Recency, Frequency, & Monetary Value (RFM)

The Response RFM module is used to calculate the value of your customers in terms of how recently they have purchased from you [recency]; how often they have purchased [frequency]; and how much money they’ve spent [monetary]. Since RFM is completely user-configurable—not just in terms of behavior scoring but also in the relative weighting between R, F and M themselves—the analysis can be performed in a highly granular manner to best suit your own customer’s purchasing behavior and thereby optimize the results.

User-definable rules are created to assign a score for each of recency, frequency and monetary value. Because you may not know the relative distribution of your customer’s purchasing behavior along these gradients (e.g. what score to assign to a customer who purchased 30 days versus 60 or 90 days) you may want to run the analysis multiple times and adjust the scores accordingly.

The RFM value for your customers is calculated in three steps. First, raw scores are calculated for each of the three metrics (R, F and M) based upon the rules that you configure. These raw scores are then aggregated into a final Weighted RFM value based upon your relative weighting (e.g. some customers may want recency to contribute more to the weighted score than, say, monetary value). Finally, the Weighted RFM Value for all customers is plotted along a distribution curve to separate them into a specified number of segments with the assigned segment saved with each customer’s master record.
**Calculating the Raw RFM Scores**

Each customer has three separate raw RFM scores: Recency, Frequency, and Monetary Value. When “Calc Raw Scores” is clicked each customer in the specified range is analyzed according to the rules setup on the user-defined rules tabs and assigned the proper score.

**Calculating the Weighted RFM Value**

The Weighted RFM Value is the weighted average of the Raw RFM Scores. Response recognizes that providing equal weight to recency, frequency and monetary value does not suit all businesses. Therefore, we allow you to indicate the relative value of each variable in determining the final weighted score. When “Calc Wtd RFM” is clicked, all customers that have Raw RFM Scores receive a Weighted RFM Value according to the specified weights.

**RFM Breaks**

The whole point of RFM analysis is to divide your customers into fixed “segments” of equal size such as five (called “quintiles”) or ten (called “deciles), for example. Your “best” customers (to top 20% in a decile scenario) will be in the first segment. The next best performing group will be in segment two. The worst performing customers (i.e. the 20% with the lowest aggregate RFM score) will be assigned to the last segment. Depending upon how much resolution you want to see, segmenting your customers into ten groups (deciles) may be preferred to using five (quintiles). Response allows you to segment your customers into anywhere from 2 to 99 groups.

Direct marketers will often mail selectively to the various segments in an effort to increase response rate and profitability. Determining who your best and worst customers, in an objective manner using RFM analysis, allows you to optimize your marketing and mailing campaigns and, in the process, improve your bottom line.

When the “Calc Breaks” button is clicked all customers with a Weighted RFM Value are sorted and broken into the specified number of groups. The Break Value can, and should, be saved back to the Customer table (fieldname syscust.rfm) using the checkbox provided.

**Other Controls**

**Print Rules** - Opens a crystal report that displays the rules that you assigned for assigning scores for recency, frequency and monetary value.

**Calculate All** – This is the same as clicking “Calc Raw Scores”, “Calc Wtd RFM”, and “Calc Breaks” in succession. It assumes that the rules set up is valid and that you’re ready to analyze and assign values to the customer file.
Recency Rules

A customer’s Recency is the number of days since their last order. Be sure to create a sufficient number of rules/scores to adequately differentiate purchasing behavior. Please note that the scores shown above are completely arbitrary and should be adjusted to best express and differentiate the relative purchasing behavior of your customers. The idea, with all these rules, is to create a unique final score for as many customers as possible in order to break them into the prescribed number of segments.
A customer’s Frequency is defined as the number of times they have ordered in the last $x$ days. Again, the above rules are completely arbitrary and should be tailored to properly resolve the relative purchasing behavior of your customer file.
Monetary Value Rules

A customer’s Monetary Value is the amount of money they have spent in a specified period. This may be defined in three different ways to best meet your needs: Lifetime $ Average, Lifetime $Total, or Total $Purchases in a specified period. Use these individually, or in combination, as best suits your analysis requirements and the purchasing behavior of your customers.