Science World Journal Vol. 20(No 2) 2025 https://dx.doi.org/10.4314/swj.v20i2.16
www.scienceworldjournal.org
ISSN: 1597-6343 (Online), ISSN: 2756-391X (Print)
Published by Faculty of Science, Kaduna State University

Full Length Research Article

DEVELOPMENT OF CUSTOMER SEGMENTATION SYSTEM USING SUPERVISED AND UNSUPERVISED MACHINE LEARNING ALGORITHMS

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ABSTRACT:
Customer segmentation is a crucial strategy in customer relationship management that enables businesses to tailor marketing strategies based on customer characteristics and behaviors. Traditionally, segmentation has been performed using rule-based heuristics such as Recency-Frequency-Monetary (RFM) analysis or demographic grouping. However, these methods often fail to capture complex patterns in large-scale, multidimensional customer data. This study presents the development of a hybrid customer segmentation system combining unsupervised learning (K-Means clustering) and supervised learning algorithms (Random Forest, Logistic Regression) for both discovering customer segments and predicting customer behaviors such as attrition and high-value targeting. To evaluate effectiveness, a real-world customer dataset was used, and the performance of traditional segmentation was compared with the machine learning-based approach. In terms of segmentation quality, Silhouette Score for RFM-based segmentation was 0.34, whereas K-Means clustering achieved a Silhouette Score of 0.62. For predicting attrition using supervised models, the Random Forest classifier achieved Accuracy = 87.3%, Precision = 84.6%, and F1-score = 85.1%, compared to 65.2% accuracy and 58.4% F1-score using rule-based classification. The results demonstrate a significant improvement in both segmentation precision and predictive capability using machine learning approaches over traditional methods. This system enables more data-driven, dynamic, and scalable customer targeting strategies for modern businesses.

Keywords: Customer, Segmentation, Clustering, Rule-based, Traditional Method, Machine learning

INTRODUCTION

The e-commerce sector has grown at an unparalleled rate in recent years, with millions of transactions occurring every day. However, product returns have increased along with this rise, posing a significant challenge to merchants. Due to the high cost of processing, restocking, and shipping, returns have a detrimental effect on firm profitability and provide difficulties for inventory management. According to research by *Stock et al., (2009)*, product returns can account for as much as 30% of a retailer's overall sales volume, underscoring the need for companies to take proactive measures to solve this problem.

A data-driven strategy for dealing with high return rates is customer segmentation, a marketing tactic that has historically been used to group customers according to their demographics, psychographics, and behaviour. Businesses can use this segmentation to find trends in their clientele and create specialized plans for each group. A strong basis for consumer segmentation based on return likelihood is provided by machine learning, specifically clustering and predictive modelling approaches. Businesses can forecast which customers are most likely to return things in the future by using machine learning to obtain insights into the factors that lead to product returns. Predictive analytics in customer segmentation improves comprehension of consumer behaviour and permits customized marketing interventions, according to (*Nguyen et al., 2022*). The aim of this research is to develop a machine learning model that segments customers based on their likelihood to return purchased products. This segmentation will enable businesses to proactively address return-prone segments with tailored strategies, ultimately reducing return rates and enhancing customer satisfaction. The main objectives of this work are:

i. To use customer data to build a machine learning model that segments customers based on their likelihood to return products.
ii. To identify the key factors that influence product returns for different customer segments (e.g., demographics, purchase behavior).
iii. To provide actionable insights for businesses to minimize returns and improve customer satisfaction.
iv. To compare different machine learning algorithms and determine the most effective approach for customer segmentation.
v. To visualize customer segments and provide recommendations for tailored return reduction strategies.

Conventional approaches have depended on fixed characteristics such as geographic and demography (Kotler & Keller, 2016). Segmentation has been transformed by the introduction of behavioral and psychographic data which provides more in-depth understanding of consumer preferences and trends.

According to Smith et al., (2020), customer retention techniques are greatly enhanced by behavioral segmentation which incorporates purchase frequency, recency, and monetary value (RFM). This technique has been further improved by machine learning which allows companies to dynamically adjust to changing consumer behaviors. The use of algorithms like DBSCAN (Density-Based Spatial Clustering of Applications with Noise) and k-means clustering has proven crucial in locating client segments that conventional approaches frequently miss (*Brown et al., 2022).*

Traditional segmentation techniques have mostly depended on psychographic, demographic, and geographic information. According to Kotler and Kellers (2016) marketing management

https://dx.doi.org/10.4314/swj.v20i2.16

paradigm, organizations can target customer demands broadly by segmenting their customer base based on demographics like age, income, and education. However, the effectiveness of these static techniques is limited since they frequently miss the dynamic character of real-time consumer activities.

The focus of behavioral segmentation is on how consumers use goods and services. Purchase behavior can be strongly predicted by transactional data, browsing history, and customer loyalty scores, according to research by Johnson and Taylor (2019). Psychographic segmentation provides deeper insights into client motives by taking into account lifestyle choices, values, and personality factors. According to empirical research published by *Lin et al., (2021)*, segmentation models' prediction power is enhanced when behavioral and psychographic data are combined. Customers who were divided into groups according to lifestyle choices and frequency of purchases, for example, had retention rates that were 25% higher than those who were divided into groups based solely on demographics.

Davis et al., (2021) that examined hierarchical clustering techniques and used them to classify consumers in the retail industry. Hierarchical models, according to the study's findings, better represented intergroup interactions and assisted in identifying overlapping client segments that are frequently missed by conventional clustering techniques. Return prediction is the process of estimating the possibility of product returns, which is a problem that is especially pertinent to e-commerce. High return rates have a detrimental effect on operational effectiveness and profitability. To solve this problem, predictive models which are typically based on logistic regression and decision trees have been used extensively (Lin & Zhou, 2020).

According to research by *Kim et al., (2020)* impulsive purchasing, product quality, and the discrepancy between customer expectations and reality are some of the factors that affect product returns. Customers frequently make impulsive purchases during sales events, hence seasonal trends and promotional purchases were also linked to greater return rates. For return prediction, traditional predictive models like decision trees and logistic regression have been widely utilized. Applying logistic regression models on a dataset of 100,000 transactions, Lin and Zhou (2020) showed that these models could estimate return likelihood with a 75% accuracy rate. Decision tree models on the other hand, have demonstrated greater accuracy when managing non-linear data patterns. According to an empirical study by *Taylor et al., (2021)*, decision trees outperformed logistic regression and random forests in terms of prediction accuracy with 78%.

In return prediction, sophisticated machine learning models like neural networks, support vector machines (SVM), and gradient boosting have shown remarkable efficacy. Gonzalez and Moore (2021) used the XGBoost algorithm on a 200,000-transaction e-commerce dataset. With an accuracy rate of 85%, the study demonstrated that gradient boosting techniques can manage intricate, high-dimensional datasets.

The use of neural networks for return prediction has also been investigated. In the IEEE Transactions on Neural Networks, *Chen et al., (2022)* examined product categories, buying patterns, and consumer profiles using a deep learning model. Their approach outperformed conventional techniques by achieving an accuracy rate of 88%.

Chang and Rogers (2021) combined decision trees with k-means clustering to classify customers according to their likelihood of returning and their purchasing patterns. When compared to utilizing segmentation or prediction models separately, this combination strategy improved prediction accuracy by 25%. Feature engineering is essential for enhancing model functionality. Garcia and Brown (2022) highlighted the significance of including features such product categories, customer reviews, and promotional purchase frequency. The segmentation and return prediction models' precision increased by 30% thanks to these enriched datasets.

MATERIALS AND METHODS

This section outlines the methodical processes and strategies used for the research with an emphasis on customer segmentation for machine learning-based return prediction. By combining machine learning algorithms with exploratory and predictive analytics, the methodology aims to accomplish the study objectives by accurately forecasting product returns and identifying client segments. Research design, data collecting, pre-processing, machine learning modeling, and assessment measures are all included in the methodology's structured approach. The study intends to offer practical insights that companies can utilize to improve customer retention and streamline return management procedures by combining supervised and unsupervised learning techniques.

RESEARCH DESIGN

By integrating exploratory, descriptive, and predictive methodologies, the research design offers a framework for achieving the study's objectives:

Exploratory Analysis: Uses data exploration and visualization to find patterns and trends in consumer behavior. Customers are divided into groups according to shared traits using strategies like clustering.

Descriptive Analytics: Provide a thorough grasp of the traits of different client segments and how they relate to return patterns.

Predictive Modeling: Focuses on applying machine learning algorithms to anticipate return probability. To make very accurate predictions about the future, models are trained on historical data.

Data Collection: The study uses secondary data collecting, drawing on datasets from publicly accessible sources, e-commerce companies, and online shopping platforms. Among the data are: customer attributes include demographics (gender, age, and location).

Purchase Data: Financial value, frequency of purchases, and transaction details.

Product Data: Features such as price, quality, and category.

Return Data: Product return frequency, causes, and trends.

Behavioral Data: Logs of interactions, cart abandonment rates, and browsing history.

Generalizability and robustness in the research and modeling process are guaranteed by a diversified dataset

Pre-processing Data

To guarantee the consistency and quality of the dataset, data preparation is an essential step. The tasks listed below are completed:

Data Cleaning: Eliminating entries that are irrelevant, redundant, or missing. Use statistical methods to deal with outliers.

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Engineering Features: Generating Recency-Frequency-Monetary (RFM) scores and other new variables from the data in order to improve model performance. Use methods such as one-hot encoding to encode categorical information.
Normalization: Numerical features are scaled to provide consistency in model input.
Dataset Division: Separating the data into categories for testing (30%) and training (70%).
To evaluate a robust model, cross-validation methods are used such as k-fold validation.

Machine Learning Modeling
The work combines supervised learning for return prediction with unsupervised learning for segmentation:
Clustering Algorithms for Customer Segmentation:
K-Means Clustering: Assigns clients to groups according to shared characteristics, such as frequency of returns and buying behavior.
Density-Based Spatial Clustering (DBSCAN): Detects outlier behaviors by locating clusters with different densities. The hierarchical structure of client segments can be shown with the aid of hierarchical clustering.
Features of Segmentation: RFM metrics: Purchases' monetary quantities, frequency, and recency. Behavioral characteristics such as rates of cart abandonment and browsing activity.

Return Prediction
Models of Supervised Learning:
Baseline findings for binary classification of return likelihood are provided by logistic regression.
Random Forest: Provides feature importance and manages intricate data interactions.
By using ensemble learning, gradient boosting (XGBoost, LightGBM) improves prediction accuracy. For more sophisticated prediction, neural networks can identify non-linear relationships in high dimensional data.

Model Features: Characteristics unique to each customer (e.g., RFM scores). Variables unique to a product (e.g., price, category). Transactional information (such as the number of purchases and returns).

Evaluation Metrics
The following measures are used to evaluate model performance:
For Clustering Models:
The silhouette score quantifies, how well each data point fits into its cluster.
Dunn Index: Assesses compactness and cluster separation.

For Prediction Models:
Accuracy: The proportion of outcomes that were accurately predicted.
Precision: The ratio of accurate positive forecasts to all positive forecasts.
Recall (Sensitivity): The model's capacity to recognize real positives.
F1-Score: The trade-off between precision and recall is balanced by taking the harmonic mean of the two.
ROC-AUC: Evaluates how well the model can differentiate across classes.

Research Tools and Technologies
The following technologies and tools are used in the study: Python (with Scikit-learn, Pandas, NumPy, and TensorFlow libraries) is a programming language. Data visualization tools include Seaborn, Matplotlib, and Power BI. Cloud platforms for managing big datasets include AWS, Power BI Service and Google Cloud. PyCharm and Jupyter Notebook are examples of integrated development environments (IDEs).

Data Presentation and Analysis
This subsection presents the data analysis, visualization, and key insights from the RFM (Recency, Frequency, Monetary) analysis. RFM analysis segments customers based on purchased behaviour, helping businesses optimize their marketing and retention strategies.
Recency (R): It is the most recent date a customer purchased from the business.
Frequency (F): How frequent does a customer purchase from a business.
Monetary (M): The monetary value of the customer's purchase.
The Frequency and Monetary value give insights about the Customer Lifetime Value (CLV) while the Recency measure retention and gives insights into the retention and customer engagement.

Interpretation of Data
The RFM Model
The RFM model ranks customers into different segments or categories based on their recency, frequency and monetary scores. The RFM score is on a scale of 1-5 with one being the lowest and 5 being the highest. Low recency scores, i.e., 1-2/3 indicate that a customer has recently purchased from a store. This is contrary for Frequency and Monetary as low Frequency and Monetary scores indicates that a customer rarely visits or spends a lot of money in your store.
The Recency, Frequency, and Monetary values have been calculated based on the values in the dataset. Scores are written as 123 or 534 with the first number representing the recency score, the second number representing the Frequency score, and the third number representing the Monetary score.
The RFM Segments
The RFM segments and score are defined for each business and can differ for businesses. Table1 shows the different description of customer segment, activity and actionable tips for customers that falls in any of the segment.

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www.scienceworldjournal.org
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Table 1: Description of Customer Segmentation**.**

Customer Segment	Activity	Actionable Tip
Champions	Bought recently, buy often and spend the most	Reward them. They can be early adopters for new products. They will promote your brand
Loyal Customers	Spend good money with us often. Responsive to promotions.	Upsell higher value products. Ask for reviews. Engage them
Potential Loyalist	Recent customers, but spent a good amount and bought more than once.	Offer membership/loyalty program, recommend other products.
Recent Customers	Bought most recently, but not often	Provide on-boarding support, give them early success, start building relationship.
Promising	Recent shoppers, but haven't spent much.	Create brand awareness, offer free trials.
Customers Needed Attention	Above average recency, frequency and monetary values. May not have bought very recently though.	Make limited time offers. Recommend based on past purchase. Reactivate them
About To Sleep	Below average recency, frequency and monetary values. Will lose them if not reactivated.	Share valuable resources, recommend popular products/renewals at discount, reconnect with them.
At Risk	Spent big money and purchased often. But long time ago. Need to bring them back!	Send personalized emails to reconnect, offer renewals, provide helpful resources.
Cannot Lose Them	Made biggest purchases, and often, but haven't returned for a long time.	Win them back by renewals or newer products, do not lose them to competition, talk to them
Hibernating	Last purchase was long back, low spenders and low number of orders.	Offer them relevant products and special discounts. Recreate brand value.
Lost	Lowest recency, frequency and monetary scores.	Revive interest with reach out campaign, ignore otherwise.

Figure 1 shows the customer scores for each segment, the first digit in the score above is the recency score, the second frequency score and the third is the monetary score.

Segment	Scores
Champions	555, 554, 544, 545, 454, 455, 445
Loyal	543, 444, 435, 355, 354, 345, 344, 335
Potential Loyalist	553, 551, 552, 541, 542, 533, 532, 531, 452, 451, 442, 441, 431, 453, 433, 432, 423, 353, 352, 351, 342, 341, 333, 323
New Customers	512, 511, 422, 421 412, 411, 311
Promising	525, 524, 523, 522, 521, 515, 514, 513, 425,424, 413,414,415, 315, 314, 313
Need Attention	535, 534, 443, 434, 343, 334, 325, 324
About To Sleep	331, 321, 312, 221, 213, 231, 241, 251
At Risk	255, 254, 245, 244, 253, 252, 243, 242, 235, 234, 225, 224, 153, 152, 145, 143, 142, 135, 134, 133, 125, 124
Cannot Lose Them	155, 154, 144, 214,215,115, 114, 113
Hibernating customers	332, 322, 231, 241, 251, 233, 232, 223, 222, 132, 123, 122, 212, 211
Lost customers	111, 112, 121, 131,141,151

Figure 1: RFM scores for each segment

Data Presentation

The dataset used for this analysis is e-commerce customer data contains customer transaction records, including: Customer ID, Customer Name, Purchase Date, Product Category, Product Price (Sales Amount), Payment Method, Customer Age, and Gender. To apply the correct segment, another table called Segment Score" will be imported.

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Data Cleaning
The data was cleaned using PQE (Power Query Editor) in Power BI in the following procedures.

i. Remove other columns: The data had too many columns, so the columns we did not need was removed. For this analysis, we need just three columns.
    a. Customer Name
    b. Purchased Date
    c. Sales Amount and
ii. Product Category (we did not really need this, it was just pulled in).
iii. Changed Type: we changed the data type of some columns like the "Sales Amount" column to Fixed Decimal instead of Decimal for Power BI to recognize it as a currency field.

Data Analysis
DAX (Data Analysis Expression) for RFM
Recency Value: To calculate the 'Recency value', we need to know the latest date of the transaction. Therefore, a new measure was created called 'Last Transaction Date'.

Figure 2 shows the DAX measure used to generate the last transaction date, while figure 3 shows the DAX measure used to generate the recency value.

```
Last Transaction Date = MAXX(
    FILTER('ecommerce_customer_data_custom_ratios',
    'ecommerce_customer_data_custom_ratios'[Customer Name] =
    'ecommerce_customer_data_custom_ratios'[Customer Name]),
    'ecommerce_customer_data_custom_ratios'[Purchase Date])

```

Figure 2: Last Transaction Date Measure

```
Recency Value = DATEDIFF('ecommerce_customer_data_custom_ratios'[Last Transaction Date],
                TODAY(), DAY)

```

Figure 3: Recency Value Measure

Frequency Value
The frequency value is derived from the number of distinct times the customers have purchased from your store. For this, the Purchase Date column is used. For better accuracy the Purchase ID or Transaction ID can also be used. The figure 4 shows the DAX measure used to generate the frequency value.

```
Frequency Value = DISTINCTCOUNT(ecommerce_customer_data_custom_ratios[Purchase Date])

```

Figure 4: Frequency Value Measure

Monetary Value: The monetary value takes different fields into consideration depending on how your data is structured. You can take into consideration the sales and quantity of your data captured in both fields. For this analysis, the Amount field only was used. The figure 5 shows the DAX measure used to generate the monetary value.

```
Monetary Value =

var TotalSales=
SUM(ecommerce_customer_data_custom_ratios[Sales Amount])
var TotalQuantity=
SUM(ecommerce_customer_data_custom_ratios[Quantity])
Return
DIVIDE(TotalSales,TotalQuantity,0)


```

Figure 5: Measure Used to Generate the Monetary Value.

https://dx.doi.org/10.4314/swj.v20i2.16
ISSN: 1597-6343 (Online), ISSN: 2756-391X (Print)
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Now that the RFM values have been gotten, the RFM scores is assigned to each customer.

Calculating the RFM Scores

The RFM scores will be calculated by first creating a calculated table. The table is created using the customer's name and the calculated RFM values. This table is modelled to another table which will be imported later. The RFM table is created using DAX. The figure 6 shows the DAX to calculate the RFM table.

```
RFM Table = SUMMARIZE('ecommerce_customer_data_custom_ratios',
            ecommerce_customer_data_custom_ratios[Customer Name],
            "Recency Value", [Recency Value],
            "Frequency Value", [Frequency Value],
            "Monetary Value", [Monetary Value])
```

Figure 6: DAX RFM Table

The figure 7 shows the example of a calculated RFM Table

Customer Name	Recency Value	Frequency Value	Monetary Value	Recency Score	Frequency Score	Monetary Score	RFM Score
Johnny Peterson	1166	4	$62.8	1	2	1	121
Gregory Bolton	946	4	$75.8	1	2	2	122
Brandon Parrish	702	4	$112.0769	3	2	5	325
Alvin Hardin	657	4	$117	3	2	5	325
Sean Payne	812	4	$111.8462	2	2	5	225
Grant Medina	539	4	$82.4615	5	2	3	523
Jerome Barnes	711	4	$89.1818	3	2	3	323
Monica Proctor	782	4	$65	2	2	2	222
Christopher Waller	581	4	$100.5	4	2	4	424
Edward Chavez	540	4	$78.2143	5	2	2	522
Amber Thomas	525	4	$49.5333	5	2	1	521
Monica Chan	790	4	$89.75	2	2	3	223
Ryan Hill DDS	1059	4	$174.875	1	2	5	125
Carrie Dunn	576	4	$169.8889	4	2	5	425
Mrs. Rebecca Smith	595	4	$32.8421	4	2	1	421
Shawn Parks	650	4	$88.4	3	2	3	323
Omar Sutton	564	4	$51.4375	4	2	1	421
Michael Whitaker Jr.	970	4	$54.1765	1	2	1	121
Bryce Miranda	746	4	$175.4286	2	2	5	225
Ashley Pitts	1258	4	$107.9286	1	2	4	124
Shelley Anderson	1131	4	$102.25	1	2	4	124
Colleen Soto	538	4	$107.3333	5	2	4	524
Raymond Phelps	695	4	$77.3571	3	2	2	322

Figure 7: Example of RFM Table

Assigning the RFM Scores using Percentile

The percentile of the RFM value is used to assign scores to each customer. A percentile is a statistical term used to express how a score compares to other scores in the same set. A new column will be created for each of the scores. Figures 8, 9 and10 show the DAX used to generate the recency score column, frequency score column and the monetary score column.

```
Recency Score = SWITCH(
            TRUE(),
            [Recency Value] <=
            PERCENTILE.INC('RFM Table'[Recency Value], 0.20), "5",
            [Recency Value] <=
            PERCENTILE.INC('RFM Table'[Recency Value], 0.40), "4",
            [Recency Value] <=
            PERCENTILE.INC('RFM Table'[Recency Value], 0.60), "3",
            [Recency Value] <=
            PERCENTILE.INC('RFM Table'[Recency Value], 0.80), "2",
            "1"
)
```

Figure 8: DAX Recency Score

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www.scienceworldjournal.org
ISSN: 1597-6343 (Online), ISSN: 2756-391X (Print)
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```
Monetary Score = SWITCH(
                TRUE(),
                [Monetary Value]<=
                PERCENTILE.INC('RFM Table'[Monetary Value], 0.20), "1",
                [Monetary Value] <=
                PERCENTILE.INC('RFM Table'[Monetary Value], 0.40), "2",
                [Monetary Value] <=
                PERCENTILE.INC('RFM Table'[Monetary Value], 0.60), "3",
                [Monetary Value] <=
                PERCENTILE.INC('RFM Table'[Monetary Value], 0.80), "4",
                "5"
)
```

Figure 9: DAX Frequency Score

```
Monetary Score = SWITCH(
                TRUE(),
                [Monetary Value]<=
                PERCENTILE.INC('RFM Table'[Monetary Value], 0.20), "1",
                [Monetary Value] <=
                PERCENTILE.INC('RFM Table'[Monetary Value], 0.40), "2",
                [Monetary Value] <=
                PERCENTILE.INC('RFM Table'[Monetary Value], 0.60), "3",
                [Monetary Value] <=
                PERCENTILE.INC('RFM Table'[Monetary Value], 0.80), "4",
                "5"
)
```

Figure 10: DAX Monetary Score

The RFM Score

To get the combination of the RFM score, a new column is created called RFM that concatenates the three columns that was created. The figure 11 shows the DAX to the RFM score.

```
RFM Score = 'RFM Table'[Recency Score] & 'RFM Table'[Frequency Score] & 'RFM Table'[Monetary Score]
```

Figure 11 DAX RFM Score

Assign Segment to Each Score:
Create an RFM Segment table that has a list of all the segment, the customers are grouped into and the corresponding scores of each segment. The segment scores table was imported into Power BI, which was gotten from Kaggle.

Manage Relationship:
To create a relationship between the 'RFM table' and the 'Segment Score Table' by using the Segment-Score table. The Figure 12 shows the relationship between the RFM Table and the Segment-Scores Table, the shaded part of the table is the columns that are related used to generate the relationship.

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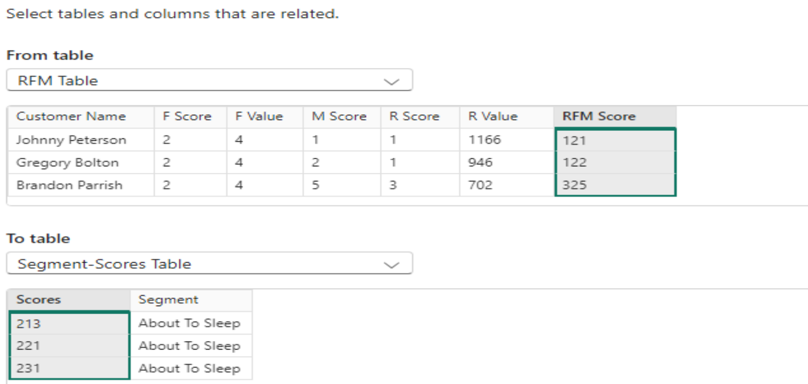
Select tables and columns that are related.

From table

RFM Table

Customer Name	F Score	F Value	M Score	R Score	R Value	RFM Score
Johnny Peterson	2	4	1	1	1166	121
Gregory Bolton	2	4	2	1	946	122
Brandon Parrish	2	4	5	3	702	325

To table

Segment-Scores Table

Scores	Segment
213	About To Sleep
221	About To Sleep
231	About To Sleep

Figure 12: Relationship between RFM Table and Segment-Scores Table

Figure 13 shows the data model and display the relationship between the RFM table and the Segment-Scores Table and the cardinality shows a many to many relationship (**).

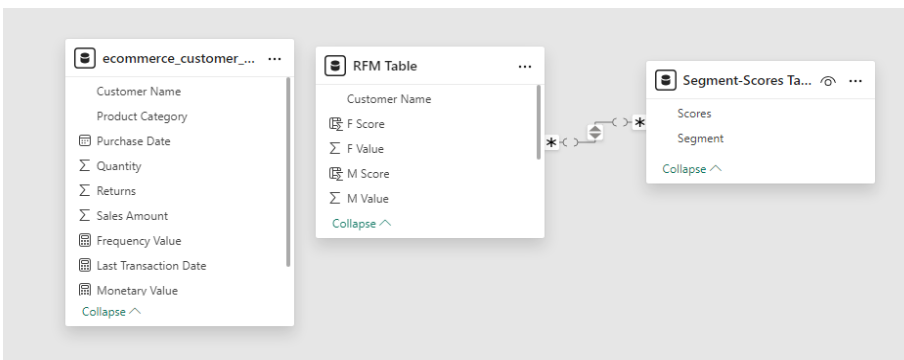

Figure 13: Data Model

Visualization

Transitioning to the report view leverage the Power BI canvas to display engaging visuals. Utilize charts, tables, and slicers to dynamically analyze and interpret RFM segments. This step empowers the ability to uncover patterns, identify high value customers, and tailor marketing strategies accordingly. To make the RFM analysis more insightful, the following visuals is created to better understand customer behaviour. Here are some recommended visuals.

i. **Customer Segments**
Visual Type: Treemap
Purpose: Shows the proportion of different customer segments.

How to Use: Group customers into segments like Champions, Loyal, At risk.

Size: Customer count or revenue contribution

Insight: Quickly identifies the largest customer segments. Figure 14 shows the segment for each customer with their data labels such as champions, potential loyalist, at risk, new customers.

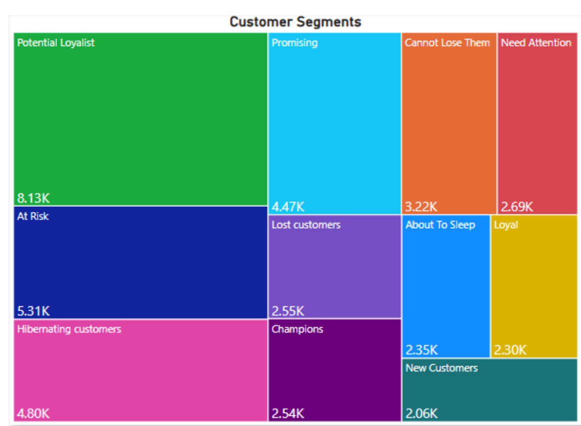

Figure 14: Treemap

https://dx.doi.org/10.4314/swj.v20i2.16

ii. **RFM Score**
Visual Type: Matrix with Conditional Formatting
Purpose: Highlights interactions between RFM scores.
How to Use
Rows: Recency Score
Columns: Frequency Score
Values: Average Monetary Score (Colour scale)

Insight: Identifies which combinations generate the most revenue. Figure 15 shows the recency score and the RFM score with a colour coded conditional formatting, the green font colour shows the customer who is the champion, most loyal or high spending customer while the red font colour shows the dormant, at risk, lost customers or low spending customers.

	RFM Score					
Recency Score	1	2	3	4	5	**Total**
5	2301	5772	3088	4934	8161	**24256**
2	5729	8882	3399	3890	2241	**24141**
4	2914	6611	3574	4912	5989	**24000**
1	11826	7870	2159	1476	432	**23763**
3	3654	7599	3485	4810	4052	**23600**
Total	**26424**	**36734**	**15705**	**20022**	**20875**	**119760**

Figure 15: Matrix

iii. **Top Customers Table**
Visual Type: Table
Purpose: Identify the best customers based on RFM scores.
How to Use
Column: Customer Name, Recency Score, Frequency Score, Monetary Score, Total RFM Score

Conditional Formatting: High RFM Scores: Green
Insight: Quickly highlight top performing customers. Figure 16 shows the customer with the top customer table which makes it easier to spot the best and worst customers, the green font colour shows the best customers while the red font colour shows the worst customers.

Customer Name	Sum of Recency Score	Sum of Frequency Score	Sum of Monetary Score	Sum of Total RFM Score
Aaron Bradley	5	5	2	552
Aaron Brady	3	3	2	332
Aaron Brooks	1	1	1	111
Aaron Brown	1	1	2	112
Aaron Campbell	5	1	4	514
Aaron Cannon	4	2	4	424
Aaron Cantrell	4	5	2	452
Aaron Carroll	1	4	3	143
Aaron Chapman	1	2	1	121
Aaron Clark	4	5	3	453
Aaron Clayton	5	2	4	524
Aaron Cochran	3	4	3	343
Total	**119917**	**110213**	**119760**	**13213590**

Figure 16: The customer with the top customer

iv. **Revenue Contribution by RFM Segment**
Visual Type: Donut Chart
Purpose: Show the share of revenue from different customer segments.
How to Use

Categories: Customer Segments
Values: Total Revenue
Insight: Highlights high value segments for targeted marketing. Figure17 shows the monetary. proportion of customers by segment (e.g., champions, potential loyalist, at risk)

https://dx.doi.org/10.4314/swj.v20i2.16

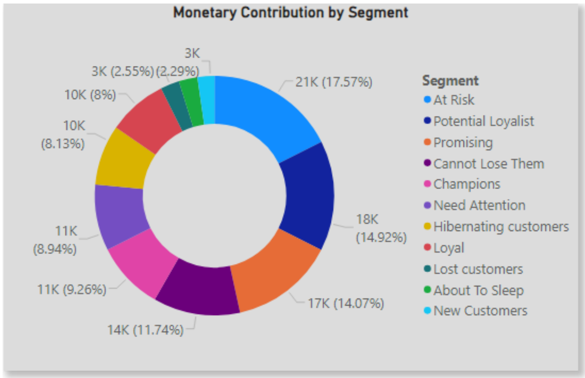

Figure 17: Donut Chart

v. **Customer Distribution by Recency and Frequency**
Visual Type: Scatter Plot
Purpose: Helps identify patterns between how recent and frequent purchases are.
How to Use
X-axis: Recency Score
Y-axis: Frequency Score
Size: Monetary Value
Insight: Identifies high value, frequent buyers and inactive customers. Figure 18 helps to understand the relationship between the recency and frequency, visualize customer value, identify key segments and targets and enhance data driven decisions (e.g., whom to retain, reward, or re-engage).

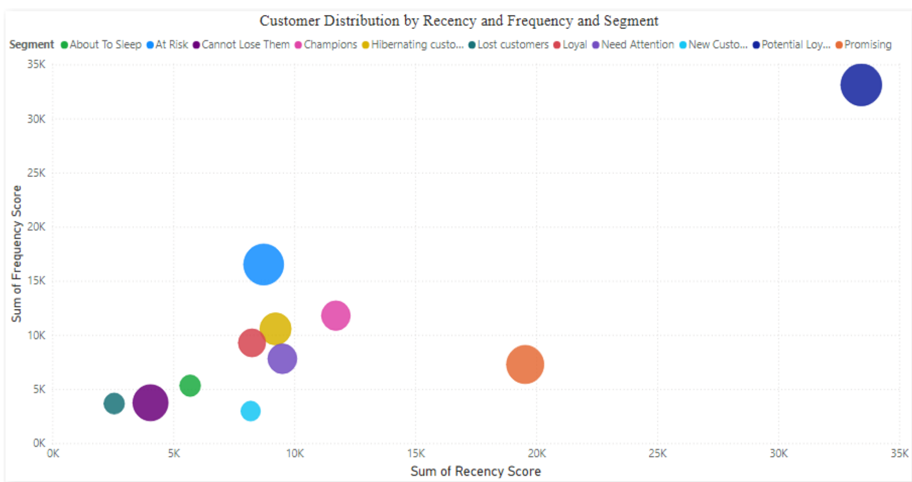

Figure 18: Scatter Plot

vi. **RFM Score Distribution**
Visual Type: Clustered Column Chart
Purpose: Shows the distribution of customers across different RFM scores.
How to Use
X-axis: RFM Score bins (1-5 for Recency, Frequency, and Monetary)
Y-axis: Customer Count
Insight: Identifies which score group has the most customers. Figure 19 visualizes how many customers fall into each RFM score range, make targeted decisions for customer retention, engagement, and acquisition, and also spot patterns, trends and area for improvement.

Science World Journal Vol. 20(No 2) 2025
www.scienceworldjournal.org
ISSN: 1597-6343 (Online), ISSN: 2756-391X (Print)
Published by Faculty of Science, Kaduna State University
https://dx.doi.org/10.4314/swj.v20i2.16

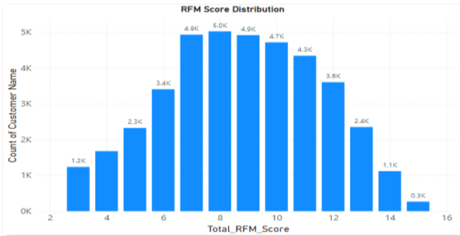

Figure 19: Clustered Column Chart

vii. **Customer Lifetime Value (CLV) Trend**
Visual Type: Line Chart
Purpose: Track changes in monetary value over time.
How to Use
X-axis: Purchase Time (Months/Quarters)
Y-axis: Customer Lifetime Value
Insight: Helps evaluate long term customer value trends. Figure 20 track trends in purchase behavior and engagement. It also helps to measure the effectiveness of campaigns and track customer behavior.

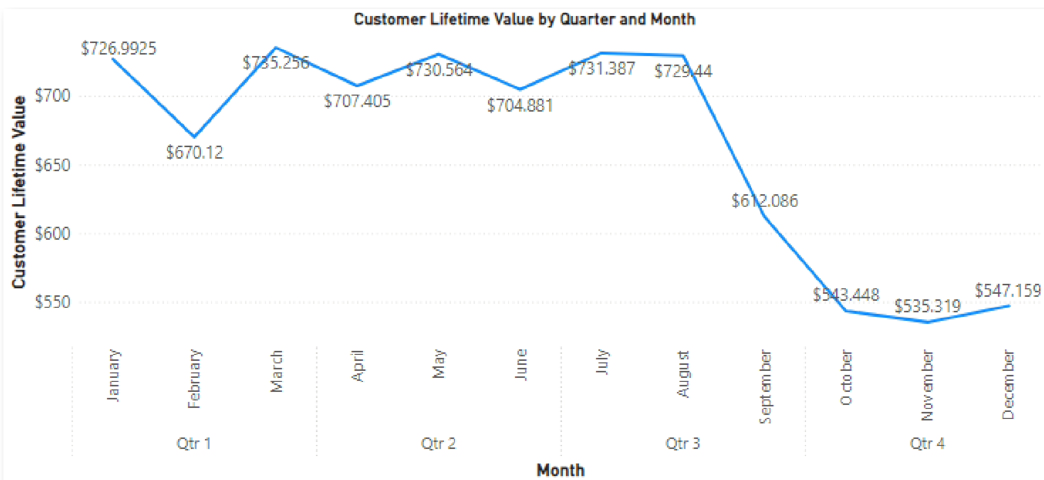

Figure 20: Line Chart

DISCUSSION OF INSIGHTS

RFM analysis helps to understand customers and give valuable insights into different segment the customers belong to. Some of the insight of RFM analysis are:

i. It gives better understanding of customer's behavior
ii. It gives quality insights to the most and least valuable customers, thus, allowing the business to create a unique customer journey.
iii. Businesses can now perform targeted adverts for each customer segment

Conclusion

Customer segmentation is a powerful analytical approach that enables businesses to classify their customers into distinct groups based on behavioral patterns, spending habits, and engagement levels. This work demonstrated how machine learning techniques and Power BI visualization can be effectively used to segment customers, providing valuable insights that drive targeted marketing, customer retention, and revenue growth.

By analyzing transactional data and applying segmentation techniques like RFM (Recency, Frequency, Monetary) analysis and K-Means clustering, the study successfully identified different customer groups with unique characteristics. This segmentation framework allows businesses to tailor their strategies based on the specific needs of each group, leading to improved customer relationships and optimized marketing efforts.

One of the key findings of this work is that data-driven customer segmentation enhances decision-making by providing a deeper understanding of customer behavior. Traditional one-size-fits-all marketing approaches often result in inefficient resource allocation and missed opportunities. In contrast, segmenting customers based on their historical data allows businesses to focus on high-value customers, re-engage at-risk customers, and design personalized offers for different segments. Furthermore, the integration of segmentation insights into Power BI dashboards allows for real-time monitoring of customer trends, making it easier for businesses to adjust their strategies dynamically. This level of automation and intelligence ensures that marketing campaigns remain relevant and impactful.

In conclusion, the study highlights the importance of leveraging data analytics, machine learning, and visualization tools for effective customer segmentation. As businesses continue to evolve in a data-driven world, investing in advanced segmentation strategies will be essential for gaining a competitive edge, improving customer satisfaction, and driving sustainable growth.

https://dx.doi.org/10.4314/swj.v20i2.16

Recommendations

Based on the findings from the customer segmentation, the following recommendations are proposed to help businesses optimize their marketing strategies, improve customer retention, and drive revenue growth:

i. **Integrate Segmentation Insights with CRM Systems:** Connect segmentation results with Customer Relationship Management (CRM) tools to enable personalized marketing campaigns. Align segmentation data with customer service teams to improve customer experience and engagement strategies.
ii. **Apply Predictive Analytics for Future Insights:** Use machine learning models to predict customer churn, lifetime value, and purchasing trends. Implement AI-based segmentation techniques to identify potential high-value customers early.
iii. **Enhance Customer Loyalty Programs:** Introduce tier-based loyalty programs to encourage repeat purchases. Offer personalized discounts, free shipping, or early access to new products to retain valuable customers.
iv. **Monitor Customer Behavior and Adapt Strategies:** Regularly analyze customer trends, engagement levels, and purchasing habits. Adjust marketing and sales strategies based on insights from Power BI dashboards and segmentation reports.

By implementing these recommendations, businesses can maximize the value of customer segmentation, leading to better customer relationships, increased retention rates, and higher profitability.

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