Customer Segmentation

Turning customer behaviour into meaningful groups for better business decisions

THE BUSINESS PROBLEM

Customers differ in value, behaviour, needs and engagement. Treating everyone in the same way can lead to generic campaigns, inefficient use of resources and missed opportunities. Segmentation helps identify meaningful customer groups and adapt decisions to how those groups actually behave.

Three questions guide the analysis

01

Who are our customers?

Identify groups based on behaviour, value, needs or engagement.

02

How are they different?

Understand what distinguishes valuable, developing or disengaging groups.

03

What should we do differently?

Translate those differences into relevant business strategies.

What customer evidence could we use?

Customer	Last purchase	Orders	Spend	Products	Channel
C001	12 days	18	£1,420	4	Digital
C002	45 days	7	£610	2	Mixed
C003	210 days	12	£980	3	Store

Illustrative data only. The variables used depend on the business decision and may include transactions, product usage, engagement, demographics, preferences or service interactions.

How segmentation works

1
Start with the business goal
What decision are we trying to improve?

2
Understand customer evidence
What do we know about behaviour and value?

3
Choose the right approach
Which method best fits the goal and evidence?

4
Build & understand groups
What makes each group meaningfully different?

5
Act and measure
What should we do differently - and did it work?

Different problems require different approaches

RFM	Purchasing behaviour & value	Recency · Frequency · Monetary value
Behavioural	How customers use or interact	Usage · Transactions · Engagement · Channels
Needs / Attitudinal	Needs, preferences & motivations	Survey responses · Preferences · Feedback
Value-based	Commercial value & prioritisation	Revenue · Margin · CLV · Profitability
Data-driven clustering	Discovering groups without predefined rules	Multiple relevant customer characteristics

From Segments to Business Action

The value of segmentation is not creating groups. It is enabling different decisions for different customer behaviours.

WORKED EXAMPLE · RFM

Recency, Frequency and Monetary Value are used here to illustrate how segmentation can move from customer behaviour to business action.

Illustrative segment profiles

SEGMENT	TYPICAL BEHAVIOUR	POTENTIAL BUSINESS ACTION
Champions	Recent, frequent and high-value customers	Reward loyalty, protect retention and introduce relevant new products.
Potential Loyalists	Recent customers showing promising engagement	Strengthen the relationship through onboarding, loyalty and relevant cross-sell.
At Risk	Previously valuable or active customers whose engagement is declining	Investigate potential causes and use targeted retention or reactivation.
Inactive / Lost	Prolonged inactivity and limited recent value	Assess win-back potential and prioritise cost-effective reactivation.

Illustrative profiles and actions. In practice, segment definitions and recommendations should be validated against the business objective, available evidence and measurable outcomes.

What this enables

PERSONALISATION

Tailor communications, offers and experiences to different customer needs.

RETENTION

Identify groups that may require different retention or reactivation strategies.

CROSS-SELL & DEVELOPMENT

Find opportunities to deepen relevant customer relationships.

RESOURCE PRIORITISATION

Focus commercial effort where it can create the greatest impact.

DELIVERABLES

Segmented customer base · Segment profiles · Dashboard · Recommended actions · Measurement framework

APPLICABLE ACROSS INDUSTRIES

Retail · E-commerce · Banking · Insurance · SaaS · Telecom

Segmentation should evolve with customer behaviour. Segment definitions, performance and business impact should be reviewed over time.