RFM Customer Segmentation Report

Executive Summary:

This report uses Recency, Frequency, and Monetary (RFM) segmentation to present customer behavior analysis. This model classifies customers based on how recently they purchased (Recency), how often they are buying (Frequency), and how much they spend (Monetary). The dashboard identifies key customer groups, highlights monthly sales fluctuations, and provides actionable insights into business optimization. Most customers are active, with an average order frequency of 0.43 per month and an average monetary value of $428.06. Still, seasonal dips in sales during June, July, and August and retention challenges, especially among lower-engagement segments of customers, require attention.

Key Performance Indicators (KPIs)

- Total Revenue: 4.89M
- Total Customers: 500
- Average Recency of a Customer: 92.53 days
- Average Frequency of Orders per Month for a Customer: 0.43
- Average Monetary Value per Month of a Customer: 428.06
- Most Common Location of Orders: Los Angeles (325 customers)
- Most Popular Category of Product: Clothing (2.76M in sales)
- Most Used Payment Method: Credit Card

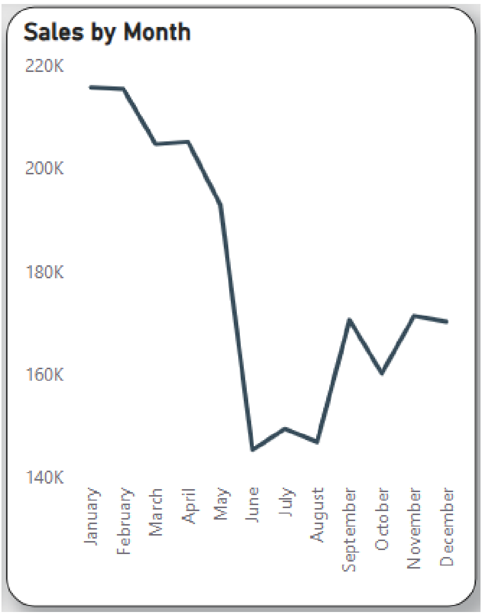
Customer Segmentation (RFM Analysis)

Customer Segment	Count	Description
Best Customers	65	**Customers with high scores in all RFM dimensions — they purchased recently, frequently, and spent the most.**
Loyal Customers	98	**Customers with very high purchase frequency and strong overall RFM scores.**
Potential Loyalist	83	**Recently active customers with mid-high RFM scores, indicating early signs of loyalty if properly nurtured.**
New Big Customer	3	**Recently acquired customers who spent a lot in one or two purchases but haven't yet become frequent buyers.**
New Small Customers	52	**Recently active and frequent customers who spend modest amounts.**
Need Attention	80	**Customers whose engagement is declining — either their recency is low, or their frequency.**
Potential Churners	100	**Customers showing signs of disengagement — recent inactivity and overall low RFM scores.**
Lost Customers	19	**Inactive customers with poor recency, frequency, and spending — likely churned.**

Sales Trend Analysis

Peak Sales Month: January

Sales Dips: June, July, August, October



These periods show noticeable dips in sales. While the exact cause cannot be confirmed due to limitations in the data set, possible factors include seasonal shifts in consumer behavior or a lack of marketing activity during these months. A more precise root cause analysis would require additional data such as information on promotional campaigns, inventory levels, or category-specific performance which was not available in the current study.

Customer Behavior Insights

Top Revenue Segment: Loyal Customers generate the highest revenue ($1.21M), despite not being the most recent or highest spending individually, suggesting volume through repeat purchases.

Segment Distribution: The most significant segments by count are Loyal Customers (98), Potential Churners (90), and Potential Loyalists (83), highlighting that a substantial portion of customers are either at risk or in early stages of engagement.

Sales Concentration: Lost and New Big Customers collectively contribute less than 2% of total revenue, reinforcing their low current business impact.

Payment Method: Credit card payments contribute to over 50% of the total revenue, indicating a strong customer preference for convenience.

Recommendations & Mitigation Strategies

1. Boost Customer Retention

Introduce or strengthen loyalty programs to reward frequent purchases, especially targeting “Potential Loyalists” and “Loyal Customers.”

Personalize offers for customers in the “Need Attention” and “Potential Churner” segments.

2. Win Back Inactive Users

Launch re-engagement campaigns for “Lost Customers” through email or SMS.

Consider special offers or discounts based on their last purchase behavior.

3. Investigate Sales Dips

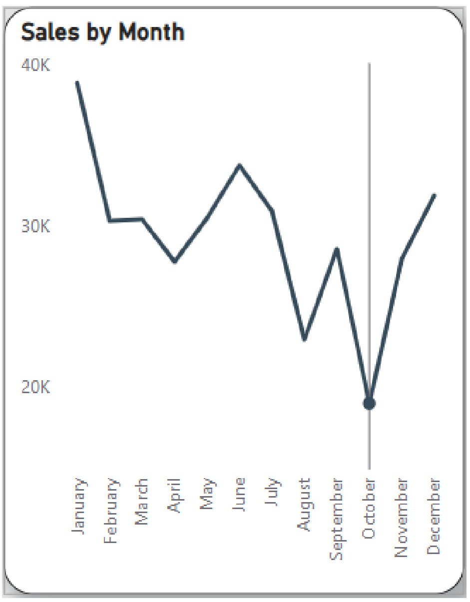
Sales observed from June to August and October suggest potential seasonal challenges or missed marketing opportunities. To stabilize revenue during these months, consider the following targeted promotions:

- Segment-based Discounts: Offer limited-time discounts to Potential Loyalists and Need Attention customers to encourage re-engagement.
- Seasonal Bundles: Introduce themed product bundles (e.g., summer packages, back-to-school offers) tailored to the sales period.
- Flash Sales: To create urgency, run 24–48-hour flash sales during typically low-traffic weeks.

- Credit Card Exclusive Offers: Partner with top payment methods (e.g., credit cards) to provide cashback or points for purchases in these slower months.

4. Category & Payment Optimization

While Clothing remains the top-selling category, contributing $2.76 million in revenue, its sales trend aligns closely with the overall monthly pattern, including dips from June to August and October. As such, clothing sales do not provide an opportunity to offset seasonal downturns.



However, the Beauty category, the second highest revenue generator at $2.57 million, demonstrates more consistent sales performance across the year, including during dip months. This makes it a strong candidate for stabilizing revenue during low-performing periods.

5. Customer Feedback

Survey churned/inactive users to understand pain points, such as product availability, customer service, or pricing concerns.

Conclusion

This RFM analysis reveals a strong customer base concentrated in Los Angeles, which accounts for 65% of total customers. The revenue distribution across segments and categories shows clear performance patterns: Loyal Customers alone generate $1.21M (25% of total revenue), and

Clothing and Beauty together contribute over 55% of total revenue ($2.76M and $2.57M, respectively), establishing them as consistently high-performing categories.

The overall revenue of $4.89 million, generated by a sample of just 500 customers, indicates solid business performance, especially considering that over half of this revenue comes from repeat customers using credit cards, reflecting customer confidence and ease of purchase.

However, noticeable sales dips during June to August and in October, along with sizable at-risk segments like Potential Churners and Need Attention, highlight the need for targeted retention efforts and category-specific promotional strategies to maintain and stabilize growth.