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ANALYZE, SEGMENT, ENGAGE

THE COMPLETE GUIDE TO MASTERING RFM SEGMENTATION

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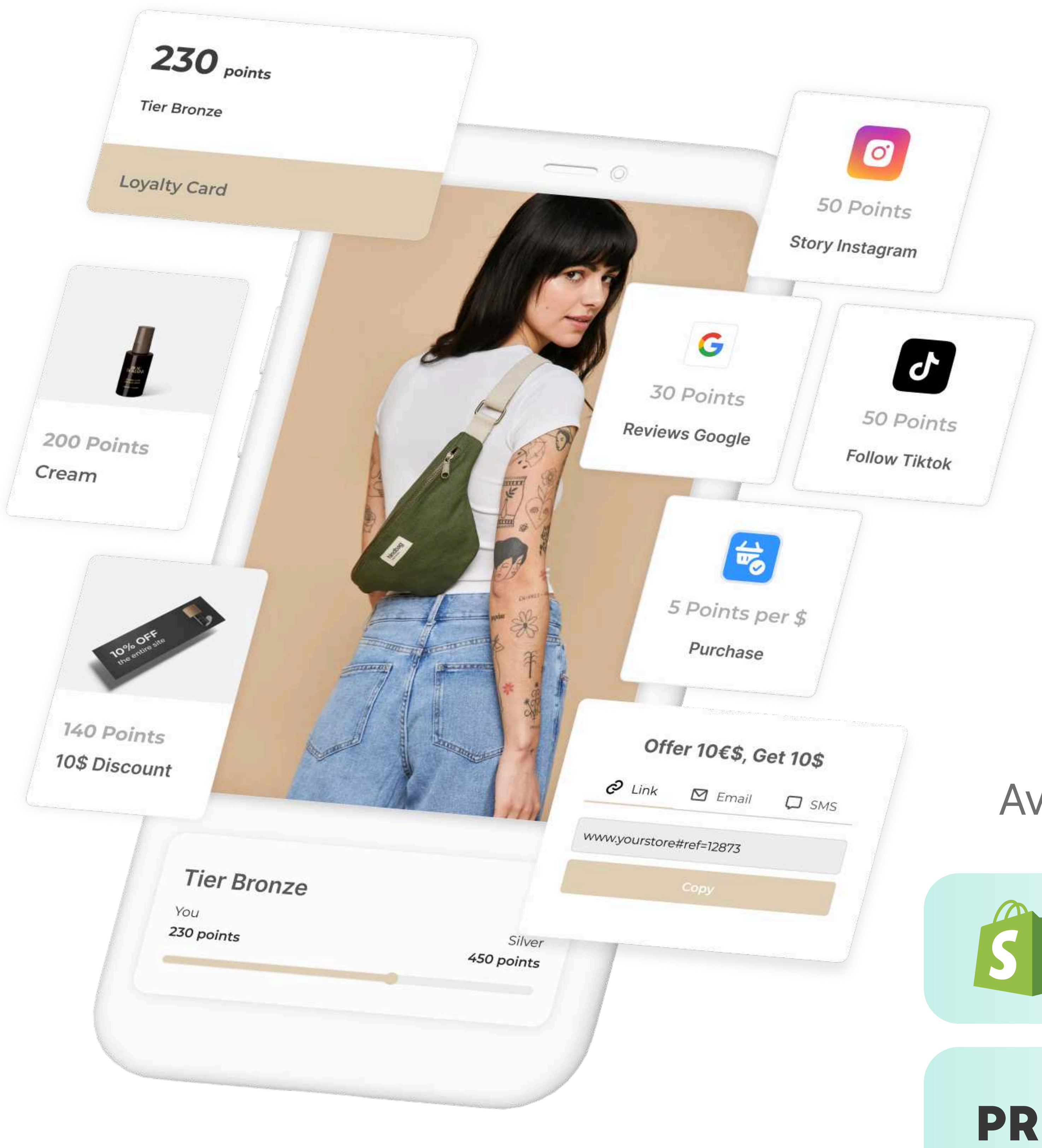

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We support you in creating, managing, monitoring and analyzing your CRM and Retention strategy, to generate incremental growth and achieve your objectives. Together, we create lasting relationships with your customers, build loyalty and turn every interaction into an opportunity.

We're a passionate team, committed to every inspiring project. Thanks to our in-depth expertise and ongoing training, we offer tailor-made solutions, while valuing strong, ambitious human relationships.

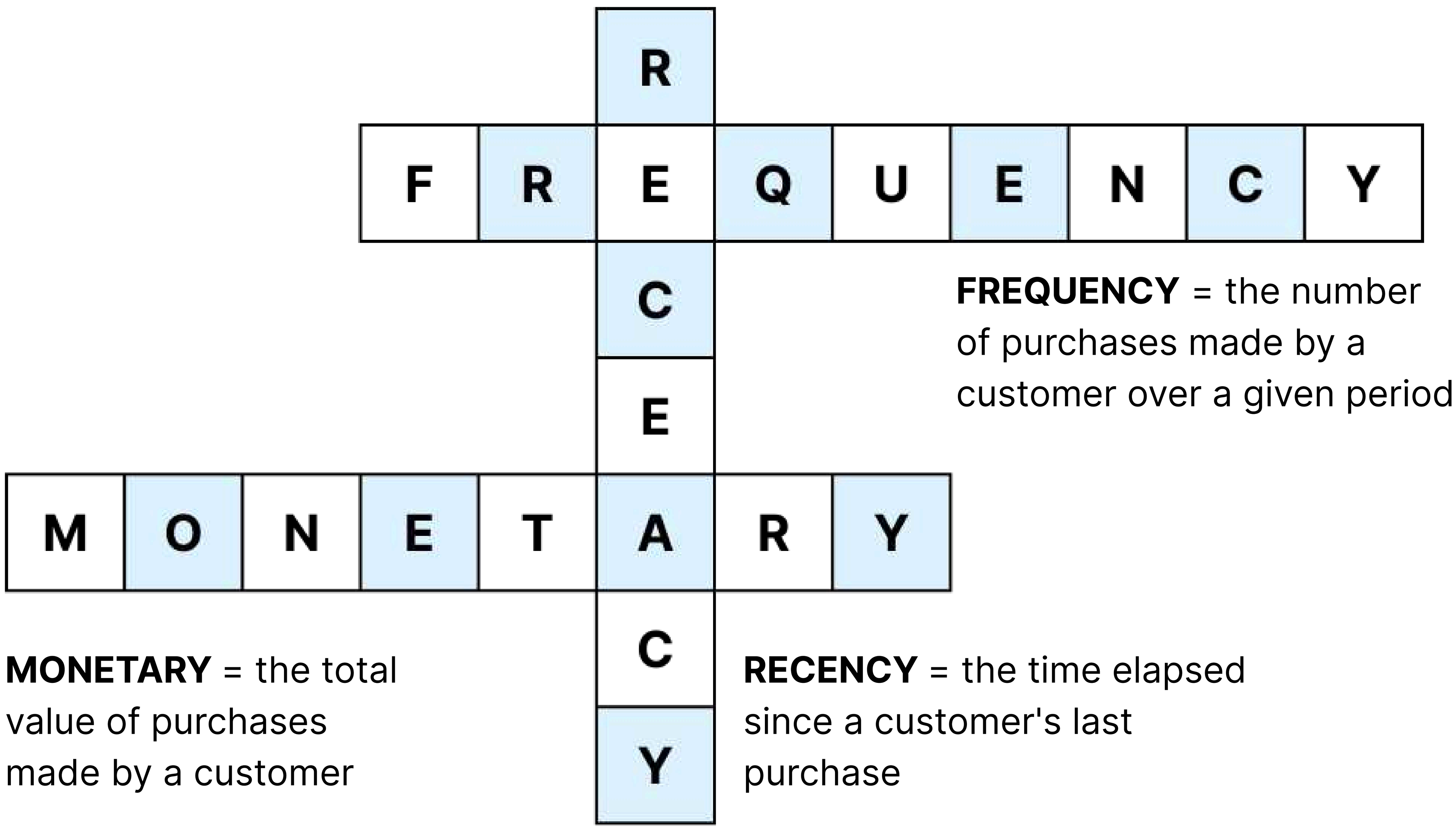
"ThirtyFive, une équipe de passionnés au service de votre croissance."

Maxime CAL, CEO ThirtyFive.

1

What is RFM segmentation?

RFM segmentation is a customer segmentation model that classifies customers according to 3 quantitative factors:



It offers a global view of the state of the customer base, and enables the customer journey to be mapped according to their “ status ”.

In other words, it identifies the groups of buyers most likely to be responsive and committed to a CRM strategy. But also, and on the contrary, to identify the customers least engaged and/or potentially lost.

The aim?
Take corrective, reactivation or animation actions, in order to make the most of your customer base. But more on that later.

RFM segmentation versus other methods.

It is not just a profile that is defined, but behavior. And that makes all the difference. Rather than dwelling on demographic data or very general criteria, the focus here is on the real engagement of each customer with the brand.

In comparison, more traditional segmentation methods (demographic, geographic, psychographic, etc.) can be too vague. They certainly help to paint the big picture, but they don't give you insight into each customer's emotional and financial investment in your brand.

There is not just one RFM segmentation.

There is as much RFM segmentation as there are companies, markets, industries or sectors of activity.

Before getting started, it is therefore necessary to have a detailed and precise knowledge of your base, your personas or the average lifespan of a customer, for example.

For simplicity's sake, let's focus here on 2 types of business:

RFM

1.1 Consumable (or high-repeat) products

Let's focus here on brands of consumables (cosmetics, food, food supplements, etc.) or those with a high potential for repeat purchases (such as services).

Here, RFM segmentation will place greater value on the **frequency** and **recency** of purchases. Because it is the repeat that will have the power to make acquisition investments profitable.

And in this type of business, the loyalty program is your most powerful tool for generating new purchases.

RFM

1.2 Single-purchase (or low-repeat) products

Even if RFM segmentation is mainly used in a context of customer loyalty and repeat purchases, it is not devoid of meaning in business typologies with low repeat (furniture, household appliances, for example).

Here, the RFM segmentation will place more emphasis on the **monetary value** of a purchase. Quite simply because consumers expect a different experience depending on whether they are buying a product for €10 or €1000. It's only natural.
For example, we could find:

- **Premium buyers**: customers with a high purchase amount but with a lower recency and frequency.
- **High-value recent customers**: new customers who have made a large purchase.
- **High-value potential inactives**: high-value customers who have stopped buying.

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The 6 objectives of RFM segmentation

1. Increase the purchase frequency

RFM segmentation allows you to easily identify customers who are active but whose **purchase frequency** could be increased.

With re-engagement campaigns, personalized reminders or subscription offers, you can encourage these customers to come back more often. The more they come back, the more loyal they are, and the stronger your brand becomes.

2. Build customer loyalty

80% of consumers say that the experience provided by a brand is just as important as its products or services

SalesForce, State of the Connected Customer, 2022

Beyond simple purchases, customers today expect brands to be present at key moments in their journey. With RFM segmentation, you can anticipate their needs and structure your communications according to their engagement.

This approach not only maintains the link, but also strengthens it by bringing real **added value** to each interaction.

Loyalty is no longer built solely through purchase incentives, but also by creating support tailored to the level of engagement of each segment.

Customers then feel that their relationship with the brand goes far beyond simple transactions, encouraging them to return regularly and to invest more.

3. Increase the LTV *(and make the acquisition costs profitable)*

Acquiring a new customer costs up to **5 times** more than retaining an existing customer (and sometimes even more).

It's simple: rather than spending resources on attracting new prospects (especially with acquisition costs constantly increasing), you focus on those who have already shown an interest and are more likely to respond positively to your offers.

Because these customers, who already have a connection with your brand, are much **easier to convince** than those who are barely aware of your existence.

The result?
A well-controlled acquisition cost, a climbing conversion rate, and better profitability of your marketing campaigns.

4. Personalize and create a feeling of uniqueness

RFM segmentation is also the key to talking to each group of customers as if they were **unique**.

Rather than sending out standardized campaigns, you tailor your messages to the specific needs and behaviors of each segment.

This differentiated approach creates a sense of uniqueness in each customer, who feels valued and understood, which strengthens their attachment to your brand.

5. Identify customers at risk *(and anticipate churn)*

RFM segmentation allows you to spot **signs of disengagement** before it's too late.

If you have customers who haven't bought from you in a while, it might be time to send them a little reminder, a special offer, or even just a message to let them know you miss them.

It's better to act early to prevent them from turning to the competition.

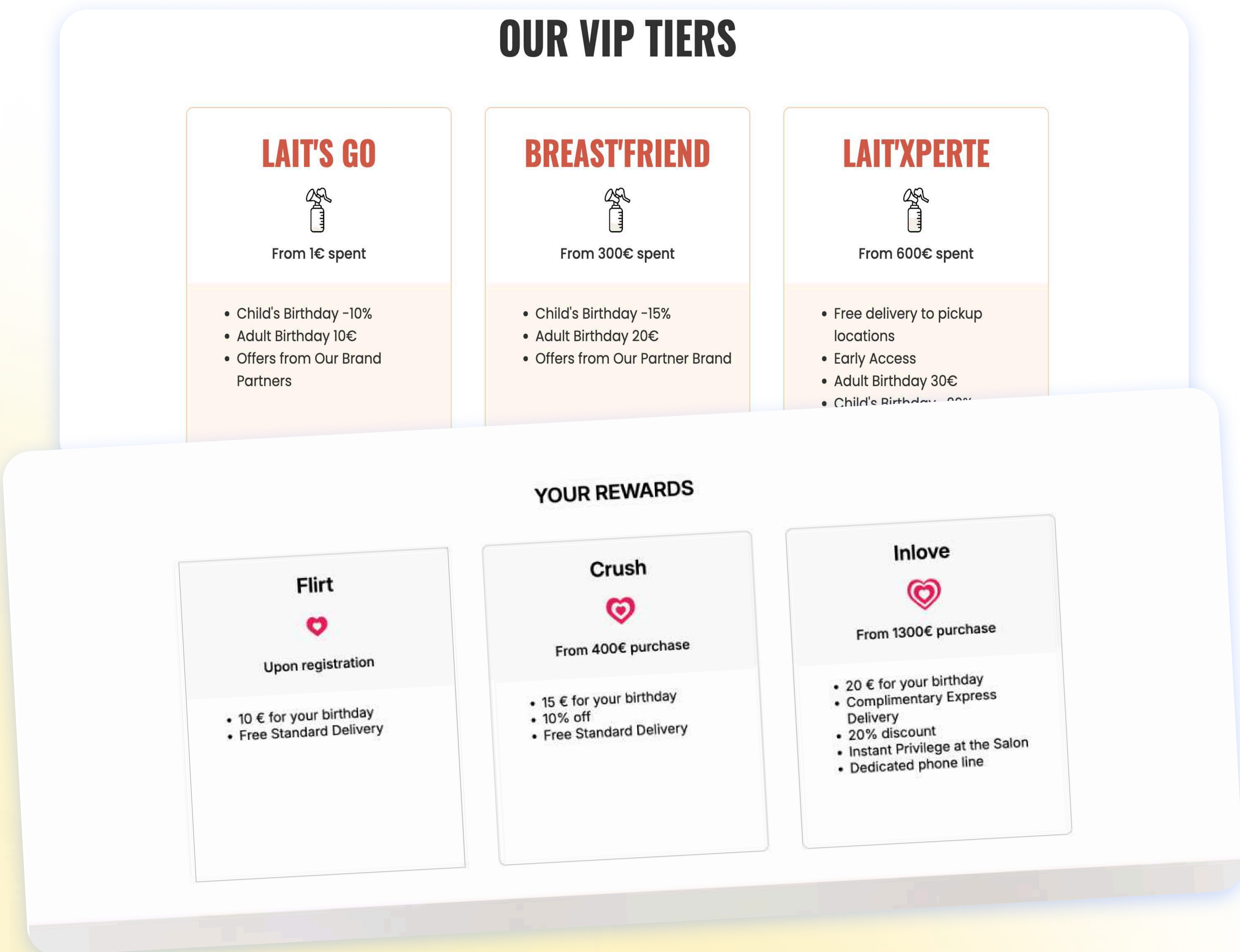
6. Create VIP Tiers

RFM segmentation is ideal for calibrating your **VIP tiers** in your loyalty program.

By identifying the most loyal customers and those who spend the most, you can offer them an exclusive experience: early access to new collections, invitations to private events, dedicated customer support, etc.

This method motivates customers to reach the higher levels to enjoy these exclusive benefits.

And your VIP customers, for their part, feel recognized for their commitment. A real lever for strengthening their loyalty to the brand.



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4 steps to create an RFM segmentation

Let's move from theory to practice.
Here is a step-by-step breakdown to help you implement RFM segmentation for your brand.

Step 1: Gather your data

Even before you think about segmentation, you need a solid base of transactional data.

Access your CMS and extract relevant information such as customer IDs, purchase dates and amounts spent.

Be sure to select a specific period that aligns with your marketing objectives. This could be a quarter, a semester or even a year, depending on your business.

Customer ID	Recency (day)	Frequency (number)	Monetary (total in €)	R Rating	F Rating	M Rating
1						
2						
3						
4						
5						

Step 2: Calculate the recency

Recency is the most important criterion for your RFM segmentation.

To obtain your recency data, choose a reference date - generally, the current date is the most practical.

Then calculate the number of days that have elapsed since the last transaction for each customer. Record this information in a new column in your file.

Remember: the fewer days that have elapsed since the last purchase, the higher the recency value.

Customer ID	Recency (day)	Frequency (number)	Monetary (total in €)	R Rating	F Rating	M Rating
1	4					
2	6					
3	42					
4	23					
5	15					
6	31					
7	9					
8	53					
9	33					
10	11					

The criteria of a recent client

Depending on your business, the criteria for categorizing a recent customer differ.

For consumables, we can talk about a recent customer in the last month or in the last 3 months. For products with a lower repeat rate, we can go up to 6 to 12 months.

Step 3: Measure the frequency

Frequency is the total number of purchases made by each customer during the chosen period.

Nothing could be simpler, just add them up.

Again, add this information in a new column in your file.

Customer ID	Recency (day)	Frequency (number)	Monetary (total in €)	R Rating	F Rating	M Rating
1	4	6				
2	6	11				
3	42	1				
4	23	3				
5	15	4				
6	31	2				
7	9	3				
8	53	1				
9	33	15				
10	11	5				

Purchase frequency

This is also a very important criterion because it provides information on your brand's ability to bring customers back, but also because it has a direct impact on your customers' LTV.

Recency vs. Frequency

Recency will always be the most important criterion. Quite simply because it is easier to trigger the act of purchase in a customer for whom you are top of mind. It is therefore essential to treat these “warm” customers as a priority so as not to leave them out and prolong the experience.

Step 4: Estimate the amount

This is the total amount spent by each customer during the same period.

Do not confuse it with the average order value; we are talking about the total sum here.

Create a third column in your file for this metric.

Customer ID	Recency (day)	Frequency (number)	Monetary (total in €)	R Rating	F Rating	M Rating
1	4	6	520			
2	6	11	930			
3	42	1	33			
4	23	3	65			
5	15	4	179			
6	31	2	56			
7	9	3	139			
8	53	1	877			
9	33	15	2431			
10	11	5	181			

Step 5: Assign ratings

The fun part of the exercise begins.

After compiling the recency, frequency and monetary indicators, it is time to rank your customers.

There are several methods for this, such as ranking by percentile or simply dividing your customers into quartiles (four equal parts) based on each metric.

Assign scores for recency, frequency and monetary value based on the ranking.

For example, if quartiles are used, the scores can range from 1 to 4, with 4 being the best score.

In the end, each customer will have been assigned a three-digit RFM score, such as 4-3-2 for example.

Customer ID	Recency (day)	Frequency (number)	Monetary (total in €)	R Rating	F Rating	M Rating
1	4	6	520	1	3	3
2	6	11	930	2	4	4
3	42	1	33	4	1	1
4	23	3	65	3	2	2
5	15	4	179	2	3	2
6	31	2	56	4	2	3
7	9	3	139	2	2	2
8	53	1	877	4	4	3
9	33	15	2431	4	1	3
10	11	5	181	2	3	3

Step 6: Create segments

You have obtained your RFM scores; it is now time to create meaningful customer segments.

These can range from “Champions” with high scores for all indicators (e.g., 4-4-4) to “At-Risk Customers” with low scores such as 1-1-1.

Name these segments in a way that clearly describes their characteristics so that you can easily refer to them.

Customer ID	Recency (day)	Frequency (number)	Monetary (total in €)	R Rating	F Rating	M Rating
9	33	15	2431	4	4	4
16	18	12	1901	3	4	4
18	28	17	1709	3	4	4

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This methodology is the ideal and theoretical way of working. On the other hand, such a file is not dynamic and should be updated regularly.

3 solutions :

1. You are equipped with an advanced technical stack and human resources to make the evolution of scores and segments dynamic.

2. You use a third-party application (on the Shopify Store, for example) that reproduces the above methodology. Be careful, as these may not take into account certain specific features of your business.

3. **You follow our method, which is simple, free and dynamic** (we will present it to you in the following pages).

4

3 mistakes to avoid with RFM segmentation

1. Ignoring the specific characteristics of the product or market

The deadlines, amounts and frequency are obviously different for each brand. The audience is not the same, nor is its purchasing behavior. But your products are also unique and involve a particular behavior.

In fact, it is very important to build a logical and coherent RFM segmentation according to your **own specificities** but also those of your market.

2. Over-segmenting

For example, you could decide to re-divide each segment by purchase amount. The desire to treat your best customers differently (depending on whether they spent €1,000 or €10,000) is obviously tempting.

But before doing so, **ask yourself these questions**: Is it really relevant? What is the practical purpose of re-segmenting here? Do I have the time and resources to treat these two segments differently?

3. Not allocating the necessary resources

Segmenting also means paying special attention to each segment, a depth of analysis, and operational implementation. It takes time and effort.

The human investment in time is obviously profitable, but it requires operational and temporal resources, and you need to be fully aware of this before you start.

Do I have the time and resources necessary to deal with so many different segments?
1. If the answer is yes, then go for it.
2. If not, get to the point, without over-segmenting.

5

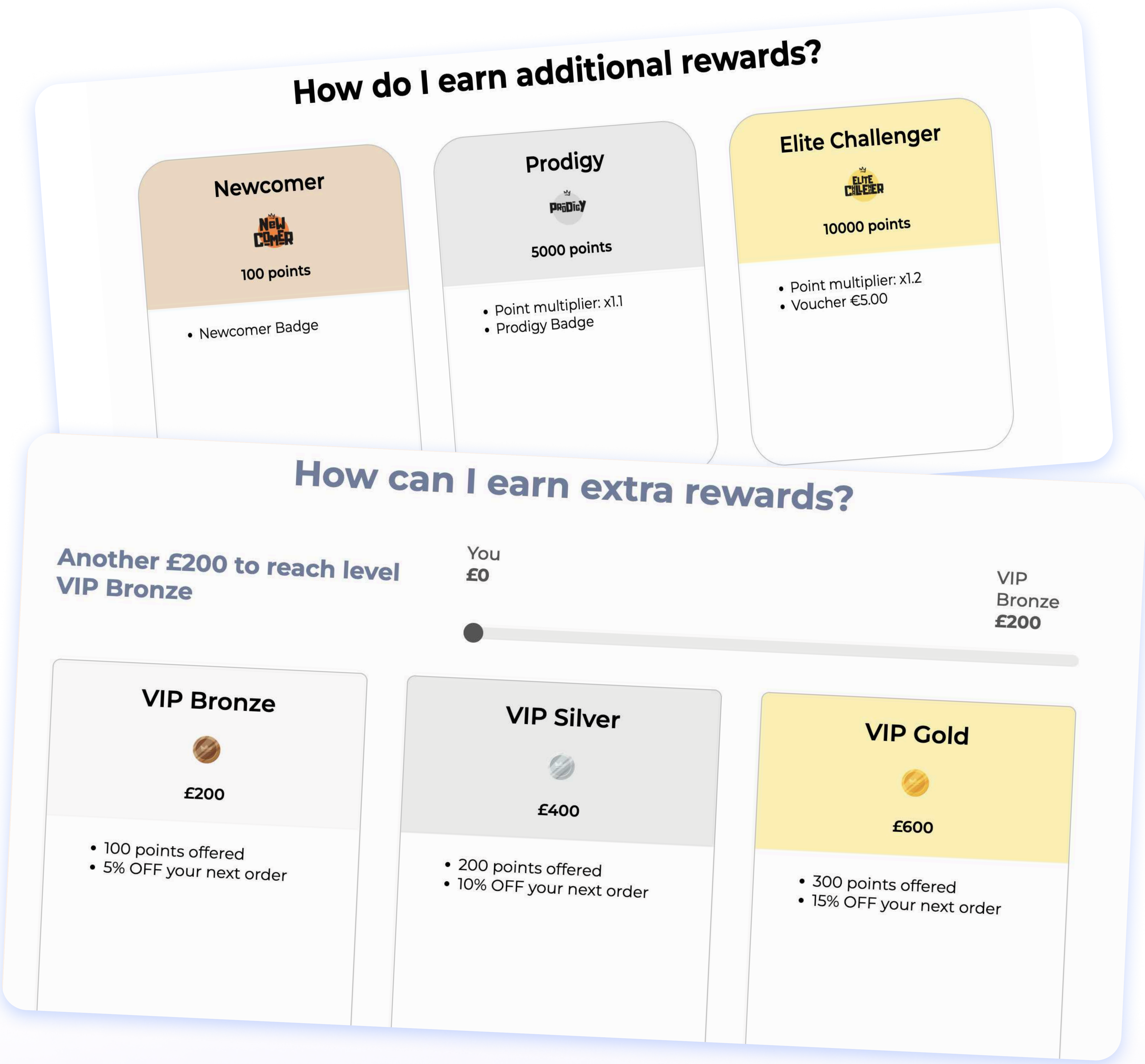
RFM segmentation in a loyalty program?

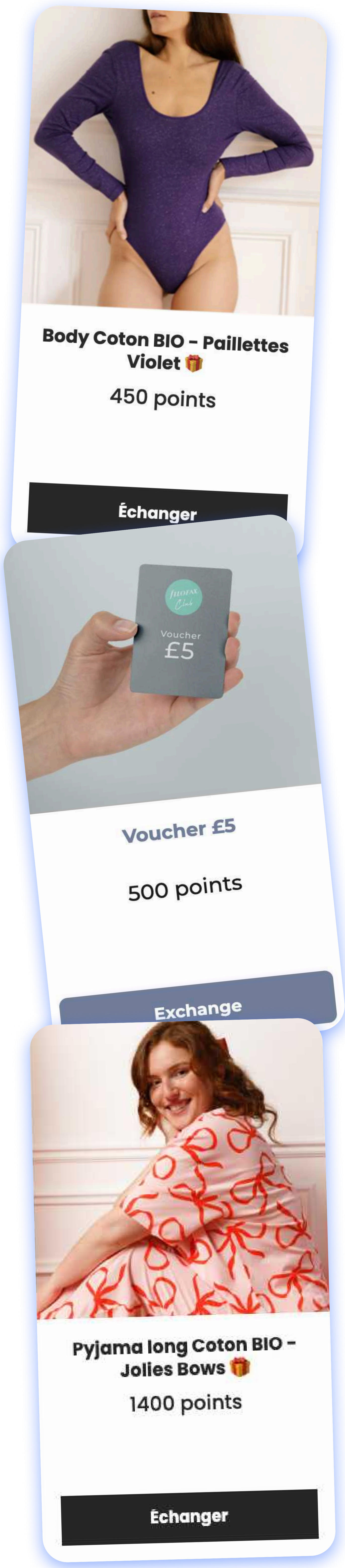
1. Create personalized VIP tiers

Thanks to RFM segmentation, you can easily identify your most committed customers and offer them exclusive benefits based on their **level of commitment.**

For example, you could define VIP levels for customers who achieve a high score in recency, frequency, AND purchase amount.

These levels can offer specific rewards: preview access, bigger discounts, or invitations to private events.





2. Adapt the rewards

RFM segmentation allows you to **differentiate** the types of rewards according to each segment.

For recent customers, a reward in the form of a discount on their next purchase can be very motivating.

For regular buyers, cumulative benefits such as points or progressive discounts can maintain their loyalty.

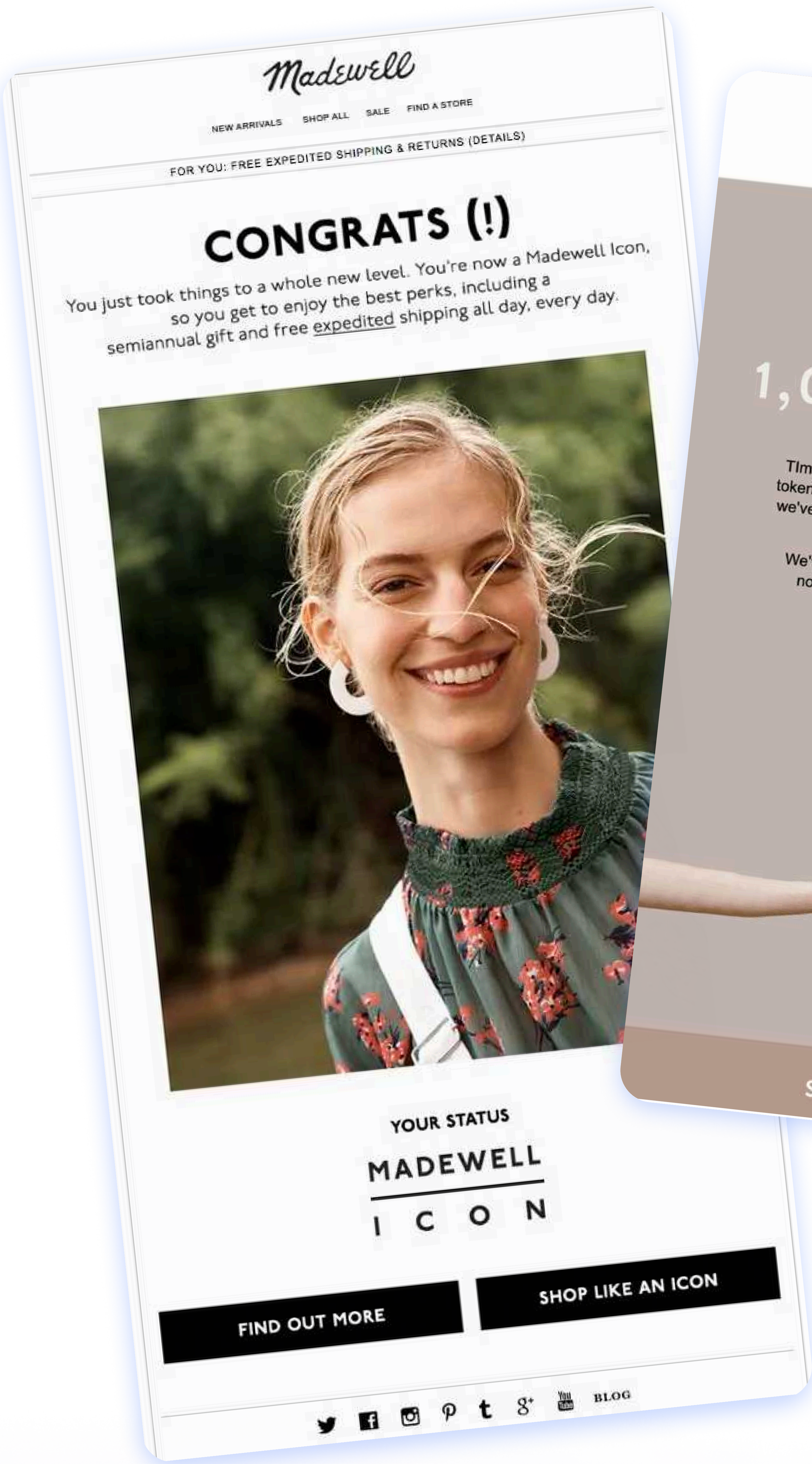
And for “big” customers (those who spend a lot), a VIP experience or dedicated customer support can make all the difference.

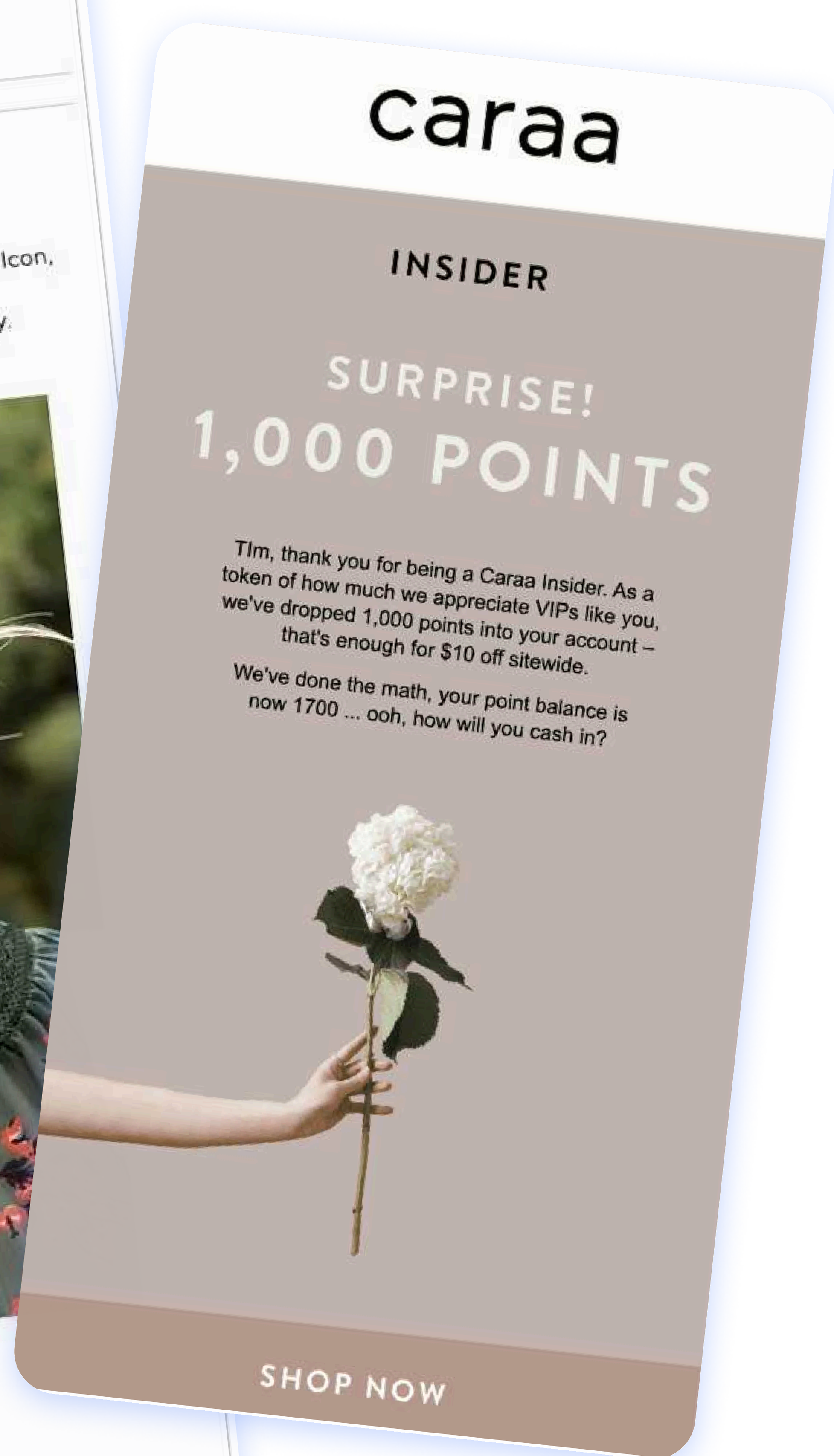
3. Adjust communications

With RFM segmentation, you can go even further by **personalizing communications.**

Loyal customers like to know that they are recognized for their commitment. To do this, send them thank you messages, special newsletters, or even surveys to gather their feedback.

On the other hand, less engaged segments could receive more incentive-based communications, such as reminders of unused benefits or special offers to encourage them to come back.



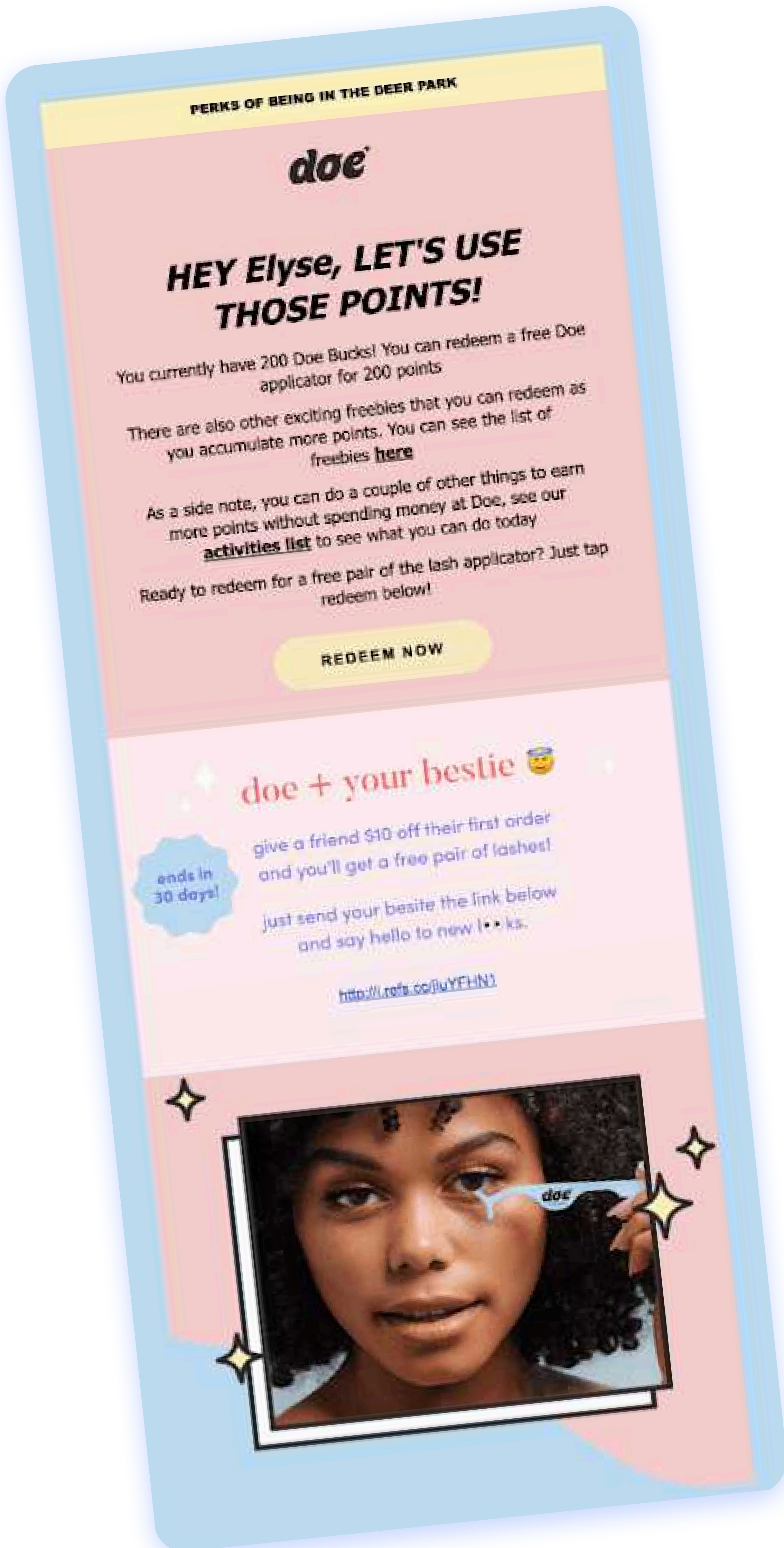


4. Encourage segments in loss of commitment

RFM segmentation also makes it possible to identify customers who are starting to **disengage**, before it is too late.

For these segments, a loyalty program can include specific reactivation campaigns, such as dedicated offers to encourage them to make a purchase again, or exclusive discounts to reward them for their past loyalty.

By taking proactive measures, you increase your chances of getting them to come back and avoid churn.



5. Continuously optimize the loyalty program with RFM data

The ultimate advantage of RFM segmentation is that it provides you with **real-time insights** into the evolution of your segments.

You can adjust your loyalty program dynamically, adding new rewards or creating specific campaigns for growing segments.

By regularly reevaluating the segments, you keep your loyalty program relevant and engaging, while meeting the changing expectations of your base.

6

4 examples of turnkey RFM segmentation

In the following examples, we suggest a number of segments that form a basis that can be used at any level and for all types of industry. You will simply need to adapt the deadlines, frequencies and amounts according to your company, your sector and your customers' consumption habits.

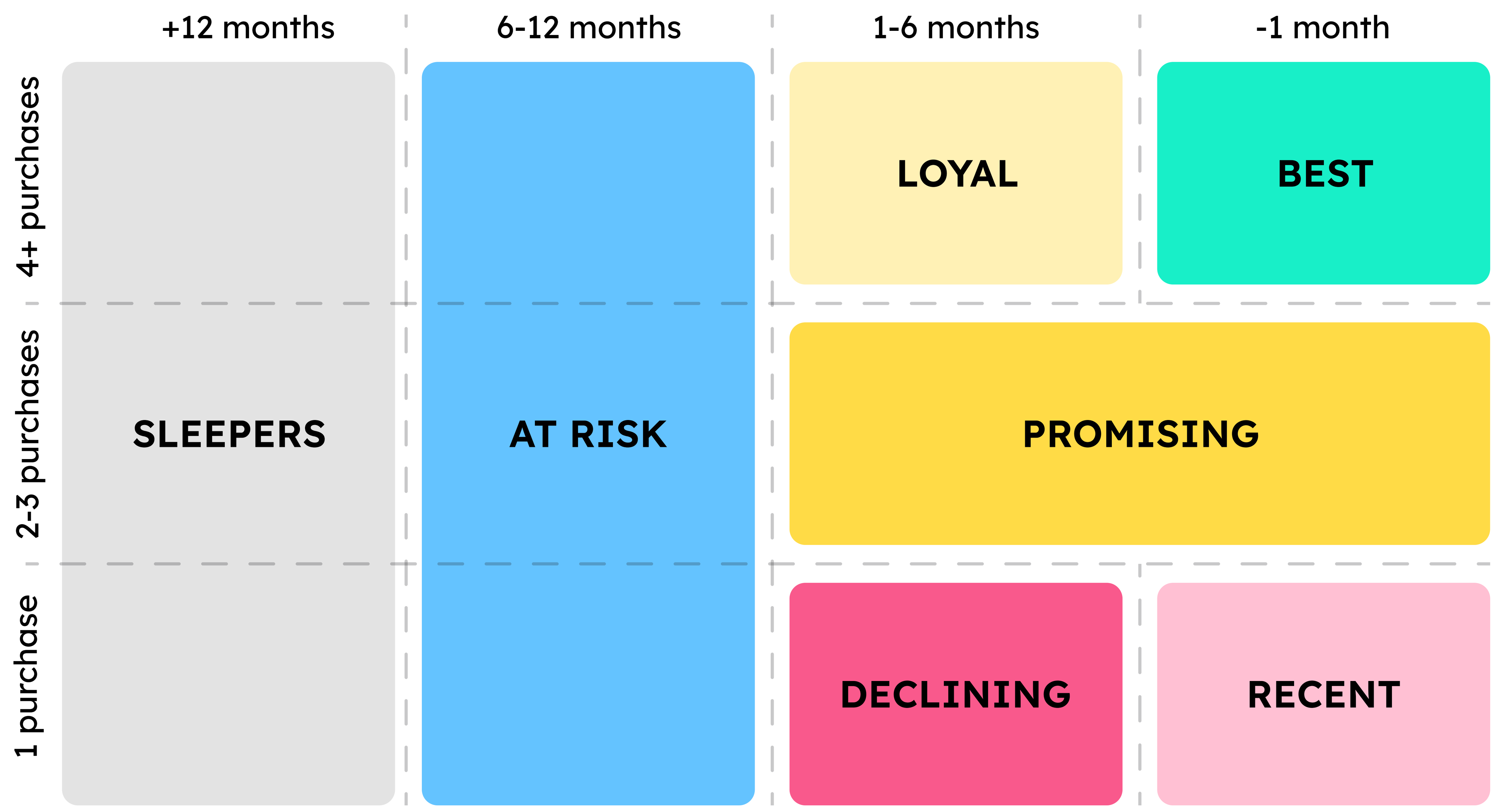
Businesses with high-repeat products

Example 1: simple and actionable

In this first level of complexity, let's put the notion of “Amount” somewhat in the background to make it induced via “Frequency”.

In most cases, the higher a customer's frequency, the higher their LTV, and therefore the total amount they spend.

This is a useful level of segmentation and (largely) sufficient if your resources are limited and you do not have extensive CRM departments.



There are seven levels of segmentation here:

1. Best

As you will have gathered, these are your best customers.

They are those who have made several recent purchases and have (by extension) spent a high total amount. As a general rule, this is a segment with a low customer volume but which represents a large part of the turnover. Retaining and enriching it must be your number one objective.

Segmentation example:
→ Last purchase in the last 30 days
→ AND has made at least 4 purchases

2. Loyal

They have also made several purchases, but their last order is a little less recent. The aim here is to generate a new purchase quickly among this already loyal target group in order to move them into the “best” customers segment.

Segmentation example:
→ Last purchase between 31 and 180 days ago
→ AND has made at least 4 purchases

3. Promising

An important target since there is a high potential for customer loyalty. They have already been convinced by your products and have made a purchase in the last few months. Due to their lower purchase volume, their LTV is also lower. They will be placed below the two most exclusive segments.

Segmentation example:
→ Last purchase in the last 180 days
→ AND has made between 3 and 4 purchases

4. Recent

They are quite simply your new customers of the month. The challenge here is to trigger the second purchase so that they move into the “Promising” category. After a month without a purchase and with only one purchase to their credit, they will move into the “Declining” category.

Segmentation example:
→ Last purchase in the last 30 days
→ AND has made a single purchase

5. Declining

You have acquired new customers, but they have not made a repeat purchase several months after their first order. This is a high-stakes segment. Here, it is essential to have targeted marketing campaigns in order to re-engage and build loyalty among as many customers as possible.

Segmentation example:
→ Last purchase between 31 and 180 days ago
→ AND has made a single purchase

6. At risk

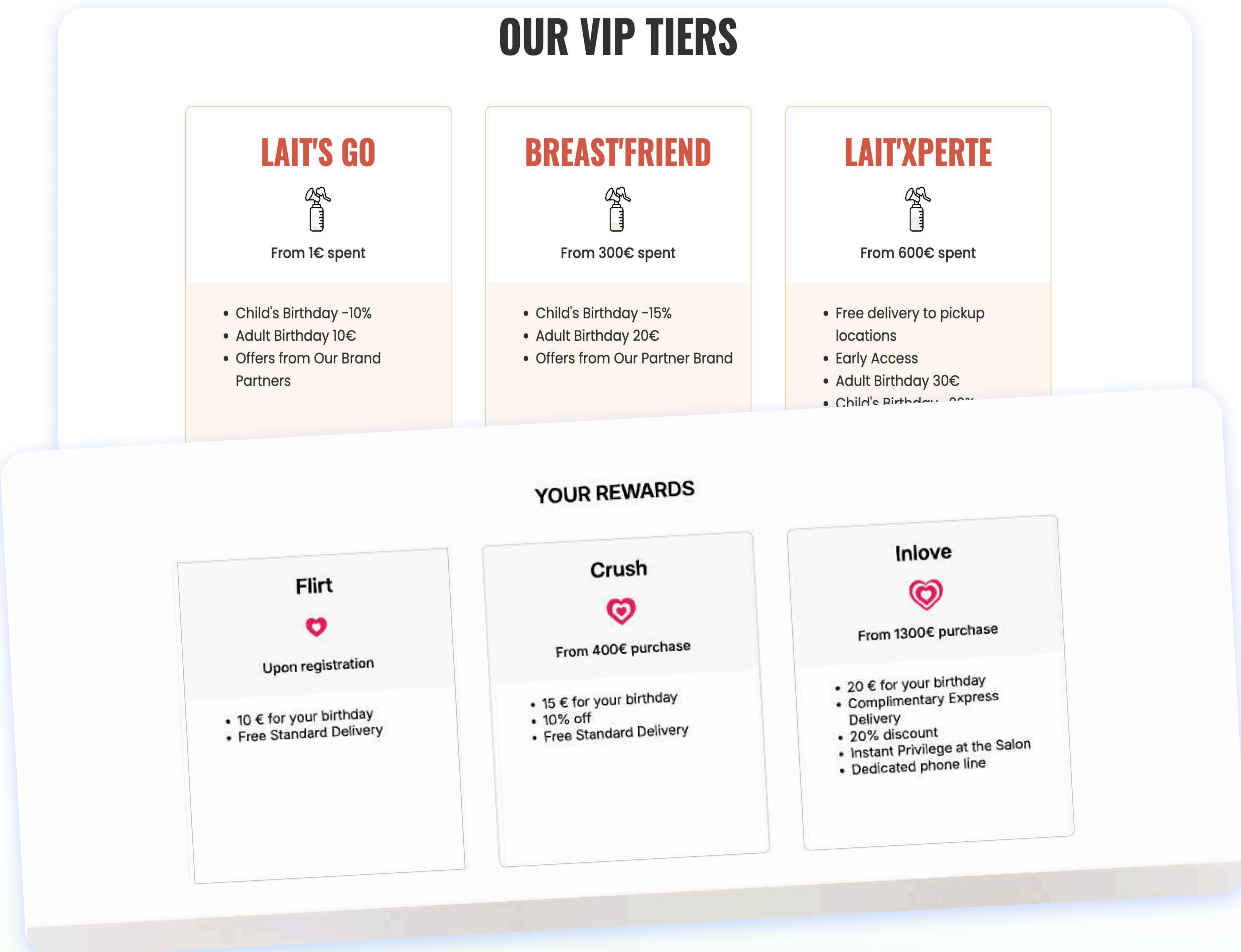
We are talking here about your customers who have not made ANY purchase for several months. Regardless of their purchase volume or their LTV, recency remains the fundamental criterion here as well. Program targeted actions to reengage this target and stay “top of mind”.

Segmentation example:
→ Last purchase between 181 and 365 days ago

7. Sleepers

These are all your customers who have been inactive for at least 12 months. The same mechanism applies as for “At risk” customers, but depending on the industry, a customer who has been absent for 12 months can be considered a lost customer. And therefore, either consider that this target is no longer addressable, or simply define a few annual actions aimed at reactivating this target.

Segmentation example:
→ Last purchase over 366 days ago



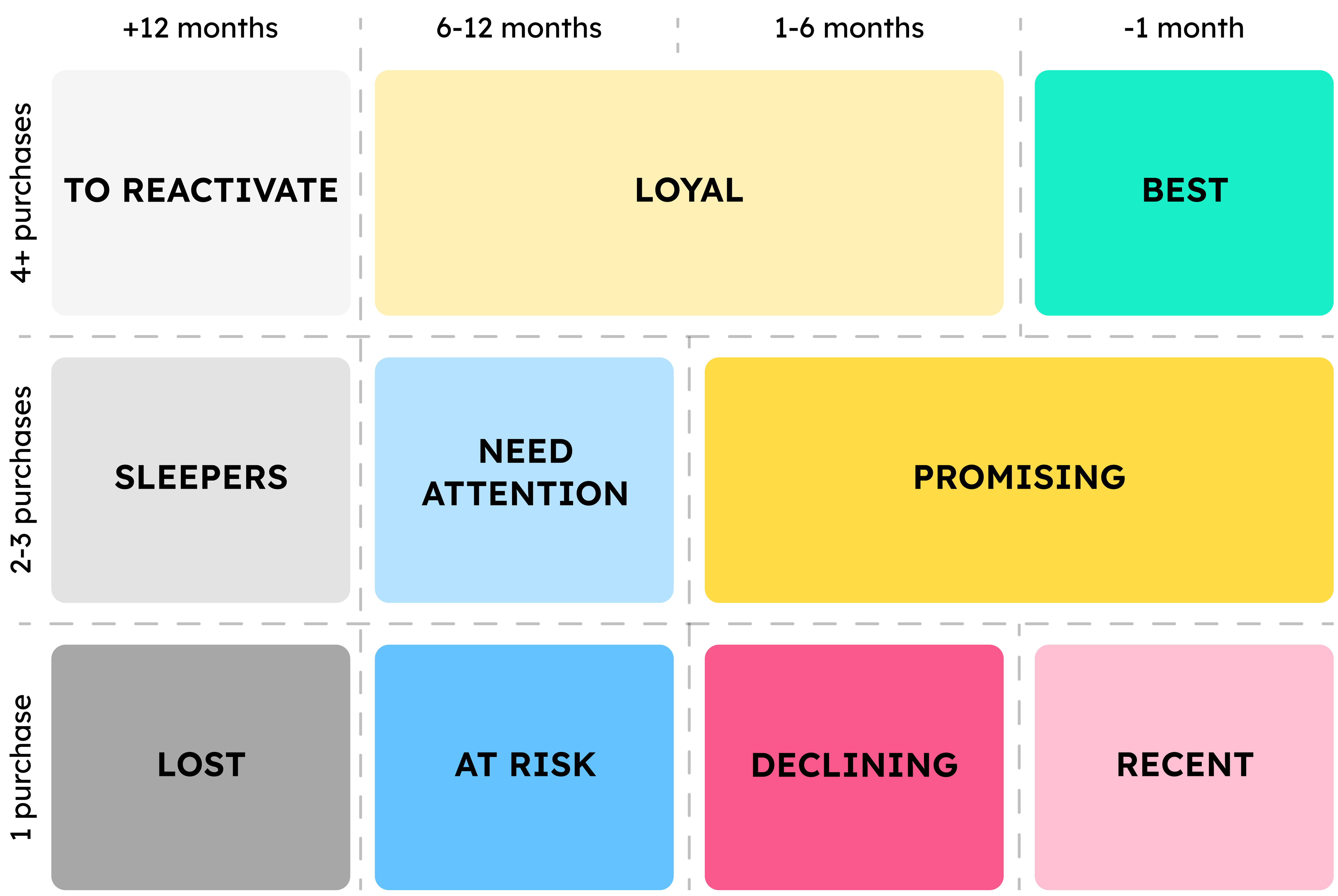
Example 2: more subtle and complex

Let us now take the example of a more refined and complex level, enabling much more precise and personalized reactivation actions.

Loyal
We have decided to extend this segment to 12 months, as we consider that they have a high frequency and therefore an equally high amount.

Lost
The decision is made to create a “lost” segment containing customers considered to be of low value, for whom the actions that could be taken would not even be profitable for the brand.

→ *Last purchase is more than 365 days ago*
→ *AND has made a single purchase*



Two strategic segments are adjusted as they can contain a high volume of customers who have behaved in a way that benefits the brand. As they are already sensitive to the brand, in view of their frequency, there is a good chance that they are already profitable. Reactivating them through marketing actions will automatically generate growth at time T.

To reactivate
→ Last purchase is more than 365 days ago
→ AND has made 4+ purchases

Need attention
→ Last purchase between 180 and 365 days ago
→ AND has made 2-3 purchases

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Be careful not to "over-segment".
Make sure you have the operational resources and time to effectively handle such a variety of segments.

You can nevertheless choose to segment finely to have a very precise view of your database, but to group certain segments in their operations.

Businesses with low-repeat products

In certain types of industry, it is more difficult to have a strong repeat. Travel, furniture, IT, etc.

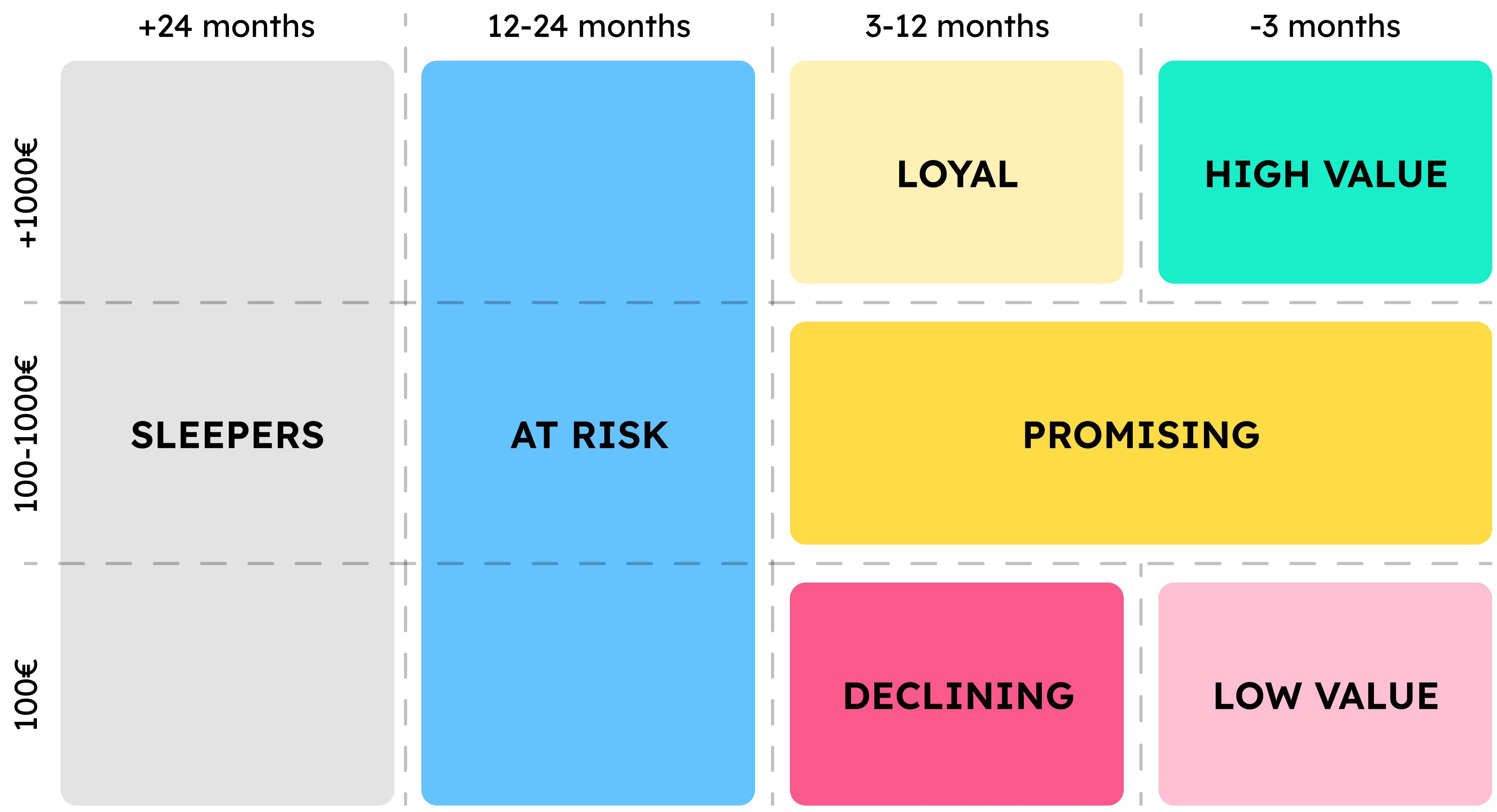
The amount will then take a prominent place in your RFM segmentation.

It's only human. The higher our order, the more we expect to have an experience that lives up to the perceived value we are spending.

Here, the segmentation matrix is similar to the first example.
With a few minor differences:

- The recency criteria have been broadened.
- The ordinate axis is no longer the frequency but the purchase amount.

Example 1: simple and actionable



Here too, 7 levels of segmentation have been defined:

1. High value

a.k.a. your best customers. It doesn't matter whether they have shopped with you once or several times, the amount they spend justifies a special experience, commensurate with their investment in your brand.

Segmentation example:
→ Last purchase in the last 90 days
→ AND spent at least €1000

2. Loyal

They have also spent a lot with you, but their last order is a little less recent. The objective here is therefore to prolong the exceptional experience, so as to bring your customer back, to encourage word of mouth and referrals, for example.

Segmentation example:
→ Last purchase between 91 and 365 days ago
→ AND spent at least €1000

3. Promising

Even if they don't have the highest LTV, they are still a key target for your brand. These customers are fairly recent and already profitable for you. It will certainly be a fairly large segment. They deserve special attention because they have a high potential for repeat purchases and loyalty.

Segmentation example:
→ Last purchase in the last 365 days
→ AND spent between 100 and 1000€

4. Low value

The challenge here is to increase their LTV to increase their profitability. As their latest purchases are fairly recent, your brand is still top of mind. You therefore need to capitalize on this with tailored messages and a stronger presence.

Depending on your average order value, they may simply be your new customers, or repeat buyers who spend little with each order.

Segmentation example:
→ Last purchase in the last 90 days
→ AND spent less than €100

5. Declining

As with the "Declining" segment, some customers in this segment only make a single purchase, some make more, but their LTV does not exceed a certain amount. This segment is a good representation of your ability not only to retain customers but also to direct them towards products with higher added value.

Segmentation example:
→ Last purchase between 91 and 365 days ago
→ AND spent less than €100

6. At risk

As with repeat business, these are all your customers who have NOT made a purchase for several months. As recency is the key criterion, we have decided not to differentiate customers according to the amount they have spent in order to facilitate marketing activities in this segment.

Segmentation example:
→ Last purchase between 366 and 730 days ago

7. Sleepers

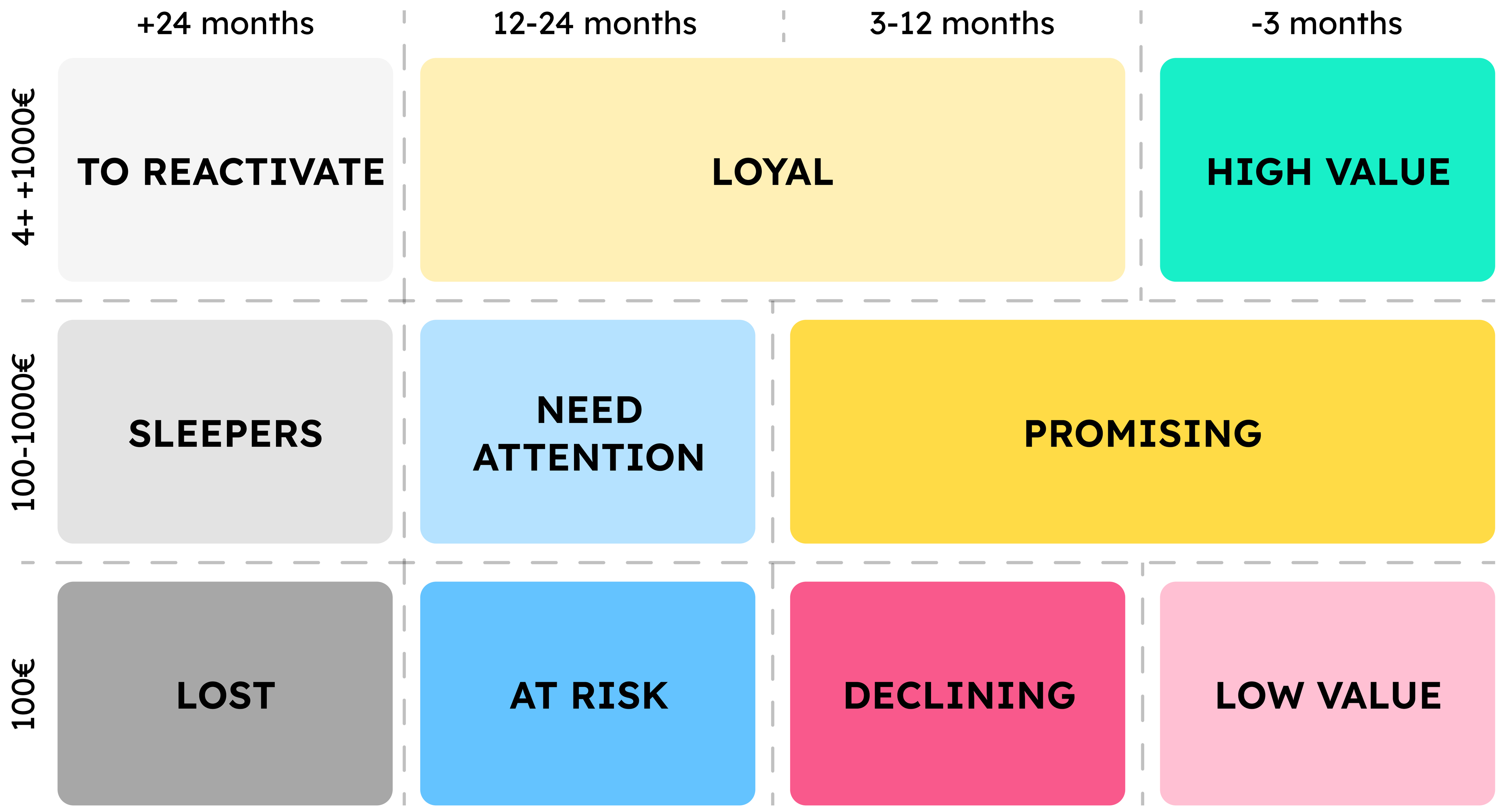
These are all your customers who have been inactive for at least 24 months. The same mechanism applies as for "At risk" customers, but depending on the industry, a customer who has been absent for 12 months can be considered lost. And therefore, consider that this target is no longer addressable, or define a few annual actions aimed at reactivating this target.

Segmentation example:
→ Last purchase more than 731 days ago

Example 2: more subtle and complex

Let's return to our initial segmentation, but incorporate more granularity and finesse into the segmentation and, by extension, its exploitation.

Loyal
We have decided to extend this segment to 24 months, since they have high amounts spent.



Three new segments are added to adjust the effort to be invested in each of them:

To reactivate
→ *Last purchase more than 731 days ago*
→ *AND spent more than €1000*

Need attention
→ *Last purchase between 366 and 730 days ago*
→ *AND spent between 100 and 1000€*

Lost
→ *Last purchase more than 731 days ago*
→ *AND spent less than €100*

These customers have made NO purchase for at least 2 years, with a very low LTV. It can therefore be considered that the ROI of potential marketing efforts would not be profitable.

7

5 KPIs for analyzing your RFM segmentation

You have set up your RFM segmentation and launched the first personalized marketing campaigns.

It is now time to analyze the results and assess the relevance of your segmentation.

Here are 5 KPIs to absolutely follow:

The purchase frequency

Monitor the average number of transactions for each customer over a given period. The more this frequency increases, the more incremental revenue you generate and, by extension, profitability.

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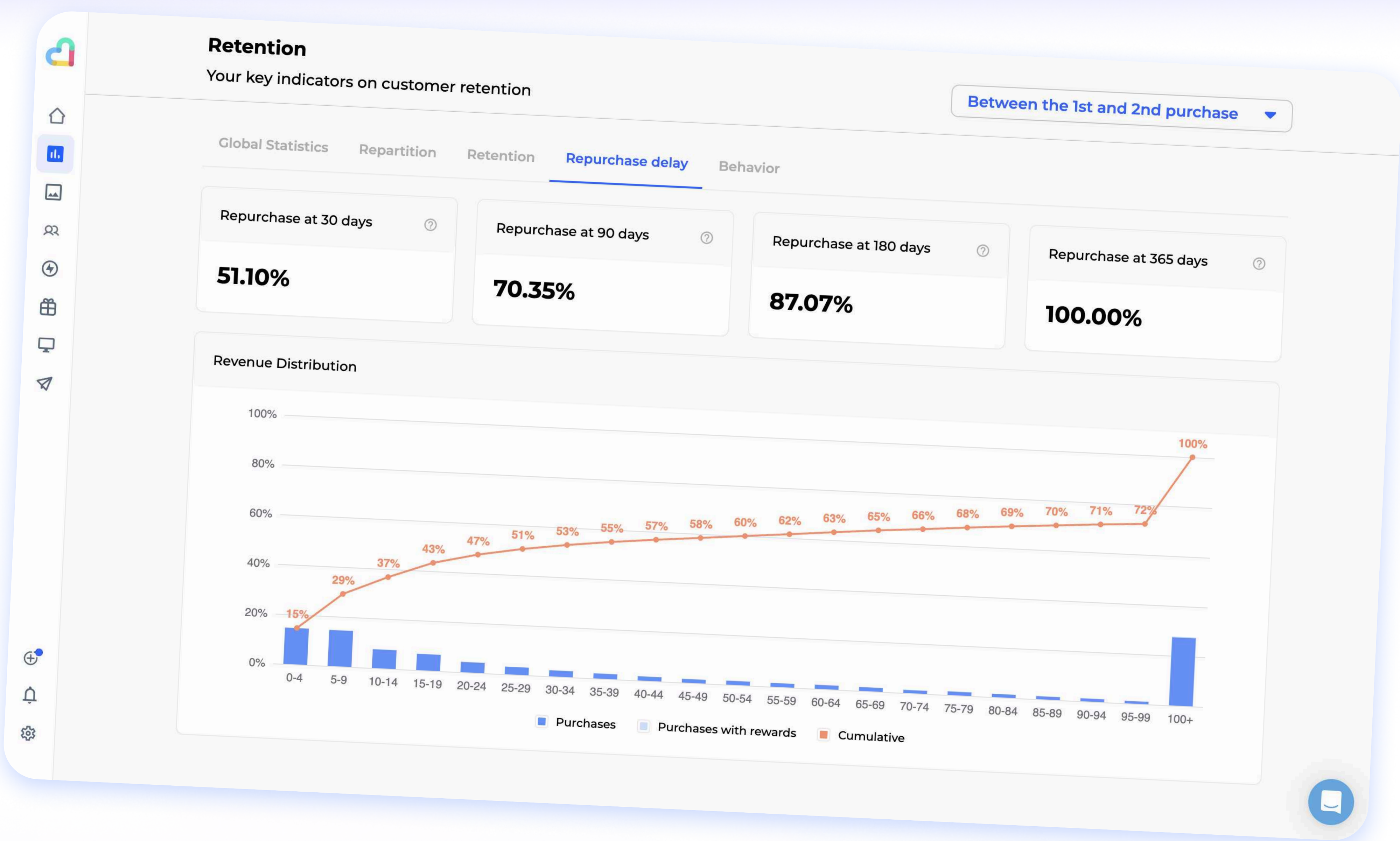
You can also measure the “average time between 2 purchases”, another interesting KPI for having an impact on the frequency of purchase.



The Customer Lifetime Value (CLV)

The name of the game. RFM segmentation (and your loyalty program) should encourage customers to buy and then buy again. In fact, the aim is to increase the LTV of users in order to increase the profitability of acquisition investments and, by extension, create a virtuous circle of growth.

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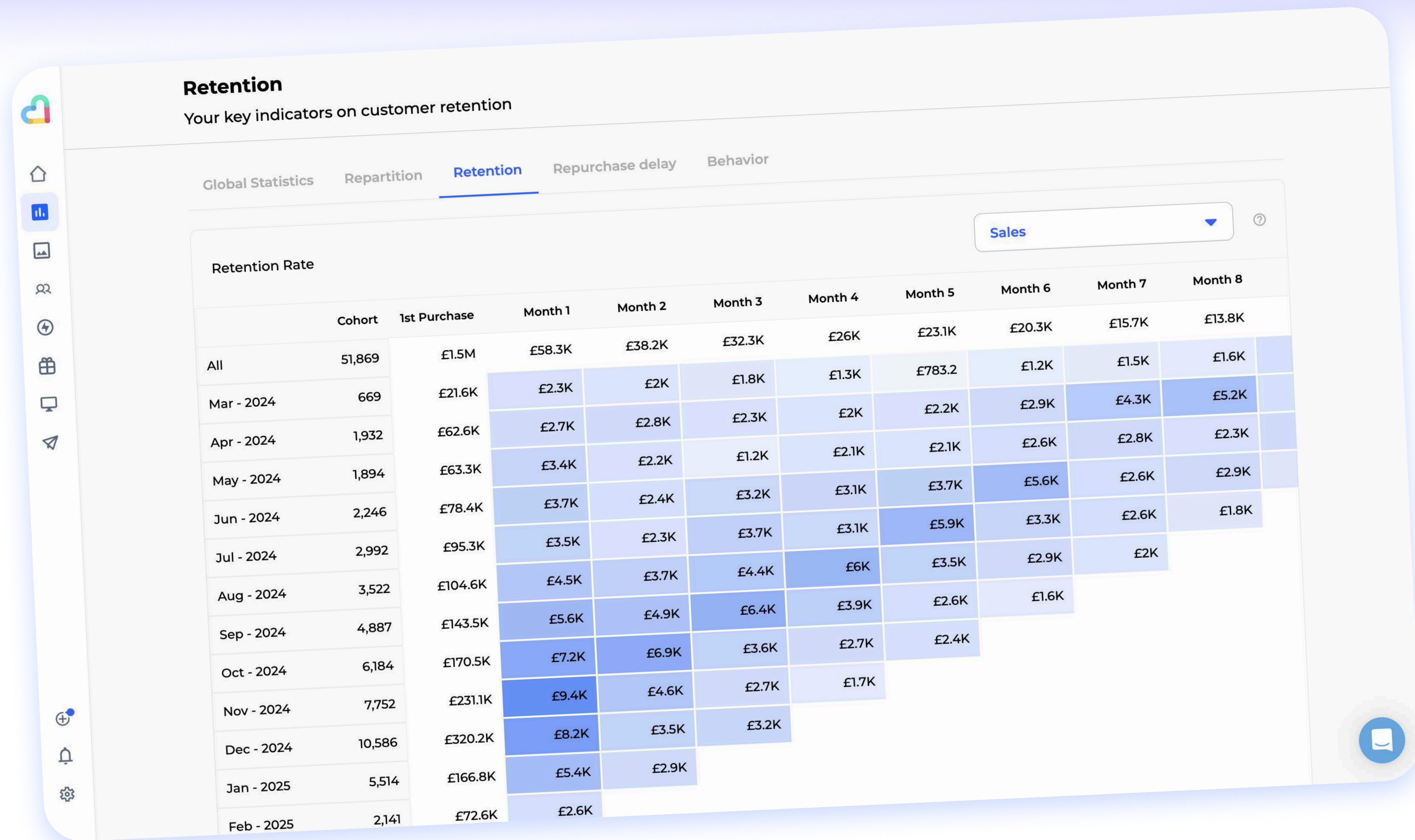
Be careful to look at these KPIs by "Cohort" or by "Segment" and not globally.

It is counterproductive to look at the LTV of ALL your customers without distinction, since you will obtain an average as much for customers who have been with you for only 2 days as for customers who have been with you for 1 year.



The CAC/LTV ratio

The most advanced level of profitability management of an RFM segmentation.

This is the ratio between what a customer has cost you (their acquisition cost) and what they have earned you since their acquisition, i.e. their Lifetime Value.

You can therefore determine the level of profitability of each segment by dividing their average LTV by their average CAC. You will then have an extremely detailed view of the most profitable segments.

What is a good LTV/CAC ratio?

- **LTV/CAC less than 1:** You are losing money. The customer costs you more than they earn you. You need to lower the CACs and/or increase your efforts on retention.
- **LTV/CAC of around 3 or 4:** this is often considered to be the healthiest target ratio. You make x3 on each of your customers at your acquisition rate. You are profitable, your retention generates the turnover buffer that allows you to continue to finance acquisition and generate growth.
- **LTV/CAC greater than 5:** you are extremely profitable. It's very effective. But it also means that you can afford to spend more on acquisition, even if it means increasing the CAC to increase the size of your acquisition cohorts and recruit more new customers and accelerate your growth.

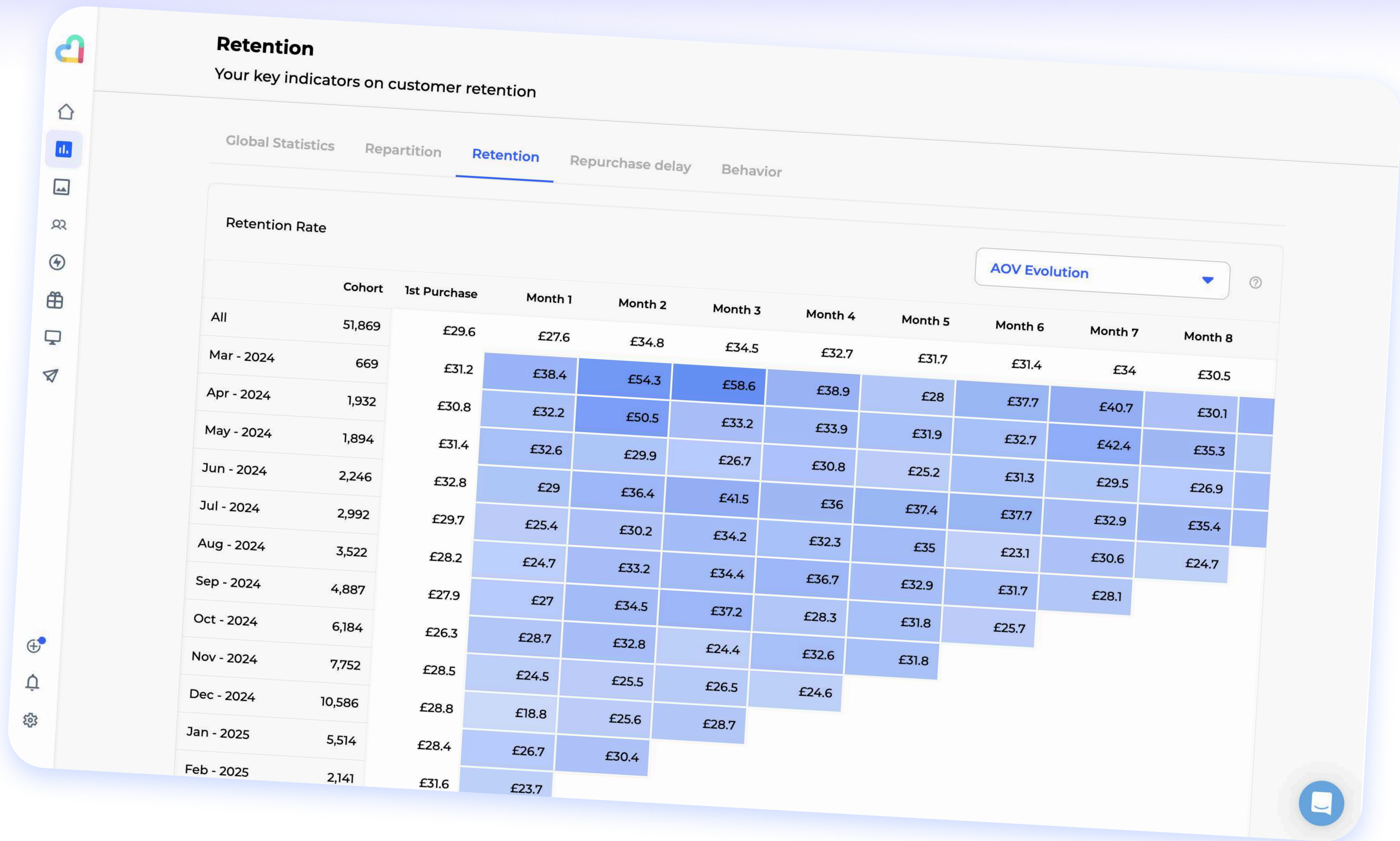
The Average Order Value (AOV)

This is also an important point to consider.

In low-repeat businesses, or for unique buyer segments, it is important to understand how to increase the average order value (upsell, cross-sell, additional services, warranties, etc.) in order to increase the profitability of each customer.

The Tips of ThirtyFive

Third-party applications such as “Lifetimely” allow you to find out about your retention tunnels as well as products frequently bought together. This way, you will know which products to suggest as a complement based on the products added to the basket.



The Transition Matrix

Are you managing to attract more and more customers to the most profitable segments?

This is a matrix that allows you to see the movements within your segments and understand your reactivation capacity.

This matrix is also very useful for understanding the weight of each segment in the brand's overall turnover and anticipating any over-dependence on a single segment.

The Tips of ThirtyFive

It is not healthy to be over-dependent.

If your best customers represent 5% of your total customers in volume, but account for 70% of your turnover, then you are dependent on the behavior of these few customers.

In this case, treat this segment with extreme attention but also work on the others with precision with the aim of increasing the volume of this first segment.

ANALYZE, SEGMENT, ENGAGE

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