<https://www.annexcloud.com/blog/case-study-how-to-build-a-successful-b2b-loyalty-program/>

**RFM** (recency, frequency, monetary) analysis is a behavior based technique used to segment customers by examining their transaction history such as

* Recency – How recently did the customer purchase our products?
* Frequency – How often do they make the purchase?
* Monetary Value – How much do they averagely spend per purchase?

So how is the RFM score computed for each customer? The below steps explain the process:

* A recency score is assigned to each customer based on date of most recent purchase. The score is generated by either by scaling the values between 0 and 1 or binning the recency values into a number of categories (default is 5). Higher the value better the customer.
* A frequency ranking is assigned in a similar way. Customers with high purchase frequency are assigned a higher score.
* Monetary score is assigned on the basis of the total revenue generated by the customer in the period under consideration for the analysis. Customers with highest revenue/order amount are assigned a higher score.
* A fourth score, RFM score is generated by two ways:
* Scaled values of Recency, Frequency & Monetary between 0 to 1 .Find their mean value. Highest value indicates best customer.
* By concatenating three individual scores into a single value.

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| **Segment** | **Description** | **R** | **F** | **M** |
| Champions | Bought recently, buy often and spend the most | 4 to 5 | 4 to 5 | 4 to 5 |
| Loyal Customers | Spend good money. Responsive to promotions | 2 to 5 | 3 to 5 | 3 to 5 |
| Potential Loyalist | Recent customers, spent good amount, bought more than once | 3 to 5 | 1 to 3 | 1 to 3 |
| New Customers | Bought more recently, but not often | 4 to 5 | <=1 | <=1 |
| Promising | Recent shoppers, but haven’t spent much | 3 to 4 | <=1 | <=1 |
| Need Attention | Above average recency, frequency & monetary values | 2 to 3 | 2 to 3 | 2 to 3 |
| About To Sleep | Below average recency, frequency & monetary values | 2 to 3 | <=2 | <=2 |
| At Risk | Spent big money, purchased often but long time ago | <=2 | 2 to 5 | 2 to 5 |
| Can’t Lose Them | Made big purchases and often, but long time ago | <=1 | 4 to 5 | 4 to 5 |
| Hibernating | Low spenders, low frequency, purchased long time ago | 1 to 2 | 1 to 2 | 1 to 2 |
| Lost | Lowest recency, frequency & monetary scores | <=2 | <=2 | <=2 |

### **Data Requirement:**

To calculate the RFM score for each customer we need transaction data which should include the following:

* a unique customer id
* date of transaction/order
* transaction/order amount

PPT:

* Goal:

Select the best 500 customers amongst the 4000 customers to maximize subscriptions to the loyalty program

* The fact that, traditionally, the average B2B customer is much more valuable than a consumer,
* It’s crucial to understand that operating in the B2B market means engaging with a collection of people with varying roles and needs, instead of a single user.
* Benefits:
* After designing a solution on top customers provided by us, will help client to increase their customer spend and increase customer lifetime value.
* Analysis of Important customer base provided to the client, will help to build meaningful relationships with their existing clients
* Developed model will help client in witnessing increase in partnering businesses and overall brand awareness.
* By implementing a loyalty program on top customers will also help to attract other new users

### **B2C segmentation**

For B2C segmentation, there are four basic segmentation approaches.

* **Demographic segmentation**. This is the B2C version of firmographics. Demographic segmentation divides customers based on aspects such as age, gender, education, religion, occupation, income and marital status.
* **Geographic segmentation**. This approach groups customers based on geographic location. It allows companies to focus the products and services offered to different segments based on where they are located. It also helps smaller companies save marketing spend on impressions that aren’t likely to become leads.
* **Behavioral segmentation**. A somewhat looser or less quantifiable approach to customer segmentation, behavioral segmentation divides customers based on attributes such as brand loyalty, awareness, knowledge, social media interaction and purchasing patterns. Though difficult to implement, especially without advanced customer segmentation analysis tools, behavioral segmentation allows for precisely targeted marketing messages.
* **Psychographic segmentation**. Also a less quantifiable approach to segmentation, this approach groups customers based on personality, lifestyle, values and social class. Similar to behavioral segmentation, psychographic segmentation can be difficult to implement, but the payoff in precise marketing is significant.