

Cluster Analysis



7 Types of Starbucks Customers

You see this guy's spiky black hair from a mile away and immediately begin pulling the espresso shots for his Americano. He doesn't have to mutter so much as a word to you before you ring him up, and he's on his way. See you tomorrow, man!

2. The \$6 Drinker.



Did you say a venti quad white chocolate mocha with eight pumps of mocha, eight pumps of raspberry and coconut milk? God bless your heart. And your wallet.

**7 Types of
Starbucks
Customers**

3. The Dunkin' Donuts Patron.



7 Types of Starbucks Customers

"Can I have a large iced coffee with lots of cream and sugar?" No. That's not how we order here.
Back of the line.

4. The Novelist.



This guy chills. All. Day. Long. He's either typing away on his laptop or sitting in deep, deep thought. You wonder why he chooses Starbucks as his home base because he typically orders a latte and doesn't drink it.

7 Types of Starbucks Customers

5. The Frappuchino Pro.



7 Types of Starbucks Customers

These are teenage girls who pull up complicated "secret menu" frappuchinos on their iPhones for you to make. One day it's a Cocoa Puff frappuchino, the next day it's a Harry Potter butterbeer frappuchino. They simply must try them all.

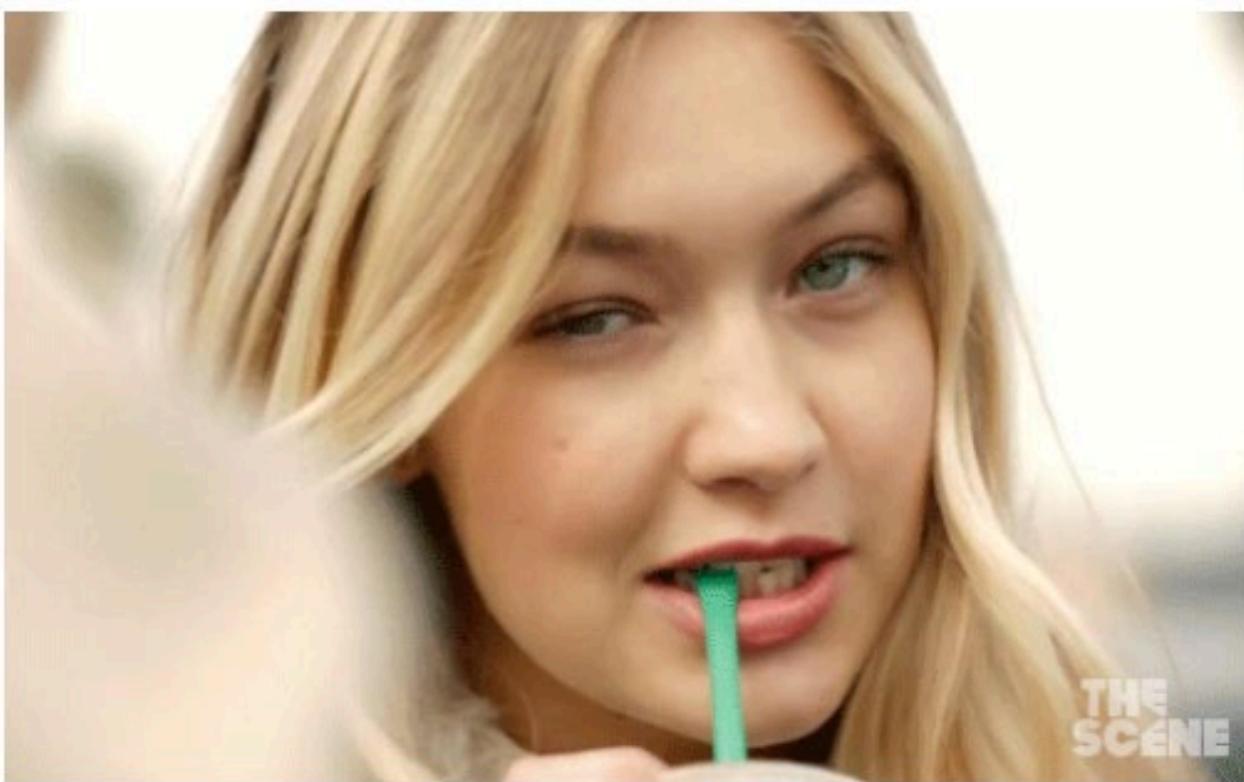
6. The Perfectionist.



This person trusts no one. Their order includes specific requests like "no foam" or "steamed at 130 degrees," and they will ask three times if this has been done. They will also attempt to watch you do these tasks to ensure the perfection of their beverage. And then ask you again if they have been completed.

7 Types of Starbucks Customers

7. The Talker.



7 Types of Starbucks Customers

Don't get me wrong. I love when customers take the time to tell me about their day and dabble in some polite conversation. It's important that we get to know our customers. However, when the line is 15 people deep, I really can't take an extra five minutes to discuss your dog's flea problems. Love you though.

Segmentation at Sticks Kebob











Location	Population	Median age	Median income	Consumer spend per household	Major customer profiles
A	29,321	39.1	\$92,700	\$62,404	Blue Blood Estates; Brite Lites, Li'l City; Executive Suites; Upward Bound; Winner's Circle
B	34,183	32.5	\$31,900	\$36,720	City Startups; Family Thrifts; Hometown Retired; New Beginnings; Sunset City Blues
C	42,913	32.5	\$55,700	\$46,828	Brite Lites, Li'l City; Family Thrifts; Up and-Comers; Upward Bound; White Picket Fences
D	57,509	34.8	\$75,500	\$57,880	Brite Lites, Li'l City; Country Squires; Up and-Comers; Upward Bound; White Picket Fences

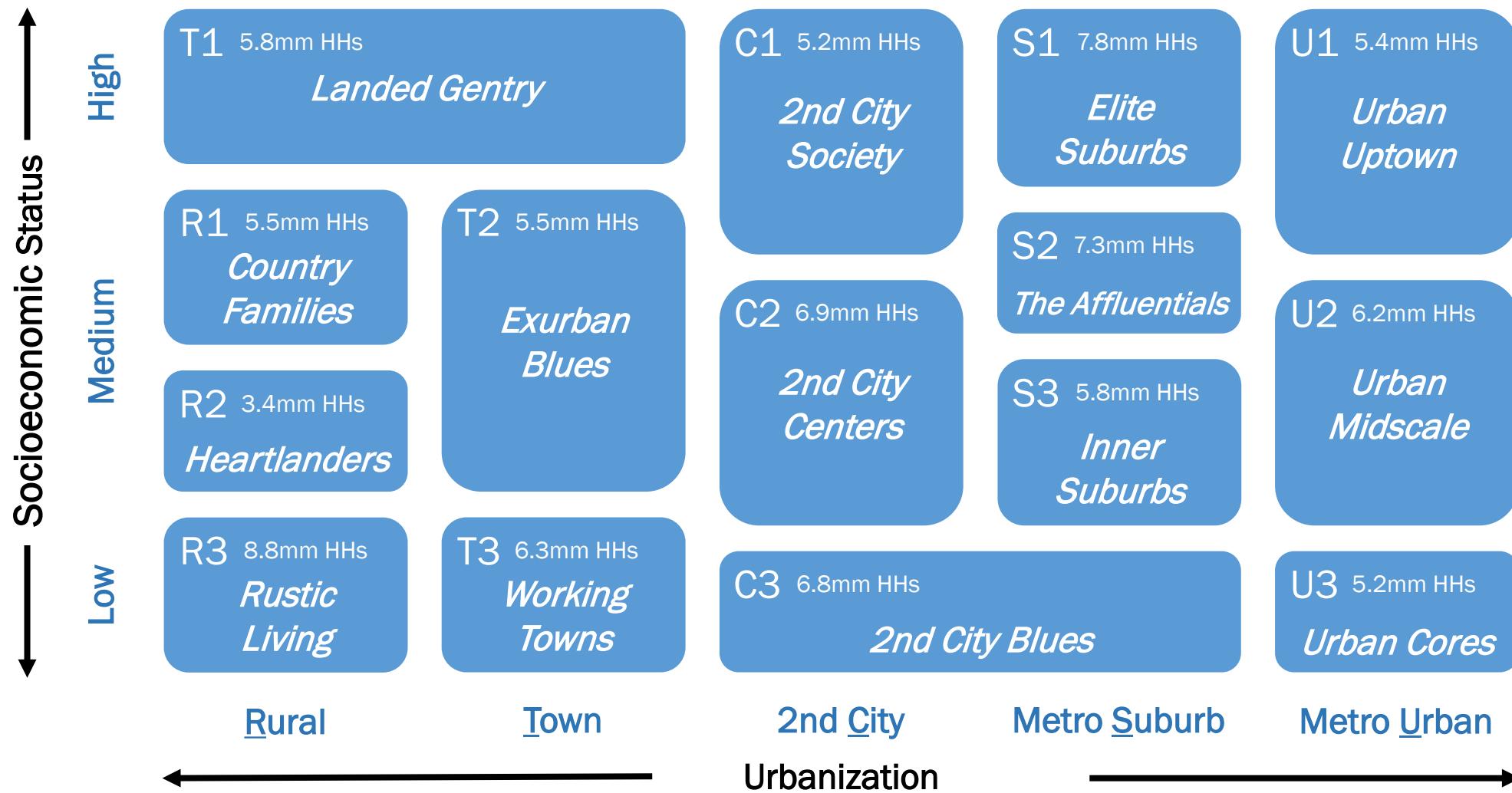
<https://claritas360.claritas.com/mybestsegments/#zipLookup>

Multi-Attribute Segmentation

- The PRIZM® Methodology: Neighborhood Lifestyle Segmentation
 - “Birds of a feather flock together”
 - “People with similar cultural backgrounds, needs, and perspectives naturally... chose to live in neighborhoods that offer affordable advantages and compatible lifestyles.”
 - “These neighborhoods can be grouped into ‘clusters’ that exhibit similar demographic and behavioral characteristics. These neighborhood clusters can then be used to identify and locate marketing targets.”
- <http://tiny.cc/ClaritasPrizm>



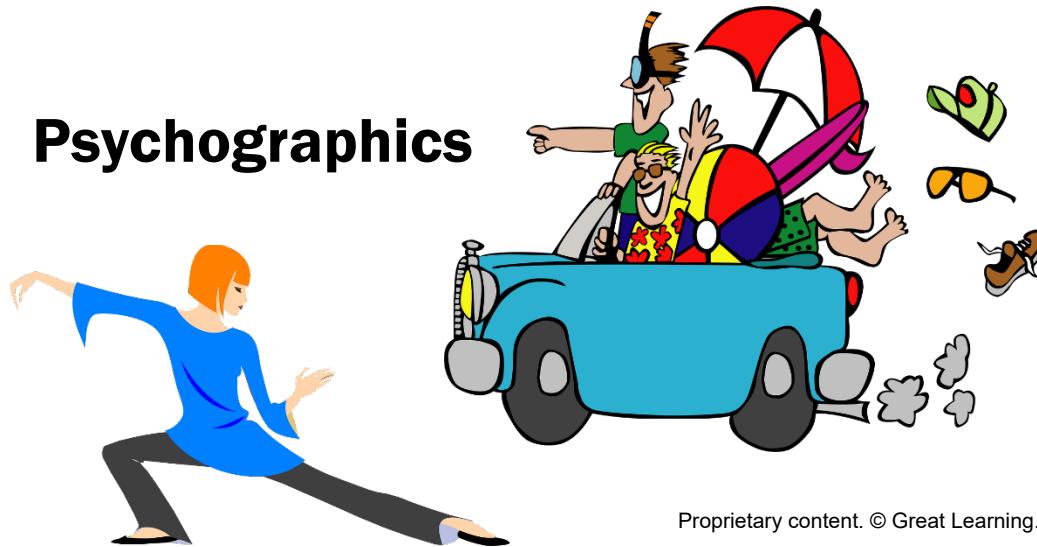
PRIZM® by Claritas



Identifying Segments: Possible Bases for Segmenting Consumers and Customers



Demographics



Psychographics

**Purchase Behavior
and Product Use**



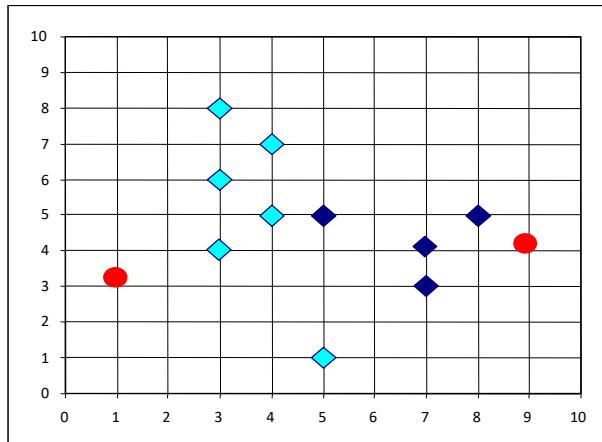
**Desired
Benefits/Needs**



Cluster Analysis

- Deriving Clusters and Assessing Overall Fit
 - Decide on Clustering Algorithm
 - *Many algorithms are available*
 - *More coming all the time*
- **Main goal:** maximize differences between clusters relative to variation within clusters

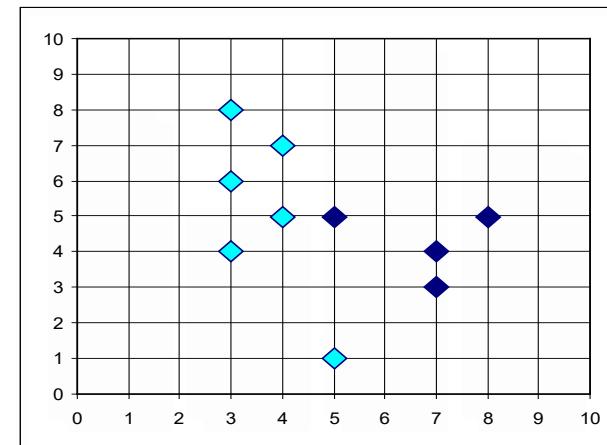
K-Means Clustering



K=2

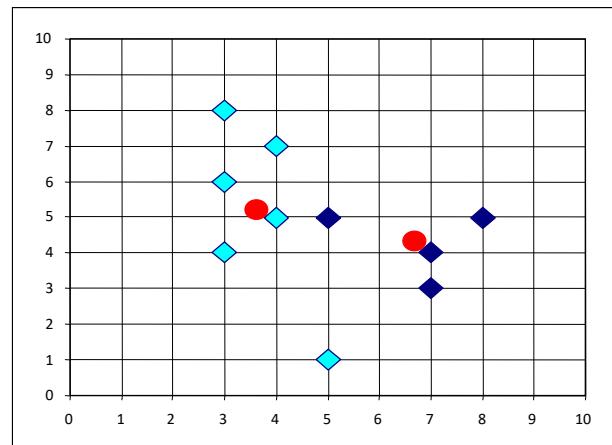
Arbitrarily choose K object
as initial cluster center

Assign
each
objects to
most
similar
center

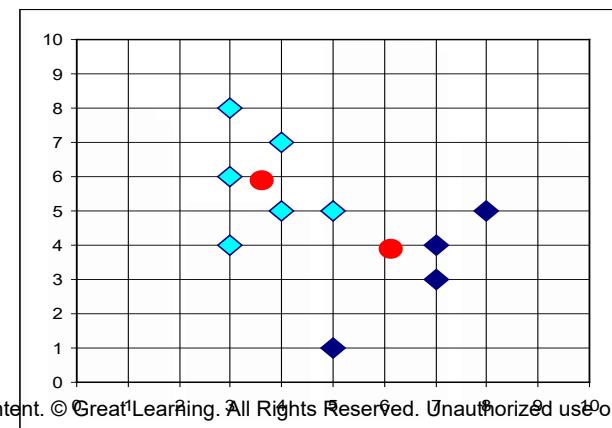


Assign
each
objects to
most
similar
center

Update the
cluster
means

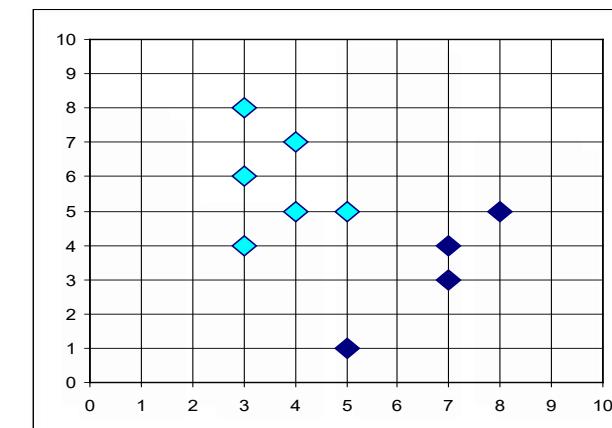


Update the
cluster
means



Reassign

Update the
cluster
means



Reassign

Criteria for Effective Segmentation

- Identifiable?
- Sustainable?
- Accessible?
- Actionable?
- Responsive?

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When Segmentation Fails

- Using same segmentation scheme for different business objectives
 - Different advertising or different products?
- Too much focus on techniques
- Using only psychographic or demographic variables
- Not focusing on differences in customer needs
- Static segmentation schemes
- Lack of senior management buy-in



Steps to Implement

- Identify Demographic, Psychographic Variables
- Choose the variables to cluster
- Describe behavior using clusters
- Merge with Demographic variables to operationalize