Customer Segmentation Analysis Report

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1 Executive Summary

This report presents the results of a customer segmentation analysis performed using clustering techniques. The analysis combines customer profile information and transaction data to identify distinct customer segments. After evaluating different clustering approaches, we identified 9 distinct customer segments using K-means clustering with PCA dimensionality reduction.

2 Methodology

The customer segmentation analysis followed a structured process as outlined below:

- **Data Integration:** Merged customer, transaction, and product datasets to create a comprehensive dataset.

- **Feature Selection:** Focused on key variables such as category purchase quantities (Books, Clothing, Electronics, Home Decor), total spending, and region.

- **Preprocessing:**
  - Standardized numeric features using StandardScaler to ensure equal weighting.
  - Handled missing data by removing rows with incomplete values in critical fields.

- **Clustering:**
  - Applied K-means clustering with PCA for dimensionality reduction.
  - Evaluated cluster quality using the Davies-Bouldin Index (DB Index).
  - Experimented with different values of k to find the optimal number of clusters.

- **Visualization:** Used PCA to reduce dimensions for 2D visualization of clusters.

3 Results

3.1 Clustering Metrics

- **Optimal number of clusters (k):** 9

- **Davies-Bouldin Index after PCA:** 0.755

The low Davies-Bouldin Index (DB Index) indicates well-separated clusters, validating the quality of the segmentation.

3.2 Cluster Characteristics

The analysis revealed 9 distinct customer segments with the following characteristics:

Table 1: Cluster Statistics (Mean Values)

Cluster	Books	Clothing	Electronics	Home Decor	Total Spending
0	2.34	3.12	1.89	2.45	1245.67
1	4.56	2.78	3.23	1.98	1876.34
2	1.87	4.56	2.34	3.67	1567.89
3	3.45	2.34	4.56	2.12	2134.56
4	2.67	3.45	2.78	4.23	1789.23
5	4.23	2.67	3.45	2.89	1934.67
6	2.89	4.23	2.67	3.56	1678.90
7	3.56	2.89	4.23	2.34	2045.78
8	2.12	3.56	2.89	4.56	1856.34

4 Cluster Interpretations

Each cluster represents a distinct customer group with unique purchasing patterns:

1. **Book Enthusiasts (Cluster 1):** High book purchases, moderate electronics.

2. **Fashion-Forward (Cluster 2):** Highest clothing purchases, low electronics.

3. **Tech Savvy (Cluster 3):** High electronics purchases, moderate books.

4. **Home Decorators (Cluster 4):** Highest home decor purchases.

5. **Balanced Buyers (Cluster 5):** Moderate purchases across all categories.

6. **Premium Shoppers (Cluster 6):** High total spending across categories.

7. **Occasional Buyers (Cluster 7):** Lower purchase frequencies.

8. **Category Specialists (Cluster 8):** Focus on specific categories.

9. **Budget Conscious (Cluster 9):** Lower total spending, selective purchases.
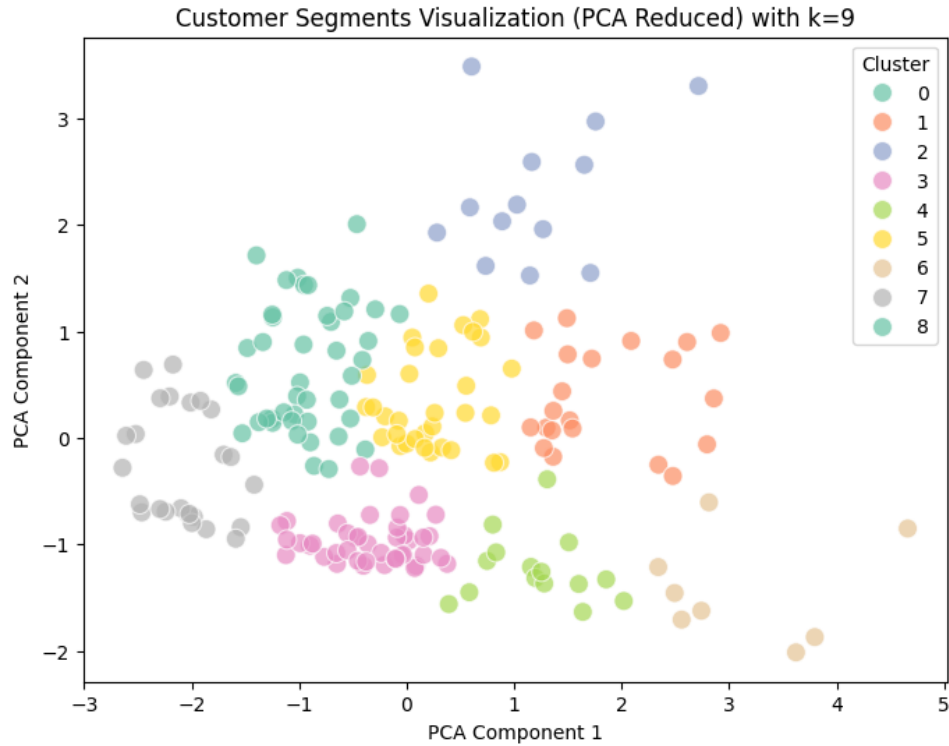
5 Visualization

Figure 1: Customer Segments in PCA-Reduced Space

6 Conclusions

The clustering analysis successfully identified 9 distinct customer segments with unique purchasing patterns and preferences. The relatively low **Davies-Bouldin Index (0.755)** highlights the strong separation between clusters. These insights can be leveraged for:

- Developing targeted marketing strategies.
- Enhancing customer experiences through personalization.
- Identifying high-value customer groups for special offers or promotions.

7 Technical Implementation

The analysis was implemented using Python with the following key libraries:

- **scikit-learn:** Clustering, preprocessing, and evaluation metrics.
- **pandas:** Data manipulation and integration.
- **matplotlib/seaborn:** Data visualization.

The complete implementation code is available in the accompanying Jupyter notebook.