RFM
Segmentation

A simple, powerful way to sort customers by their actual buying behaviour, using only your sales data. RFM scores each customer on three things: Recency (how recently they bought), Frequency (how often they buy), and Monetary value (how much they spend). Combine the scores and clear segments appear, your loyal champions, your at-risk regulars, your newcomers, so you can treat each group right.

Best for: Customer segmentation · Targeted marketing · Retention · Spotting VIPs

01 — AT A GLANCE

Two of the three scores already split customers into clear segments; the third, how much they spend, sizes each one's value.

Two RFM dimensions reveal the segments; the third, money spent, sizes their value.

	Frequency: low	Frequency: high
Recent: yes	**New** Recent, few buys	**Champions** Recent & frequent
Recent: no	**Lost** Gone quiet	**At-Risk** Loyal, now lapsing

02 — THE CORE COMPONENTS

RFM scores customers on three behaviours, then groups them.

Recency	How recently a customer last bought. Recent buyers are far likelier to buy again, so recency is often the strongest signal.
Frequency	How often they buy. Frequent buyers have the habit, they're loyal and open to loyalty perks and cross-selling.
Monetary	How much they spend in total. Big spenders deserve premium treatment; smaller spenders suit lower-cost nudges.
Scores into Segments	Score each customer 1-5 on R, F and M, then combine into segments like Champions, Loyal, At-Risk, New and Lost, each with its own playbook.

Treat your best and your at-risk differently

A customer who bought five times last week is not the same as one who bought weekly for a year but has gone silent. RFM separates them: the first is a Champion to reward, the second is At-Risk to win back. Lumping all customers together wastes money pampering the lost and ignoring the loyal.

03 — WHEN TO USE IT & WHEN NOT TO

This framework isn't right for every situation. Used at the wrong moment, it can point you in the wrong direction.

✓ USE IT WHEN…	✗ DON'T USE WHEN…
• Sorting customers by real buying behaviour • Targeting offers to the right customer groups • Spotting VIPs and at-risk customers to act on • Prioritising retention with a limited budget	• For brand-new businesses with little purchase history • When you over-split into too many tiny segments • For products bought once in a lifetime • As the whole story (it ignores why people buy)

04 — IN ACTION

Brew Box — Spending Smarter on the Right Customers

Brew Box, a coffee subscription, blasts the same discount to everyone and it's eating profits. RFM helps them target who actually needs what.

How the framework was applied:

Step 1	**Score every customer —** Each gets a 1-5 on Recency, Frequency and Monetary value.
Step 2	**Find the Champions —** Recent, frequent, high-spend customers; they don't need a discount, just appreciation.
Step 3	**Spot the At-Risk —** Once-loyal subscribers who've gone quiet, the prime target for a win-back offer.
Step 4	**Tailor the action —** Perks for Champions, win-back deals for At-Risk, a warm welcome for New.
Step 5	**Save the spend —** Discounts go only where they're needed, lifting retention and protecting margins.

The numbers at a glance

Before	Champions	At-Risk	Result
One blast	**Reward**	**Win back**	**Higher margin**
to everyone	no discount	targeted	smarter spend

Why RFM beat the blanket discount

Brew Box was discounting loyal customers who'd have paid full price, and ignoring lapsing ones who needed a nudge. RFM sorted customers by behaviour, so each group got the right treatment. The same budget, aimed well, lifted retention and stopped giving away margin.

05 — KEEP IN MIND

Even experienced teams slip up here. Keep these in mind to keep your analysis honest and useful.

1. Splitting into so many segments you can't act on them.
2. Using it with too little purchase history to score.
3. Applying it to one-off purchases with no repeat pattern.
4. Treating the scores as fixed; behaviour changes over time.
5. Forgetting RFM shows what customers do, not why.