Customer Segmentation Analysis Report

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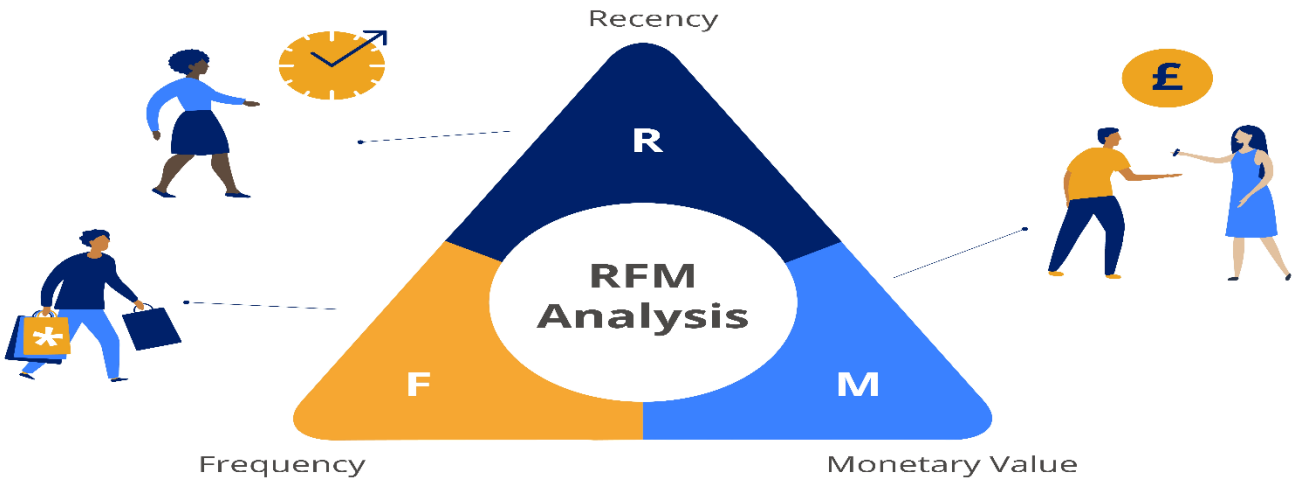

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I. Introduction

We all know that customer segmentation is one of the important parts in marketing activities. Thanks to customer segmentation, we can have a clear view about customer segments. Then we can give suitable strategies to those customers.

In this report, I will introduce customer segment analysis by RFM and give an overview about this technique. This report will show detailed steps to implement RFM analysis.

II. Customer Segmentation by RFM Analysis

In RFM, we have some following definitions:

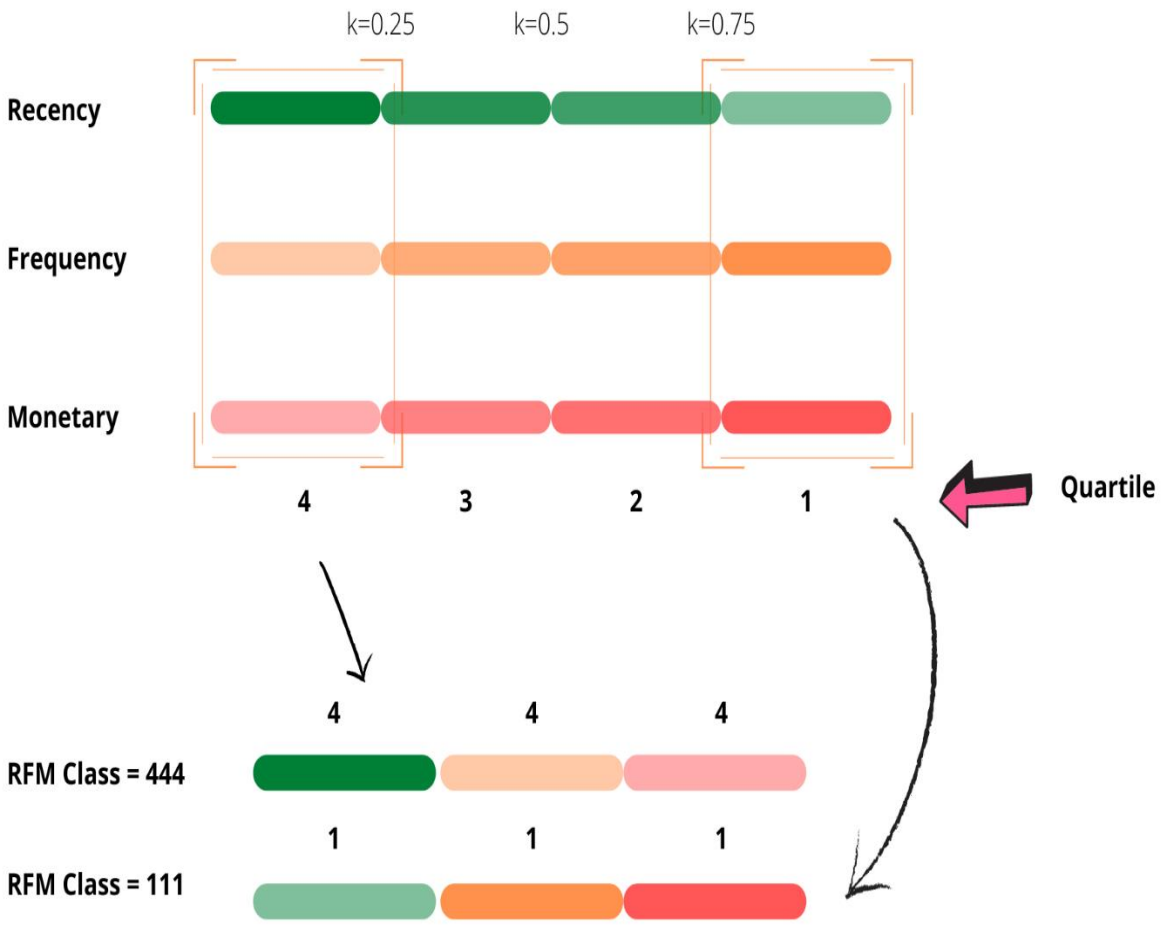
Term	Definition
Recency (R)	The duration from the last transaction of customer with the company to until now.
Frequency (F)	The number of customer transactions with the firm in a specific time (usually in one year).
Monetary (M)	The duration from the last transaction of customer with the company to until now.

Note:

+ In this case, we will calculate R, F, M likes:

- Recency: The last purchase with the milestone is 1/9/2022 with unit as day.
- Frequency: Total time purchase / Contract Age.
- Monetary: Total Spending from Customer Transaction / Contract Age.

+ R, F, M score is marked from 1 to 4 with 1 is smallest and 4 is largest.



By using RFM score, we can have some bellowing customer segments with mapping score:

Segment	Description	Recency Score	Frequency Score	Monetary Score
Lost	Customers who have last highly long purchase back and generate low business revenue.	1	1-2	1-2
Hibernating	This group is similar to the "Lost" segment, but it makes a purchase more recently.	2	1-2	1-2
About To Sleep	This group is better than the "Hibernating" in Frequency.	2	3-4	1-2
Needs Attentions	This group is like the "About To Sleep" segment, but it has smaller recency score.	1	3-4	1-2
At Risk	Customers generate high business value with last long purchase back and low frequency.	2	1-4	3-4
Can't Lose Them	This group is like the "At Risk" segment, but it has a smaller recency score.	1	1-4	3-4
New Customers	Customers who have a recent purchase but not high frequency and spending.	3-4	1-2	1-2
Promising	Customers who have both a recent purchase and high spending but not high frequency.	3-4	1-2	3-4
Potential Loyalist	Customers who have both a recent purchase and high frequency.	3-4	3-4	1-2
Loyal Customers	Customers who have a recent purchase, high frequency and high spending.	3-4	3-4	3
Champions	This group is like the "Loyal Customers" segment, but it has higher spending.	3-4	3-4	4

III. Detail Analysis

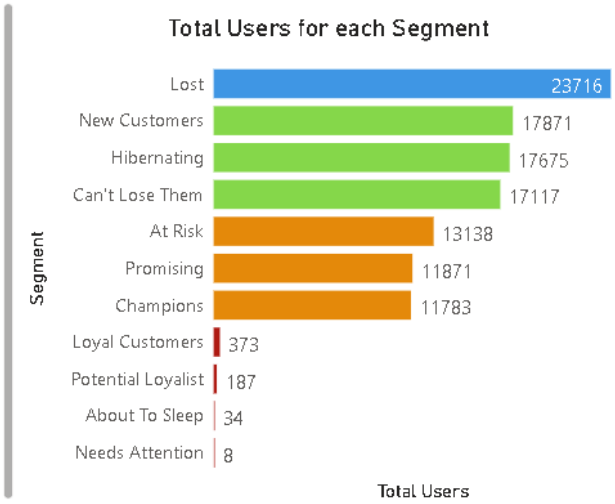
Business Overview:

114K
Users

2bn
Total Revenue in 2 months

Business Overview

Segment	Percentage of Segment	Revenue
Champions	10.36	471663092
Can't Lose Them	15.04	416674954
Lost	20.85	379698568
At Risk	11.55	330861784
Promising	10.43	286507802
New Customers	15.71	283291277
Hibernating	15.54	281967192
Loyal Customers	0.33	8140365
Potential Loyalist	0.16	2548202
About To Sleep	0.03	517973
Needs Attention	0.01	102500
Total		**2461973709**



Now, we have some comments:

- Top revenues mostly belong to customer groups that will stop purchasing with business, whereas expected customer groups such as Loyal Customers, Potential Loyalist are quite low.
- Champions segment with 10.36% is top 1 lucrative segment.

- ❖ Can’t Lose Them and Lost segment must be concerning. Not only are extremely lucrative but also are highly majority.

Approach for these problems:

- ❖ Maintain Champions segment relationship: Maintaining customer relationship is always easier than getting new customers.
- ❖ Take a deep dive into reasons why expected customer groups both have just a few number of people.
- ❖ Need to have a suitable customer service for two groups – Can’t Lose Them and Lost segment.

IV. Summary

Through customer segment analysis by RFM, we can understand more about our customers and business problems that we face. However, this technique also has its limitation likes it helps we know the problem but not the root cause. If we want to know more about specific reasons, we should analyze

more perspectives. Thus, it facilitates customer understanding then we can give more efficient strategies.