RFM analysis, a Marketers' guide
Saving lapsed customers and turning them into brand loyalists with RFM

Hive
Marketing
Cloud™

In this guide

# 1. What is RFM analysis?

RFM stands for: Recency, Frequency and Monetary Value

RFM is a marketing database analysis technique that seeks to understand an individual customer's **current** relationship with your organisation by determining the recency, frequency and monetary value of the purchases they make with your business.

RFM analysis is helpful to Marketers' because it allows you to assign a score to every record in your customer database, either at a point in time or continuously in a 'live' capacity.

This means that an organisation can communicate with different segments of customers in ways which are much more appropriate to each segment and their buying behaviour.
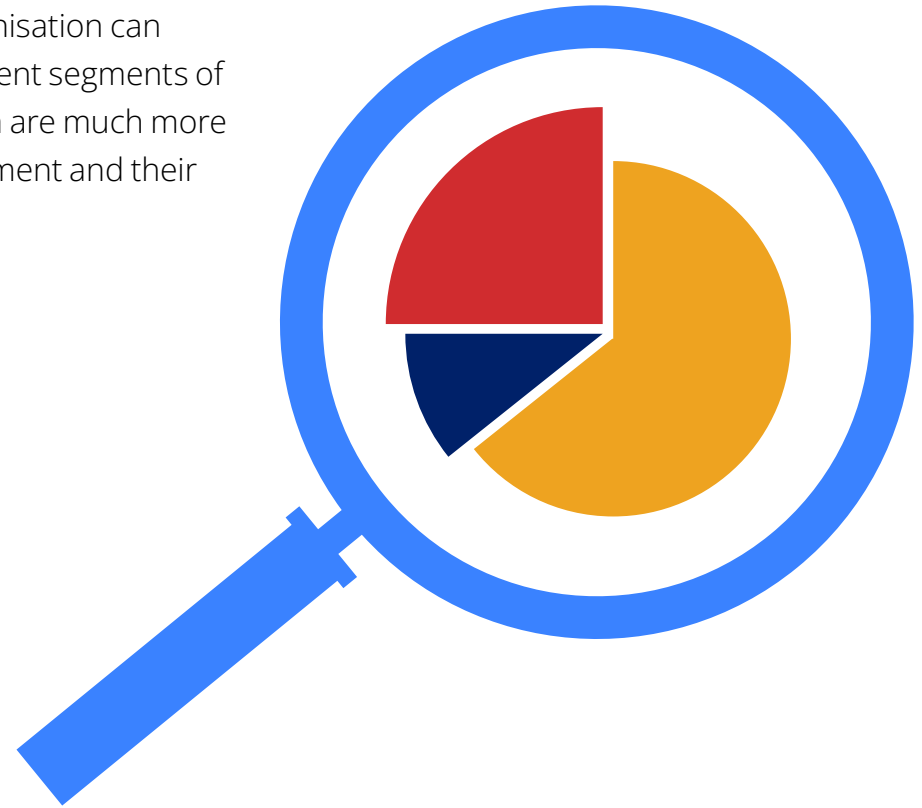
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3. The power of three

We all know that valuing a customer based on a single parameter is flawed. The biggest value customer may have only purchased once two years ago, or the most frequent purchaser may have a value so low that it is almost not profitable to service them. One parameter will never give you an accurate view of your customer base, and you'll ignore customer lifetime value.

Calculate the RFM score by attributing a numerical value for each of the criteria. The customer gets more points if they bought in the recent past, bought many times or if the purchase value is larger. Combine these three values to create the RFM score. This RFM score can then be used to segment your customer data.

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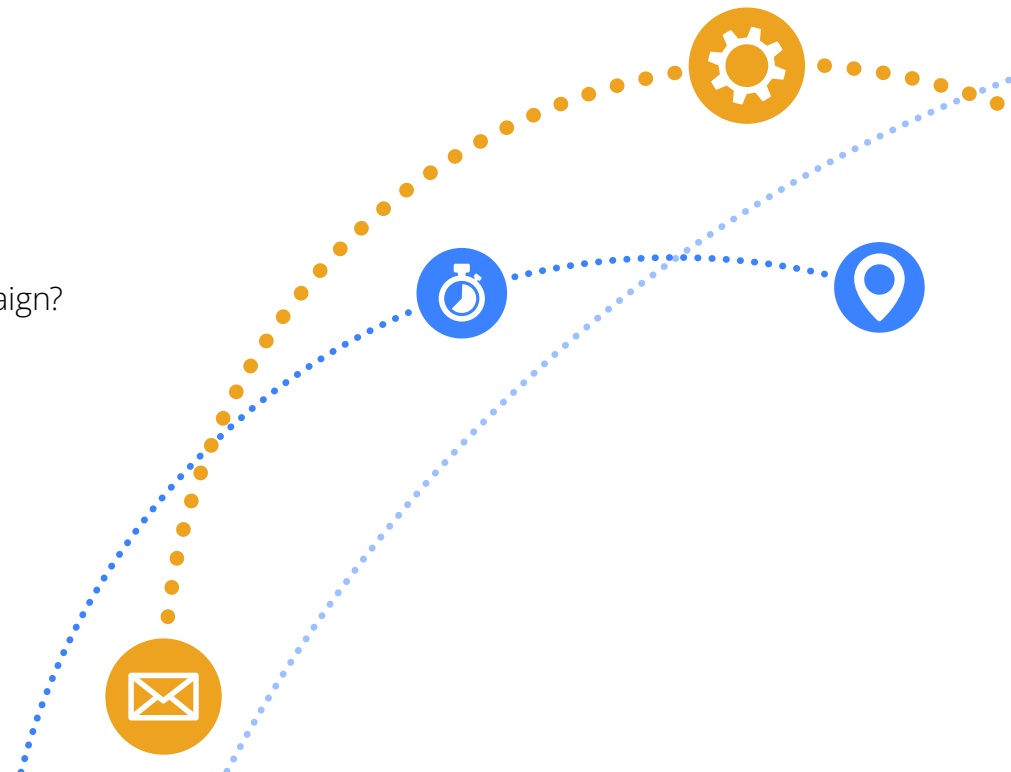RFM Analysis eBook**

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6. How to apply RFM segments in your business

Think about what percentage of your existing customers would be in each of these segments and evaluate how effective the recommended marketing action can be for your business.

RFM segmentation will readily answer key questions for your business:

- Who are my best customers'?

- Which customers' are at the verge of churning?

- Who has the potential to be converted into a more profitable customer?

- Who can you view as a lost customer?

- Which customers' must you retain?

- Who are your loyal customers'?

- Which group of customers' is most likely to respond to your current campaign?

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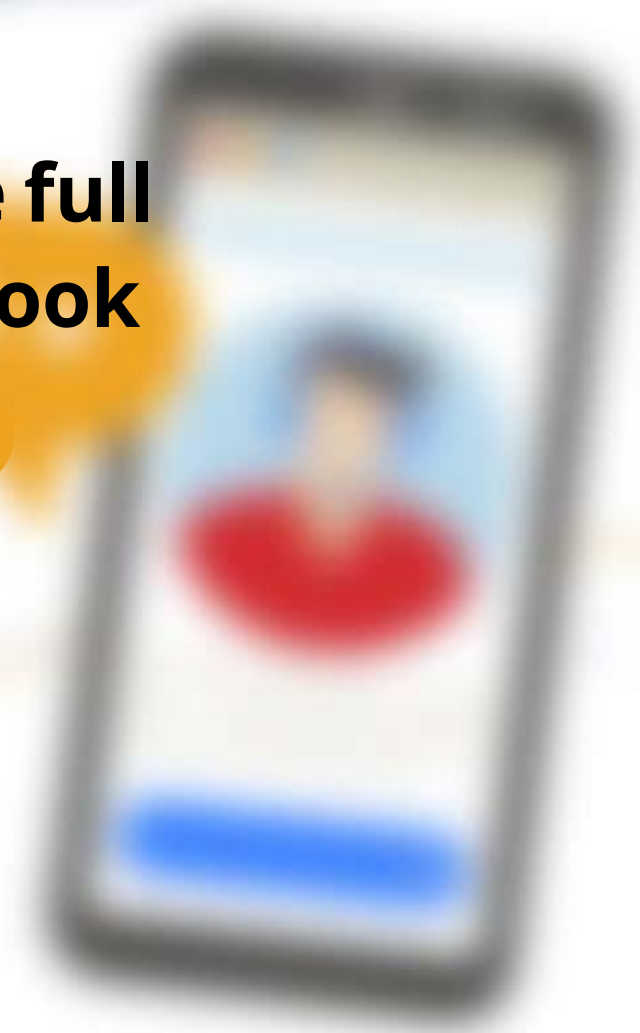
8. RFM score calculations simplified

To calculate the RFM score you will first need to identify each customer's RFM values.

RFM values:

- **Recency (R)** – period since last purchase

- **Frequency (F)** – number of transactions

- **Monetary (M)** – total money spent, often called Customer Lifetime Value (CLV)

An example customer may then have a R-value of 1 week, F-value of 5 transactions and an M-value of £2,567 (CLV).

9. Applying RFM score formula

Once you've identified and assigned the RFM values from the purchase history, you can calculate a score for recency, frequency and monetary values individually for each customer.

Calculating the scores

There are two common options for ranking the RFM values on the scale of 1 to 5:

1 **Simple Fixed Ranges**

2 **Quintiles – Make five equal parts based on available values**
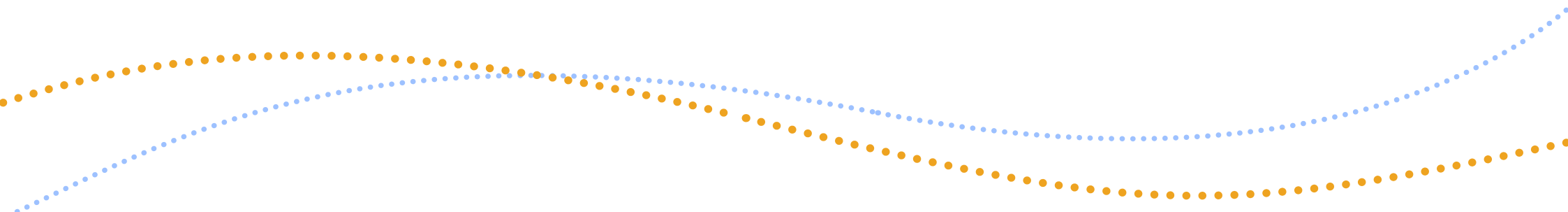
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11. Applying RFM Segmentation to your business

RFM analysis helps your business optimise its marketing operations. Better email marketing, higher customer lifetime value, successful new product launches, outstanding user engagement and loyalty, lower churn rate, better ROI on marketing campaigns, success in remarketing, overall higher profits and lower costs.

In the brave new world of the Customer Data Platform and email marketing automation, it is possible for a business to use this kind of segmentation to create automated journeys that nurture customers with relevant and contextual messages that help grow their Lifetime Value and Brand Engagement.

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In summary

RFM scores dramatically improve Marketers' ability to build meaningful segments, create relevant content and determine the direct impact of campaigns on the bottom line. Additionally it supports Marketers' to build business cases for change founded on an evidence-based approach.

For management teams, RFM analysis provides essential insight into the composition and health of the current customer base. This provides an understanding of current customer risk and advocacy status, the historical customer trajectory over time, early warning when things go awry and facilitates better planning and budgetary decisions, rooted in evidence.

The **Hive Marketing Cloud** includes out-of-the-box RFM analysis for your business so you can hit the ground running. If you want to leverage your segmentation to grow customer engagement and value, don't hesitate to get in touch.

See our platform in action

Book a 30 minute call and we'll show you how we are making data-driven marketing a reality for our clients'

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