# Segment your customers

## and find new ways to market and sell

Zoho CRM

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# Why segment your customer database?

## Do you know who your best customers are?

Perhaps you consider the customers that are spending thousands of dollars on your products to be the best—and for good reason. They are your VIPs. But, your best customers in the long run could end up being the ones who are the most loyal and regular in their purchases, and supply a steady source of income to your business. This group may even likely be in a position to start making bigger purchases, given that they've demonstrated consistent satisfaction with your products.

> The 80/20 rule in statistics, also known as the Pareto Principle, States that for any given event, roughly 80% of an effect comes from only 20% of its cause.

In a business context, this means that 20% of your customers tend to contribute to 80% of your total profit. Everyone would like to confidently target their best customers (the 20%) for future growth. Customer segmentation—identifying your best customers and retaining them—is the challenge here.

Customers can be grouped in a number of ways, such as Geography, Demographics, Behavior, Loyalty, and Transactions. Some of the benefits of customer segmentation include:

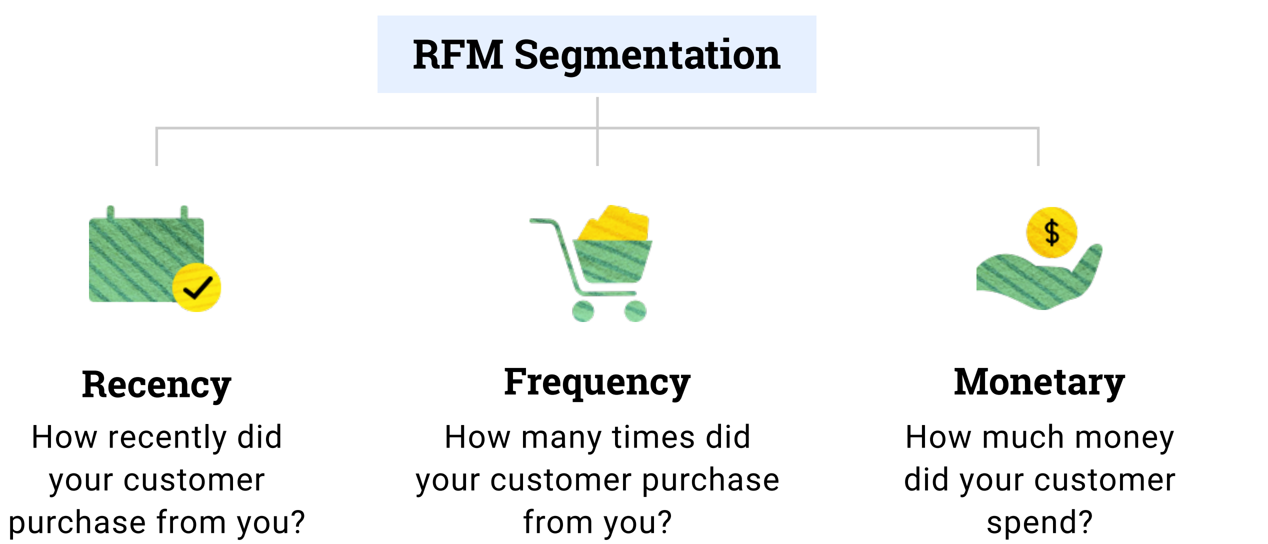
- Better understanding of your customers and their preferences.
- Targeted marketing—reaching out to loyal customers for their specific business needs.

- Increased customer satisfaction and customer retention.
- Better focus on marketing efforts by identifying groups that need extra attention.
- Comprehensive knowledge of growth areas.
- Proper allocation of marketing resources and increased up-selling and cross-selling opportunities.

# RFM model of segmentation

## What is RFM, and why do all three metrics need to work together?

RFM is a segmentation model for measuring the lifetime value of your customers: "Recency", "Frequency", and "Monetary value". These three essential metrics are used to determine the behavioral patterns of your customers and segment them into actionable groups.




These metrics may sound straightforward, but it's helpful to learn about each of them in more detail.

## Recency

Recency is considered to be possibly the most important metric of the three. Attracting potential customers to make their first purchase is challenging, and it can be just as difficult to make them come back and buy from you again.
A customer is considered active if they made a purchase from you recently. However, the definition of “recent” may vary from business to business.
For a clothing store, it could be 3-4 months, but for a furniture store it could easily be 12-18 months.

Ideally, you will have three types of customers at all times:

1. **Potential customers**
   who you plan to do business with in the future.

2. **Current and Active customers**
   who bought from you recently.

3. **Inactive customers**
   who bought a long time ago and haven’t made another purchase since.

Understanding recency helps you identify the state that each customer is in.
It is essential to create new active customers and keep your current customers active. If you have enough resources, you should also try to revive your inactive customers. So, when you notice a customer has purchased recently, that means that they are in a position where they are more likely to engage with your business if you reach out to them than someone who did business with you less recently.

# Frequency

Frequency can be easily measured in numbers, but the rationale behind why a customer is a frequent buyer and why another one is not can be a mystery to marketers, and there isn't much that they can do about it. How often a customer purchases from you is determined by different variables. For example, the typical usage of the product, its price, market trends, and the need for replacement. It is not always easy to measure and identify a customer's satisfaction levels, or the reason behind frequent purchasing.

For example, let's say you run a business supplying stationery products to companies and schools. When your competitor offers a heavy discount, your customers make their next purchase from them. The standard for satisfaction in this situation is based on price. After a few months, the same customer may need their stationery to be delivered urgently. If your competitor takes a week to fill the order, and you provide a quick service, the same customer will switch over to purchase from you. Now, the customer's satisfaction is defined by the speed of delivery. It is essential to try and identify the reasons behind a customer dropping in purchase frequency. Not knowing this can be disastrous.

Again, frequency also varies for perishable and non-consumable products. Frequency metrics for a business that sells food and groceries will be different from a company that sells furniture. In conclusion, unless you identify and analyze the determining factor behind the frequency of their purchases, this parameter will have limited use.

## Monetary

Is it true that the people who spent the most are your best customers?
What if they only buy every 3 or 4 years, or what if they no longer use your product?
Much like recency and frequency, the monetary element alone cannot help you find your best customers, but it is definitely the dominant metric of the three.

**Let us take a look at the first two rows in the table below:**

| Recency | Frequency (purchases/year) | Monetary ($ per purchase) | Total monetary value | $ over 3 years |
|---|---|---|---|---|
| 1 year | 6 times in a year | $50 | $50 x 6 = $300 | $900 |
| 1 year | 12 times in a year | $15 | $15 x 12 = $180 | $540 |
| 3 year | Once in 3 years | $1500 | $1500 x 1 = $1500 | $1500 |

The multiple buyer spends an average of $50 on each of their 6 purchases in a year. That amounts to $300 dollars, while another customer spends $15 dollars 12 times in a year, which amounts to only $180. On average, the total spend over three years is $900 and $540 respectively. For example, these are the customers who would be buying small quantities of paint for a regular fix up, compared to a one-time buyer who spends $1500 once every three years to paint an entire house. Who is your best customer here? It makes sense to know the monetary value of the customers and take the necessary steps to retain them. At the same time, you need to take into consideration the other metrics to implement the correct marketing strategies.

# Optimizing RFM

If you want to get more accurate insights on customer personas from your RFM data, you can combine additional attributes to optimize your RFM analysis. For instance, in a B2B context, customer titles can be a crucial variable to track in addition to your RFM analysis. If most of your top performing customers have the title of CIO, CTO, or project manager, you can market more to that segment of your potential customers. In small organizations, there are generally not as many defined titles, so it’s important to take into consideration the size of the company when you plan to optimize your RFM analysis this way.

Optimizing customer performance with age data is another such example. When marketing for insurance, age is an essential factor. If your analysis determines that your champion customers are between 40 and 55 years of age, you have now discovered a meaningful piece of knowledge that can be used for your marketing strategies.

Similarly, geography can reveal productive information. The effectiveness of advertising and the relevance of a product often depend on geographic factors, such as population, cultural preferences, and climate. Knowing specifically where your best customers come from can help you position your marketing pitch and target new customers to address the needs of your existing champion customers. This can be done on a broad basis by sorting your RFM results by region, country, or ZIP code.

There are additional factors that can overlay your RFM analysis, such as income, gender, and the size of a customer’s company that can help you target smaller slices of an isolated customer base. You can use this information to apply for better marketing strategies and get an insight into your buyers’ personas.

# RFM score

**Method 1:**

The most commonly used method of assigning scores in an RFM analysis is to allocate numbers from 1 to 5 for each category in Recency, Frequency, and Monetary value, where 5 is the highest, and 1 is the lowest.

If a customer has bought more products recently, you will assign a higher score in the R category. If the customer has made many purchases, you assign more points in the F category, and if your customer spends more money on their purchases, you would give them points in the M category.

All these scores together make up the RFM score.

**Method 2:**

Another method uses percentile calculation to divide the customer data into 5 equal parts for each section, using the values in the R, F, and M fields.

Let’s take, for example, a percentile calculation based on monetary value.

If customers purchased products worth $500, $1000, $1500, $2500, and $5000, then, as per the percentile calculation, the highest value ($5000) will account for the score 5, while $2500 will account for the score 4,

and so on. Similarly, the top 20% of the most recent customers get a 5 score for Recency, the next 20% a 4, and so on. The 20% most frequent customers get a 5 for Frequency, the next 20% a 4, and so on.

**Here are some standard RFM customer segments that are already defined that are generally applicable:**

| Segment | R | F | M | Tips on action items |
|---|---|---|---|---|
| Champions<br>Bought recently, purchase often, and spend the most | 4-5 | 4-5 | 4-5 | These are your best customers. Keep them frequently engaged and provide early and exclusive access to your products. Help them with loyalty programs, memberships, and most importantly, make them feel important. |
| Loyal Customers<br>Spend good money and respond to promotions | 2-5 | 3-5 | 3-5 | These are your regular, loyal customers and will most likely respond to your promotions. Engage them with regular updates, up-sell, and cross-sell your products. They are on their way to becoming champions. |
| New Customers<br>Recently made first time purchase and spent decently | 4-5 | 1 | 1 | New customers have the potential to give you recurring business, so provide on-boarding and support services right from the beginning. Educate them on the value of your products, provide offers, and start building a relationship. |
| At Risk Bought recently, purchase often, and spend the most | <= 2 | 2-5 | 2-5 | These are the valuable potential customers that you need to reactivate. Send personalized emails to connect and share information on your new offerings. |
| Hibernating<br>Bought recently, purchase often, and spend the most | 1-2 | 1-2 | 1-2 | Don’t spend resources on these customers, as it is unlikely that they will repeat their purchase. Include them in your long-term mass email campaigns for a chance to win them back. |

Understanding and identifying the recency, frequency, and monetary values of your business is necessary to segment customers in your database. Once you've set the scores for each segment, you can implement them in your CRM to identify the champions, loyal customers, those that need attention, and more. The optimized and extended RFM approach to market segmentation can be of great benefit in understanding your customers and retaining them long-term.

# Implementing RFM segmentation in your Zoho CRM account

Your Zoho CRM account is your customer database. Housing all the details of email communication, past purchase history, social media interactions, history of follow-ups, and more, your CRM is a rich database that helps you understand your customers better. When you have access to all this information, knowing who your best customers are, and which segment they belong to can be a great advantage in targeting your marketing and sales efforts for the right audience.

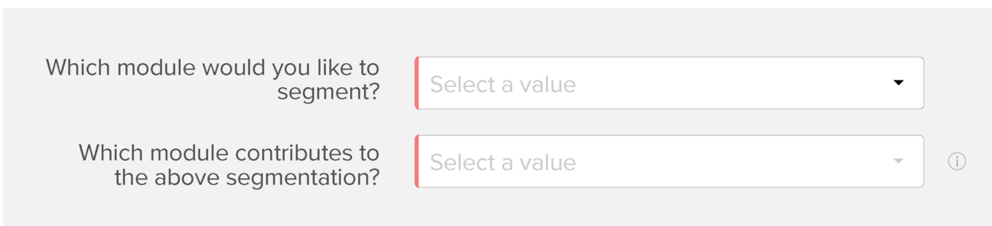
Zoho CRM provides the option to group your customers based on the RFM segmentation model. The Segmentation feature in Zoho CRM can be accessed from **Setup > Automation > Segmentation.** Before you begin implementing the RFM segmentation model in your account, you can always test it out in a sandbox environment before moving it into your production account. The implementation is quite simple, so the planning that comes before should be your main area of focus. Here are the items that you need to plan and do before you begin an RFM analysis in Zoho CRM:

1. **Choose the time interval for your recency metric. It is important to identify your own time scale based on the pace of your business.**

    - For a hotel business, the time frame could easily be measured in years. For example, guests who have stayed within the last year or last two years.
    - For an ecommerce company, the scale would likely be in months. For example, your loyal customers may be buying once or more every month.
    - For a media company, you may use months, based on your subscription model.

2. **Identify the modules in your Zoho CRM account where details about your customers and deals are stored.**

    Identify the modules in your Zoho CRM account where details about your customers and deals are stored.




3. **Identify the fields that will help the system recognize the accurate values for measuring recency, frequency, and monetary value.**

    This information will be available in the Deals module. For example, the fields could be subscription date, deal closing date, booking dates, deal amount, and number of subscriptions.

4. **Decide which set of customers you want to segment.**

   RFM analysis on a specific set of customers can give you more specific results to work with. Before RFM segmentation is performed, you can set criteria to filter a specific set of customers that you want to segment. For example, you may want to run a campaign for guests who regularly prefer staying in your hotel during their business trips. You can filter them based on geography, room preferences, or food options, and work on providing better customer experience to keep them coming back. Similarly, you can segregate customers who only purchased two specific products and apply RFM segments on that subset of your customer base.

5. **Plan a score chart with corresponding segmentation labels and proposed action items.**

   Doing this is essential as this score card will tell you who your customers are—champions, loyal customers, at-risk customers, and so on. So make sure to cover all the significant combinations for the three metrics and give them suitable labels. You can begin with some universal pre-defined labels and scores that are readily available (as shown in our sample chart) and tweak them as needed.

# The need for segmentation groups in Zoho CRM

In Zoho CRM, RFM segmentation and analysis can be performed on different clusters of customer data, depending on your use case. Let us look at the following businesses:

- A subscription-based business with both monthly and yearly purchase options

- A company with multiple business divisions that sell different products
- An ecommerce company that sells products online, along with multiple brick and mortar stores
- A company with a hybrid offering of both products and services

In all these cases, there are different clusters where your customers can be grouped. For instance, it would be wise to perform separate RFM analyses on each of the two divisions of a company that sells on-premise products and cloud products. In Zoho CRM, this can be implemented by creating multiple segmentation groups and applying them to the customer database.

**The following table lists out the fields that you need to fill in to set up one segmentation group. You can repeat them for each group.**

| Fields in Zoho CRM | Description | Example |
| --- | --- | --- |
| Segmentation name | As explained above, when you have the need to create multiple groups of segments for customers. | Product based Segmentation<br><br>Service based Segmentation |
| Which module would you like to segment? | Ideally, the module where your customers' data is stored in CRM. It can be referred as segmenting module. | Clients<br><br>Contacts |
| Which module contributes to the above segmentation? | The module that stores the details about the customer's purchases, the date of purchase, total amount spent, etc. It can be referred as the contributing module | Deals<br><br>Subscriptions |

| | | |
|---|---|---|
| Linking field | The lookup field that connects the segmenting module and the contributing module. | Contact Name/Customer Name field in the Deals module |
| Recency field | The field that captures the recency of the customer. | Subscription<br>Deal Closing Date<br>Subscription |
| Frequency field | By deals count or by a field that captures the frequency. | Number of subscriptions (If 'by field' is selected) |
| Monetary field | The field that captures the monetary value of the customer. | Deal Amount |
| Which records would you like to apply the rule to? | Criteria for filtering the records that segmentation will be applied to. | - |
| Labels | Edit the default scoring to create a setup based on your needs. | As given in the table above |

# After segmenting customers

The main aim of RFM segmentation is to understand your customers so you can reach out to them in a more meaningful way. Using segmentation in Zoho CRM, you will be able to identify your champions, high-spending new customers, former best customers, and the like. This can be done by using the "**Segment Label**" field that is available in advanced filters, reports, and list views. You can also try to find out if the reason for any change in the buying patterns of one segment of customers is a result of a particular campaign, discount, or new trend.

Nurture new customers with low scores:

- Target them for special campaigns.
- Promote regular and repeat purchases.
- Create loyalty benefits and offers.
- Amplify a product launch's success.
- Create personalized content strategies for web pages.
- Nurture new customers with low scores.

RFM segmentation of your CRM data is a great method for understanding your customer base and developing buyer personas. Remember, RFM calculation is just the beginning, what matters is what you do with this information. Make sure that you don't just focus on high scores, but that you perform a careful analysis that helps you identify inactive or infrequent customers who can be boosted if given the right attention.

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