Customer Segmentation Report Using RFM Analysis

RFM Analysis and Segmentation Process

➢ RFM (Recency, Frequency, and Monetary) analysis is a customer segmentation technique that helps businesses categorize customers based on their purchasing behavior. In this project, we conducted an RFM analysis using transactional data to assign scores for each customer across the three dimensions:

- **Recency (R)**: Days since last purchase

- **Frequency (F)**: Total number of transactions

- **Monetary (M)**: Total amount spent

  ➢ Each customer was given a score (1 to 5) for each metric, where higher scores reflect better engagement.
  ➢ Based on these RFM scores, customers were segmented into different groups such as High-Value, Loyal, At-Risk, Potential Loyalists, and Lost Customers using predefined rules.

Explanation of Customer Segments and Their Business Impact

Segment	Description	Business Impact
High-Value	Customers with high scores in all RFM metrics	Most profitable and loyal; retain at all costs
Loyal Customers	Frequent buyers, moderate to high monetary value	Strong base; good for upselling and feedback loops
Potential Loyalists	Recent customers with good frequency and spending	Can be converted into loyal customers

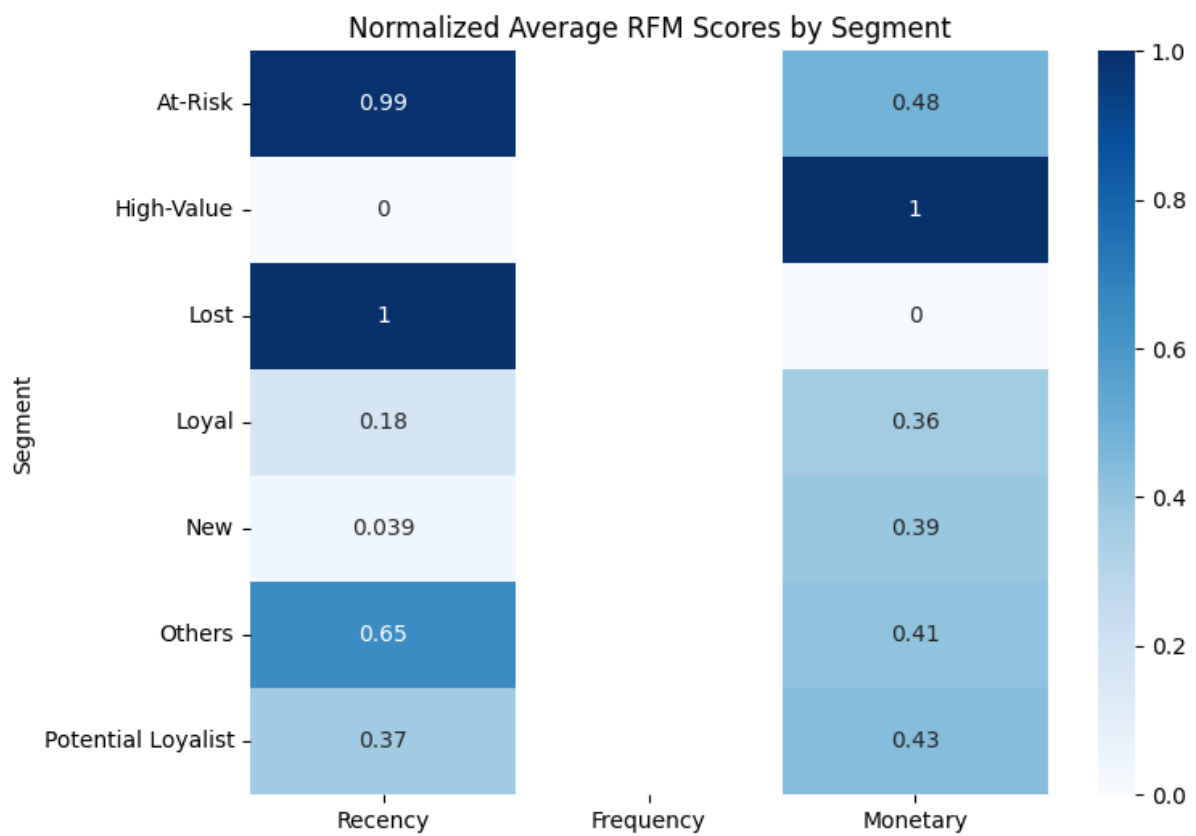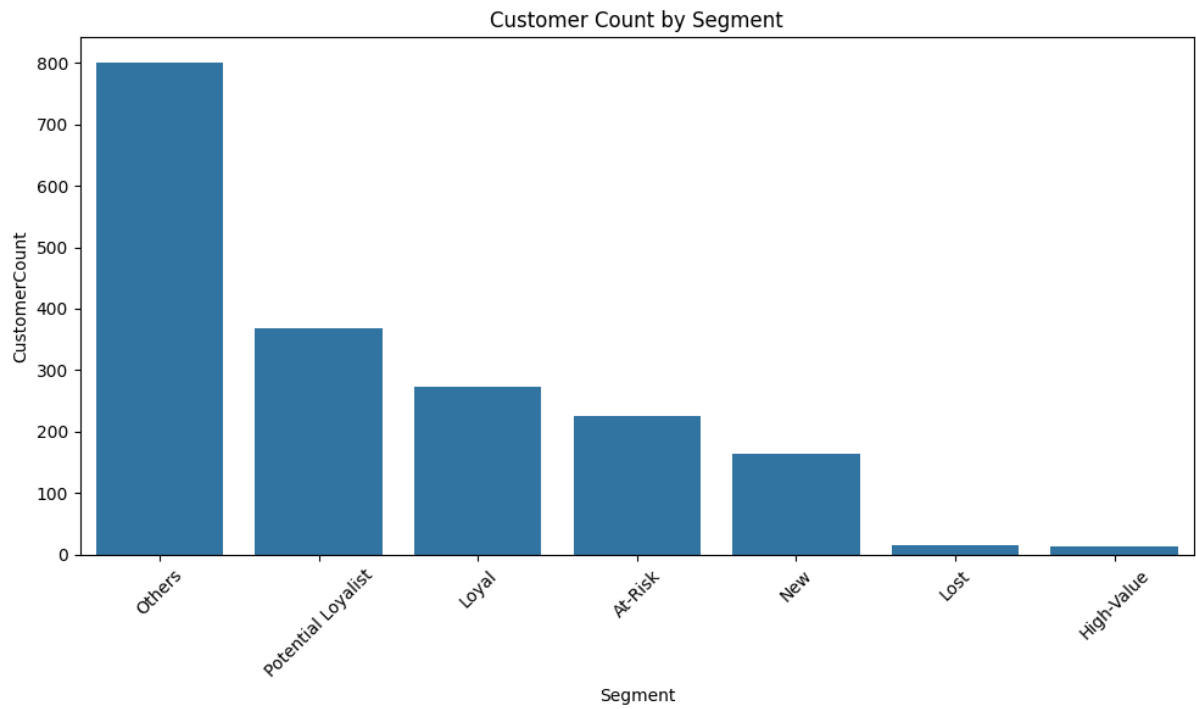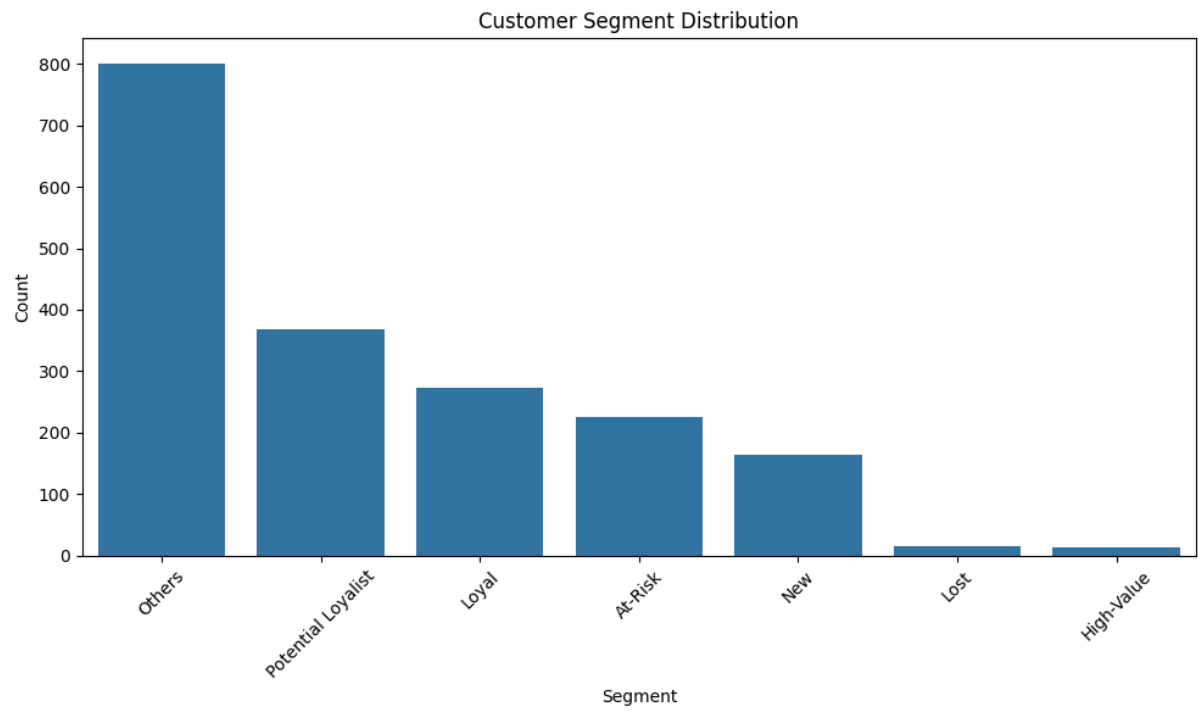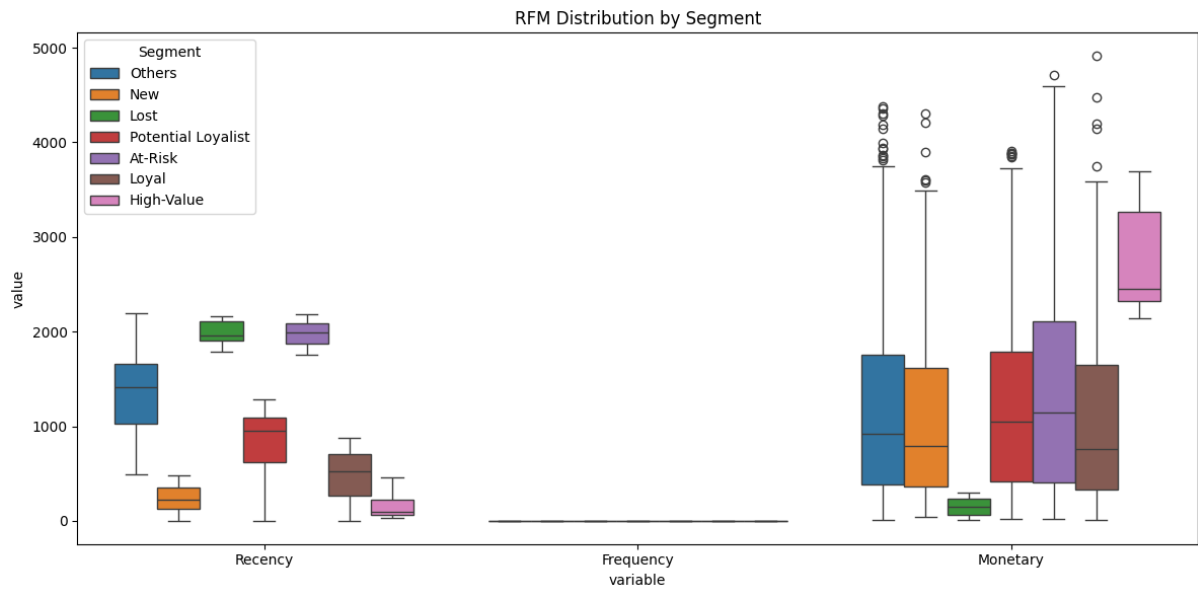|		
At-Risk Customers	Previously active but haven't purchased in a while	Require re-engagement campaigns
Lost Customers	Low scores across all RFM metrics	Least engaged; low ROI potential

Key Insights

➢ **High-Value Customers** make up a small portion but contribute significantly to total revenue.

➢ **At-Risk and Lost Customers** form a considerable segment, indicating the need for targeted reactivation campaigns.

➢ **Potential Loyalists** are a promising group that can be nurtured through offers and personalized engagement.

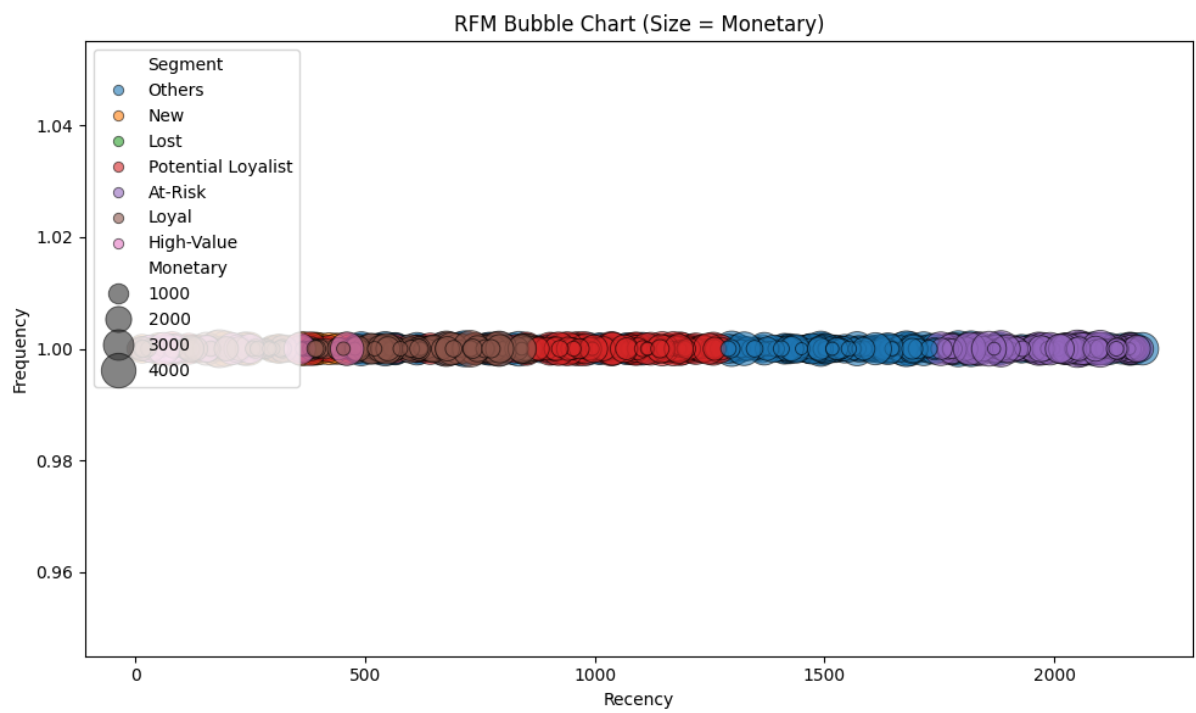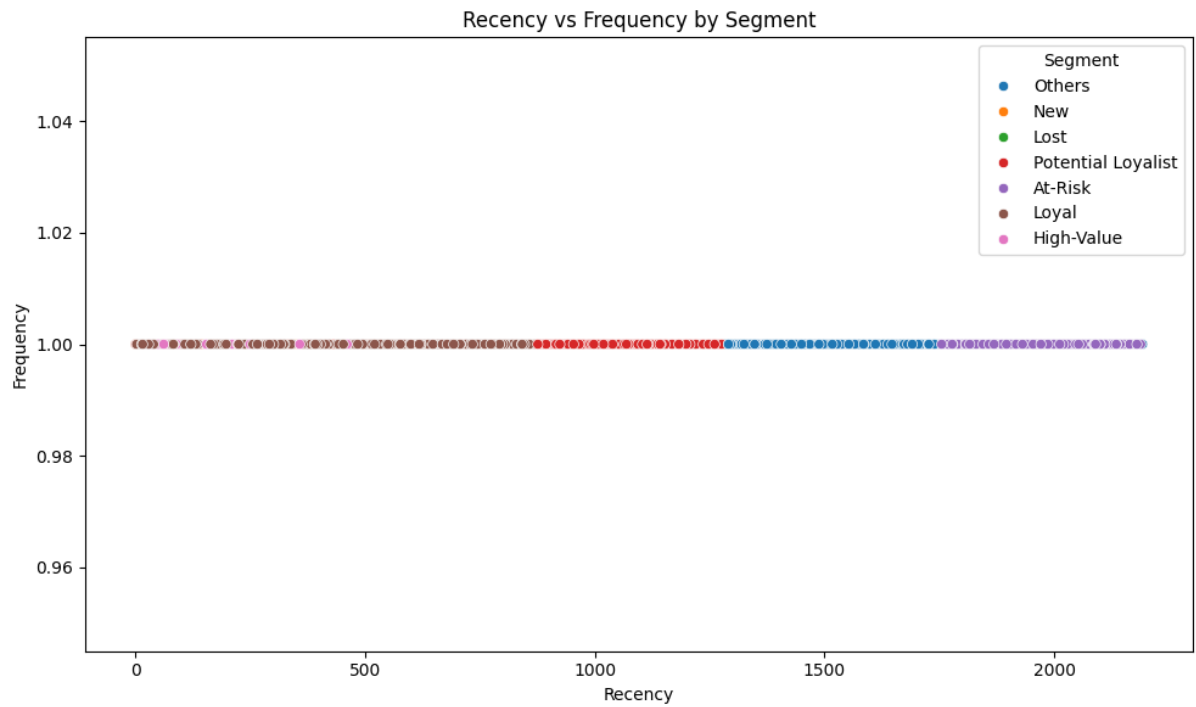➢ Frequency is a strong driver of monetary value, reinforcing the importance of repeat business.

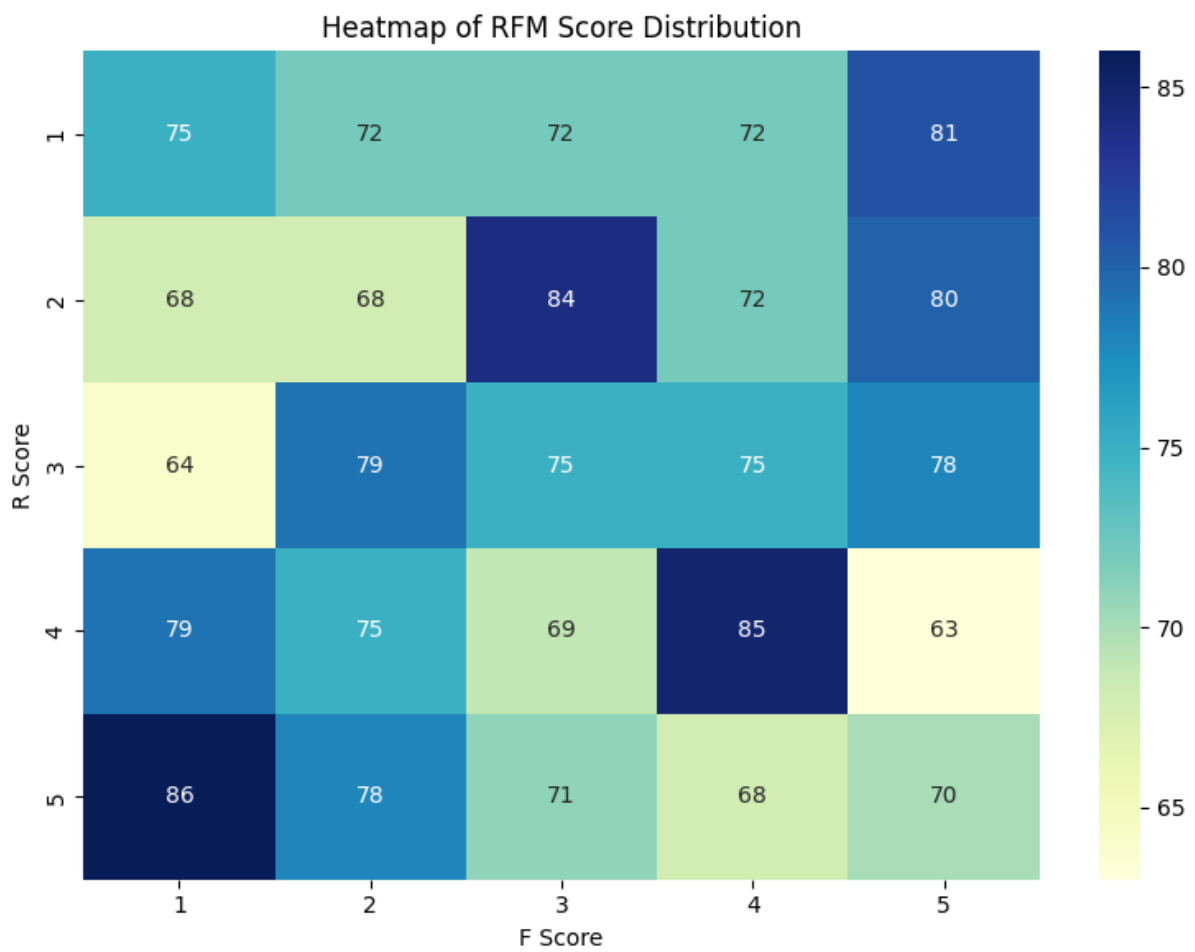## Recommendations for Marketing Strategies

➢ **High-Value**: Offer VIP programs, exclusive deals, and early access to new products.

➢ **Loyal Customers**: Continue engagement with loyalty rewards, satisfaction surveys, and product recommendations.

➢ **Potential Loyalists**: Send personalized emails, welcome offers, and encourage reviews.

➢ **At-Risk Customers**: Use re-engagement strategies like win-back emails, discount offers, and reminders.

➢ **Lost Customers**: Consider whether it's worth investing resources or moving them to a low-touch marketing plan.

INSIGHTS

Customer Count by Segment

Normalized Average RFM Scores by Segment

RFM Distribution by Segment

Customer Segment Distribution

Recency vs Frequency by Segment

RFM Bubble Chart (Size = Monetary)

Heatmap of RFM Score Distribution

Customer Segment Proportions

Heatmap of Recency vs Frequency