

RFM Model Used for Analysis

In a typical RFM analysis, customer scores are assigned on a 1-5 scale, allowing for a detailed segmentation into 11 different customer groups. However, in this task, a 1-4 scale was requested, which required a change in the approach (i.e., fewer segments should have been used). Consequently, the following segmentation model was used (see Python file for details):

segment	requirement	tier	description
Platinum	All scores = 4	High	highest-scoring, most loyal customers
Gold	All scores >= 3	High	very loyal, second only to Platinum
Silver	Moderate R/F/M	High	represents the dependable majority
New	High R; Low M	Low	made their first purchase recently, or their first purchase in a very long time
High-Spend	High M; Low R/F	Low	top 25% of sales, large purchases but very infrequent, not considered loyal
Churn Risk	Moderate M/F	Low	no recent purchases, at risk of defecting to competition
Churning	Low R/F/M	Low	lowest RFM values, likely receptive to competitor-focused targeting

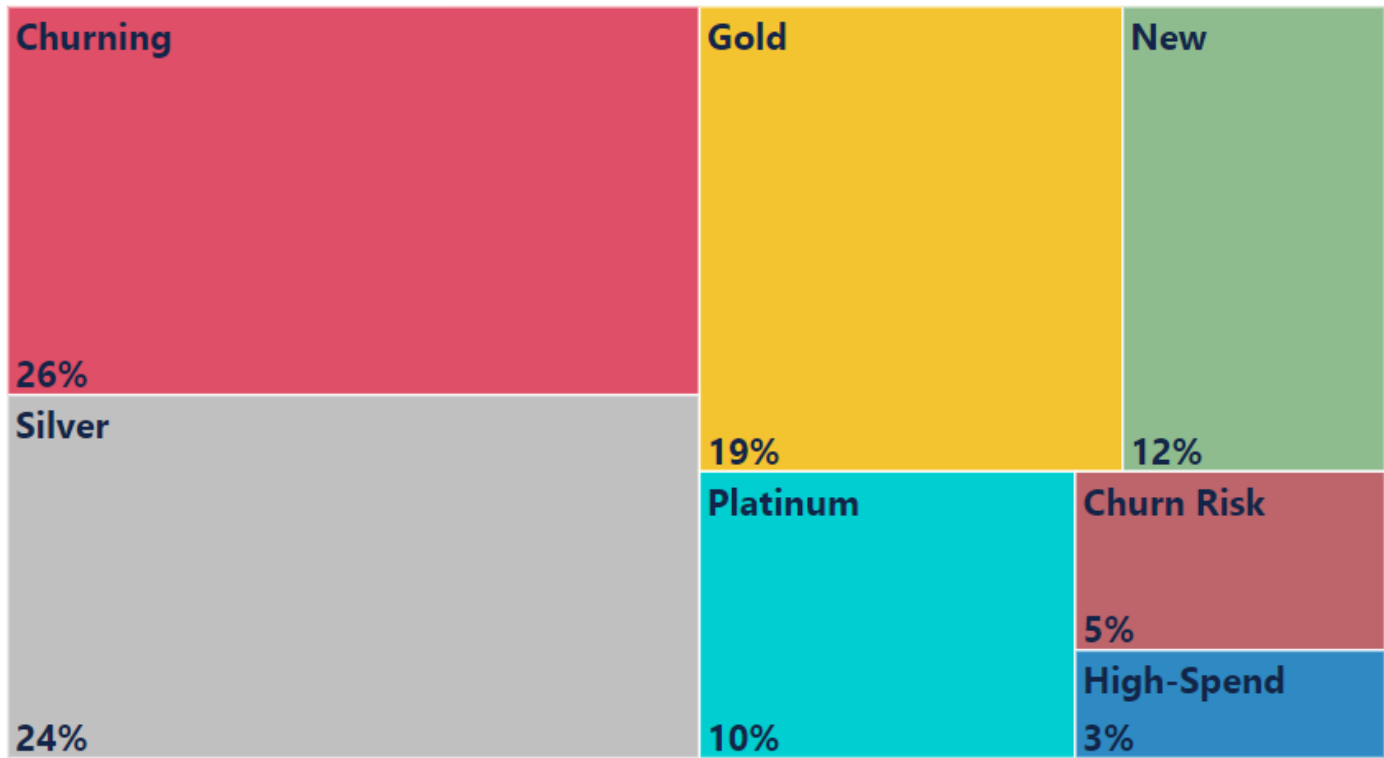
Comparison with the Original Model

- Platinum vs. Champions: Both segments focus on the best customers. However, Champions in the 1-5 model are defined with a bit more granularity.
- Gold vs. Loyal: Similar in identifying highly loyal customers, though the 1-4 model broadens this category.
- Silver vs. Potential Loyalist and Promising: Silver combines characteristics of these segments, targeting those with moderate loyalty and potential for growth.
- New: Corresponds well with the New Customers segment in the original model.
- High-Spend vs. At Risk: High-Spend in the new model captures those with infrequent high purchases, similar to At Risk but with a focus on monetary value.
- Churn Risk vs. Need Attention and About to Sleep: Churn Risk blends these segments, focusing on those who need re-engagement.
- Churning vs. Lost Customers and Hibernating: All these segments identify those with low engagement and purchasing behaviour.
- Can't Lose Them: These customers, who made the biggest purchases and often, but haven't returned for a long time, would fit into the High-Spend or Churn Risk categories in the new model. The significant spending indicates they could fit into High-Spend, while the lack of recent purchases suggests Churn Risk.

Detailed Analysis Insights

The chosen model was then used to identify the percentage distribution of company’s customers within the suggested segments:

Customer Segment Shares: Percentage Distribution and Average RFM Metrics



The distribution of customer segments reveals a significant portion of customers falling into the ‘Churning’ category (26%) and the ‘Silver’ category (24%). This suggests that while a considerable number of customers show potential for moderate loyalty, a substantial segment of the customer base is at risk of being lost due to low engagement.

The ‘Gold’ and ‘Platinum’ segments, accounting for 19% and 10% respectively, indicate a healthy presence of highly loyal customers, although there's room for growth.

The ‘New’ segment at 12% highlights a steady influx of first-time buyers, which is a positive sign for potential future loyalty if managed correctly.

The smaller ‘High-Spend’ (3%) and ‘Churn Risk’ (5%) segments suggest that while there are high-value customers, their infrequent engagement poses a risk. This distribution could be a result of several factors, including market competition, customer satisfaction levels, or the effectiveness of current engagement and retention strategies.

Recommendations Based on Observed Insights

1. Platinum (10%):

Focus retention strategies here, such as exclusive offers, loyalty programs, and personalized experiences to maintain their loyalty.

2. Gold (19%):

Implement loyalty rewards and personalized marketing campaigns to encourage them to move into the Platinum segment.

3. Silver (24%):

Regular engagement through targeted promotions and incentives can help in increasing their frequency and monetary value.

4. New (12%):

Onboard them with welcome offers, informative content about products/services, and follow-up communications to ensure they become repeat buyers.

5. High-Spend (3%):

Encourage regular purchases through personalized offers and reminders about new products or upcoming sales.

6. Churn Risk (5%):

Reactivate these customers with re-engagement campaigns, special discounts, or limited-time offers to prompt them to return.

7. Churning (26%):

Conduct a win-back campaign focused on understanding their needs and addressing any issues they might have had. Consider offering significant discounts or showcasing new products to regain their interest.