

RFM & Customer Segmentation

1. Ask

How customers are segmented
and what marketing strategies
can be applied to each group?

2. Prepare

Database: turing_data_analytics

Table: rfm

3. Process

SQL query that extracts data from the BigQuery

Code in the Spreadsheet

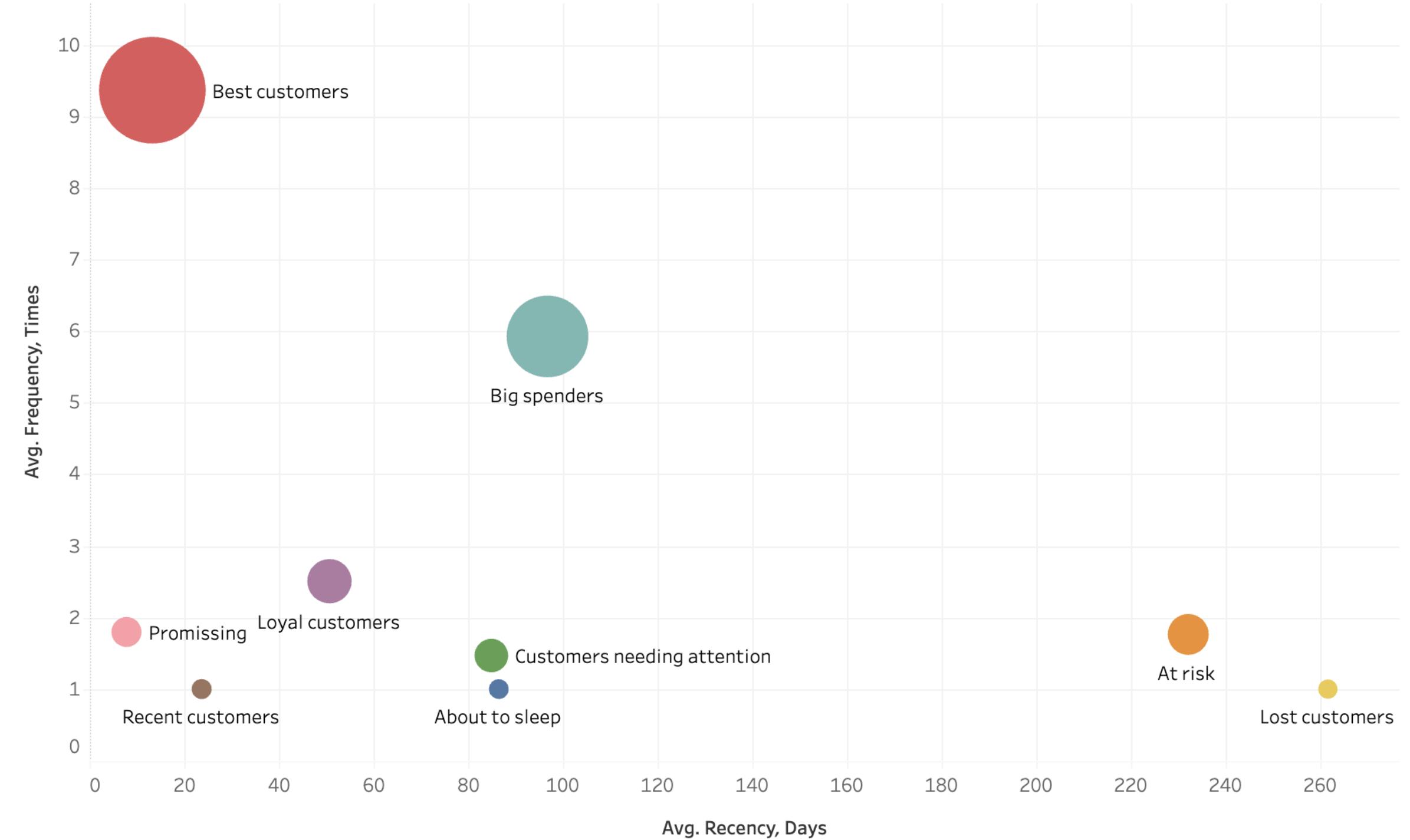
- correct columns identified
- correct logic created
- code formatted well and is readable

4. Analyze

Customer segmentation

is the process of dividing customers into groups based on common characteristics so companies can market to each group effectively and appropriately.

Customer Segments by RFM values



RFM Segmentation is executed in 4 steps:

1. Compute for recency, frequency, and monetary values per customer
 2. Determine quintiles for each RFM metric
 3. Assign scores for each RFM metric
 4. Define the RFM segments using the scores
- **Recency** — how recent the last transaction is. We would want to continually engage recent buyers and discover why less recent buyers have lapsed.
 - **Frequency** — how many times the customer has bought from us.
 - **Monetary** — how much each customer has paid for our products and services.

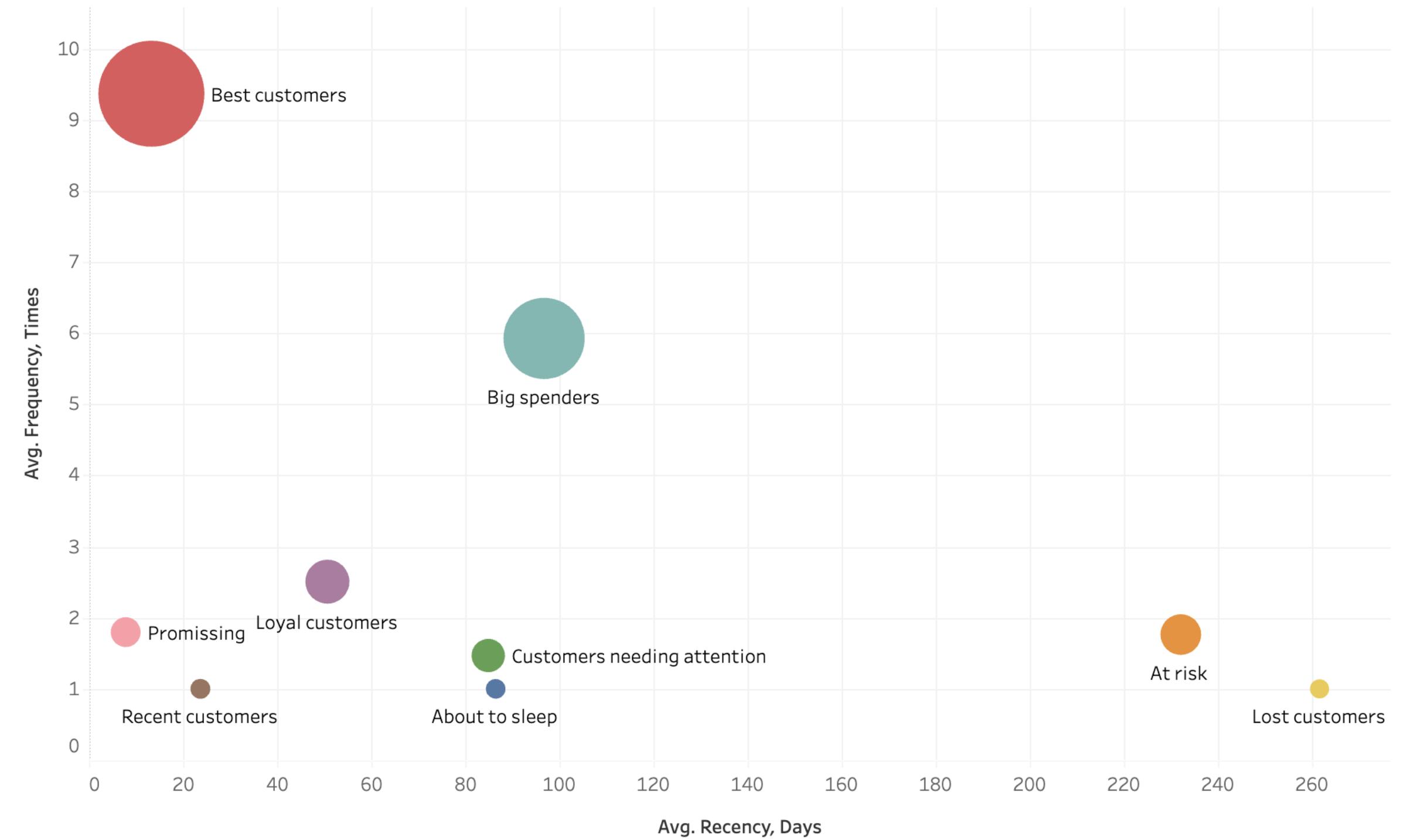
Note: this type of segmentation focuses on the actual buying behavior and ignores the differences in motivations, intentions, and lifestyles of consumers.

Helpful to:

- Personalize offers
- Improve conversion rates
- Improve unit economics
- Increase revenue and profits
- Prevent churn

5. Share

Customer Segments by RFM values



In visualization we can see how different these segments are from each other.

Best customers are relatively large in terms of revenue, is lying on the upper end of the y-axis in terms of frequency, and on the left end of the recency spectrum.

On the other end are the **At risk** and **Lost customers**, on the lower right part of the chart.

Around the middle, although more to the left of Recency x-axis, are **Big spenders** their monetary values are high, not so far from best customers.

Loyal customers, Customers needing attention monetary and frequency values decreasing, **About to sleep** segment even more low.

Then **Promissing and Recent customers** in low recency situated on the left of Recency x-axis and at the beginning of frequency y-axis, their monetacy values are relatively small.

Detailed RFM Data

Customer Segments	Total Sales, USD	No. of Customers	% of Customers	Avg. Recency	Avg. Frequency	Avg. Monetary, USD
Best customers	6,153,898.71	1,232	28.60%	13.28	9.37	4,995.05
Loyal customers	753,428.94	874	20.29%	50.70	2.51	862.05
Big spenders	715,079.85	244	5.66%	96.77	5.93	2,930.66
At risk	441,428.08	600	13.93%	232.14	1.76	735.71
Customers needing attention	165,895.21	335	7.78%	84.90	1.47	495.21
Lost customers	71,735.47	441	10.24%	261.64	1.00	162.67
Promissing	62,666.11	158	3.67%	7.82	1.80	396.62
Recent customers	40,806.54	232	5.39%	23.69	1.00	175.89
About to sleep	32,810.19	192	4.46%	86.47	1.00	170.89
Grand Total	8,437,749.10	4,308	100.00%	90.70	4.15	1,958.62

6. Act

Actionable recommendations

Segments	Explanation	Marketing strategy
Best customers:	Bought recently, buy often and spend the most.	Reward them. Can be early adopters for new products. Will promote your brand. Focus on loyalty programs and new product introductions. These customers have proven to have a higher willingness to pay, so don't use discount pricing to generate incremental sales. Instead, focus on value added offers through product recommendations based on previous purchases.
Loyal customers:	Spend good money often.	Upsell higher value products. Ask for reviews. Engage them. Loyalty programs are effective for these repeat visitors. Advocacy programs and reviews are also common strategies. Lastly, consider rewarding these customers with Free Shipping or other like benefits.
Big spenders:	Haven't returned for a long time, made biggest purchases and often.	Win them back via renewals or newer products. Don't lose them to competition. Talk to them. These customers have demonstrated a high willingness to pay. Consider premium offers, subscription tiers, luxury products, or value add cross/up-sells to increase AOV. Don't waste margin on discounts.
Recent customers:	Bought most recently, but not often.	Provide on-boarding support. Give them early success. Start building relationships.
Promissing:	Recent shoppers, but haven't spent very much.	Create brand awareness. Offer free trials. You've already succeeded in creating loyalty. Focus on increasing monetization through product recommendations based on past purchases and incentives tied to spending thresholds (pegged to your store AOV).
Customers needing attention:	Around average recency, may not have bought very recently though, around average frequency and monetary values.	Make limited time offers. Recommend based on past purchases. Reactivate them.
About to sleep:	Around average recency, below average frequency and monetary values. Will lose them if not reactivated.	Share valuable resources. Recommend popular products / renewals at discount. Reconnect with them.
At risk:	Long time ago, spent quite big money and purchased quite often.	Send personalized emails to reconnect. Other renewals. Provide helpful resources. Customers leave for a variety of reasons. Depending on your situation price deals, new product launches, or other retention strategies.
Lost customers:	Lowest recency, lowest frequency and monetary scores.	Revive interest with reach out campaign. Ignore otherwise.

Thank You