



Situation Analysis

A large retail client wanted to develop a better understanding of its consumer customer base to drive incremental sales, increase customer satisfaction and loyalty, and improve ROI for direct marketing programs.

The client needed to evaluate key characteristics such as value, loyalty, and product preference for over 20 million customers.

By identifying the client's most valuable customers and developing a comprehensive customer segmentation scheme, the consulting company would help the client communicate more effectively with the customers that delivered a disproportionate share of sales and profit. In addition, the client could reduce marketing costs to its least profitable customers.

Challenge

They evaluated historical transaction data from the client's customer database and developed a Best Consumer Model that grouped customers based on visit frequency and profitability. The analysis revealed that the client's Best Consumer segment constituted 18% of its total consumer base, shopped at least once a month, and accounted for 52% of total retail sales and 54% of total retail profits. The model also identified a Next Best Consumer segment that had the highest potential of increasing visit frequency and delivering incremental profits.

Solution

The next task was to create a data-driven behavioral segmentation to enable more targeted marketing communications. The segmentation was designed to work in combination with the Best Consumer Model to provide a comprehensive view of the retailer's customer base. Their methodology was driven by the following objectives:

- ❑ Identify segments characterized by distinctive shopping behavior and product preferences, such as frequency and recency of visits, spending levels, purchases in various product categories, store preferences, etc.
- ❑ Identify most (and least) valuable segments based on customer behavior and buying habits
- ❑ Identify the role of specific behavior, such as the use of store credit cards and participation in affinity programs, in the building of customer value and loyalty
- ❑ Develop in-depth profiles of the resulting segments to understand the inherent differences among customers
- ❑ Develop a predictive model to automatically and accurately assign (score) all customers into their "most likely" behavioral segment.

The sizes of the resulting segments varied from 6% to 33% of the entire customer base.

The predictive model utilized for implementing the segmentation scheme into the client's customer database had a classification accuracy of over 90%. The client worked with the solution provider to create production processes to apply these new targeting tools to the entire customer database.

Results/Benefits

Their work enabled the client to convert purchase pattern segmentation into customized marketing communications, improving customer response and driving incremental sales and profits. The segmentations provided clear priorities for future marketing efforts based on deep understanding of segment product preferences and up-sell opportunities. In addition, the client's ability to identify its most and least profitable customers led to an enhanced focus on serving the top one third of its customer population, while reducing marketing expenditures to customers with low profitability potential.