How to Leverage the RFM Model to Drive your Marketing Cloud Strategy

CloudKettle

The RFM Model

Today, organizations have more data about their customers than ever before. The RFM model (Recency, Frequency, and Monetary) is a simple but powerful tool to help sift through consumer data and categorize customers based on measured behavior.

Salesforce Marketing Cloud (MC) is a robust platform that allows your team to engage your customers with relevant and timely content. Together, organizations can use the RFM model and MC to maximize the lifetime value of each customer and increase customer loyalty.

In this guide, we discuss the RFM model and the importance of RFM scores. We also cover:

- How to use the RFM model to drive your customer segmentation strategy

- How to build your RFM model

- How to calculate RFM scores

- How to trigger automated campaigns in MC based on RFM scores

- How to use RFM scores for improved personalization

- How to sync MC data with BigQuery as part of an RFM strategy

If you have any questions about this guide or how to leverage an RFM model for your MC strategy drop us a line today (bit.ly/reachck).

> **Note:**
>
> **If you have read our blog post** *How to Leverage the RFM Model to Drive Customer Segmentation*, please skip to page 8 of this guide.

What is the RFM Model?

There are many models that can be used to segment customer data. If your organization is not currently using a framework to drive segmentation, we recommend starting with the RFM model, because it's simple and effective.

While RFM analysis can be helpful for B2B companies, it is most often used by B2C businesses where customers make multiple purchases over time. The RFM model was created in the mid-90s to help catalog marketers target specific customer segments within their databases that had the greatest likelihood to purchase based on previous behavior. The goal was to save on printing and shipping costs. Today, the RFM model is used by digital marketers to send relevant marketing messages, keep their customers engaged, and maximize the lifetime value of each customer.

What are RFM Scores?

There are no *bad* RFM scores. Each score informs if and what type of messaging to surface that customer.

RFM models can be customized based on your organization. However, in most RFM models, each individual customer is given a score from 1-5 for each RFM component, with 1 being the lowest and 5 being the highest score. These scores are then combined (not summed) to create a 3-digit RFM score.

RFM scores range from 111 to 555. An important takeaway is that there are no *bad* RFM scores. Each RFM score should inform if and what type of messaging is used to engage each customer to increase brand loyalty.

Recency

How long has it been since the customer's last purchase?

Frequency
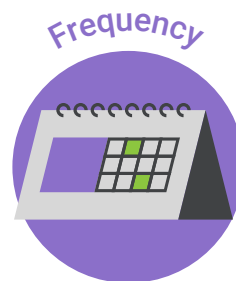
How often has the customer made a purchase over a defined period of time?

Monetary

How much money did the customer spend with us over a defined period of time?

RFM scores are calculated by analyzing the purchase history of each individual customer. Once an organization has calculated its customer RFM scores, they compare each score to the overall customer base to determine which quintile each customer should belong to. An RFM model that scores customers on a scale of 1 to 5, means customers will fall into one of five quintiles. Each quintile represents 20% of the overall customer base. If a customer scores a 1, that means they're in the bottom 20% of the overall customer base and if they score a 5, that means they're in the top 20%.

As an example, an RFM score of 135 means that this particular customer is in the bottom 20% of customers in terms of Recency, but in the top 20% of customers in terms of Monetary spend. This RFM score demonstrates they were a previously high-value customer that has since lapsed.

R	F	M
1	**3**	**5**

In the **bottom 20%** of customers in terms of Recency

In the **top 20%** of customers in terms of Monetary spend
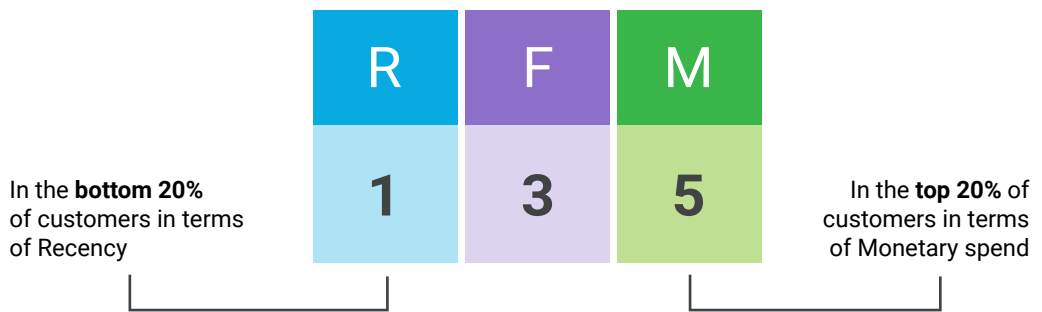
It might seem logical to create a scoring model based on static values, for example a lifetime spend of over $1,500 equals a 5 Monetary score. However, RFM scores should always be relative to the overall customer base. The reason being, today, it might make sense that a customer with an LTV of $5-10k should have a Monetary score of 5, but five years from now that could change as an organization's products or services change. In five years, $10k LTV might not look very valuable if the organization moves up market (and may only warrant a Monetary score of 3).

When leveraging an RFM model, the customer base is evenly distributed amongst each quintile. By assigning an RFM score based on how a customer spends relative to all other customers, your scoring model remains dynamic and adapts to any changes in your product offering, customer purchasing behavior, or the overall market.

Once an organization has calculated the RFM scores for every customer (this is discussed further in the Calculate RFM Scores section of this guide) they then create customer segments. Each quintile correlates to a customer segment (take a look at the diagram on page 6 for more context). We talk more about customer segments in the RFM Scores to Inform Customer Segments section of this guide and provide examples.

RFM in Practice: Retail Example

Together, these three individual scores provide a snapshot of each customer and help organizations determine what kind of message or offer, if any, they should target their individuals with. Let's look at a retail example to understand how RFM scores work in practice. Greg and Jon are two customers of an apparel store called Clothes.co. Below are their overall RFM scores:

	R	F	M
Greg	5	1	2

Greg — RFM Score: **512**

|	R	F	M
Jon	2	4	5

Jon — RFM Score: **245**
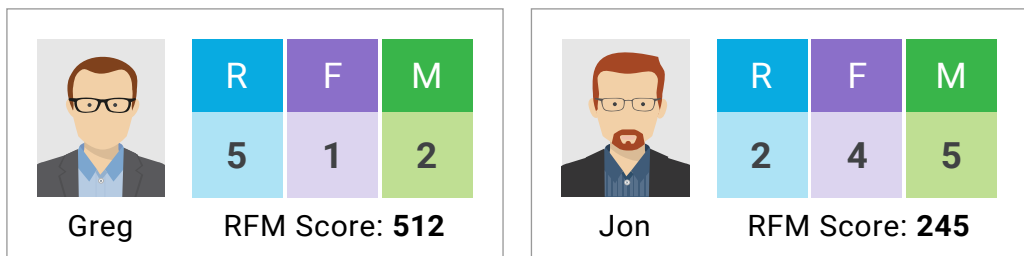
As we can see in this example, Greg has a high Recency score, but low Frequency and Monetary scores. It's likely that he has just made his first purchase at Clothes.co, so they'll want to enter him into a thoughtfully designed Welcome Journey. That way Clothes.co can make sure he's getting the most out of his purchase and he learns a bit more about their company in the process.

Clothes.co can also try to learn more about Greg during these interactions with progressive profiling in order to determine how they can add more value post-purchase.

Jon, on the other hand, has high Frequency and Monetary scores, but a low Recency score. He's spent a lot of money at Clothes.co and bought frequently, but it's been a while since he has made a purchase. They may want to take a look at his purchase history and any other known information about him to send him a relevant and valuable offer to get him re-engaged.

If you offer multiple types of products, a customer may have an overall RFM score as well as multiple product or category specific RFM scores. For example, Lisa has purchased hats, sneakers, and clothing from Clothes.co, so her category scores are:

| RFM Score: **312** | RFM Score: **224** | RFM Score: **435** |
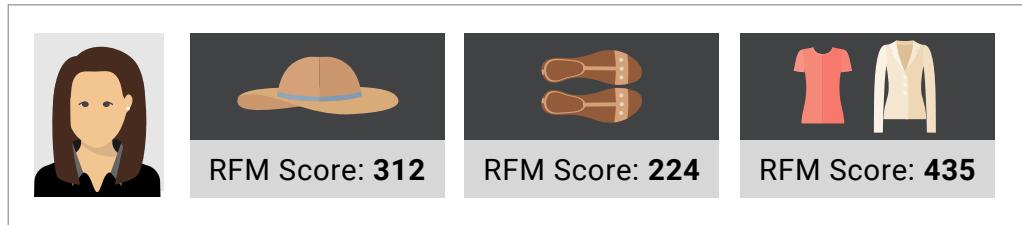
Category scores allow your team to look beyond how often a customer shops with you and how valuable they are, and see any patterns related to the types of products they're buying. This provides your team with valuable insights that can help them create very personalized messaging.
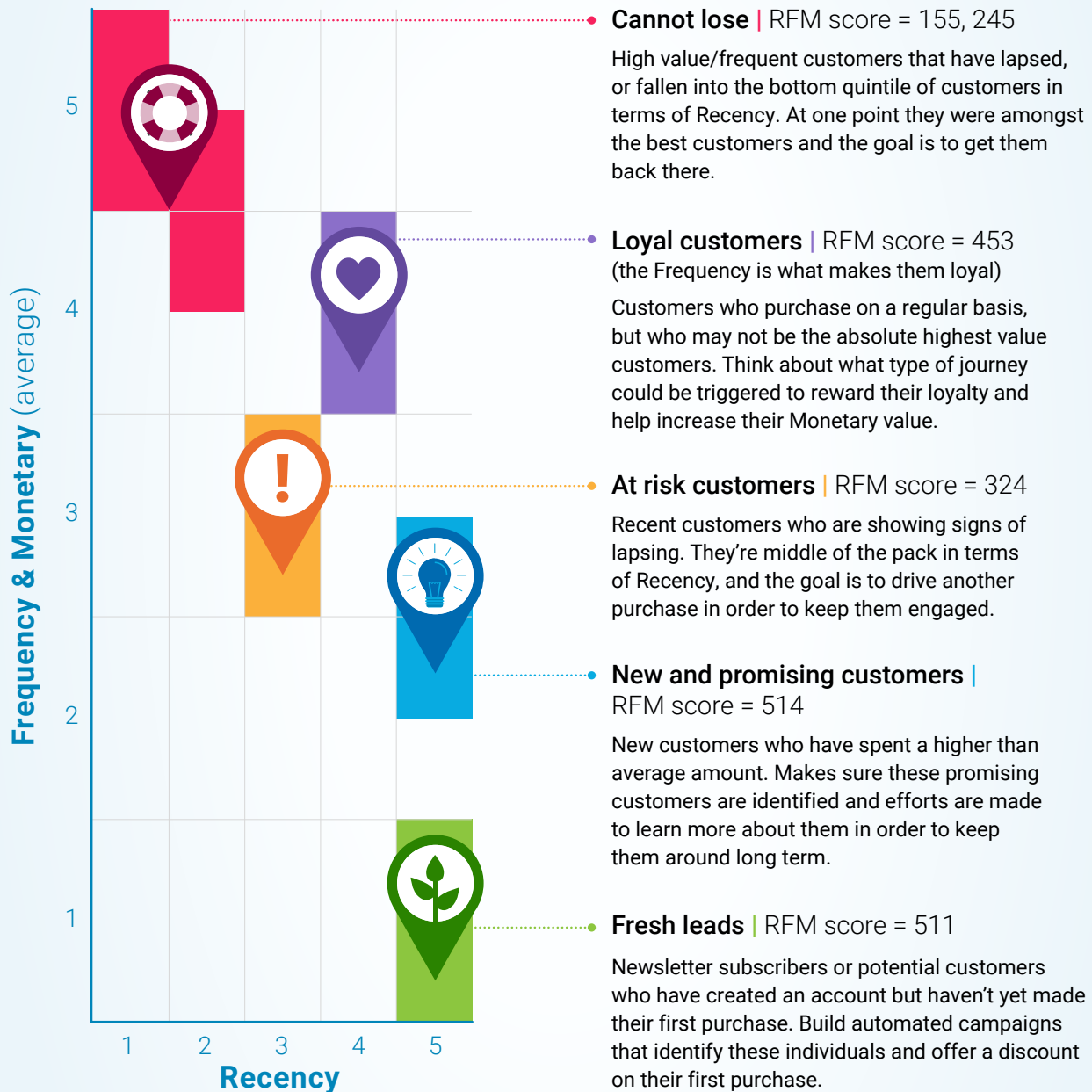
For example, if we identify a customer who hasn't purchased in a few months, we may want to enroll them in a win-back campaign. Using their category RFM score, it is easy to determine whether that customer is interested in sunglasses or if we should send them an offer for a clothing discount.

RFM Scores to Inform Customer Segments

Once you have set up your RFM model and have assigned customers RFM scores, your team can use those RFM scores to divide customers into customer segments. This creates a powerful framework organizations can use to identify segments of customers and improve how they target their customers (what channels, what messaging, what frequency).

Depending on the industry and your business, each organization will have their own definitions and criteria for customer segments. On the following page there's a sample of customer segments.

Sample customer segments for inspiration:

Cannot lose | RFM score = 155, 245

High value/frequent customers that have lapsed, or fallen into the bottom quintile of customers in terms of Recency. At one point they were amongst the best customers and the goal is to get them back there.

Loyal customers | RFM score = 453
(the Frequency is what makes them loyal)

Customers who purchase on a regular basis, but who may not be the absolute highest value customers. Think about what type of journey could be triggered to reward their loyalty and help increase their Monetary value.

At risk customers | RFM score = 324

Recent customers who are showing signs of lapsing. They're middle of the pack in terms of Recency, and the goal is to drive another purchase in order to keep them engaged.

New and promising customers |
RFM score = 514

New customers who have spent a higher than average amount. Makes sure these promising customers are identified and efforts are made to learn more about them in order to keep them around long term.

Fresh leads | RFM score = 511

Newsletter subscribers or potential customers who have created an account but haven't yet made their first purchase. Build automated campaigns that identify these individuals and offer a discount on their first purchase.

Frequency & Monetary (average)

Recency

Once customers are broken into segments, you can leverage these segments to power your email marketing campaign strategies.

Don't Just Focus on High Scores

High RFM scores will show you who your most promising customers are, which enables your team to build experiences that keep them engaged. However, lower scores can help you identify:

1. New customers that need to be welcomed and nurtured.

2. Previously loyal customers that have since found a replacement for your products or services and should be entered into a win-back campaign.

3. Customers who are buying low-value items on a regular basis and are prime candidates to be moved up the chain to higher value items.

4. Lost customers who are not worth marketing to/wasting marketing resources on.

The next section of this guide focuses on how to leverage an RFM model and RFM scores for your MC strategy. If you're still wrapping your head around this section, we recommend checking out this video on How to use the RFM Model & Analysis to Drive Continuous E-commerce Growth before moving on (bit.ly/rfmbasics).

How to Leverage RFM in Marketing Cloud

Now that we've established the importance of the RFM model and RFM scores, let's explore how your organization can leverage RFM scores in Salesforce MC to trigger automated campaigns and for smarter remarketing.

Trigger Automated Campaigns Based on RFM

After you've set up your model and RFM scores are readily available in a MC data extension, it's time to start automating some important marketing campaigns and enhancing the campaigns you may already have in-market.

Consider a win-back campaign that you'd like to send to customers who haven't purchased in a while. You can use either your Recency score or a specific number of days since last purchase as the trigger, and then tailor your messaging based on the individual's Frequency and Monetary scores. For example, if their Frequency score is low, it's likely that you won't be able to build a strong relationship with that customer. If their Frequency score is high, it's obvious that they at one time were a loyal customer, so your team can look at their past purchase history and send them a more valuable offer than we would send to the customer with a lower Frequency score.

Examples of Campaigns based on Customer Segment

20% off your next purchase!

CANNOT LOSE SEGMENT
Win-back campaign

Do you still want to hear from us?
GET $20 OFF A PRO MEMBERSHIP

AT RISK SEGMENT
Re-engagement campaign

Clothes.co offers FREE SHIPPING

FRESH LEADS SEGMENT
Welcome series

Frequency & Monetary (average) / **Recency**

Think about how you can make these types of decisions using your RFM scores across the entire customer lifecycle. Your team should always use RFM to augment existing customer data, not as your sole segmentation tool. Always explore how RFM can be used together with your other customer data to create a better digital experience.

> **Note:**
> Be sure to consider if and how you'll prevent subscribers from existing in multiple campaigns at the same time. As illustrated in the segment map on the previous page, certain journeys can be triggered based on customer lifecycle.

How to Use RFM Scores for Smarter Remarketing

RFM scores can also be useful for powering paid advertising campaigns to deliver integrated cross-channel customer experiences. Your team can trigger remarketing campaigns automatically based on RFM scores using Salesforce MC's Ad Studio and Journey Builder. If you're just getting started with remarketing using MC, you can always export MC data to create ad audiences in your tool of choice, like Google Ads. Once you're leveraging RFM scores for smarter remarketing, the next step is to leverage Einstein Engagement Scores (bit.ly/sfeinstein).

Einstein Engagement Scores in Salesforce is another great tool that can be combined with RFM scores to help make better marketing decisions. Einstein Engagement scores indicate how likely an individual customer is to open and engage with your email, based on their history. Your team can layer these scores on top of your RFM segments to determine how to best engage with each customer.

For example, if we know a user always engages with our emails, we may not want to waste our ad budget on them and engage with them only via email. Or, if a customer isn't likely to open our emails, it might make more sense to target them with social ads.

In the next section, we tackle how to implement the RFM model, calculate RFM scores, and how to work with your data.
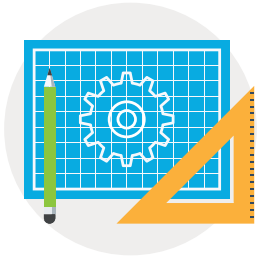
Building an RFM Model

Wrangling Your Data

Step one in creating your RFM model is to figure out what data exists inside of MC. Does your organization already store transaction data in MC? If not, what platform does that data live in and which group (internally) owns that platform? It's likely that your company has a wealth of data about your customers and their purchase history that isn't currently available in MC.

Figure out what data is needed for your team's segmentation strategy, who owns that data, and then work with those teams to determine how that data can be made available in MC. Your team may just need a one-time batch import, or a daily or weekly automated import may be necessary to stay up to date.

During this process, make sure only data points necessary for your segmentation strategy are imported into MC. Also ensure the data is properly cleaned, with any inaccurate or duplicate records removed. Depending on the resources available, a tool like Google BigQuery might be the right solution to combine disparate datasets into a single file that contains only what your team will need in MC (bit.ly/bigqueryinfo).

Building Your RFM Model

Now that the data your team needs is available in MC, it's time to start building your RFM model. This is where having some basic SQL skills are necessary. SQL is a language that's used to communicate with relational databases.

If you're not familiar with SQL, you can think of all of your lists and data extensions inside MC as tables in a relational database. The segmentation and filtering tools you're familiar with in MC are basically creating and executing SQL queries based on your inputs. The same logic can be used when creating groups and filters to write much more powerful raw SQL queries in Automation Studio.

Here are our top three favorite SQL learning resources:

- Kahn Academy (bit.ly/Khanasql)
- Solo Learn - SQL Fundamentals (bit.ly/solosql)
- Mode Analytics (bit.ly/modeinfo)

If you're not familiar with SQL this may sound intimidating but the basics of SQL can be learned in a day or two. Learning SQL will unlock a ton of powerful new possibilities for your team when it comes to segmentation and reporting in MC. What is often most efficient and effective for many organizations is to bring in an outside party to help set up an RFM model initially and then have at least two members of your own team take basic SQL training.

Calculate Your Scores

To calculate an individual's Recency, Frequency, and Monetary scores, you'll need to write a query that compares each customer's purchase behavior to that of your overall customer base, and assign a score based on which quintile they land in for each dimension.

There is no one-size-fits all RFM model, so consider the nature of your business when determining the weightings for each of the three variables. For example, if your customers tend to make multiple purchases within a single day, you may want to consider scoring Frequency based on the total number of days a purchase was made, instead of the total number of transactions, to get a more accurate idea of how often a customer is purchasing over a given time period.

An example of where you may want to tweak your Frequency scoring is the hospitality industry. For example, if Jon stays at the XYZ Hotel three times in the month of June, and each stay is one night, then his Frequency score would be 3. However, if Greg also stays at the XYZ Hotel three times in June but for five days each stay, he'll also have a Frequency score of 3.

Jon		F		Greg
3x 1-Night Stays	→	**3**	←	**3x** 5-Night Stays
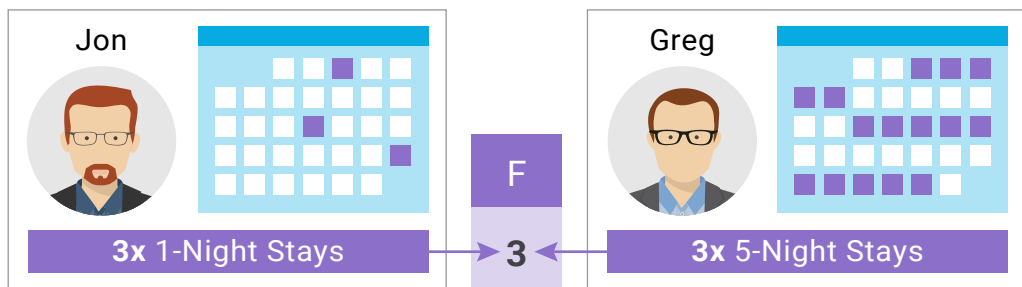
In Hospitality, consider adjusting total number of days a purchase was made instead of transactions.

In this instance, it might make more sense to focus on the total number of days that a customer stayed in the hotel instead of simply the number of transactions. Most likely, your team will want to communicate with a guest who has stayed 15 days in the past month slightly different than a guest who has spent only 3 nights. Decide what makes the most sense for your business and model your Frequency scoring accordingly.

SFMC + Google BigQuery

With all of your data available in MC, you can get surprisingly far with some clever design of staging data extensions and basic SQL knowledge. We've successfully run daily queries on data extensions with millions of records to calculate RFM scores, so your team isn't likely to run into any limitations with small to midsize data sets.

Building your queries inside MC can actually be easier if you are new to SQL. By chaining together multiple basic queries instead of using more complicated joins and other resource-intensive functions, you can keep each step in your process simple and easily understandable. Making changes will also be easier and less error-prone when you don't have to decipher large chunks of SQL.

Alternatively, leveraging a tool like BigQuery combined with MC is best when you have larger datasets to sift through. MC is not a data warehouse and shouldn't be used as one. In more advanced cases, your team should leverage a tool like BigQuery to manipulate your data before bringing it into MC. Not to mention, MC requires you to create a data extension to hold the results of every query, so sometimes it can be time-consuming to explore data in MC.

BigQuery allows your team to work quickly and get sophisticated with queries and calculations, and send back to MC only what you need for segmentation and personalization purposes in your campaigns and journeys.

Syncing Marketing Cloud Data with BigQuery

If you decide that a tool like BigQuery makes sense for your organization, there are a few options for keeping the two systems in sync:

1. Manual exports work for one-time syncs. Note: if you need to update MC regularly, it will be time-consuming and potentially error-prone.

2. Tools like Stitch can help you sync Data Extensions with Google Cloud Storage and BigQuery. Stitch is useful if you don't have the technical resources to keep systems in sync yourself, but the sync can sometimes break without warning (bit.ly/stitchinfo).

3. If you do have a developer(s) on your team, you can easily use the MC API and custom scripts to build exactly what you need to keep data moving between platforms.

Conclusion

We touched on a lot of aspects of RFM modeling and how it can help you power more sophisticated segmentation and personalization in your Marketing Cloud campaigns and customer journeys. **If you have questions about how to leverage an RFM model for your Marketing Cloud strategy, reach out today**.

Free Assessment Call

Our first-hand experience managing Salesforce Marketing Cloud implementations has given the CloudKettle team great insight into what works and what doesn't when building a Marketing Cloud program. We are offering select customers a **free 30-minute assessment call** to review and analyze how your current Salesforce Marketing Cloud program compares with best practices.

Interested? Talk to us today! (bit.ly/ckcontactus)