**Case Study**:

MultiWorks is a multinational retail company. The company sells all kinds of garments to North American, European, and Asian commercial markets.

The business needs to focus on all the departments. But, the most crucial department, i.e., the Sales department, needs urgent attention. To meet the targeted revenue and manage their advertising budget wisely, the sales team has to perform an RFM analysis to segment the customers, detect risk, engage proactively, and avoid churn.

What is RFM analysis?

The “RFM” in RFM analysis stands for **recency**, **frequency**, and **monetary value**. RFM analysis is a way to use data based on existing customer behavior to predict how a new customer is likely to act in the future.

RFM analysis scores our customers based on their Recency, Frequency, and Monetary values.

Let’s understand what Recency, Frequency, and Monetary are.

**Recency**: How recently has a customer made a purchase?

For example, If you buy something on January 1st and today is February 1st, your recency score is 30 days.

**Frequency**: How often do customers make a purchase?

This is the number of orders you made from your first purchase date.

If you buy a t-shirt on January 1st and jeans on January 15th, Your frequency is 2.

**Monetary Value**: How much money a customer spends on purchases?

Let’s refer to the previous example where you made two purchases. The T-shirt costs you 500 Rs, and the jeans are 3500 Rs. Your monetary value is 4000 Rs.

**Customer segmentation** divides a customer base into groups of individuals similar in specific ways relevant to marketing, such as age, gender, interests, and spending habits.

Here are some main benefits of customer segmentation:

* Targeted marketing messages to the right people
* Focus on the most profitable customers.
* It can improve customer service.