

# Customer Segmentation & Churn Analysis

Understanding customer behavior is crucial for targeted marketing and retention strategies.





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# The RFM Model: Recency, Frequency, Monetary

We use the RFM model to segment our customer base based on three key metrics:

## Recency

How recently a customer made a purchase (lower is better).

## Frequency

How often a customer makes purchases (higher is better).

## Monetary

How much money a customer spends (higher is better).

# Customer Segments by RFM Score

Our analysis identifies five core customer segments, ranked by value and engagement:



Champion

Highest value and engagement.



Loyal

Consistent, high-frequency buyers.



Potential

Recent, but low-frequency/monetary.



At-Risk

Low recency and frequency.



Lost

Very low recency and monetary value.

# RFM Metrics by Segment

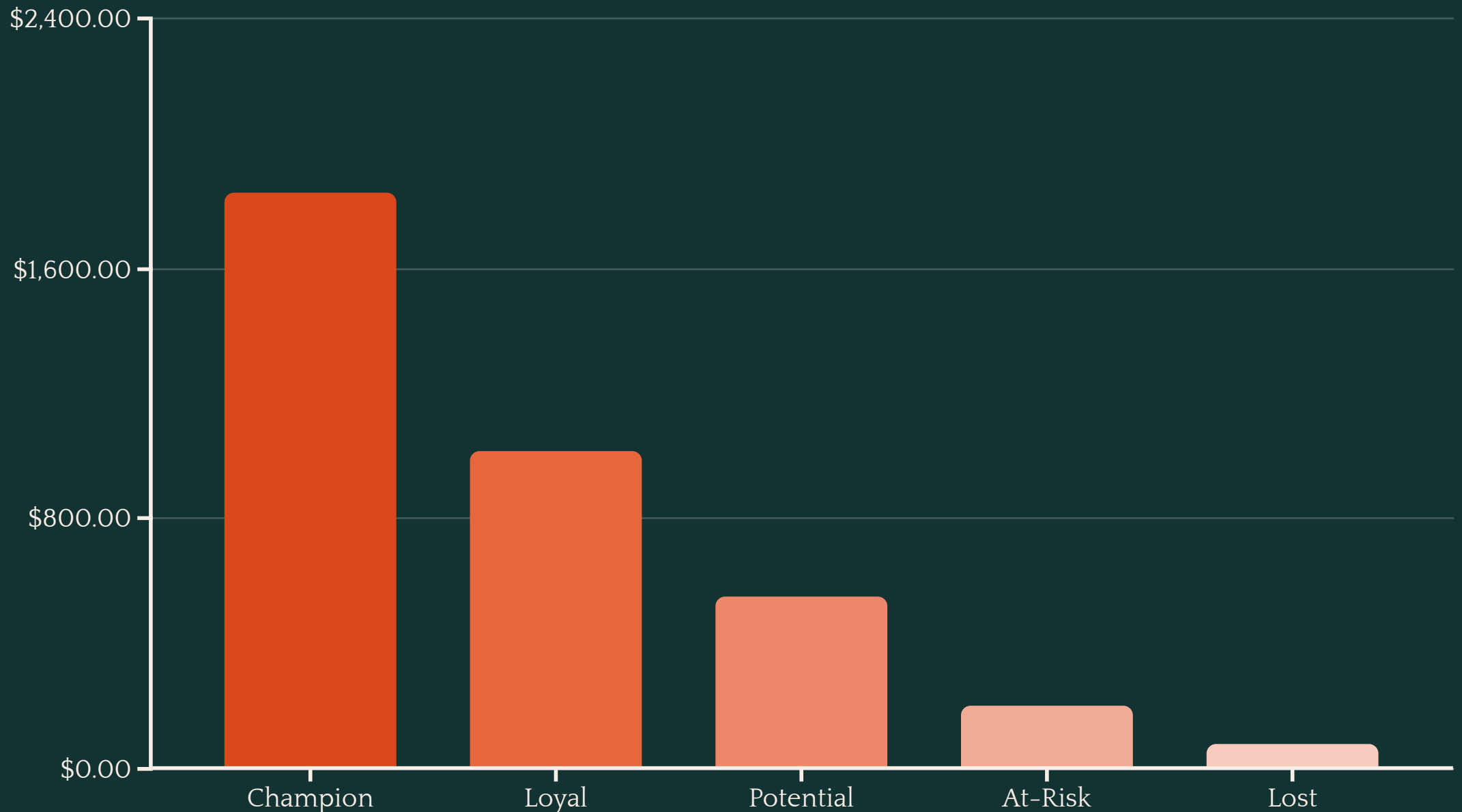
Detailed average metrics reveal the distinct characteristics of each customer group:

Segment	Recency (Days)	Frequency (Purchases)	Monetary (\$)
Champion	107.38	2.73	1839.57
Loyal	228.02	1.89	1016.37
Potential	323.76	1.18	548.25
At-Risk	492.55	1.01	197.45
Lost	626.13	1.00	75.99

The **Champion** segment is clearly the most valuable, while the **Lost** segment shows minimal engagement.

# Visualizing Customer Value

Monetary value decreases significantly across the segments, highlighting the importance of retaining Champions and Loyal customers.





# Defining Customer Churn

To accurately measure retention efforts, we use a clear definition for churn.

## Churn Definition

A customer is marked as 'Churned' if they have not made a purchase in over 180 days.



# Active vs. Churned: A Comparison

Comparing the average RFM metrics for Active and Churned customers reveals stark differences in behavior.

86.8

Active Recency (Days)

Customers are purchasing  
much more recently.

421.9

Churned Recency (Days)

Significantly longer time since  
last purchase.

The difference in Recency is the most dramatic indicator of churn risk.



# Frequency and Monetary Value Gap

Active customers not only purchase more recently but also more frequently and spend more money.



## Active Frequency

Average: 1.88 purchases.



## Churned Frequency

Average: 1.43 purchases.



## Active Monetary


Average: \$955.70.



## Churned Monetary

Average: \$713.52.





# Key Takeaways: Retention Focus

Targeted strategies must focus on improving Recency and Frequency, especially for At-Risk and Potential segments.

## Prioritize At-Risk

Focus retention efforts on customers with Recency around 490 days.



## Boost Recency

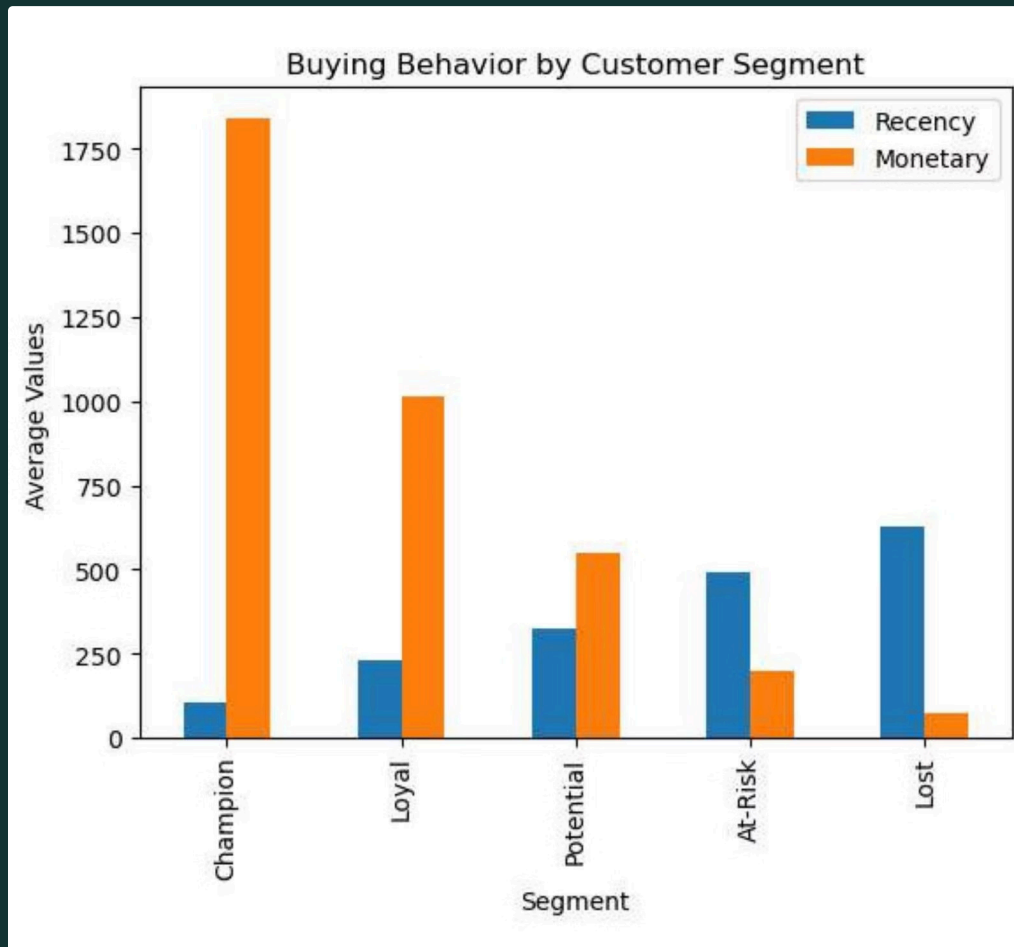
Implement campaigns to drive purchases within the 180-day churn window.

## Increase Frequency

Encourage repeat purchases to move Loyal and Potential customers up the RFM scale.

# Next Steps: Actionable Insights

We will translate these segments into specific marketing actions.



- Develop personalized offers for **Champions** to maintain loyalty.
- Launch re-engagement campaigns for **At-Risk** customers (e.g., special discounts).
- Create educational content for **Potential** customers to increase purchase frequency.
- Analyze product preferences within each segment to refine inventory and recommendations.

