



NORTHWESTERN  
UNIVERSITY

SCHOOL OF  
CONTINUING  
STUDIES

**Handout: Introduction to Segmentation Analysis**  
***PREDICT 410: Predictive Modeling I***

**Why is segmentation necessary?**

- To enable customer centricity
- To understand differences in customer sub populations
- To understand regional or value differences
- To fine tune acquisition and targeting strategies
- To create relevant offer/channel strategies

**Commonly used segmentation analysis types:**

- Value based segmentation
  - Uses customer value to define segments depending on business objective
    - For example, High/Low value customer segment
- RFM based segmentation
  - RFM: Recency, frequency, and monetary
  - Often used in retail, catalog industry
- Transactional segmentation
  - Use multivariate statistical methods such as factor analysis, clustering analysis, etc., thorough data mining and business rules to form appropriate customer segments based on customers' transactional data stored in its customer database.
- Demographic segmentation
  - Uses multivariate statistical methods such as factor analysis, clustering analysis, etc. to form appropriate segments based on customers' demographic information.
- Attitudinal segmentation
  - Uses multi multivariate statistical methods such as factor analysis, clustering analysis, etc. to form appropriate segments based on consumers' opinions and attitudes often collected through survey questionnaires.