

Customer Segmentation using RFM Analysis

BY

Subhadeep Dey
Koustav Mazumder
Mili Chowdhury
Pratishruti Sahoo



Introduction

RFM (Recency, Frequency, Monetary) analysis is a powerful customer segmentation technique that helps businesses better understand and target their customers. By analyzing a customer's recent purchases, frequency of purchases, and total spend, companies can identify their most valuable customers and tailor marketing strategies accordingly.

Use of RFM Analysis for Segmentation

Recency (R): Measures the time since the last customer interaction or purchase.

Monetary Value (M): Represents the total monetary value of a customer's transactions.



Frequency (F): Examines how often a customer interacts with the business.

7 Segments

	cust_id	Recency	Frequency	Monetary	Customer Count
Cluster					
0	142148.933843	1741.878625	1.254558	37.987592	5759
1	128521.813486	1965.654432	1.324089	15.945691	3678
2	103163.363482	46.057660	8.387790	61.621046	1769
3	144790.452830	1356.947170	1.902516	111.831099	1590
4	94905.806751	991.336946	5.191391	37.662386	3229
5	153753.342776	744.509915	3.331445	828.149808	353
6	229972.447278	55.508583	1.641000	42.269156	2039

7-Segment Solution: R, F, M Variables

(using K-Means)



By using **K-Means** clustering on the RFM variables, we can identify 7 distinct customer segments. This provides a granular view of our customer base, allowing us to tailor our marketing strategies and offers to each group's unique needs and behaviors.

Cluster 2: Loyal Customers - Most Valuable Segment

- 1. Identify and Retain Loyal Customers:** This market group consists of our most valuable clients, who make regular, high-value purchases. In order to keep these devoted customers, need to concentrate on delivering an outstanding customer experience.
- 2. Personalized Offers and Communications:** Offering personalized promotions, exclusive access, and tailored communications to show appreciation for business and need to encourage continued loyalty.
- 3. Implement Loyalty Programs:** Consider developing a robust loyalty program with rewarding incentives to further strengthen the bond between the brand and these highly engaged customers.
- 4. Engagement Campaigns:** Create engaging content that strengthens the emotional connection with the brand. Share success stories, behind-the-scenes content, or invite them to participate in product feedback sessions.
- 5. Monitor and Analyze Behavior:** Closely track the purchasing patterns and preferences of this segment to anticipate their needs and proactively address any potential churn risks.

Cluster 5: Big Spenders - Second Most Valuable Segment

1. **High Monetary worth:** This group is the most willing to spend financially, as seen by their highest monetary worth. Revenue may significantly increase if this section is maintained and grown.
2. **Potential for Increased Frequency:** While they don't purchase frequently, their high spending suggests a potential for increasing purchase frequency with the right strategies.
3. **Exclusive Membership** or VIP Programs can increase the frequency of the customers.
4. Using **personalized communication** strategies to make customers feel appreciated, sending thank-you notes through messages etc. can help.
5. Offer them limited-edition items, packaged packages, or premium services that correspond with their spending patterns to position expensive goods and services as opulent experiences.

Assignment 2

RFM Scoring Process

Analyze **Recency**, **Frequency**, and **Monetary Value** of customer transactions to assess their value to the business.

- **Recency Score:** Scoring: 1 for >1070 days, 2 for 365-1070 days, 3 0-365.
- **Frequency Score:** Emphasis on customer engagement. Scoring: 0-2 for 1, 2 for 2-4, 3 is more than 4.
- **Monetary Score:** Significance of spending. Scoring: 1 for <50, 2 for 50-100, 3 otherwise.

RFM Scores Calculation

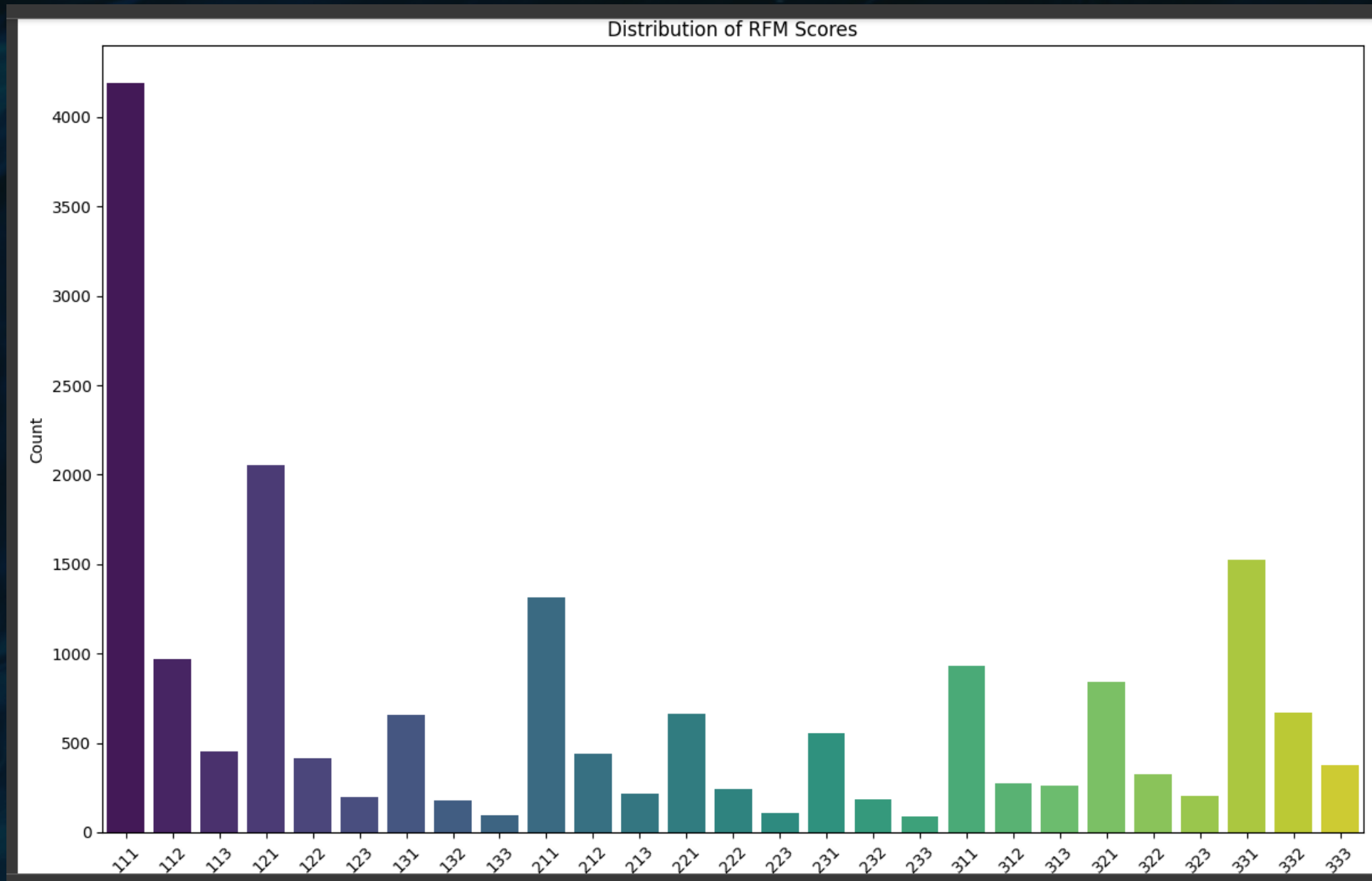
Recency Score: Determined based on the time since the customer's last transaction, with higher scores for more recent interactions.

Frequency Score: Assigned based on the number of transactions, with higher scores for more frequent customer activity.

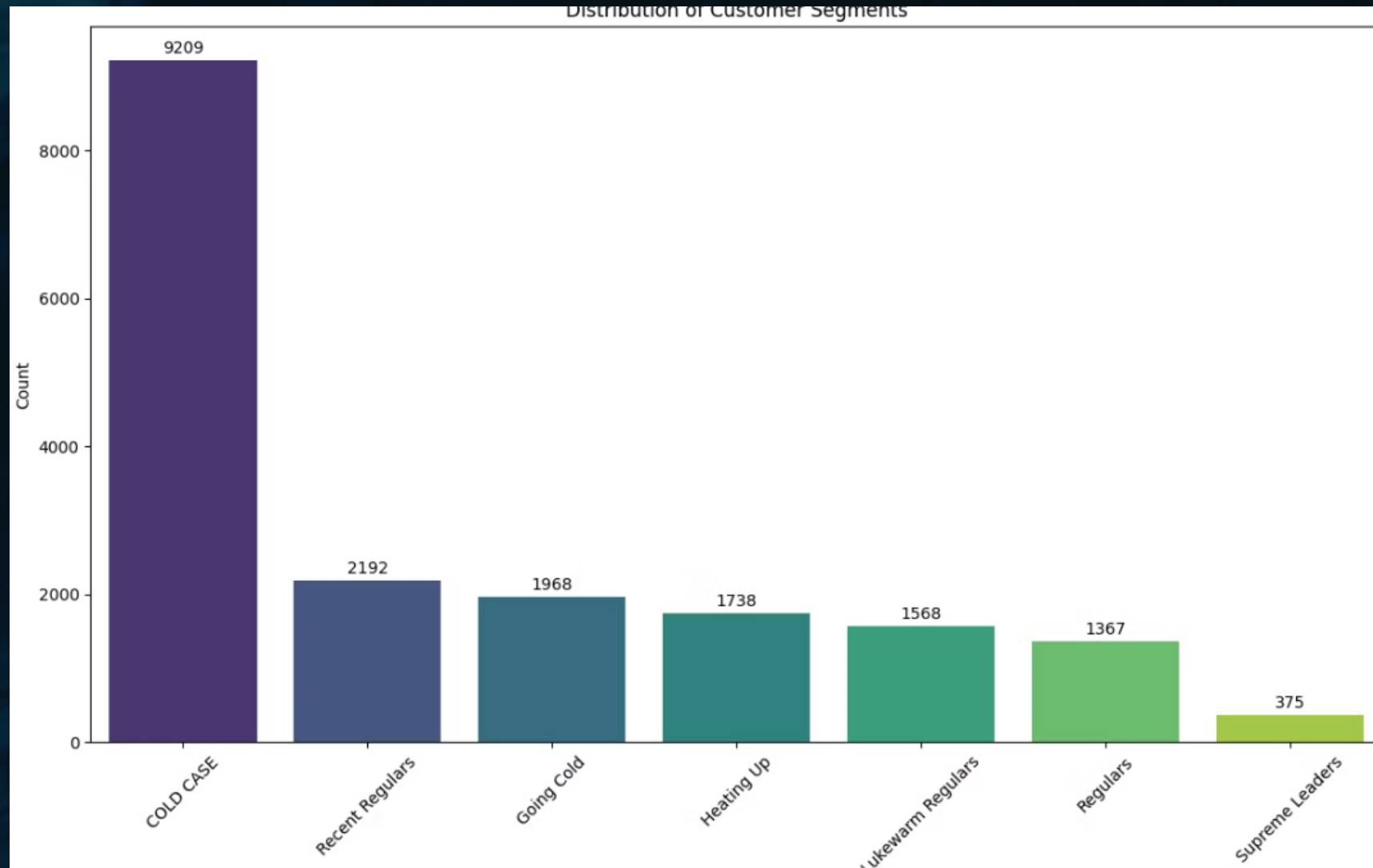
Monetary Score: Calculated according to the customer's spending level, assigning higher scores for higher monetary value transactions.

- **RFM SCORE Combination:** Composite score formula: $R * 100 + F * 10 + M * 1$.

Distribution of RFM Scores



Distribution of Customer Segments



Distribution of Customer Segments

1. **Cold Case:** High Recency, low purchase frequency, and contribute minimally to the revenue.
2. **Recent Regulars:** Low Recency, frequency and spending may vary but are relatively moderate.
3. **Going Cold:** Recency is getting higher, suggesting they haven't bought recently, and their frequency might be dropping. They are at risk of becoming inactive.
4. **Heating Up:** Customers in this segment are showing increasing engagement.
5. **Lukewarm Regulars:** Decent frequency, most loyal segments, moderate spending.
6. **Regulars:** This segment consists of customers who buy consistently but not at the highest frequency or spending levels. They are stable and reliable contributors to revenue.
7. **Supreme Leaders:** This is the smallest yet most valuable segment, having highest monetary value.

Key Segments for Business Uplift

Cluster 2: Recent Regulars - Most Valuable Segment

- These customers have shown recent engagement and have high potential to become loyal, high-value buyers.
- Targeting them is cost-effective and can significantly boost retention.

Strategies

- Strategies to re-engage them include personalized marketing campaigns with tailored recommendations, exclusive loyalty rewards, and enhanced customer experiences.
- Offering dynamic content, cross-selling opportunities, and reactivation campaigns with special offers can further drive repeat purchases.
- Additionally, leveraging social proof and building community engagement fosters brand loyalty, turning recent buyers into advocates and maximizing their lifetime value.
- This segment's growth directly impacts revenue and long-term business success.

Cluster 3: Going Cold - Most Valuable Segment

These customers show declining engagement and are at risk of becoming inactive.

By targeting them, businesses can prevent churn and potentially reignite their purchasing habits.

Strategies

Strategies to re-engage them include sending personalized reactivation emails with exclusive offers and discounts, analyzing past behavior to offer tailored product recommendations, and providing incentives like loyalty rewards or special deals.

Additionally, addressing potential pain points through feedback and enhancing their shopping experience can encourage them to return.

Proactive communication and engagement are essential to transforming this segment back into active, loyal customers.

Thank You

We appreciate your time and attention throughout this presentation. The insights gained from the RFM analysis have provided a valuable framework for understanding and segmenting your customer base. Moving forward, we are excited to work with you to implement targeted strategies that will drive business growth and maximize customer lifetime value.

