

moengage



Product School

A Deeper Path to Personalization

How RFM segmentation can deliver more personalized engagement

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About Moengage

We are living in the golden age of product management. The opportunity has never been greater for B2C product managers to make a massive impact in their roles to drive loyalty, optimize campaign performance, and increase revenue.

Product managers that are excelling today have truly become customer-centric. They're obsessed with uncovering deeper insights into their customers - and they make these insights easily available, dynamically updated, and instantly accessible to everyone.

They have a rich understanding of their customer journeys, likes, dislikes, preferences, lifestyle choices, and their propensity to churn/buy/remain loyal. And most importantly, they have the ability to act on these insights, instantly.

They then use these deep insights to deliver personalized recommendations, contextual

communications, and relevant engagement, across all touchpoints, whether offline or online [web, mobile, email, social media, chat, and more].

MoEngage is fully committed to helping brands move away from a campaign-centric focus and to a customer-centric future. With our vision to be the world's most trusted customer engagement platform, product managers are empowered to deliver personalized and meaningful experiences across the customer journey with speed and ease.

With this eBook, we are excited to share valuable learnings on how to deepen your understanding of your customers to build stronger customer engagement and accelerate business growth.

Nalin Goel, SVP Product at MoEngage

Nalin Goel is the SVP Product at MoEngage, the leading insights-led customer engagement platform.

www.moengage.com



Every Product Manager will face a version of this dilemma: You want to create experiences that feel like they're made just for your ideal consumer. At the same time, you want to extend that feeling to a diverse consumer base with very different demographic and behavioral characteristics.

How do you square this circle? How do you reconcile the contradiction between broad appeal and specific relevance? The answer is segmentation.

Segmentation is a well-known field and there are many ways to go about it. One common trap is to bucket customers based on one-size-fits-all qualities that have little to do with customer behavior from their product and brand experiences. While market research and demographic information each play a role in segmentation; it's not enough.

What I like most about Recency, Frequency, and Monetary (RFM) Analysis is that it offers a deeper path to segmentation based on customer behaviors (i.e. how often they purchase, what they purchase, or what their average annual spend is). That type of information is key to accelerating revenue growth by increasing the lifetime value of existing customers as well as finding the right new customers.

In this guide, you'll learn how to deploy RFM Analysis to execute insights-driven segmentation at a granular level. And the best part is that you don't need anything other than your current data.

It's been a pleasure partnering with MoEngage, and I hope this guide helps you improve your key performance indicators in a short period of time.



**Carlos Gonzalez de Villaumbrosia,
CEO at Product School**

Carlos Gonzalez de Villaumbrosia is the CEO at Product School, the global leader in Product Management training.

www.productschool.com

WHERE TRADITIONAL CUSTOMER SEGMENTATION FALLS SHORT

Experienced marketers know that customer segmentation is a critical first step in establishing who and how we should be engaging our customers.

Customer segmentation helps us understand our customers better, at least on a surface level. By developing sample segments, we can make predictions for a given population. But it is still difficult to accurately forecast the tendencies of niche customer groups or individual customers on a deeper level. This is because traditional

segmentation relies heavily on the human aspect of hypothesizing - such as making assumptions based on general demographics. So it can often result in incorrectly weighted factors and pre-existing biases. The analysis ends up being generic and non-personal, and our targets are nothing more than customer IDs within a given segment.

Traditional Segmentation Methods

Built on consumer understanding and research studies commissioned by the business

Uses demographic and psychographic variables

Analyzes representative sample sets

Requires careful selection of a representative sample

Dependent on skilled researchers

Runs the risk of human error

Requires subjective evaluation which runs the risk of including biases

RFM Model of Customer Value

Built on historical transactions between the customer and the business

Uses R, F and M variables of customer data

Analyzes the entire population

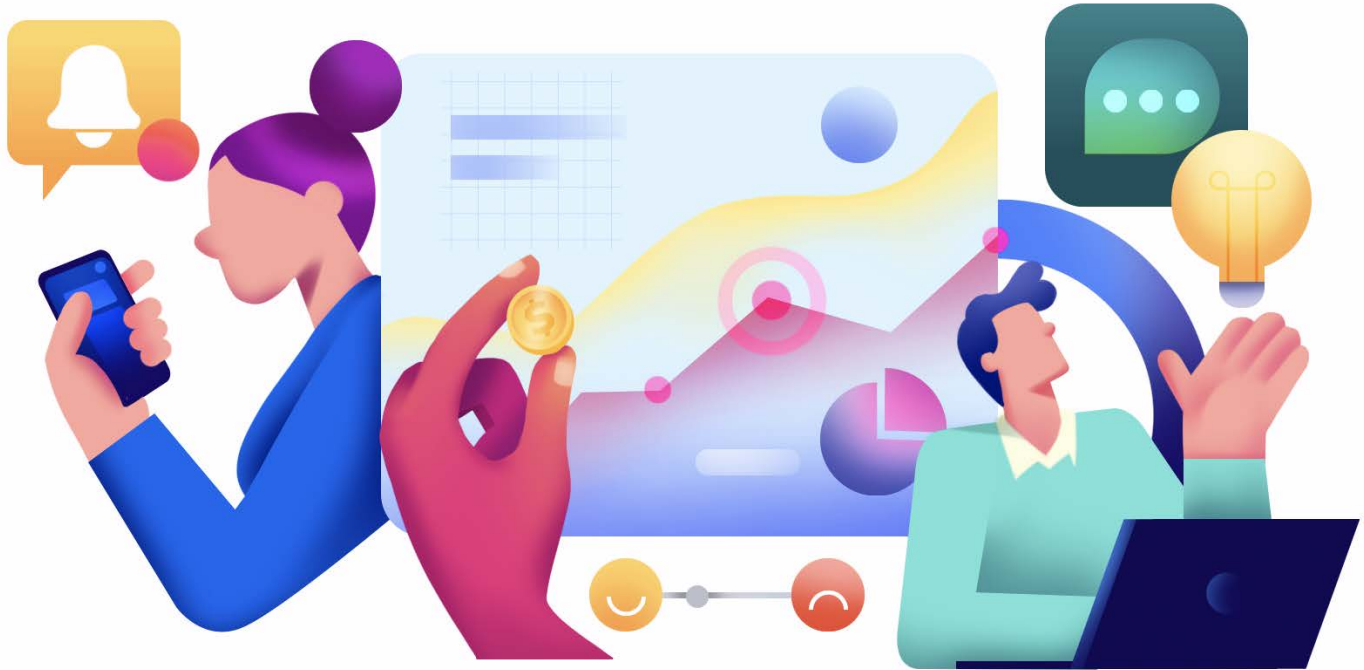
No need to create curated sample sets

Dependent on efficient and accurate data

No scope for human error

Objective nature of evaluation so less scope for biases

RFM SEGMENTATION: WHAT IT MEANS FOR YOUR BUSINESS GROWTH

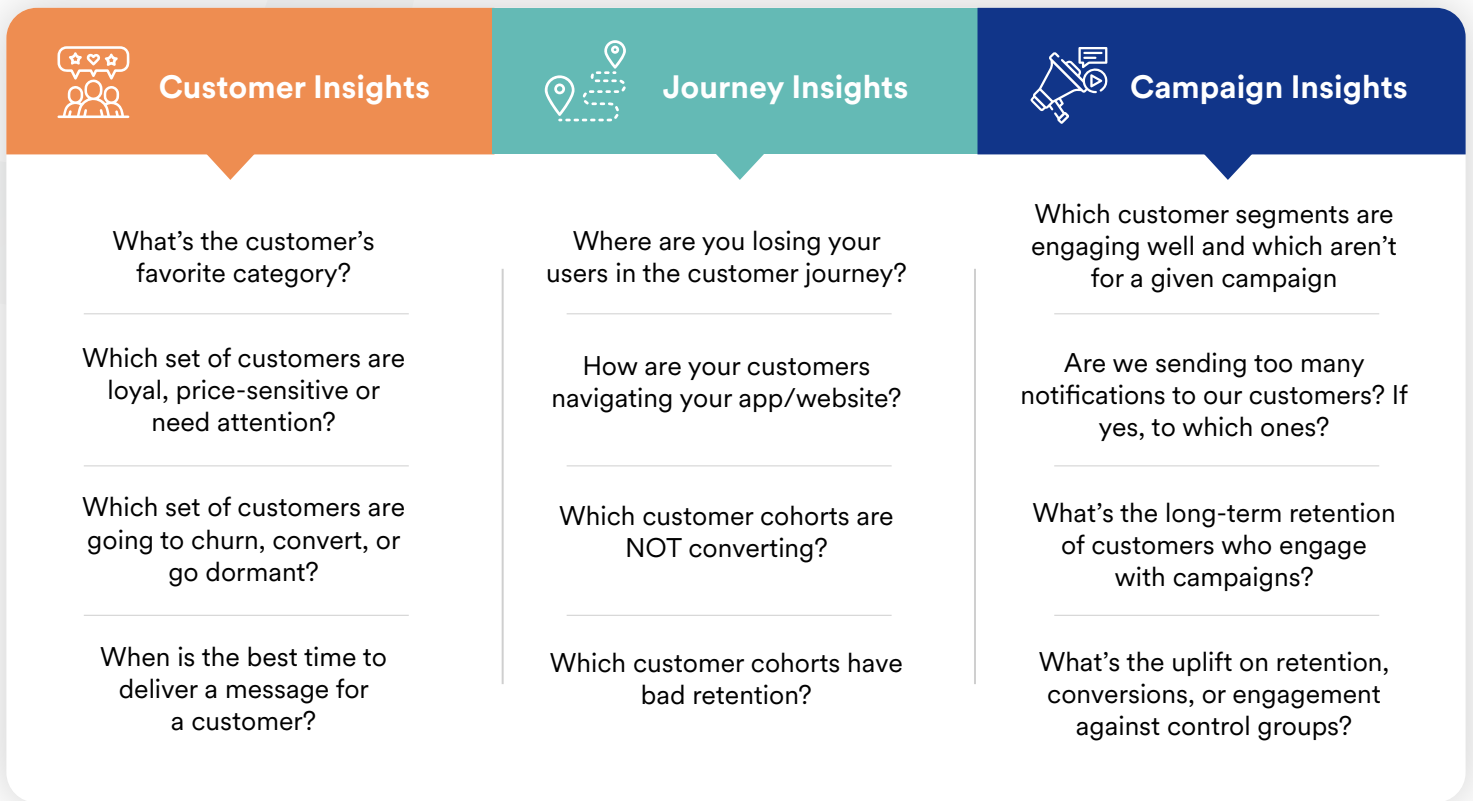


Changing customer needs in the digital era are forcing brands to adopt a more personalized, insights-led approach to segmentation. Insights gleaned from data help us build one-to-one engagement across channels and touchpoints with each customer. We use these insights to identify the right customers to engage with and execute more targeted campaigns that minimize errors, improve ROI, and delight customers with relevant, in-the-moment messages. An RFM segmentation approach like this taps into the data on a deeper level, and at scale, to forecast customer preferences and engage at precisely the right time.

When we do RFM, personalized segmentation right, we are able to answer more insightful questions, such as:

- How can we use the data to test new marketing messages and content to increase conversions?
- Is it possible to grow brand value, customer satisfaction, and engagement based on our segmentation?
- Can we find new opportunities to upsell, cross-sell and monetize new marketing opportunities?

This advanced approach to segmentation helps marketers develop multiple levels of insights:



THE IMPORTANCE OF RFM SEGMENTATION

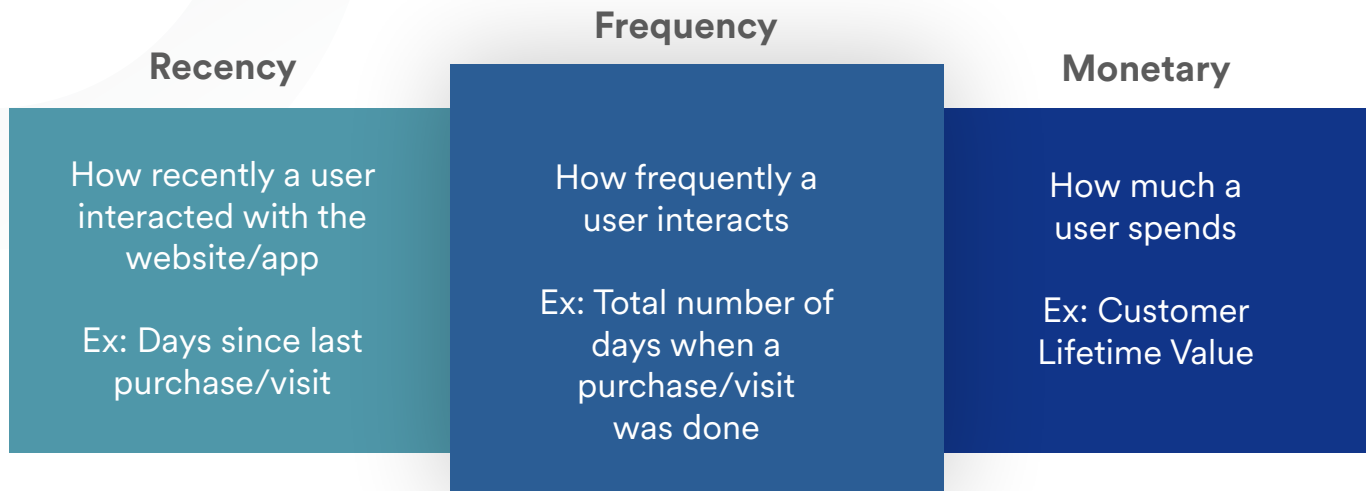
When traditional segmentation falls short of a marketer's needs, a compelling strategy to employ is what's known as "RFM" or "Recency, Frequency, and Monetary value" to generate more valuable customer insights.

These three metrics are strong indicators of a customer's actual data-based behavior. The frequency and monetary value affect a customer's lifetime value, while recency affects retention – a strong measure of engagement.

RFM criteria are defined as follows:

- **Recency:** the number of days since a customer's last purchase. Typically, this value is defined in days. For example, if the customer's last order was 42 days ago, then their recency is "42."
- **Frequency:** the number of orders placed in a given time period. If a customer has placed seven orders over the course of one year, then their frequency is "7."
- **Monetary Value:** the total amount of money spent by a customer over a given time period. For example, a customer that has placed five orders of \$50 each over the course of one year would have a monetary value of \$250.

INSIGHTS GATHERED USING RFM MODELLING



RFM segmentation is a highly effective tool because actual customer data, not assumptions fundamentally drive it. It relies on historical or behavioral data analysis to predict customer behavior and preference, and divides customers into homogeneous groups. Instead of relying on a representative sample, the entire customer population can be considered in the analysis. As we rely more on aggregate data, we remove the subjectivity from traditional segmentation methods. Each customer's interaction with a brand's product can be analyzed to help create better insights and opportunities for engagement and create a potential for increased lifetime value (LTV).

RFM allows us to ask (and answer) deeper questions than traditional segmentation, such as:

- Who are my **best** customers?
- Which customers have the **potential** to buy at a higher price point?
- Which customers are **most likely to churn** or lapse?
- Which customers can be **converted** through promotions?
- Which customers are likely to be **loyal** in the near future?

REIMAGINING PERSONALIZATION USING RFM SEGMENTATION

There is an established step-by-step approach that companies can use to implement a successful RFM segmentation strategy. These steps bring together the data required to accurately segment customers and empower contextual, insights-driven engagement strategies. Of course, the first step is to collect and collate the relevant data: customer lists, purchase histories, lifetime value, and other relevant information. This data will be used to establish the scales that will create the appropriate consumer buckets.

Leveraging an AI-driven customer engagement platform with built-in RFM analysis will do this hard work for you and help surface the right insights. Companies that utilize RFM methodology rank all of their customers for each of the three key categories: recency, frequency, and monetary value.

The scoring is a simple one to five scale, where one is the least valuable and five is most valuable. With a five-point scoring scale, the top 20% of customers will receive a five, the next 20% will receive a four, the next 20% a three, and so on.

A customer may have a score of five (most valuable) for recency because they have purchased within the last two days. That customer may score a two in frequency because it is only their second purchase. Finally, they may score a one in monetary value because their total purchases to date are very low. Once customers have all been scored across the three metrics, these values can be combined to create an aggregate score.

However, companies could choose a custom weighing scale based on priorities, such as increasing the importance of monetary value by 50 percent to identify highly valued customers with better spending potential. With these scores, teams can assign all customers to an appropriate consumer bucket that will help inform which strategies will be most effective. The end results in a more personalized look at customers and customer segments, driven by empirical data and behavioral insights. This allows brands to create valuable new customer groups to market to.



A. CREATING MORE EFFECTIVE SEGMENTS BASED ON RFM SCORE

Customers who are showing similar behavior on R, F, M scores, and RFM aggregate scores, are grouped into the same RFM buckets or segments. These segments are identified and named with respect to customer behavior. Here's the four-step framework to create your segments.

Step 1: Collect and collate relevant data/values

Customer	Recency Value	Frequency Value	Monetary Value
#1	10	1	5500
#2	8	4	800
#3	4	7	2400
#4	3	11	9700
#5	1	2	4300

Step 2: Set the RFM scales

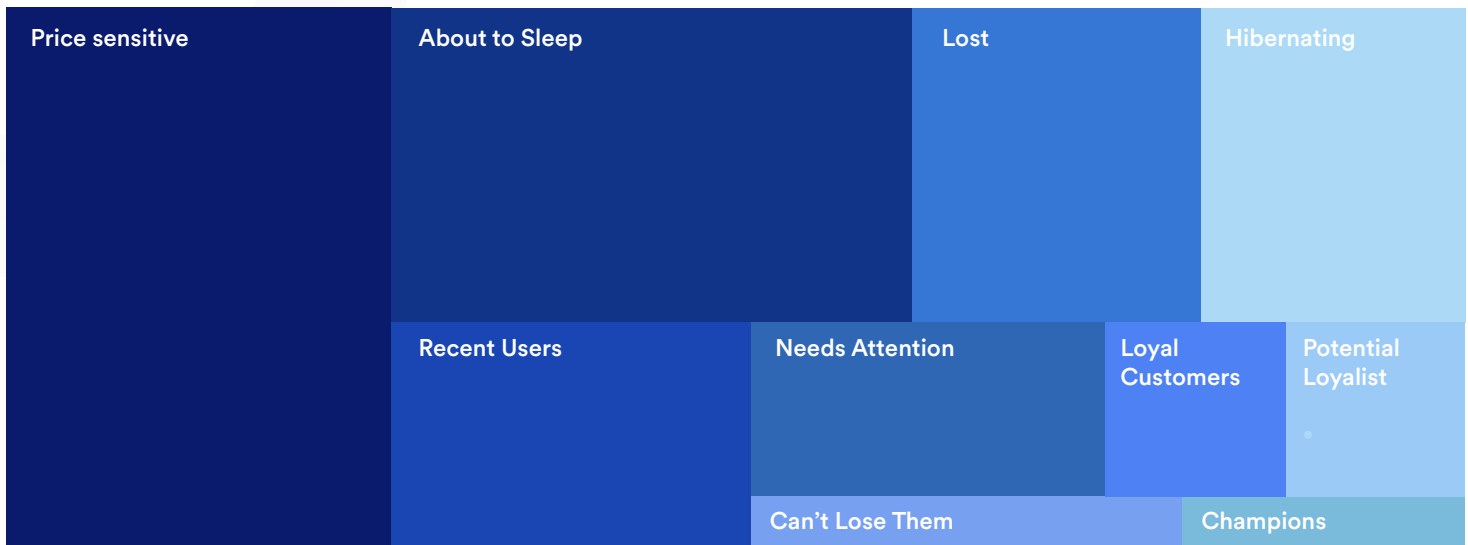
Score	Recency Scale	Frequency Scale	Monetary Scale
1	Last bought a year ago	Bought once a year	Less than 1000
2	Last bought 9 months ago	Bought thrice a year	1001 - 3000
3	Last bought 6 months ago	Bought 5 times a year	3001 - 5000
4	Last bought 3 months ago	Bought 7 times a year	5001 - 7000
5	Last bought 1 month ago	Bought 10 times a year	7001 - 10000

Step 3: Assign scores

Customer	Recency Score (Value)	Frequency Score (Value)	Monetary Score (Value)
#1	1 (10)	1 (1)	4 (5500)
#2	2 (8)	3 (4)	1 (800)
#3	3 (4)	4 (7)	2 (2400)
#4	4 (3)	5 (11)	5 (9700)
#5	5 (1)	2 (2)	3 (4300)

Step 4: Label segments

RFM Model | User Transition



At one end of the spectrum, we have the most active and valuable customers, such as:

- **Champions** - Those who visited most recently, visited most often, and spent the most.
- **Loyal Customers** - Those who visited recently, visited often and spent a great amount.
- **Potential Loyalists** - Those who spent a significant amount of money.
- **Can't Lose Them** - Those who spent a great amount of money and visited often but not recently.

Beyond the obviously profitable customers, there are also those that have the potential to become more loyal:

- **Recent Customers** - Those who visited most recently, but not as often and have not spent much.
- **Promising Customers** - Those who are average in their recency, frequency, and monetary scores, but still have the potential to buy more and more often.

Other customers should be targeted quickly to avoid losing their future business. Some of these will be categorized as:

- **Needs Attention** - Those who spent a good amount at one point in time but have not visited recently.
- **About To Sleep** - Those who are scoring below average recency, frequency, and monetary values, and are apt to disappear.

The final group may take some additional analysis and focus if the brand wants to regain their attention again or increase their spending:

- **Price Sensitive** - Those who visited recently, and also often, but do not spend much (indicating a hesitancy based on price).
- **Hibernating** - Those who have not visited recently, nor have made many valuable purchases. For E-commerce brands, this could be a customer who buys from you during the holiday season, but not throughout the year.
- **Lost** - Those who have the lowest recency, frequency, and monetary scores.

B. DEVELOPING PERSONALIZED ENGAGEMENT STRATEGIES

Once customers have been assigned to the appropriate category, engagement strategies can be developed and targeted for each group, such as:

- **Champions** - Reward these customers. They promote your products, can be early adopters for your new launches, and are brand ambassadors
- **Loyal Customers** - These customers are responsive to your promotions. The brand should suggest higher-value products and ask the customer for reviews.

User Properties **User Behaviour** Custom Segments

Has executed ▾ Extended_subscription at least ▾

1 times in the last ▾ 30 days

with attributes: Paid Subscriber

+ Add Attribute

**Tracked when a user visits a web page.

AND OR

User Properties User Behaviour Custom Segments

Loyal customer x ▾ is ▾

Plus plan member ✓



NOTE: The segmentation is a blend of different categories of data like — **User Behavior:** extended_subscription in the last 30 days | **User Attributes:** Paid Subscriber | **User properties:** <name of the customer> who is Plus plan member

- **Potential Loyalist** - Engage these customers with long-term offers like loyalty programs or membership rewards. Suggest other categories of products that may be of relevance to them.
- **Recent Customers** - For new and more recent customers, make their onboarding experience smooth and provide assistance as needed.

User Properties **User Behaviour** Custom Segments

Has executed ▾ **New_paid_subscription** at least ▾

1 times in the last ▾ **30** days

with attributes: **Paid Subscriber**

+ Add Attribute

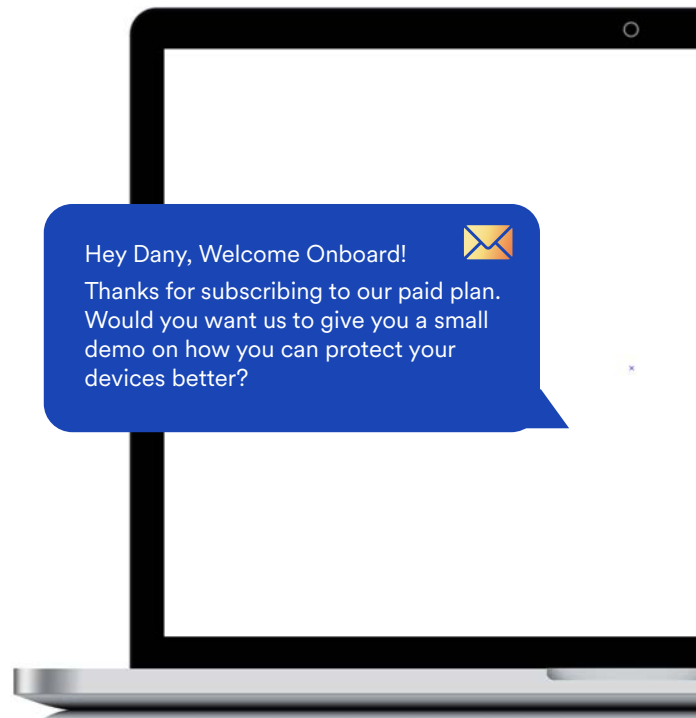
**Tracked when a user visits a web page.

AND **OR**

User Properties User Behaviour Custom Segments

New customer x ▾ is ▾

Basic plan member



NOTE: The segmentation is a blend of different categories of data like | **User Behavior:** paid_subscription in the last 30 days | **User Attributes:** Paid Subscriber | **User properties:** <name of the customer> who is Basic plan member

- **Promising** - Make them loyal by creating brand awareness and giving free trials or access to specific promotions.
- **Needs Attention** - The brand should bring back these customers by providing limited-time offers and recommending content, products or solutions based on behavioral or purchase history.

User Properties **User Behaviour** Custom Segments

Has executed ▾ **Free_subscription** at least ▾

1 times in the last ▾ **30** days

with attributes: **Free Subscriber**

+ Add Attribute

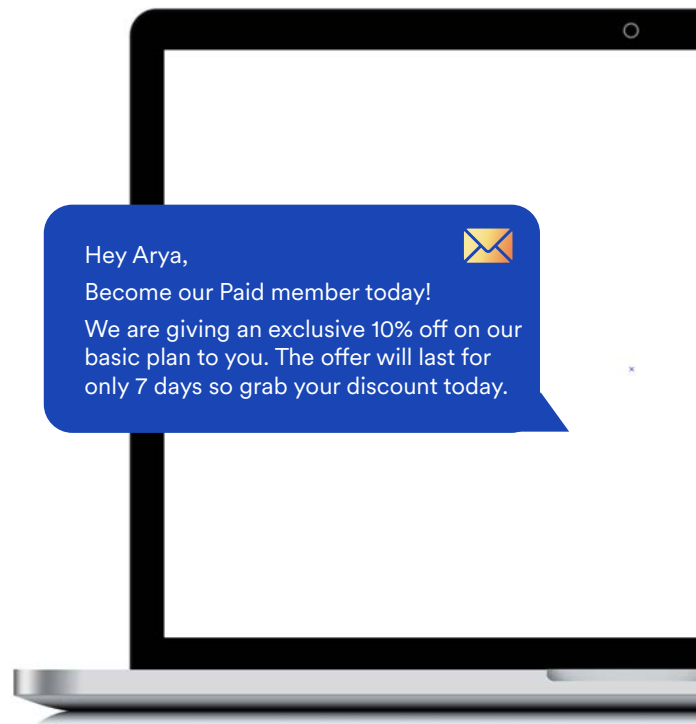
**Tracked when a user visits a web page.

AND **OR**

User Properties User Behaviour Custom Segments

Free customer x ▾ is ▾

Free member



NOTE: The segmentation is a blend of different categories of data like | **User Behavior:** free_subscription in the last 30 days | **User Attributes:** Free Subscriber | **User properties:** <name of the customer> who is Free member

- **About to Sleep** - These customers will be lost if not reactivated. Recommend popular products to them while providing discounts for memberships.
- **Price Sensitive** - As customers continue to look for the best deal, the brand should recommend the highest rated products and send deals or discount offers to re-engage.
- **Can't Lose Them** - Listen to these customers' feedback, suggest newer products, and provide reasons for them to stick with your brand.
- **Hibernating** - Continue to make recommendations for products in relevant categories, and provide personalized offers. Make sure to communicate more often during the periods these customers are most active with your brand.

User Properties **User Behaviour** Custom Segments

Has executed at least times in the last days

with attributes:

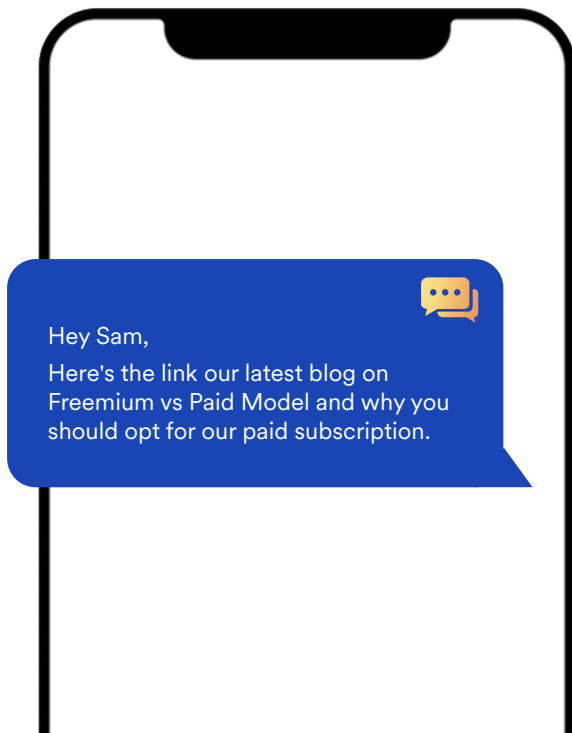
+ Add Attribute

**Tracked when a user visits a web page.

AND OR

User Properties **User Behaviour** Custom Segments

x



NOTE: The segmentation is a blend of different categories of data like | **User Behavior:** free_subscription in the last 45 days | **User Attributes:** Free member | **User properties:** <name of the customer> who is Free member

- **Lost** - Make your presence known through unique and ongoing campaigns, try to re-engage them with content or products they previously engaged with in the past.

HOW A BILLION-DOLLAR GLOBAL SECURITY SOFTWARE BRAND EXECUTES RFM SEGMENTATION

This case study details one brand's journey implementing a test using the RFM segmentation strategy.

Before getting started with RFM segmentation, this brand had to define the RFM variables for their brand.



1. Recency was defined by the difference between the current date and the last date their customer was seen on the app.



2. Frequency was defined as the client's initial subscription length.



3. Monetary value was defined by the customer's subscription type and its value in US dollars.

The brand's hypothesis was that by segmenting its audiences into distinct homogeneous groups based on their RFM scores, they would better understand customer behavior in their mobile app, which features are most engaging, and the potential to convert and develop a strong relationship.

Scoring buckets were created using a scale of 1 to 3, 4, or 5 based on required granularity, with 1 being the highest. Each bucket was then labeled based on scoring:

- Loyal customers receive scores of **1-1-1** across the board (the highest scores in each category)
- Potentially loyal customers receive a **3-4/5**

OUTCOMES FROM THE RFM MODEL

Using the segmentation described above, this brand was able to divide its customer base into eight categories. More than 92% of their customers fell into just four of these categories. Accordingly, the security software brand used this data to focus its efforts on Needs Attention, Hibernating Customers, Recent Customers, and Loyal Customers. With these new strategies, the brand expects to see 1.5% conversions, i.e., email addition and at least a 3% click-through rate (CTR) rate.

Based on scoring, messaging campaigns would be tweaked based on groups/cohorts to decide which message, content, and number of campaigns to run. Messages would vary between educational messages, promotional messages, and upsell/cross-sell campaigns. Older campaigns could also be re-used for certain new groups identified in the RFM model. The results of this short-term experiment far exceeded the original goals and expectations:

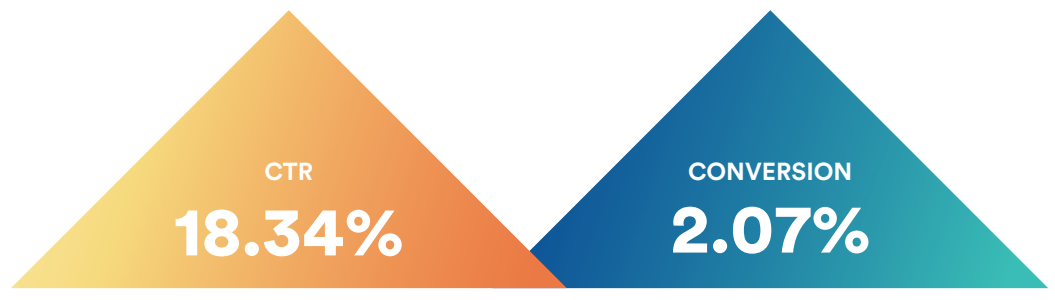
Needs Attention



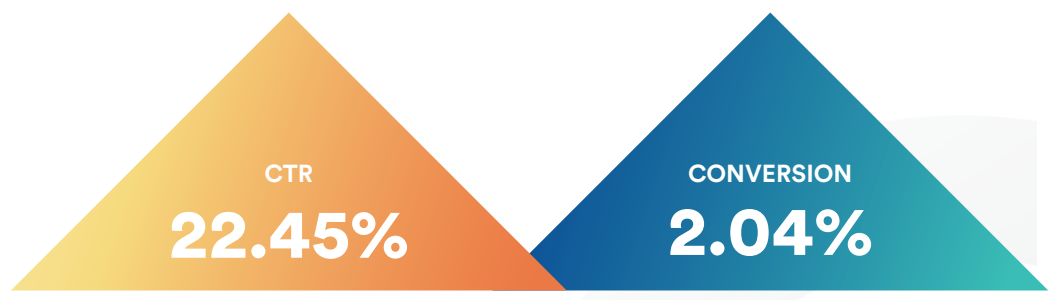
Hibernating



Recent Customer

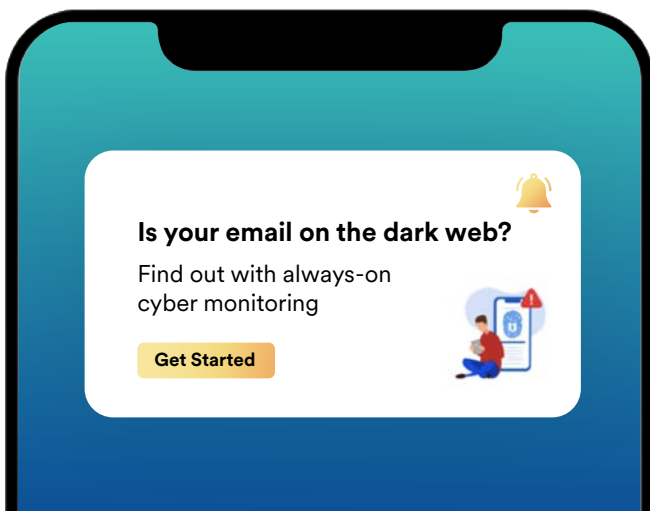


Loyal Customer

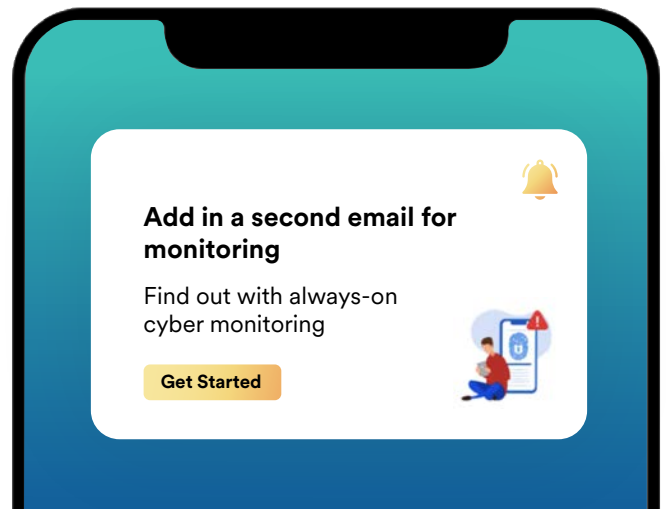


Overall click-through rates exceeded the brand's goals by 5-18%. Additionally, conversion rates were up in all four areas, showcasing the value of the RFM segmentation model. The bottom line here is that by utilizing RFM segmentation, the brand was able to perform a highly data-driven analysis to produce better insights that led to better click-through and conversion rates.

Based on the data and focused segmentation, the brand was able to revise messaging on a more personalized level. For instance, below is a screenshot of a push message sent to 'low scoring' segments to promote Dark Web monitoring:



Another example is of a push notification sent to the loyal customer segment that asked them to add on a second email for security monitoring.



Moving forward, the brand can now run optimized customer lifecycle campaigns with personalized messages and offers for each individual, maximizing the return of their marketing efforts.

A NEW ERA OF PERSONALIZATION

We're in the digital age of engagement, and customers are able to guide themselves through their own buyer journey like never before. With all of that online activity going on, it is critical for marketing teams to use tactics like insights-driven RFM segmentation to read the behavioral data and understand customers on a deeper level. RFM adds the analytical component to insights-led engagement and creates a more personalized interaction with each and every customer.

WHAT TO READ NEXT

We're in the digital age of engagement, and customers are able to guide themselves through their own buyer journey like never before. With all of that online activity going on, it is incumbent on marketing teams to employ tactics like insights-driven RFM segmentation to read the behavioral data and understand customers on a deeper level. RFM adds the analytical component to insights-led engagement and creates a more personalized interaction with each and every customer.



ABOUT moengage

MoEngage is an insights-led customer engagement platform, built for the customer-obsessed marketer.

With AI-powered customer journey orchestration, personalization capabilities, and in-built analytics, MoEngage enables hyper-personalization at scale across mobile, email, web, SMS, and messaging channels.

Over 1,000+ brands across 39+ countries use MoEngage to send 80 billion messages to over 1 billion consumers every month. We serve enterprises such as Deutsche Telekom, Samsung, Ally Financial, Vodafone, and McAfee along with internet-first brands such as Flipkart, Ola, OYO, and Bigbasket use MoEngage to orchestrate efficient customer engagement.

MoEngage was recognized as a Leader in the Gartner Magic Quadrant 2020 for Mobile Marketing Platforms and a Strong Performer in The Forrester Wave™ Report for Cross-Channel Campaign Management (Independent Platforms), Q3 2021. G2 also named MoEngage a Leader in the Fall 2020 Grid® Report, and the #1 Mobile Marketing Platform in the Spring 2021 Momentum Report.

Get a Demo of MoEngage Today