**Development of segmentation and customer value framework for retail loyalty programs**

**Introduction:**

Customer segmentation is the process of dividing the customer base into segments which contain customer with similar attributes such as spending habits, brand affinity, age, gender, products ordered and several other customer characteristics.

Loyalty program is a marketing strategy used by businesses to increase their sales and keep the customer engaged with the brand. With technological enhancements it is simpler to group customers with similar behavioral traits after which businesses deploy strategies to different segment efficiently and with higher possibility of achieving the goal that the business is trying to achieve.

In this case study we will be segmenting our customers and create a loyalty program framework that would improve customer engagement.

**Business use cases:**

* Research suggests that loyalty programmes can generate as much as 20% of a company’s profits
* Loyalty programs could significantly influence customer satisfaction, retention and usage frequency; thereby directly impacting top and bottom line results
* For brisk and mortar stores, loyalty programs are also the only way of capturing transaction information at a customer level and therefore becomes the foundation of all customer analytics for these organization.
* An effective loyalty programme aims at achieving the following:
  + Incentivise new customers to buy the brand with the best loyalty scheme
  + Reward loyal customers by discounts and other rewards and increase loyalty
  + Influence customers to increase RFM (recency, frequency, monetary value), cross-buy or diversify their basket of goods purchased
  + Improve per customer value—margin and lifetime duration
  + Defensive marketing—to combat competition by maintaining wallet share
  + Revenue generation from promotional activities
* The key to achieve all the above objectives is personalization which is achieved through by leveraging the power of the loyalty data

**Problem statement:**

This case study is about a Superstore which caters to a vast variety of customers. Superstore’s manager has noticed that there are diminishing returns from the existing marketing strategies. Sales from the last 2 quarters have hit a plateau which has started to concern the store manager.

Store’s usual marketing campaigns includes unmonitored and untargeted approach which in the last quarter incurred some losses due to which the store manager started to look for areas of improvement. He found that the mass effectiveness of mass campaigns is very low as the cost is too high. The store already has an analytics team which has been collecting household level data from customers in the loyalty program.

As a data scientist, the manager has tasked you with identifying customers with similar behavior in the loyalty program. The goal of this analysis is to segment customers with similar behavior and list down their behavioral traits. Basis on the profile of every cluster you have to create campaigns which are likely to generate more revenue.