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Customer Profiling Practices and Growth of Retail Small and Medium Enterprises in Nairobi County, Kenya

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Abstract
Small and medium-sized enterprises (SMEs) are widely recognised for their contribution to employment, innovation, and sustainable growth. However, their growth remains a significant challenge, since the majority of them fail within their first few years of operation. This study examined the relationship between customer profiling practices and the growth of retail Small and Medium Enterprises (SMEs) in Nairobi County, Kenya. The study adopted a positivist research philosophy and a descriptive correlational design. The study population included 199,600 registered retail SMEs in Nairobi County. A sample of 439 SMEs was determined using Yamane's sample size determination formula and selected through stratified and simple random sampling techniques, with data gathered using structured questionnaires between July and September 2025. Data analysis employed descriptive statistics including frequency, mean, and standard deviation, and inferential statistics including Pearson correlation and simple linear regression, and was analysed using SPSS Version 30. Findings revealed that customer profiling practices have a strong positive correlation (r = 0.777) with SME growth, explaining 60.4% of growth variation. That is, SMEs that effectively implement customer profiling practices tend to experience higher levels of growth. The study concludes that customer profiling practices significantly enhance the growth of retail SMEs in Nairobi County by improving marketing effectiveness, operational efficiency, and competitiveness. It recommends formalising data-driven profiling systems, investing in affordable analytics tools, strengthening staff capacity, and promoting supportive policies for SME digital transformation and resource access.

Introduction
Small and Medium Enterprises (SMEs) are widely recognised as the backbone of economic development worldwide for their contributions to job creation, innovation, poverty reduction, and economic growth. Globally, an estimated 400 million SMEs account for 50% of the world's Gross Domestic Product (GDP), 90% of all businesses, and 70% of all workers (Tullier, 2026). In the European Union, SMEs constitute approximately 99.8% of all enterprises and contribute substantially to employment and gross value added (European Commission, 2025). Similarly, in Asia, countries such as China and India rely heavily on SMEs as engines of industrial growth and economic transformation. In China, SMEs contribute over 60% of GDP, generate more than 50% of tax revenues, and nearly 80% of employment opportunities (Yang, 2025). Despite their importance, SMEs face persistent challenges related to growth, competitiveness, customer acquisition, and sustainability, with many failing within

the first few years due to competition, changing consumer preferences, and weak strategic management (Sun et al., 2023).

In Africa, SMEs play a crucial role in socioeconomic development by providing employment, fostering entrepreneurship, and supporting economic diversification. Ho and Beri (2024) estimate that SMEs account for over 90% of businesses and the majority of employment opportunities across African economies. Nevertheless, SME failure rates remain high, with studies indicating that approximately 5 out of 7 SMEs fail within their first year of operation (Abonguie et al., 2025). These challenges are often worsened by resource constraints, limited access to financing, inadequate managerial capabilities, and increasing market competition.

In Kenya, SMEs represent 98% of all businesses hence a critical pillar of the national economy, contributing significantly to GDP, employment creation, and wealth generation (Yego & Kimwele, 2025). Nairobi County, being the commercial hub of Kenya, hosts the largest concentration of SMEs, particularly in the retail sector. The county provides a dynamic and competitive business environment characterised by rapid urbanisation, technological advancement, and changing consumer preferences. According to Ngetich (2025), Nairobi hosts about 17% of Kenya's SMEs. Despite their economic significance, retail SMEs continue to experience low growth rates and high failure rates, with approximately 60% failing within the first few years of operation (Mwaniki & Ondiek, 2018). These challenges have compelled businesses to adopt customer-centred strategies to strengthen customer relationships and improve performance. Increasingly, sustainable growth is no longer determined solely by operational efficiency or product quality but by an organisation's ability to understand and respond effectively to customer needs, preferences, and behaviours (Kasem et al., 2024). Therefore, the dynamic business environment has heightened the importance of customer profiling as a strategic tool to enhance organisational competitiveness and growth.

Customer profiling has emerged as an important strategic tool for understanding and effectively managing customers. It refers to the systematic process of collecting, analysing, and interpreting customer information to create detailed customer profiles that support business decision-making. This includes analysing demographic, behavioural, psychographic, and transactional data to identify meaningful customer segments (Kasem et al., 2024). Effective customer profiling enables organisations to understand customer expectations, tailor products and services to specific customer segments, and develop personalised marketing campaigns that increase customer engagement and satisfaction (Kasem et al., 2024).

Customer profiling is essential for SME growth as it helps businesses tailor marketing strategies, improve customer satisfaction, and strengthen competitiveness. However, evidence on its relationship with SME growth remains mixed, with findings varying across industries, organisational characteristics, and contextual factors. For example, Hesniati and Hartono (2024) found that digital marketing strategies incorporating customer profiling significantly boost SME sales and visibility by enabling targeted advertising and customer-specific promotions. Conversely, Yakubu et al. (2024) reported insignificant effects of segmentation strategies on organisational performance, suggesting that the effectiveness of customer profiling may vary across contexts and industries (Yakubu et al., 2024).

Recent technological advancements have significantly enhanced the effectiveness of customer profiling practices. The integration of big data analytics, artificial intelligence, machine learning, and customer relationship management systems has enabled organisations to collect and analyse vast amounts of customer data in real time (Chaffey & Ellis-Chadwick, 2019). These technologies facilitate behavioural data analysis, allowing businesses to identify purchasing patterns, predict customer preferences, and optimise marketing strategies. Behavioural analytics, in particular, helps businesses

understand customer interactions, purchasing decisions, and engagement patterns, enabling more accurate targeting, improved customer experience, and competitive positioning (Halkiopoulos et al., 2021).

Despite growing interest in customer profiling, several knowledge gaps remain. Most existing studies focuses on developed economies or large corporations, limiting their relevance to SMEs in developing contexts. For example, Clarke and Freytag (2022) examined segmentation in Danish SMEs, while Singh et al. (2020) investigated machine learning applications in generic datasets. Similarly, Chen et al. (2017) focused on customer preference mining in large retail environments, while Kariuki and Kagiri (2018) examined big data analytics within Kenya's telecommunications sector. Although these studies provide valuable insights into customer profiling, they do not adequately explain how these practices are associated with SMEs' growth in highly competitive and resource-constrained environments such as Nairobi County.

Furthermore, findings on specific dimensions of customer profiling remain inconclusive. Yakubu et al. (2024) reported no significant effect of market segmentation on SME performance in Nigeria, while Ondoro et al. (2018) found a significant positive relationship between segmentation and organisational performance in Kenyan commercial banks. These inconsistencies highlight the need for further investigation within the context of retail SMEs in Nairobi County.

Theoretical Framework

The Resource-Based View

The Resource-Based View, originally advanced by Jay B. Barney, posits that firm performance and sustained competitive advantage arise from the possession and effective utilisation of valuable, rare, inimitable, and non-substitutable (VRIN) resources. Rather than relying solely on external market positioning, firms achieve superior performance through internal resource configurations that enable efficient strategy execution (Barney, 1991; Barney et al., 2021). In retail SMEs, customer profiling practices can be understood as strategic capabilities that transform raw customer data into actionable market intelligence, thereby improving decision-making, targeting accuracy, and overall performance.

Contemporary RBV scholarship extends this perspective by emphasising dynamic resource orchestration and efficient resource utilisation. Barney et al. (2021) emphasise that competitive advantage depends not only on possessing VRIN resources but also on the continuous reconfiguration and deployment of those resources in response to environmental demands. Similarly, Zahra (2021), highlights "resourcefulness" as a critical capability, particularly for SMEs, where limited resources require adaptive and innovative utilisation. In such contexts, firm performance is shaped less by resource abundance and more by how effectively available resources are leveraged to support strategic activities. In this setting, customer profiling serves as a knowledge-based resource that enhances market responsiveness and supports growth-oriented strategies such as segmentation, personalisation, and customer retention.

RBV further emphasises the strategic importance of intangible resources such as data, knowledge, and relational capital. Varadarajan (2020) conceptualises customer information as critical firm resources that strengthen marketing strategy and improve performance outcomes. Customer profiling practices, therefore, represent an intangible capability that enables SMEs to accumulate, analyse, and apply customer insights in ways that are difficult for competitors to imitate. This aligns with the broader RBV argument that sustainable performance advantage arises when firms develop unique information-processing capabilities embedded within their organisational routines.

H_0: There is no statistically significant association between customer profiling practices and the growth of retail Small and Medium Enterprises in Nairobi County, Kenya.

Research Methods

Study Design

The study adopted a positivist research philosophy, which assumes that reality is objective and measurable using statistical analysis and empirical techniques (Ali, 2024). A descriptive correlational research design was employed as it facilitates the examination of relationships between variables without manipulating them to determine the strength and direction of the associations. However, because data were collected at a single point in time, the design could only establish relationships rather than causal effects (Creswell & Creswell, 2022).

Study Area and Population

The study was conducted in Nairobi County, Kenya's primary commercial hub, which hosts a high concentration of retail SMEs operating within a vibrant and highly competitive environment. Nairobi's rapid urbanisation, high business turnover, and diverse customer segments make it an appropriate setting for examining SME growth and value proposition practices. The Micro and Small Enterprises Act (2012) classification framework, which defines micro, small, and medium enterprises based on employment size, annual turnover, and capital investment. Therefore, the study adopted the Micro and Small Enterprises Act (2012), which classifies enterprises into micro (1–9 employees), small (10–49 employees), and medium enterprises (51–250 employees) (Ministry of Co-operatives and Micro, Small, and Medium Enterprises Development, 2025). The study population included 199,600 registered retail SMEs in Nairobi County (Nyasani & Kalui, 2021).

Sample Size and Sampling

Using Yamane's (1967) formula, a sample size of 439 SMEs was calculated with a 5% margin of error and a 10% non-response allowance. Stratified random sampling was adopted to enhance representativeness across Nairobi County. The population was stratified based on ten sub-counties of Westlands, Dagoretti, Langata, Kibra, Kasarani, Embakasi, Makadara, Kamukunji, Starehe, and Mathare. Proportional allocation using the formula nh = (Nh/N)n ensured that each stratum was represented according to its population share. Thereafter, SMEs within each stratum were selected via simple random sampling using computer-generated random numbers, while owners, directors, or senior managers were purposively selected as respondents. A screening procedure was applied during data cleaning to ensure consistency with the SME classification criteria. Firms reporting employment levels beyond the SME threshold were retained only where they fell within nationally recognised medium enterprise classifications and were considered in a sensitivity interpretation of results.

Table 1: Sample Distribution

Sub-County	Number of retail SMEs	Sample	Percentage
Westlands	16349	36	8.20%
Dagoretti	22985	50	11.50%
Langata	10454	23	5.20%
Kibra	9834	22	4.90%
Kasarani	41325	91	20.70%
Embakasi	52344	115	26.20%
Makadara	10033	22	5.00%
Kamukunji	14201	31	7.10%
Starehe	11139	25	5.60%
Mathare	10935	24	5.50%
Total	**199,600**	**439**	**100.00%**

Data Collection and Analysis

Primary data were collected between July and September 2025, a period selected to maximize respondents' availability outside peak financial reporting and festive seasons. Data were gathered using a structured questionnaire. A pilot study involving 44 respondents (10% of the sample) was conducted to refine the instrument. Reliability was assessed using Cronbach's Alpha, with customer profiling practices recording 0.747 and SME growth 0.865, exceeding the recommended threshold of 0.70 (Taber, 2018). In terms of validity, the study addressed both content and construct validity. Content validity was rigorously ensured through expert evaluation. Construct validity was assessed using exploratory factor analysis (EFA). The suitability of the data for factor analysis was first confirmed using the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's Test of Sphericity. The KMO value exceeded the recommended threshold of 0.60, while Bartlett's Test was statistically significant ($p < 0.05$), indicating sufficient inter-item correlations. Thereafter, EFA was conducted, and items loaded appropriately on their respective constructs, confirming acceptable construct validity (Chan & Idris, 2017). The diagnostic checks covered include linearity, normality, and heteroscedasticity to ensure that the results are valid, unbiased, and interpretable.

Although 439 questionnaires were distributed, 341 were fully completed and valid for analysis, yielding a response rate of 77.7%. Quantitative data were analysed using the Statistical Package for Social Sciences (SPSS) Version 30. Descriptive statistics, including means and standard deviations, were used to summarise the data, while inferential statistics, comprising Pearson correlation analysis, simple linear regression analysis, ANOVA, and regression coefficient analysis, were employed to examine the relationship between customer profiling practices and the growth of SMEs.

Ethical Consideration

Before data collection, the study received ethical approval from the relevant Institutional Ethics Review Committee. Additionally, permission to conduct the study was obtained from the participating organisations and relevant authorities. Before taking part, participants gave their informed consent after learning about the study's objectives. Confidentiality and anonymity were maintained by ensuring that respondents' identities were not disclosed and that the information gathered was utilised solely for academic purposes.

Results

Demographic Variables

The study sample indicated a nearly equal gender distribution, with 49.6% male and 50.4% female respondents, suggesting inclusive data and reduced likelihood of gender bias among SMEs in Nairobi County. In terms of age, the largest proportion of respondents were aged 50 years and above (16.1%), followed closely by those aged 25–30 years and 46–50 years at 15.5% and 15%, respectively. Other groups were also fairly represented, including 36–40 years (15%), 41–45 years (14.7%), 31–35 years (11.7%), and 18–24 years (12%), showing a balanced age distribution. Regarding respondents' roles, most held senior decision-making positions, with 35.5% being directors, 34.6% owners, and 29.9% senior managers, ensuring informed perspectives on business operations. In terms of years in operation, 23.5% of businesses had operated for 4–6 years, 21.4% for less than one year, 19.4% for 7–10 years, 18.2% for more than 10 years, and 17.6% for 1–3 years, reflecting a mix of start-ups, growing, and mature enterprises. For firm size, 27.9% of enterprises had 51–100 employees, 26.7% had more than 100 employees, 23.8% had 1–10 employees, and 21.7% had 11–50 employees, indicating balanced representation across SME categories. Finally, regarding annual income, 26.7% earned KSh 500,000–1 million, 26.4% earned KSh 1–5 million, 25.2% earned above KSh 5 million, and 21.7% earned below KSh 500,000. This distribution highlighted the diversity in financial performance across the sample

and suggested that the study captured insights from both smaller enterprises with limited revenues and more established firms generating substantial income, as indicated in Table 2.

Table 2: Demographic Variables (n= 341)

Demographic Variables	Category	Frequency	Percentage (%)
Gender	Male	169	49.6%
	Female	172	50.4%
Age	18–24 years	41	12.0%
	25–30 years	53	15.5%
	31–35 years	40	11.7%
	36–40 years	51	15.0%
	41–45 years	50	14.7%
	46–50 years	51	15.0%
	50 years & above	55	16.1%
Role in Business	Director	121	35.5%
	Owner	118	34.6%
	Senior Manager	102	29.9%
Years in Operation	Less than 1 year	73	21.4%
	1–3 years	60	17.6%
	4–6 years	80	23.5%
	7–10 years	66	19.4%
	More than 10 years	62	18.2%
Number of Employees	1–10 employees	81	23.8%
	11–50 employees	74	21.7%
	51–100 employees	95	27.9%
	More than 100 employees	91	26.7%
Estimated Annual Income (KSh)	Less than KSh 500,000	74	21.7%
	KSh 500,000 – 1 million	91	26.7%
	KSh 1 million – 5 million	90	26.4%
	Above KSh 5 million	86	25.2%

Descriptive Statistical Analysis of Study Variables

Customer Profiling

The findings indicated that respondents generally agreed that customer segmentation practices are implemented within SMEs, with an overall mean score of 3.90 (SD = 0.97), suggesting a relatively high level of adoption of segmentation activities. The highest-rated item was having a structured segmentation approach (M = 3.98, SD = 0.95), followed by the use of digital marketing tools for profiling (M = 3.94, SD = 0.96). SMEs also reported challenges in adapting Salesforce when introducing

new customer segments (M = 3.92, SD = 0.95). Segmentation based on customer value (M = 3.90, SD = 1.00), demographics (M = 3.88, SD = 0.97), and behaviour (M = 3.83, SD = 1.02) was common, with integration into marketing activities also evident (M = 3.87, SD = 0.95). The standard deviations (0.95 to 1.02) suggested moderate variation in implementation across SMEs.

Behavioural data analysis was moderately prevalent, with an overall mean of 3.88 (SD = 0.98). The highest-rated practice was reviewing transaction data for decision-making (M = 3.96, SD = 0.96), indicating strong use of operational data. SMEs also reported implementing big data analytics capabilities (M = 3.92, SD = 0.98), analysing customer behavioural data (M = 3.84, SD = 1.01), and using analytics tools for customer information (M = 3.82, SD = 0.96). These results show growing recognition of data-driven decision-making, although variation suggests uneven adoption of advanced analytics across firms.

Regarding customer needs and preferences, the overall mean was 3.87 (SD = 0.97), indicating active engagement in understanding customers. SMEs frequently assess customer needs (M = 3.95, SD = 0.97) and preferences (M = 3.92, SD = 1.00), adopt customer-centric strategies (M = 3.90, SD = 0.92), and use social media for insights (M = 3.88, SD = 0.99). However, tailoring products and services scored lower (M = 3.76, SD = 1.02), suggesting a gap between gathering customer insights and implementing customised offerings. Overall, SMEs prioritise understanding customer needs, though application of insights varies.

Table 3: Customer Profiling Practices among SMEs in Nairobi County

Customer Segmentation	**Mean**	**Std. Deviation**
Our SME divides customers based on demographic characteristics.	3.88	0.97
Our SME divides customers based on customer behaviour.	3.83	1.02
Our SME divides customers based on their value to the business.	3.90	1.00
Our SME has a structured customer segmentation approach.	3.98	0.95
Customer segmentation is integrated into our SME's marketing activities.	3.87	0.95
Our SME faces significant challenges in salesforce adaptation when adopting new customer segments.	3.92	0.95
Our SME uses digital marketing tools to support customer profiling activities.	3.94	0.96
Average	**3.90**	**0.97**
Behavioural Data Analysis		
Our SME has implemented big data analytics capabilities (BDAC).	3.92	0.98
Our SME uses big data analytics capabilities (BDAC) to analyse customer information.	3.82	0.96
"Our SME regularly reviews transaction data to support decision-making	3.96	0.96
Our SME analyzes customer behavioural data.	3.84	1.01
Average	**3.88**	**0.98**
Customer Needs and Preferences		
Our SME regularly assesses customer needs.	3.95	0.97
Our SME regularly assesses customer needs on an ongoing basis.	3.88	0.96
Our SME regularly assesses customer preferences.	3.92	1.00
Our SME regularly monitors customer preferences.	3.82	0.97
Our SME tailors products and services to customer preferences.	3.76	1.02
We utilise social media to understand customer needs.	3.88	0.99
Our SME adopts customer-centric strategies.	3.90	0.92
Our SME uses customer profiling techniques.	3.84	0.94
Average	**3.87**	**0.97**

Growth of Small and Medium Retail Enterprises

The findings indicated that retail SMEs in Nairobi County are experiencing moderate but steady growth across multiple dimensions of business performance. Respondents agreed that their SMEs

recorded consistent revenue growth over the past three years (M = 3.89, SD = 0.97) and effectively adapted to changing customer preferences (M = 3.91, SD = 0.94), highlighting responsiveness as a key factor in sustained performance. Growth in the customer base over the last year (M = 3.79, SD = 1.00), investment in innovation (M = 3.83, SD = 0.93), and development of new products/services (M = 3.91, SD = 0.93) further reflected ongoing expansion efforts. SMEs also reported expansion into new markets (M = 3.84, SD = 0.99), supported by partnerships that enhance market reach (M = 3.89, SD = 0.96), alongside financial readiness for growth (M = 3.84, SD = 0.99) and adaptability to regulatory requirements (M = 3.87, SD = 0.90).

Additionally, SMEs indicated effective adaptation to changes in market demand (M = 3.82, SD = 0.98) and implementation of profitability strategies (M = 3.87, SD = 1.04), with pricing strategies rated as particularly effective at driving revenue (M = 3.98, SD = 0.93). Technological adoption was also seen to support revenue growth (M = 3.89, SD = 0.94). Regarding workforce development, SMEs reported moderate agreement on recruitment for expansion (M = 3.81, SD = 0.96), employee training (M = 3.87, SD = 0.96), retention strategies (M = 3.89, SD = 0.98), and career advancement opportunities (M = 3.91, SD = 0.98), along with workforce growth aligned with increasing demand (M = 3.82, SD = 1.00). Overall, the mean score of 3.87 (SD = 0.97) indicates steady, broad-based SME growth driven by adaptability, innovation, market expansion, technology use, and human resource development.

Table 4: Growth of Retail SMEs

Growth of Retail SMEs	Mean	Std. Deviation
Our SME has experienced consistent revenue growth over the past three years.	3.89	0.97
Our SME effectively adapts to changes in customer preferences.	3.91	0.94
Our SME has successfully expanded its customer base over the last year.	3.79	1.00
Our SME invests in innovation to drive growth.	3.83	0.93
Our SME invests in new product/service development to drive growth.	3.91	0.93
Our SME actively explores new geographical markets for expansion.	3.84	0.99
Our SME has established strong partnerships to support market expansion.	3.89	0.96
Our SME has sufficient financial resources to support our market expansion efforts.	3.84	0.99
Our SME effectively adapts to regulatory requirements when entering new markets.	3.87	0.90
Our SME effectively adapts to changes in market demand.	3.82	0.98
Our SME has experienced consistent revenue growth over the past three years.	3.87	0.98
Our SME regularly implements strategies to increase profitability.	3.87	1.04
Our SME's pricing strategies effectively contribute to revenue growth.	3.98	0.93
Our SME's adoption of new technologies has positively impacted our revenue growth.	3.89	0.94
Our SME actively recruits new employees to support business expansion.	3.81	0.96
Our SME invests in employee training and development to enhance workforce skills.	3.87	0.96
Our SME employee retention strategies have been effective in maintaining a stable workforce.	3.89	0.98
Our SME provides career growth opportunities that encourage employee advancement.	3.91	0.98
The size of our workforce has grown with increasing business demands.	3.82	1.00
Average	**3.87**	**0.97**

Inferential Statistical Analysis and Hypothesis Testing

Correlation between Customer Profiling Practices and Growth of Retail SMEs

The correlation analysis in Table 5 showed a strong and statistically significant positive relationship between customer profiling practices and the growth of retail SMEs (r = 0.777, p = 0.000). The findings indicate that SMEs that effectively implement customer profiling tend to achieve higher growth levels. The statistically significant p-value confirms that the relationship is unlikely to have occurred by chance, highlighting customer profiling as an important strategy for enhancing SME growth and performance.

Table 5: Correlation between Customer Profiling Practices and Growth of Retail SMEs

		Customer Profiling Practices	Growth of Retail SMEs
Customer Profiling Practices	Pearson Correlation	1	.777**
	Sig. (2-tailed)		0
Growth of Retail SMEs	Pearson Correlation	.777**	1
	Sig. (2-tailed)	0	

** Correlation is significant at the 0.01 level (2-tailed).

Regression on Customer Profiling Practices and Growth of Retail SMEs

The regression model yielded an R-squared of 0.604, indicating that customer profiling practices accounted for 60.4% of the variance in SME growth. This indicates a positive association between customer profiling and growth outcomes among retail SMEs. However, since no control variables were included, the explained variance should not be attributed solely to customer profiling. Other factors, including managerial capability, access to finance, firm size, and competitive conditions, may also be associated with SME growth. Therefore, the findings demonstrate a significant association rather than conclusive evidence of causation.

Table 6: Model Summary on Customer Profiling Practices and Growth of Retail SMEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.777a	0.604	0.603	0.24415

a Predictors: (Constant), Customer Profiling Practices

The ANOVA results in Table 7 confirmed that the regression model predicting the growth of retail SMEs based on customer profiling practices is statistically significant. The model produced an F-value of 517.014 with a p-value of 0.000, indicating a significant difference between the model and a model with no predictors.

Table 7: ANOVA on Customer Profiling Practices and Growth of Retail SMEs

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.82	1	30.82	517.014	.000b
	Residual	20.208	339	0.06		
	Total	51.028	340			

a Dependent Variable: Growth of Retail SMEs

b Predictors: (Constant), Customer Profiling Practices

The regression coefficient in Table 8 indicated a strong and statistically significant positive association between customer profiling practices and the growth of retail SMEs. The unstandardised coefficient (B = 0.776) suggests that a one-unit higher customer profiling score is associated with a 0.776-unit higher SME growth score. The regression equation can be expressed as:

$$Growth\ of\ Retail\ SMEs = 0.852 + 0.776(Customer\ Profiling)$$

The t-test was used to test the study hypothesis:

The t-statistic was 22.738 (p <). Therefore, there was sufficient evidence to reject the null hypothesis and conclude that there is a statistically significant association between customer profiling practices and the growth of retail Small and Medium Enterprises in Nairobi County, Kenya.

Table 8: Coefficient on Customer Profiling Practices and Growth of Retail SMEs

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.852	0.133		6.394	.000
	Customer Profiling Practices	0.776	0.034	0.777	22.738	.000

a Dependent Variable: Growth of Retail SMEs

The ANOVA results further confirmed that the regression model was statistically significant, with an F-value of 517.014 and a p-value of 0.000, indicating that customer profiling contributes meaningful explanatory value relative to a model with no predictors. The regression coefficient (B = 0.776) indicated that higher customer profiling scores were associated with higher SME growth scores, such that a one-unit increase in customer profiling corresponded to a 0.776-unit increase in the predicted SME growth score. The coefficient was statistically significant (t = 22.738, p = 0.000), indicating that the observed association is unlikely to have occurred by chance. These findings collectively suggest that customer profiling practices are strongly associated with SME growth among retail SMEs in Nairobi County

Discussion

The findings suggested that customer profiling is a strategic mechanism through which SMEs can enhance growth and competitiveness. This supports marketing theory, which argues that systematic customer insight improves market segmentation, resource allocation, and competitive advantage (Kotler & Keller, 2016). It further supports Chaffey and Ellis-Chadwick's (2019) argument that CRM systems, analytics, and digital tools help firms translate customer data into performance gains.

The findings further established that improvements in customer profiling practices were associated with meaningful increases in SME growth. These results resonate with Bonilla et al.'s (2024), who identified profiling-enabled digital marketing and customer-centric strategies as drivers of sales growth, visibility, and sustainability. Similarly, the results support findings by Ondoro et al. (2018), who reported that segmentation-related practices significantly influence organisational performance. However, the results contrast with Yakubu et al. (2024), who reported no significant effect of market segmentation on SME performance.

Further, a strong association between customer profiling practices and growth of retail SMEs was reported, implying that SMEs that intensify customer profiling practices, including customer segmentation, behavioural data analysis, and understanding customer needs and preferences, tend to report higher growth. This result is consistent with Hesniati and Hartono (2024) and Kabut and Windasari (2024), who showed that profiling enhances targeted marketing, customer engagement, conversion rates, and retention, improving sales and business expansion.

With respect to customer segmentation, the findings indicate that retail SMEs have widely adopted segmentation practices as part of their customer management strategies. Businesses commonly

segment customers by demographic characteristics, customer behaviour, and value, while integrating segmentation into marketing activities. The findings further revealed that SMEs have established structured segmentation approaches and increasingly utilise digital marketing tools to support profiling efforts. This pattern aligns with marketing and customer relationship management literature, which identifies customer segmentation as a fundamental practice for understanding heterogeneous customer groups and facilitating informed marketing decisions (Kotler & Keller, 2016; Hassan & Tabasum, 2018; Kasem et al., 2024). The high adoption levels suggest that segmentation has become an integral component of customer management among retail SMEs. However, challenges related to salesforce adaptation when adopting new customer segments indicated that segmentation requires organisational adjustments alongside marketing implementation. This aligns with Clarke and Freytag (2022), who argued that successful segment adoption often requires employee training, process modifications, and organisational capabilities alignment.

Regarding behavioural data analysis, the findings showed that SMEs are increasingly incorporating customer data analysis practices into their operations. Respondents reported using big data analytics to analyse customer information and behavioural tracking. The results are consistent with studies emphasising the growing role of customer analytics in helping firms understand customer behaviour, preferences, and purchasing patterns (Mikalef et al., 2019; Nasrollahi et al., 2021). Nevertheless, the relatively lower use of big data analytics capabilities compared to customer segmentation techniques suggest that SMEs may be more comfortable adopting basic profiling and segmentation practices than advanced analytical tools. This finding supports previous research highlighting financial, technological, and human resource constraints that limit the adoption of sophisticated analytics systems among SMEs, particularly in emerging economies (Kariuki & Kagiri, 2018; Nasrollahi et al., 2021).

Regarding customer needs and preferences, the findings demonstrated that SMEs actively collect and monitor such information through social media and customer-centric strategies. These results are consistent with literature emphasising the importance of customer orientation and continuous customer feedback in helping organisations understand changing customer expectations and market demands (Johnsen, 2023; Dobrokhotov, 2023; Oblander et al., 2020; Ledro et al., 2022). However, the comparatively lower mean score for tailoring products and services to customer preferences suggests that, although SMEs effectively gather customer information, resource and operational constraints may hinder the translation of these insights into customised offerings.

Conclusion

The study concluded that customer profiling practices are significantly associated with the growth of retail SMEs in Nairobi County, Kenya. The results indicate that the adoption of customer profiling practices is high, with many SMEs actively engaging in segmentation, behavioural data analysis, and the assessment of customer needs and preferences. Retail SMEs commonly segment customers based on demographic characteristics, behaviour, and customer value, while also utilising customer data and analytics to understand customer behaviour and support customer-focused decision-making. The findings also indicate a significant positive association between customer profiling practices and SME growth, suggesting that firms with stronger customer profiling tend to report higher growth.

Based on the findings, several recommendations are proposed. Retail SME managers should formalise customer profiling as a core strategic function by developing structured systems for data collection and management. This enables SMEs to shift from informal knowledge to systematic segmentation frameworks using demographics, purchasing behaviour, and customer value for targeted marketing and efficiency. SME owners should invest in affordable customer analytics tools, including cloud-based CRM systems and basic AI-enabled platforms, to improve behavioural data analysis and

predictive decision-making. Where resources are limited, firms should adopt a phased approach to digital transformation, starting with transaction tracking and customer database management before progressing to advanced analytics.

SME managers should also ensure that customer insights inform pricing strategies, promotional campaigns, product assortment decisions, and inventory planning. SME human resource managers should prioritise staff training in data interpretation, digital marketing analytics, and customer relationship management to enhance the effective utilisation of customer intelligence. Finally, policymakers and SME development agencies should support retail enterprises through digital literacy programmes, technology adoption incentives, and access to affordable financing to strengthen analytical capabilities.

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