

# RFM Analysis: Customer Segmentation & Growth Strategy

## 1. Executive Summary

This report analyzes customer purchasing behavior to identify high-value segments and provide actionable marketing strategies. By applying the **RFM framework**, I categorized our customer base into distinct groups to optimize retention and maximize lifetime value (LTV).

- **Objective:** To improve marketing ROI by transitioning from "one-size-fits-all" communication to segment-specific targeting.
- **Key Finding:** 22% of our customers contribute to 65% of total revenue.

A significant 15% of customers are classified as 'At Risk,' requiring immediate retention efforts.

## 2. Methodology

The dataset includes transactions from **December 2010 to December 2011**. We calculated three core metrics for each customer:

- **Recency (R):** Days since the last purchase.
- **Frequency (F):** Total number of purchases.
- **Monetary (M):** Total revenue generated.

Customers were assigned a score from 1 to 5 for each metric, where **5** is the best. The final **RFM Score** was used to group customers into segments.

## 3. Customer Segments Overview

Below is a breakdown of the primary segments identified during the analysis

Segment Name	Recency (R)	Frequency (F)	Monetary(M)
1.Champions	4-5 (Recent)	4-5 (High)	4-5 (High)
2.Cannot Lose Them	1 (Inactive)	F≥4 OR M≥4	
3.Loyal Customers	2-5 (Active)	4-5 (High)	1-5 (Any)
4.New Customers	4-5 (Recent)	1-2 (Low)	1-5 (Any)
5.Potential Loyalists	4-5 (Recent)	3 (Moderate)	1-5 (Any)
6.Promising	3 (Average)	2-3 (Moderate)	1-5 (Any)
7.Needs Attention	3 (Average)	1 (Low)	1-5 (Any)
8.At Risk	2 (Slipping)	1-5 (Any)	1-5 (Any)
9.Hibernating	1 (Inactive)	2-3 (Moderate)	1-5 (Any)
10.Lost	1 (Inactive)	1 (Low)	1-5 (Any)

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## 4. Strategic Recommendations

Customer Segment	Total Value in USD *	Avg. Purchase Frequency	Customer Dist. %	Min F_Score	Max F_Score	Min R_Score	Max R_Score	Min M_Score	Max M_Score
Champions	65%	11	22%	4	5	4	5	4	5
Loyal Customers	15%	5	16%	4	5	2	5	1	5
Potential Loyalists	5%	2	7%	3	3	4	5	2	5
At Risk	4%	2	15%	1	3	2	2	1	5
Cannot Lose Them	4%	3	3%	1	5	1	1	1	5
Promising	3%	2	9%	2	3	3	3	1	5
Hibernating	1%	1	9%	2	3	1	1	1	3
New Customers	1%	1	7%	1	2	4	5	1	5
Lost	1%	1	8%	1	1	1	1	1	3
Needs Attention	1%	1	4%	1	1	3	3	1	5

Based on the data I analyzed, I propose the following actions:

1. **Protect the Core:** For the **Champions**, I recommend a loyalty program that offers exclusive benefits to maintain their high frequency (11, **5x higher than** the average frequency).
2. **Re-activation Campaign:** A “Win-back” strategy should be initiated for **"At Risk"** and **"Cannot Lose Them"** segments. Since "Cannot Lose Them" were high-frequency buyers in the past, they are likely to respond to high-value personalized offers.
3. **Ignite the Potential:** **Potential Loyalists** and **Promising** segments (combined ~15%) should be targeted with cross-selling strategies to increase their "Frequency" score from 2 to 4+.

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## 5. Conclusion

By identifying these segments, marketing resources can be allocated more efficiently. Instead of a generic approach, I have provided a roadmap to focus on a win-back strategy by decreasing ad waste for the passive segments while keeping the champions' frequency high.

Beyond standard RFM metrics, marketing teams can leverage the Microscope page to perform granular micro-analyses, allowing them to identify the precise customers who best fit a specific campaign.

Reach out to the RFM Dashboard by clicking this [link](#).

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