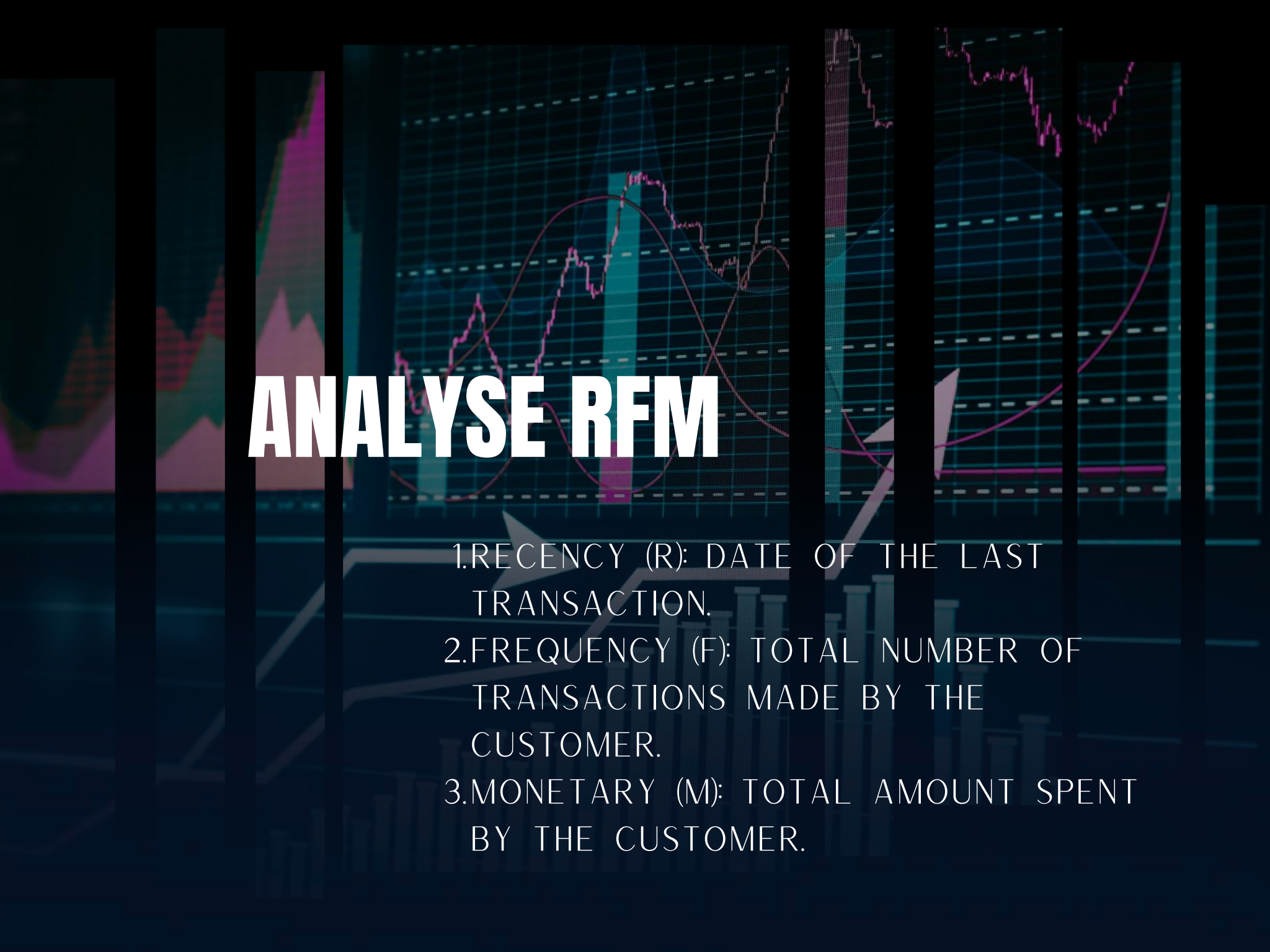




SEGMENTATION TECHNIQUES

1. ANALYSE RFM
2. CLUSTERING METHODS (K-MEANS, HIERARCHICAL)
3. CUSTOMER LIFETIME VALUE (CLV) SEGMENTATION

The background of the slide is a dark blue gradient with several vertical panels. Each panel contains a different type of financial chart: line graphs with red and green lines, bar charts with blue and red bars, and area charts with green and red areas. The charts are overlaid with a grid of dashed white lines.

ANALYSE RFM

- 1.RECENCY (R): DATE OF THE LAST TRANSACTION.
- 2.FREQUENCY (F): TOTAL NUMBER OF TRANSACTIONS MADE BY THE CUSTOMER.
- 3.MONETARY (M): TOTAL AMOUNT SPENT BY THE CUSTOMER.



ANALYSE RFM

This segmentation technique assesses customer value based on three dimensions:

Recency: Measures the time since the customer last purchased. The idea is that the more recently a customer has purchased, the more likely they are to repurchase in the near future.

Frequency: Measures how often a customer makes purchases. Customers who purchase frequently are more valuable to the brand and are generally more loyal.

Monetary: Calculates how much money a customer spends on average. Customers who spend more are generally more profitable.



ANALYSE RFM

Objective: RFM analysis allows customers to be classified into groups based on these three criteria, in order to target specific marketing actions. For example, customers with high recency and frequency, but low amount spent, could be targeted with promotional offers to increase their spending.

THINK ABOUT THE CONTEXT



The method of assigning scores depends on the typical purchase frequency and customer life cycle.

To determine optimal scores, it is important to analyze historical data specific to your business.

Using quintiles or tailored segments allows the calculation to be standardized while remaining relevant to the business.

THINK ABOUT THE CONTEXT

RFM scores should be tailored to each company's context and the typical purchasing frequency of its customers. Here's how to determine whether a customer receives a score of 1 or 5 based on the specifics of the company:

1. Understand the typical business buying cycle

Every business has a different buying cycle:

In the luxury sector, a customer might purchase expensive items (e.g., bags or jewelry) only once or twice a year.

In a retail or consumer packaged goods business, purchases may be much more frequent (several times a month).

THINK ABOUT THE CONTEXT

2. Analyze historical company data

Before assigning scores, it is crucial to analyze historical data to determine the distribution of recent purchases:

What is the average time between purchases?

Who are the most active customers and how often do they buy?

What is the maximum time since the last purchase for the most recent customers?

3. Assign scores based on quintiles

To assign scores from 1 to 5, a quintile method (or other statistical segmentation) is often used to divide customers into groups based on their recency. This allows for standardizing the assignment of scores while taking into account the specificities of the company.



PRACTICAL EXAMPLE

Let's say that after analyzing the data, we observe that the majority of customers buy within 90 days from a luxury brand:

Customers can be divided into 5 groups based on recency:

Score 5: Customers who made a purchase less than 30 days ago (very recent, very engaged).

- Score 4: Customers who purchased between 30 and 60 days.
 - Score 3: Customers who purchased between 60 and 90 days.
 - Score 2: Customers who purchased between 90 and 180 days (a little further apart).
 - Score 1: Customers who have not purchased for more than 180 days (risk of disengagement).
-
- This breakdown is tailored to the industry and the company's typical purchasing behavior. If your company observes that its customers purchase on average every 6 months or more, you will need to adjust the intervals accordingly.



HOW TO CALCULATE RFM

Step 1: Collect the necessary data

Before you begin, you will need the following data for each customer:

Recency (R): Date of the last transaction.

Frequency (F): Total number of transactions made by the customer.

Monetary (M): Total amount spent by the customer.

This data can be extracted from the company's purchase history or customer database.



HOW TO CALCULATE RFM

Step 2: Calculate RFM scores

To assign a score to each customer, customers must be segmented into three distinct groups for each dimension (R, F, M) by following the steps below:

Récence (R) :

Sort customers based on their last transaction date.

- Assign a score (for example, from 1 to 5) where 1 represents customers who purchased a long time ago and 5 represents customers who purchased recently. The higher the score, the more recent the customer.

Frequency (F):

Sort customers based on the total number of transactions completed.

Assign a score (from 1 to 5) where 1 corresponds to customers who have purchased the least number of times and 5 corresponds to customers who have purchased the most frequently. A high score indicates a loyal customer.

Monetary (M):

Sort customers based on total amount spent.

Assign a score (from 1 to 5) where 1 is given to customers who spent the least and 5 is given to those who spent the most. A high score reflects a high monetary value.



HOW TO CALCULATE RFM

Step 3: Combine RFM scores

Once you have assigned scores for each dimension, combine them to get a final RFM score (for example, a customer might have a score of 5-4-3). This allows you to segment customers into distinct groups.

Step 4: Identify high-value customers

High-value customers are those who score high in all three dimensions (e.g., a score of 5-5-5). This means they purchased recently, frequently, and spent a lot.

Use these segments to tailor your strategies: for example, customers with a high “Monetary” score but low “Recency” could be targeted with reactivation offers.

PRACTICAL EXAMPLE

CustomerID	Name	LastPurchaseDate	NumPurchases	TotalSpent	Recency	R_Score	F_Score	M_Score
CUST001	CUSTOMER 1	2023-04-13	11	6432.72				
CUST002	CUSTOMER 2	2023-12-15	11	10732.75				
CUST003	CUSTOMER 3	2023-09-28	4	8922.93				
CUST004	CUSTOMER 4	2023-04-17	8	6178.97				
CUST005	CUSTOMER 5	2023-03-13	3	12431.13				
CUST006	CUSTOMER 6	2023-07-08	2	3220.13				
CUST007	CUSTOMER 7	2023-01-21	12	6196.82				
CUST008	CUSTOMER 8	2023-04-13	6	7644.06				
CUST009	CUSTOMER 9	2023-05-02	2	9393.36				
CUST010	CUSTOMER 10	2023-08-03	1	15810.93				

PRACTICAL EXAMPLE

CustomerID	Name	LastPurchaseDate	NumPurchases	TotalSpent	Recency	R_Score	F_Score	M_Score
CUST001	CUSTOMER 1	2023-04-13	11	6432.72	262			
CUST002	CUSTOMER 2	2023-12-15	11	10732.75	16			
CUST003	CUSTOMER 3	2023-09-28	4	8922.93	94			
CUST004	CUSTOMER 4	2023-04-17	8	6178.97	258			
CUST005	CUSTOMER 5	2023-03-13	3	12431.13	293			
CUST006	CUSTOMER 6	2023-07-08	2	3220.13	176			
CUST007	CUSTOMER 7	2023-01-21	12	6196.82	344			
CUST008	CUSTOMER 8	2023-04-13	6	7644.06	262			
CUST009	CUSTOMER 9	2023-05-02	2	9393.36	243			
CUST010	CUSTOMER 10	2023-08-03	1	15810.93	150			

PRACTICAL EXAMPLE

CustomerID	Name	LastPurchaseDate	NumPurchases	TotalSpent	Recency	R_Score	F_Score	M_Score
CUST001	CUSTOMER 1	2023-04-13	11	6432.72	262	2		
CUST002	CUSTOMER 2	2023-12-15	11	10732.75	16	5		
CUST003	CUSTOMER 3	2023-09-28	4	8922.93	94	5		
CUST004	CUSTOMER 4	2023-04-17	8	6178.97	258	3		
CUST005	CUSTOMER 5	2023-03-13	3	12431.13	293	1		
CUST006	CUSTOMER 6	2023-07-08	2	3220.13	176	4		
CUST007	CUSTOMER 7	2023-01-21	12	6196.82	344	1		
CUST008	CUSTOMER 8	2023-04-13	6	7644.06	262	2		
CUST009	CUSTOMER 9	2023-05-02	2	9393.36	243	3		
CUST010	CUSTOMER 10	2023-08-03	1	15810.93	150	4		

PRACTICAL EXAMPLE

CustomerID	Name	LastPurchaseDate	NumPurchases	TotalSpent	Recency	R_Score	F_Score	M_Score
CUST001	CUSTOMER 1	2023-04-13	11	6432.72	262	2	4	
CUST002	CUSTOMER 2	2023-12-15	11	10732.75	16	5	4	
CUST003	CUSTOMER 3	2023-09-28	4	8922.93	94	5	3	
CUST004	CUSTOMER 4	2023-04-17	8	6178.97	258	3	4	
CUST005	CUSTOMER 5	2023-03-13	3	12431.13	293	1	2	
CUST006	CUSTOMER 6	2023-07-08	2	3220.13	176	4	1	
CUST007	CUSTOMER 7	2023-01-21	12	6196.82	344	1	5	
CUST008	CUSTOMER 8	2023-04-13	6	7644.06	262	2	3	
CUST009	CUSTOMER 9	2023-05-02	2	9393.36	243	3	1	
CUST010	CUSTOMER 10	2023-08-03	1	15810.93	150	4	1	

PRACTICAL EXAMPLE

CustomerID	Name	LastPurchaseDate	NumPurchases	TotalSpent	Recency	R_Score	F_Score	M_Score
CUST001	CUSTOMER 1	2023-04-13	11	6432.72	262	2	4	2
CUST002	CUSTOMER 2	2023-12-15	11	10732.75	16	5	4	4
CUST003	CUSTOMER 3	2023-09-28	4	8922.93	94	5	3	3
CUST004	CUSTOMER 4	2023-04-17	8	6178.97	258	3	4	1
CUST005	CUSTOMER 5	2023-03-13	3	12431.13	293	1	2	5
CUST006	CUSTOMER 6	2023-07-08	2	3220.13	176	4	1	1
CUST007	CUSTOMER 7	2023-01-21	12	6196.82	344	1	5	2
CUST008	CUSTOMER 8	2023-04-13	6	7644.06	262	2	3	3
CUST009	CUSTOMER 9	2023-05-02	2	9393.36	243	3	1	4
CUST010	CUSTOMER 10	2023-08-03	1	15810.93	150	4	1	5

PRACTICAL EXAMPLE

Récence (R) :

Definition: This score measures the time elapsed since a customer's last transaction. Customer 2 made their last transaction on December 15, 2023, which is only 16 days before the current date (December 31, 2023). Therefore, they get a score of 5, as they are considered very recent. On the other hand, Customer 5 last purchased on March 13, 2023, which is 293 days before, which gives them a score of 1, as they are less recent.

Frequency (F):

Definition: This score measures the total number of transactions made by the customer. "Customer 1" and "Customer 2" each made 11 transactions, which puts them in the group with a score of 4, indicating that they are relatively frequent. Conversely, "Customer 5" only made 3 purchases, which gives him a score of 2.

Monetary (M):

Definition: This score measures the total amount spent by the customer. "Customer 5" spent €12,431.13, which gives him a score of 5, as he is one of the highest spending customers. On the other hand, "Customer 4" spent €6,178.97, which gives him a score of 1, as it is one of the lowest amounts in the group.



CHATGPT



HOW TO USE CHATGPT

ChatGPT can analyze data uploaded in various file formats, including:
Excel (.xls / .xlsx) Comma Separated Values (.csv) PDF (.pdf) JSON

- When preparing spreadsheets for analysis in ChatGPT, follow these guidelines for best results:

Dos:

- Include descriptive column headers in the first row
- Use plain language for column headers, avoiding acronyms and jargon
- Use one line per record

Don'ts:

- Include multiple sections and tables in a single worksheet
- Include empty rows or columns
- Include images containing essential information