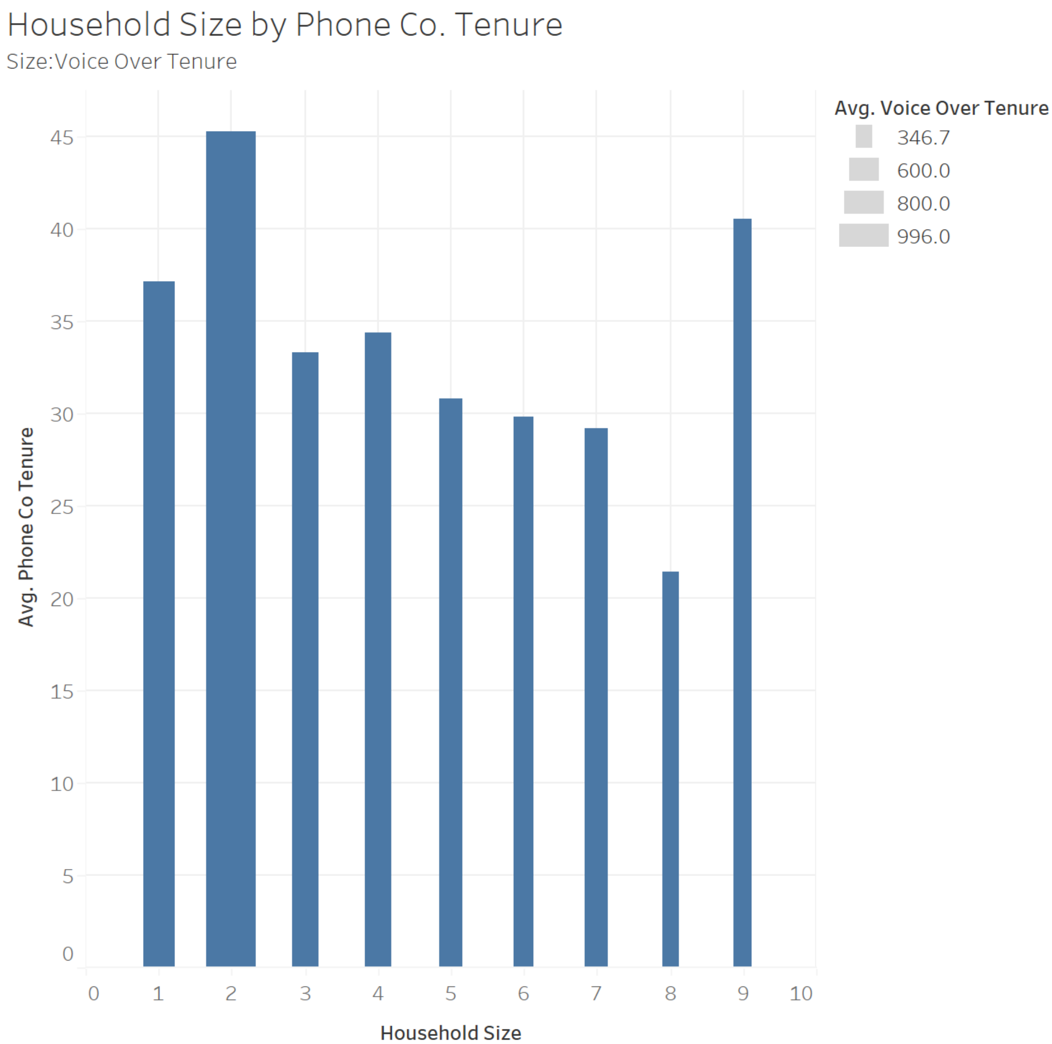
Household Size by Voice Over Tenure



Household Size by Voice Over Last Month



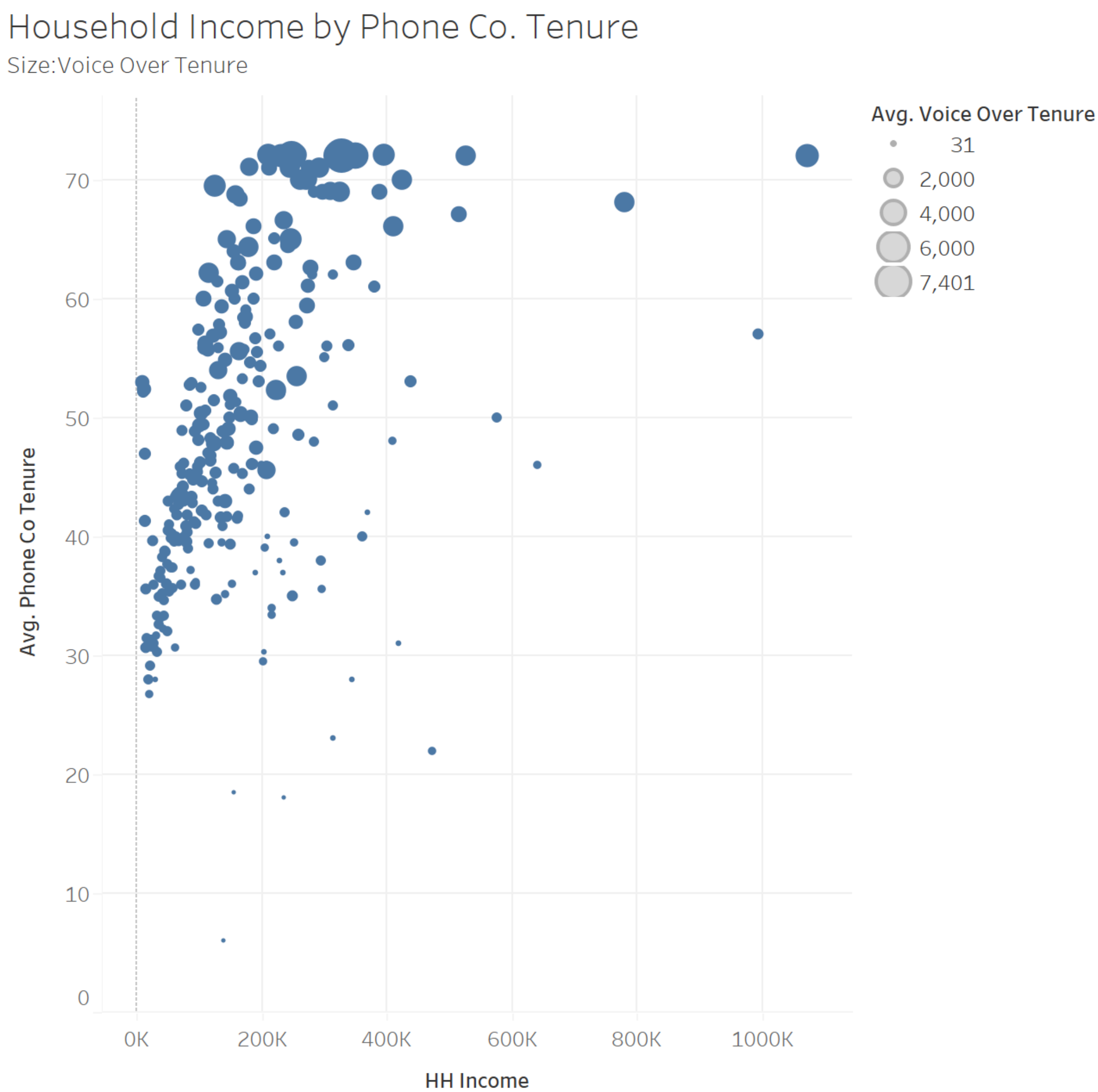
By a quick glance at our customer's Voice-Overs by Household size, it's apparent that our most profitable customers either live alone, or with one other person. We can assume that in general, our company makes more money from single people or couples without children than it does from families. Typically, families make for more loyal customers, but that doesn't seem to be the case with our company.



It is interesting that the most profitable household size of 2, is also our most loyal in terms of average months with phone companies. Households of this size are on the radar for our marketing efforts and we believe targeting this demographic will bring great revenue to the company. It is clear they are both loyal and profitable as the average Voice Over Tenure is also displayed by each bar's size on the chart above. This target audience gives us a clear direction in where to begin our advertising efforts.

HOUSEHOLD INCOME

Another demographic that is important for our company is Household Income. Since we observed no notable difference in region, we can use household income to create targeted ads. Typically, many people of similar incomes live near each other or in the same town. This allows us to place ads in the towns that generally house our targeted demographic.



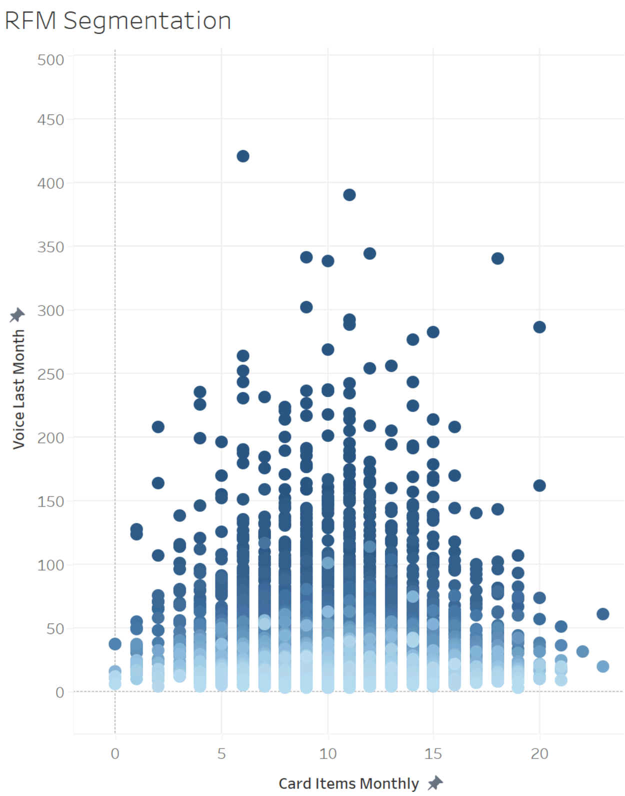
Regarding the graph above, it is interesting to see that our company has very few customers who have been with us for less than 20 months. Acquiring new customers is extremely important to a growing business and helps to increase the baseline profits. Creating new customers should be our top priority and targeting the correct demographic are essential.

It appears here that our most loyal customers make somewhere between 200k and 400k as a household. While this is a popular household income range, the average Voice Overs by Tenure are above average, and the majority of customers who have been with us for at least 70 months are contained in this range.

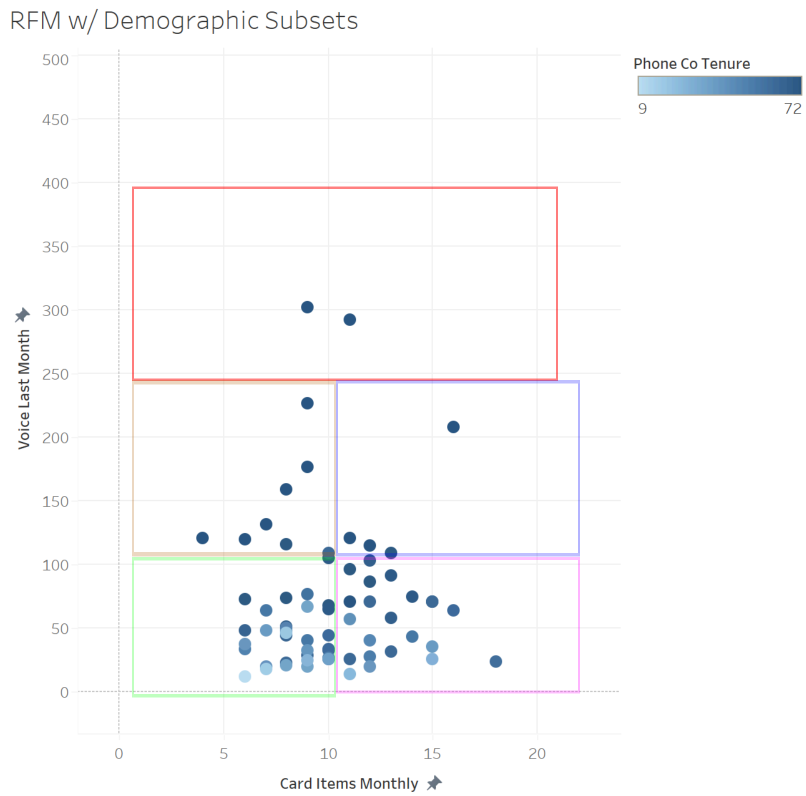
By process of Life Stage Segmentation, we have determined that a smaller household size of 1 or 2 and a Household Income of between 200k and 400k are two of our major demographics. They both display profitable aspects and signs of loyalty. Luckily, this is a major demographic in today's society, which means there are a lot of new customers to go after, something I think this company desperately needs.

SEGMENTATION COMPARISON

In order to determine if our demographic choices by Life Stage segmentation are accurate, they were both filtered into the original RFM graph. This allows us to analyze our customers spending habits and do a deep dive into our segmentation.



(Original RFM)



(RFM of demographic choices)

By combining our segmentation methods, we can see our demographic choices layered out into their corresponding RFM segments. The graph on the right shows only households of size 1 or 2 that make between 200 and 400k. There appears to be two 'Big Spenders' within these narrow demographic choices. This is great to see as it is proof that these demographics can be financially viable and profitable for us.

When compared to the original RFM, it appears that many of the customers from the demographic range fit into the Frequent Thrifters category. As previously discussed, this group has a high potential for profits and are easier to market to than most customers. By focusing our marketing efforts on a range of 'cheap' services, I believe we can gain plenty of new customers that fit this customer profile, which is something our company needs. The key is to market in towns that contain these certain demographics. By doing this, we will be able to obtain new loyal customers while supporting the ones we have.

SUMMARY & KEY FINDINGS

When working to increase our understanding of the wide range of customers our company serves, segmentation is used as an essential tool. Our segmentation process encompasses both RFM (Recency, Frequency, Monetary value) and Life Stage segmentation methodologies, each offering unique insights into customer behavior and demographics. By dissecting our customer base into smaller, more manageable groups, we were able to highlight patterns and look deeply at what kinds of people use our services. Thereby informing our marketing strategists and advertising to create a loyal relationship with our customers while at the same time recruiting new ones.

RFM Segmentation:

Through RFM segmentation, we discerned five distinct customer segments, each exhibiting unique spending behaviors and loyalty tendencies.

1. Big Spenders:

Comprising our top spenders, this segment stands out because of its substantial monetary contributions to our business. While their purchase frequency may vary, their high monetary value and tenure demonstrate profound loyalty. Retaining these customers is paramount, given their significant financial impact on our business.

2. Reluctant Spenders:

Customers in this segment exhibit moderate to high monetary value but show reluctance in frequent spending. Despite their potential for higher spending, targeted advertising should tread cautiously, as excessive marketing efforts may deter these customers.

3. Frequent Spenders:

With both high monetary value and frequency of purchases, this segment presents a prime opportunity for targeted advertising. By encouraging their nature to spend frequently , we can potentially elevate them to the coveted "Big Spenders" category, thereby maximizing profitability.

4. Reluctant Thrifters:

Customers in this segment exhibit low monetary value and infrequent purchases, posing a challenge for marketing efforts. However, building trust and easing any doubts through targeted messaging could unlock their potential for increased spending.

5. Frequent Thrifters:

While these customers demonstrate frequent purchases, their low monetary value signifies a reluctance to spend substantial amounts. Targeting them with cost-effective services and appealing promotions may incentivize higher spending.

LIFE STAGE SEGMENTATION

Life Stage Segmentation was used to enhance our understanding of customer demographics. We were able to identify household size and income as key attributes in determining spending behavior and loyalty. This then helped us categorize our most profitable demographics and combine our two different segmentation methods. Confirming our demographic choices with our RFM model allowed us to in a way 'check our work' and confirm that the demographics selected were a part of our targeted RFM segments.

1. Household Size:

Customers who reside in smaller households (1-2), lead as one of our most profitable demographic. Their long average tenure and spending patterns make them prime targets for marketing efforts.

2. Household Income:

Customers with household incomes between 200k and 400k exhibit notable loyalty and high purchasing behaviors, making them an attractive demographic for targeted marketing campaigns. Their alignment with our company's offerings suggests there is a lot of potential for increased spending.

Key Takeaways:

- Customer Understanding is Key: Segmentation serves as a cornerstone for this understanding and helps us cater to our diverse customer base. We have over a million customers so it is crucial we understand why they chose to do business with us.

- Targeted Marketing by RFM Segmentation: By aligning our marketing efforts with the spending habits of certain customer segments, we can maximize returns and develop customer loyalty. Focusing on segments created through frequency, recency and monetary values allows us to narrow our scope and aim our efforts to a group of people we deem potentially profitable.

- Strategic Focus on Certain Demographics: Prioritizing marketing efforts towards demographics exhibiting high monetary value and loyalty will yield substantial returns and drive profits. Our top demographic is smaller-sized households that make 200 to 400 thousand a year.

- In essence, segmentation empowers our company to navigate the complexities of our customer base with precision and accuracy, giving us the tools we need to market to our customer efficiently.