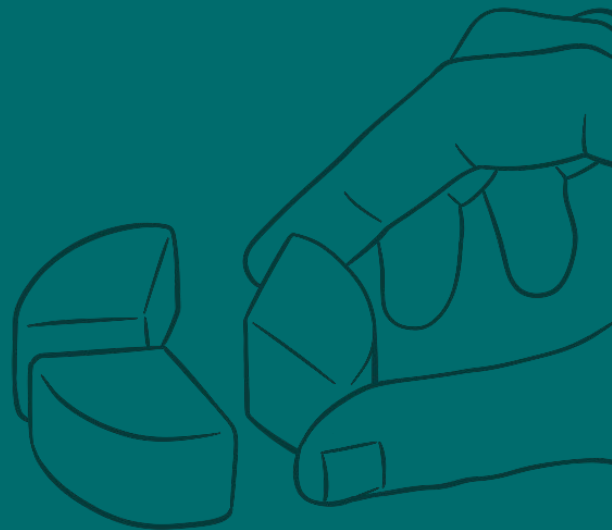




RFM Segmentation

Cannabis Marketing Fundamentals

sweed



RFM Segmentation

RFM analysis is a data-driven customer behavior segmentation technique. RFM stands for **recency, frequency, and monetary value**.

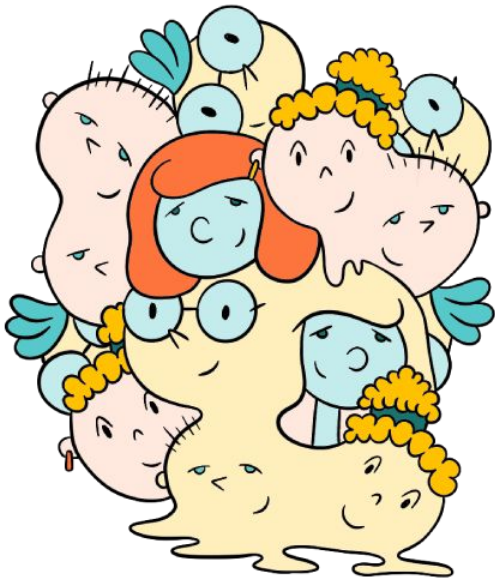
The idea is to segment customers based on when their last purchase was, how often they've purchased in the past, and how much they've spent overall. All three of these measures have proven to be effective predictors of a customer's willingness to engage in marketing messages and offers.

While RFM analysis originated in direct mail, it is a powerful tool for eCommerce stores to use today.

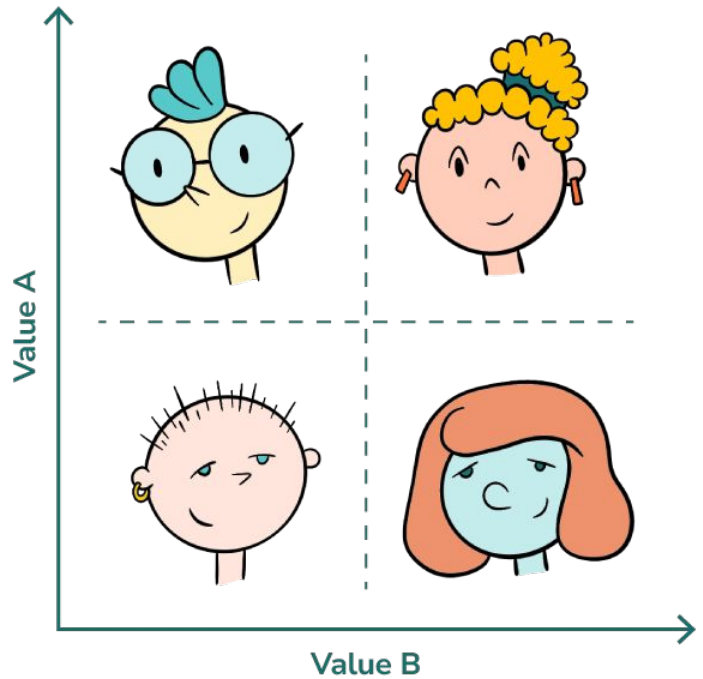
What RFM Enables

- Segment customers by behavior.
- Identify the most valuable customers (recent, frequent, high-spend).
- Personalize and optimize campaigns by segment.
- Measure the impact of lifecycle tactics.
- Predict the likely behavior of new customers using patterns of existing ones.

ALL CUSTOMERS



SEGMENTED CUSTOMERS



What is RFM?

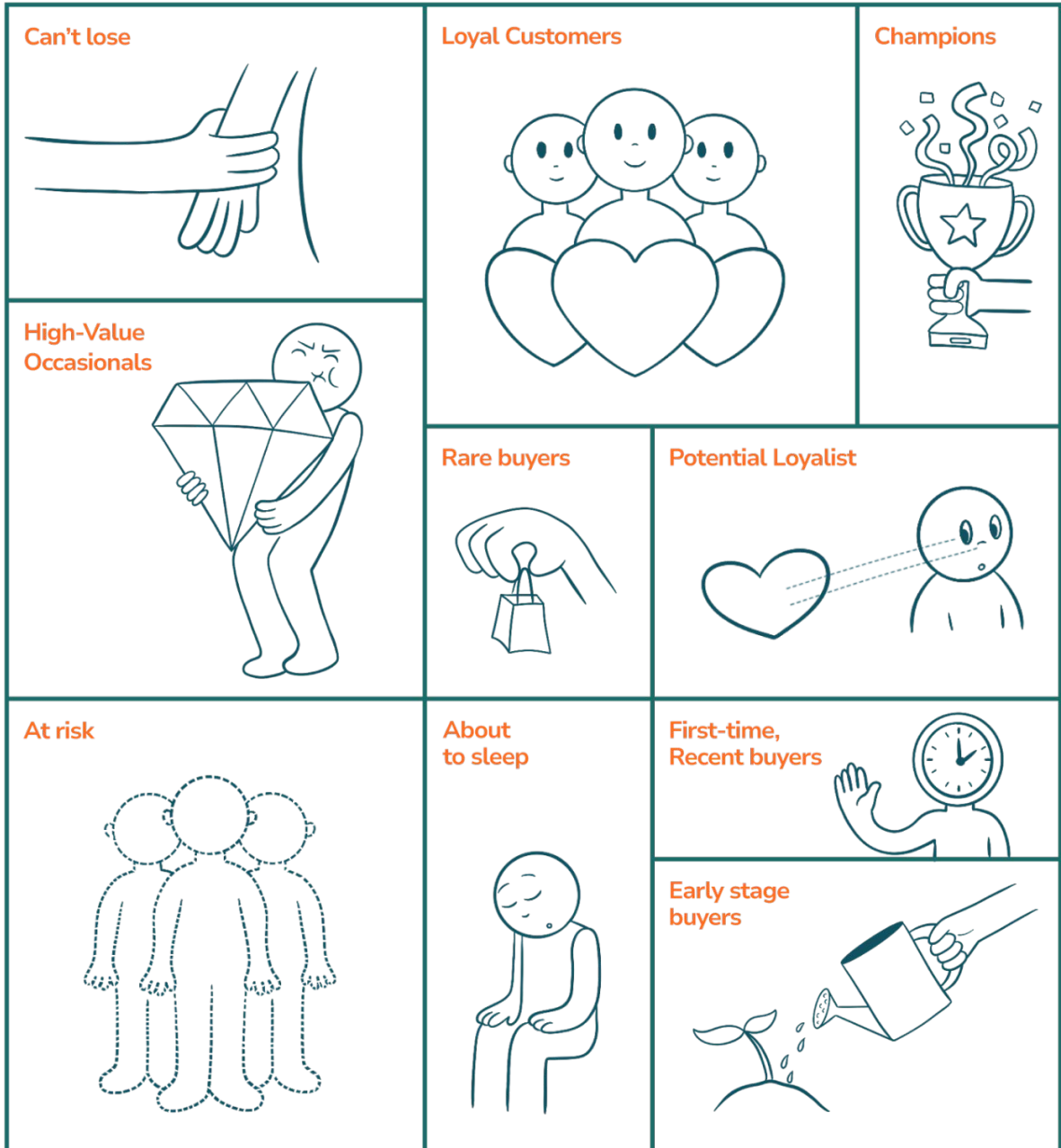
RFM (Recency, Frequency, Monetary) is a customer-segmentation method that uses purchase behavior to improve email and lifecycle marketing. By grouping customers based on how recently and how often they buy, and how much they spend, marketers can tailor offers, timing, and messaging to maximize ROI.

How RFM Segmentation Works

- **Recency (R):** How many days have passed since the last purchase. Fewer days - higher score.
- **Frequency (F):** How often the customer buys. More purchases - higher score.
- **Monetary (M):** How much the customer spends (over a period or on average). Higher spend - higher score.

Ten Customer Segments

1. **Champions.** Your best customers: buy frequently, spend a lot, and purchased very recently.
2. **Can't Lose.** Former high-value customers who haven't purchased for a while.
3. **Loyal Customers.** Repeat buyers with regular purchases and solid spend.
4. **At Risk.** Previously active customers who are showing signs of inactivity.
5. **First-time, Recent Buyers.** New customers who have just made a small first purchase.
6. **Early-Stage Buyers.** New customers who have bought recently but haven't purchased much yet.
7. **High-Value Occasionals.** Infrequent buyers who spend a lot when they do purchase.
8. **Potential Loyalists.** Engagement is rising; likely to become loyal with the right nudge.
9. **About to Sleep.** Fading activity; may stop buying soon.
10. **Rare Buyers.** Inactive customers who rarely purchase and spend very little.



Pros and Cons of RFM Segmentation in eCommerce

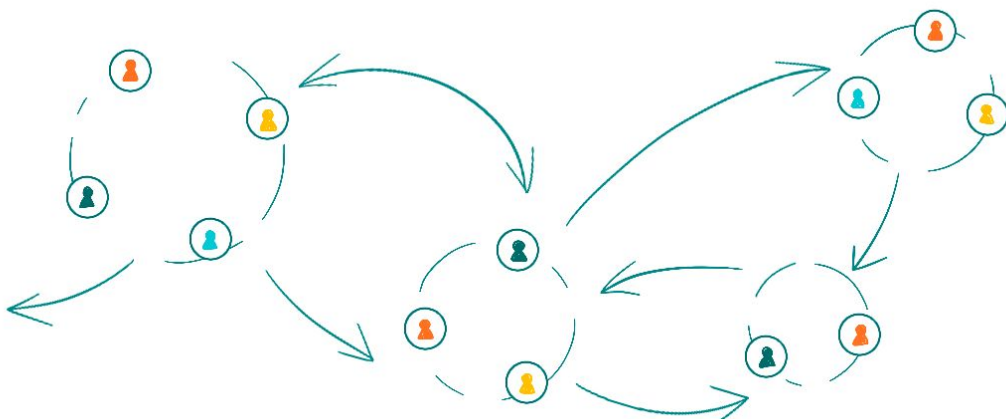
The primary goal of applying RFM segmentation is to increase **profitability** by focusing on customer loyalty and smarter marketing investments. Although, like any marketing method, RFM has its pros and cons.

Pros

- **Identify your best customers.** RFM reveals the most loyal segments that purchase frequently and recently. You can retain them and grow sales without relying on discounts.
- **Helps win back inactive customers.** By identifying shoppers who buy less often or have gone dormant, brands can design campaigns to re-engage them and trigger repeat purchases.
- **Universal method.** Works across industries from large online stores to local shops, making it adaptable for different eCommerce models.
- **Easy to use.** The logic of the method is straightforward: Recency, Frequency, Monetary. If customer data is already captured in a CDP or CRM, segmentation can be built in minutes. Sweed does the heavy lifting for you, the math is built right into the product, letting you generate segments in just a few clicks.
- **Cuts marketing costs.** Instead of spending heavily on acquiring new customers, RFM helps optimize budgets by focusing on high-value, loyal customers.

Cons

- **Requires sufficient data.** RFM is effective only when a company has a large customer base with a rich transaction history. Small datasets produce weak insights.
- **Not a one-time setup.** Customer behavior changes constantly. Segmentation must be refreshed regularly; manual one-off efforts become outdated very quickly.
- **Limited scope.** RFM considers just three metrics. It overlooks other important variables such as seasonality, browsing behavior, or customer demographics. More advanced models (e.g., cohort or CLV analysis) may be needed for deeper insights.
- **Excludes prospects.** The method applies only to existing customers. It doesn't work for new or potential clients, although RFM insights can inform acquisition strategies.
- **Data management burden.** To apply RFM effectively, businesses need a Customer Data Platform (CDP) or another master system to store transactions and customer actions. For strategy design, segmentation setup, and campaign execution, skilled marketers are required.
- **Risk of distorted insights.** RFM metrics sometimes reflect external factors (like promotions, seasonality, or supply issues) rather than true loyalty, leading to biased decisions.



When RFM Segmentation Isn't Needed

RFM analysis can be a powerful tool for marketing strategy, but it isn't always the right choice. Below are examples of situations where such detailed segmentation may not be necessary.

- **Small customer base.** If you only have a small customer base, splitting them into large groups would not be reasonable. A good starting point for RFM is around **1,000 customers and 3,000 transactions**.
- **New to the market.** For recently launched startups, it's too early to run RFM analysis because all customers will appear "recent." You need to wait a few months to accumulate enough transactions for meaningful insights.
- **Incomplete data.** If your business model doesn't provide all three inputs, recency, frequency, and monetary value, the method won't work properly. For example, SaaS companies often sell once and then rely on subscription renewals, making frequency and recency less relevant.
- **Products with rare purchases.** For goods people buy rarely, like real estate, RFM offers limited insight. Purchase frequency has little relevance, making it hard to use RFM to increase average order value or grow your customer base.
- **No plans to act on the insights.** RFM analysis only makes sense if you have the resources and commitment to use the findings. Without applying the results to marketing strategies and customer programs, the study itself adds no value.

You should start RFM segmentation once you have around 1,000 customers and 3,000 transactions in your database.

Taking Action with RFM Analysis

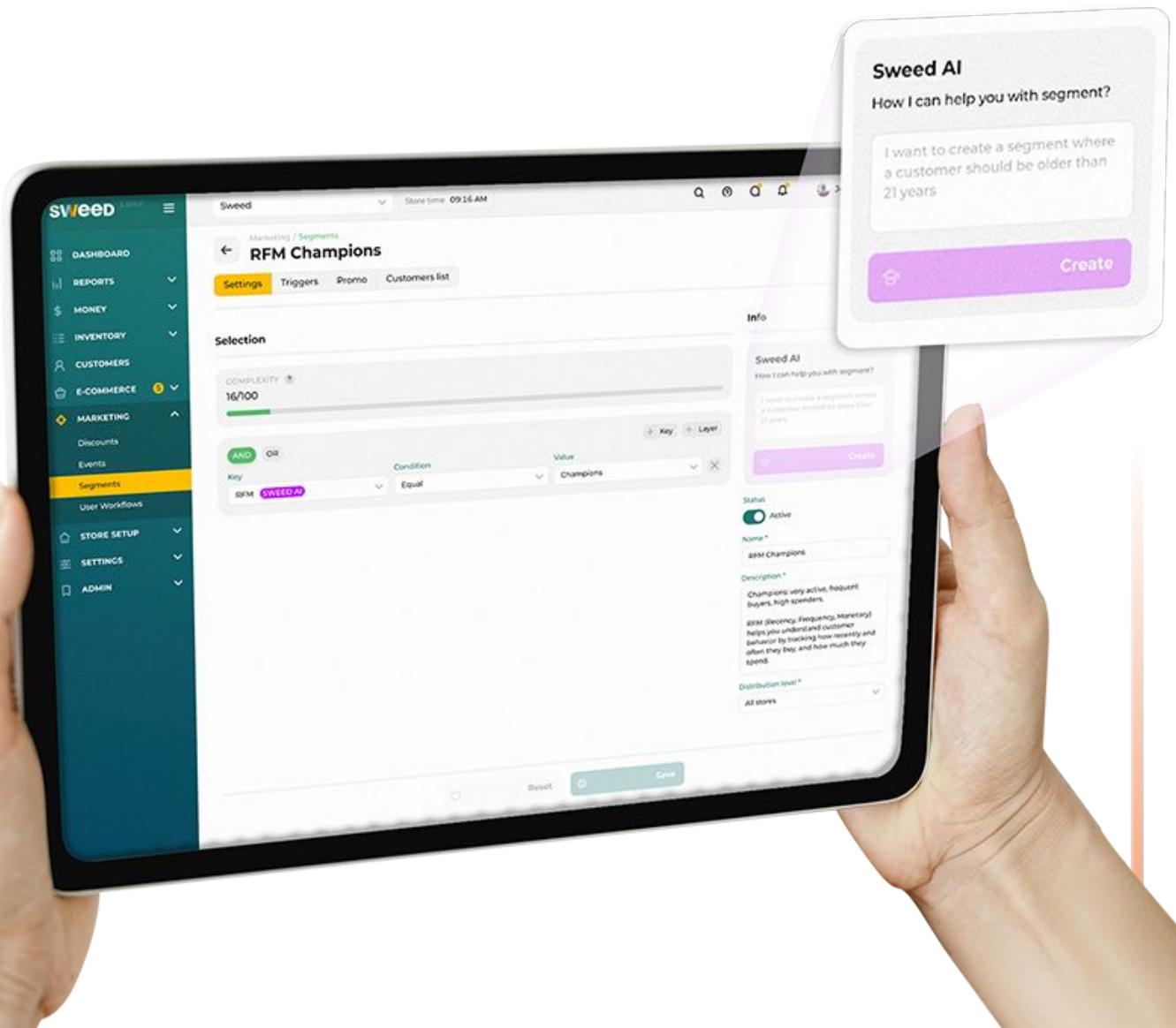
RFM analysis can be a powerful tool for marketing strategy, but it isn't always the right choice. Below are examples of situations where such detailed segmentation may not be necessary.

- **Small customer base.** If you only have a small customer base, splitting them into large groups would not be reasonable. A good starting point for RFM is around **1,000 customers and 3,000 transactions**.
- **New to the market.** For recently launched startups, it's too early to run RFM analysis because all customers will appear "recent." You need to wait a few months to accumulate enough transactions for meaningful insights.
- **Incomplete data.** If your business model doesn't provide all three inputs, recency, frequency, and monetary value, the method won't work properly. For example, SaaS companies often sell once and then rely on subscription renewals, making frequency and recency less relevant.
- **Products with rare purchases.** For goods people buy rarely, like real estate, RFM offers limited insight. Purchase frequency has little relevance, making it hard to use RFM to increase average order value or grow your customer base.
- **No plans to act on the insights.** RFM analysis only makes sense if you have the resources and commitment to use the findings. Without applying the results to marketing strategies and customer programs, the study itself adds no value.

RFM Segmentation & Sweed

In the initial phase, RFM analysis capabilities **are added as a separate key** when **creating a dynamic segment**, with values listing all customer groups (Champions, At Risk, etc.). Hovering over each group will display a short description.

After such a segment is created, **it can be used in the relevant user workflows and events.**



RFM Segments at Sweed

At Sweed, we go beyond basic RFM by offering segmentation across 10 distinct customer groups. This approach helps you understand who your most valuable buyers are, who's at risk of leaving, and where the biggest growth opportunities lie.

1. **Champions.** Your best customers: buy frequently, spend a lot, and purchased very recently.
2. **Can't Lose.** Former high-value customers who haven't purchased for a while.
3. **Loyal Customers.** Repeat buyers with regular purchases and solid spend.
4. **At Risk.** Previously active customers who are showing signs of inactivity.
5. **First-time, Recent Buyers.** New customers who have just made a small first purchase.
6. **Early-Stage Buyers.** New customers who have bought recently but haven't purchased much yet.
7. **High-Value Occasionals.** Infrequent buyers who spend a lot when they do purchase.
8. **Potential Loyalists.** Engagement is rising; likely to become loyal with the right nudge.
9. **About to Sleep.** Fading activity; may stop buying soon.
10. **Rare Buyers.** Inactive customers who purchase rarely and spend very little.

How We Calculate RFM Segments

1. **Set the reference date.**

Use the most recent purchase date in the dataset as the baseline for Recency. A lookback period of **360 days** is recommended for a ~1-year view.

2. **Aggregate at the buyer level (optionally within each State Level and Dealer ID).**

- a. **Recency:** Days since the last purchase.
- b. **Frequency:** Total number of purchases (transactions).
- c. **Monetary:** Total spend.

3. **Normalize to a 1–5 scale using quantile binning.**

Recency: fewer days → higher quantile (higher score).

Frequency: more purchases → higher quantile.

Monetary: higher spend → higher quantile.

Each buyer receives an **R-F-M** score (e.g., **5-4-5**; concatenated code **545**).

4. **Form the RFM code.**

Concatenate the three scores into a string (e.g., **545**).

5. **Assign segments using predefined rules.**

Match RFM codes to patterns to map buyers into segments (Champions, Loyal, At Risk, etc.). Buyers who do not match any rule are labeled **Other** and excluded from further RFM reporting.

Output: For each buyer: Recency, Frequency, Monetary, and the assigned segment.

Segmentation Rules

Segment	R - Recency	F - Frequency	M - Monetary
Champions	5	[4-5]	[4-5]
Can't Lose	[1-2]	5	[4-5]
Loyal Customers	[3-4]	[4-5]	[3-5]
At Risk	[1-2]	[3-4]	[2-3]
First-Time, Recent Buyers	5	1	[1-2]
Early-Stage Buyers	4	1	[1-3]
High-Value Occasionals	3	3	[4-5]
Potential Loyalists	[4-5]	[2-3]	[2-3]
About to Sleep	3	[1-2]	[1-2]
Rare Buyers	[1-2]	[1-2]	[1-2]

Taking Actions with RFM Segments

1. Champions. Your best customers: buy frequently, spend a lot, and purchased very recently.

Goal of communication: Strengthen loyalty, reward their engagement, and encourage advocacy.

What matters: Make them feel valued, give exclusive access, and maintain a high level of trust and satisfaction.

Types of campaigns:

- Exclusive offers and early access to new products.
- Invitations to VIP events or private sales.
- Personalized thank-you messages and rewards.
- Loyalty program perks and status updates.

These customers are already your biggest supporters. Focus on **delighting them** with personalized experiences, exclusive content, and special treatment. Highlight their importance to the brand, surprise them with unexpected bonuses, and encourage them to spread the word.

Over time, the right communication can transform Champions into **brand advocates**, who not only buy more but also bring in new customers.



2. Can't Lose. Former high-value customers who haven't purchased for a while.

Goal of communication: Encourage the next purchase.

What matters: Put stronger emphasis on sales with an offer the customer "can't refuse."

Types of campaigns:

- Promotional emails
- Flash sales
- Gifts with the next purchase

The primary objective with this group is to persuade them to place a new order, first moving them back into the "potential loyalist" segment and eventually restoring full loyalty.

Irresistible offers and time-limited deals work especially well here.

You can also conduct a survey to find out why the customer has been buying or visiting less. Ask why they stopped purchasing and what could be improved.



3. Loyal Customers. Repeat buyers with regular purchases and solid spend.

Goal of communication: Maintain loyalty, trust, and high purchase frequency.

What matters: Personalize content and offer as much as possible.

Types of campaigns:

Valuable content emails

- Product recommendations based on past purchases
- Gamified campaigns
- Surveys
- Announcements of new products
- Invitations to brand events

Useful content is almost always relevant. At this stage of the customer lifecycle, it's essential to keep surprising them and nurturing the “warm” relationship you’ve already built.

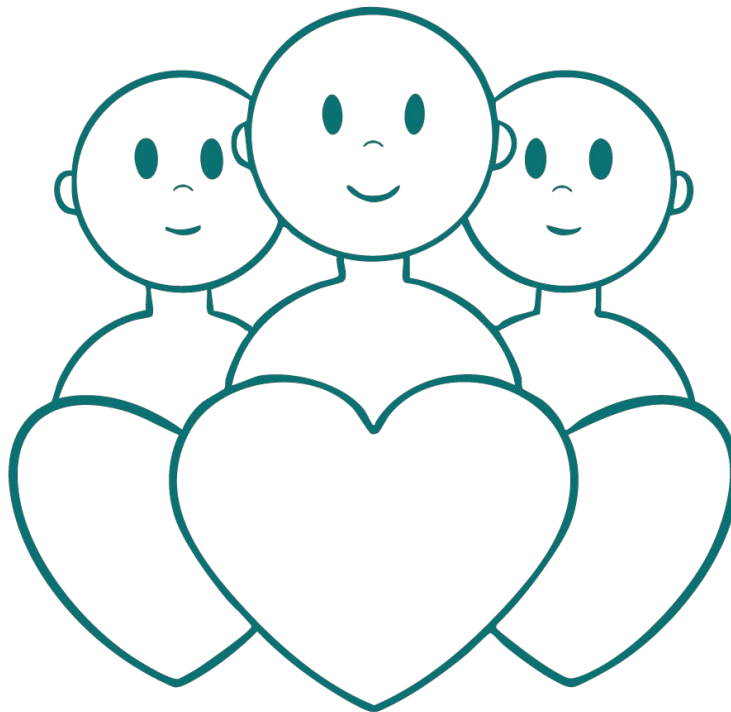
To entertain and engage, use gamified emails - quizzes, polls, mini-games, and any creative formats your marketing team can come up with. You can also strengthen loyalty by giving them early access to new product launches or inviting them to exclusive brand events, making them feel valued and part of the inner circle

When a customer has a purchase history and a list of “favorites,” you can personalize recommendations by adding products to the email that are most likely to interest them..



Don't forget about the abandoned cart. If the customer is loyal and reliable, you can delight them with a personalized discount on the items they left behind. Just be sure to set a time limit to create urgency and motivate them to complete the purchase as quickly as possible.

If a customer has been with you for a long time, they're likely part of your loyalty program. To motivate them to purchase more often, remind them of their status and available rewards — or even grant extra points with a limited validity period.



4. At Risk. Previously active customers showing signs of inactivity.

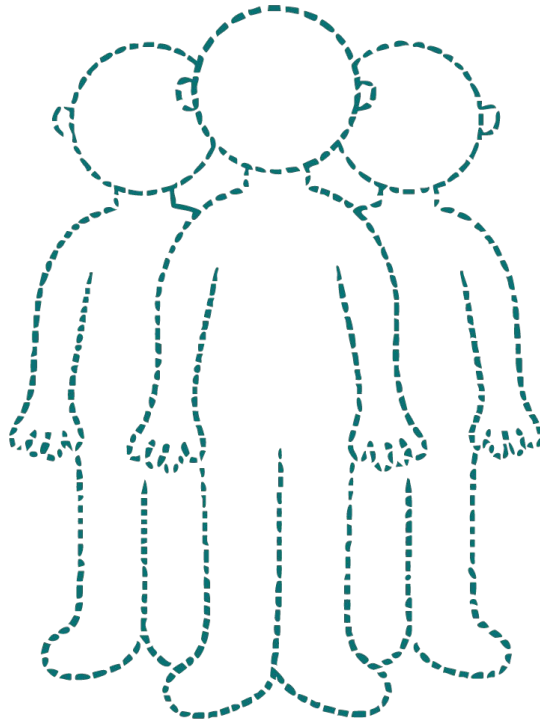
Goal of communication: Win back loyalty and stimulate purchases.

What matters: Personalized offers and consistent reminders about your brand.

Types of campaigns:

- Recommendations based on past purchases
- Abandoned cart or incomplete action reminders
- Follow-ups tied to the last purchase
- Personalized offers and discounts

Customers in this group tend to buy less frequently and may also open fewer emails or click fewer links. That's why it's essential to reignite their interest: remind them of your brand and the value your product brings, and encourage them with a personalized discount.



5. First-time, Recent Buyers. New customers who just made a small first purchase.

Goal of communication: Encourage the first purchase.

What matters: Introduce the company, address objections, and convince the customer to place their first order.

Types of campaigns:

- Welcome series (a greeting email right after subscription)
- Discount on the first order
- Gift or another incentive for the next purchase

When someone first subscribes to your emails, they're most interested in your brand and more open to communication: they read emails, click links, and engage.

This is the best time to draw them in and convince them to stay with your brand long-term.

The number and content of welcome emails depend on the type of business. In e-commerce, it's critical to get the first purchase as quickly as possible. That's why a time-limited offer works best—such as a **10% discount on the first order, valid for one week after receiving the email.**



For those who have already made their first purchase, it's equally important to **deepen their connection with the brand**: share your story, highlight values, and invite them to subscribe to other communication channels (messenger, social media, app). This ensures you can engage with them across multiple touchpoints and keep this segment active in the future.

6. Early-Stage Buyers. New customers who bought recently but not much yet.

Goal of communication: Encourage repeat purchases and nurture them toward becoming loyal customers.

What matters: Build trust, show product value, and motivate the customer to buy again soon.

Types of campaigns:

- Thank-you emails with product usage tips or care guides
- Cross-sell and upsell offers based on the first purchase
- Personalized recommendations
- Time-limited discounts for the next order

At this stage, customers have shown initial interest but aren't yet loyal. The key task is to reduce the gap between the first and second purchase — since repeat buyers are much more likely to stay long-term. Provide helpful content to improve their experience with the product, then follow up with attractive offers or bundles to motivate a quick return.



7. High-Value Occasionals. Infrequent buyers who spend a lot when they do purchase.

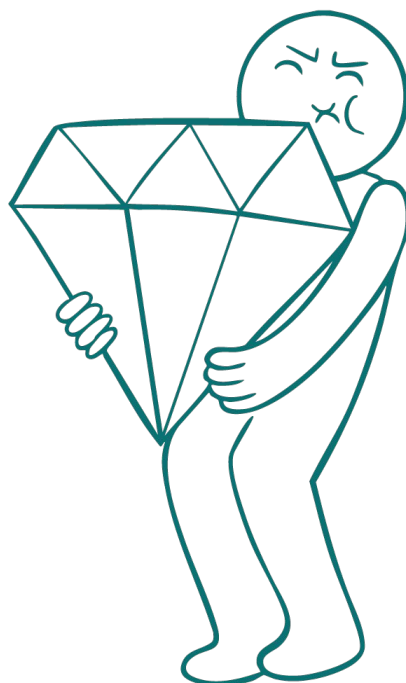
Goal of communication: Increase purchase frequency while preserving their high average order value.

What matters: Stay top of mind, highlight premium value, and create urgency to shorten the time between purchases.

Types of campaigns:

- Exclusive previews of premium or limited-edition products
- Personalized offers based on past high-value purchases
- VIP loyalty perks (free shipping, early access, concierge service)
- Time-limited incentives to prompt an earlier repeat order

These customers clearly value your products but purchase rarely. The main task is to **encourage them to buy more often without eroding their high spending behavior**. Focus on exclusivity, prestige, and convenience — elements that match their expectations. Use reminders and special access to nudge them toward another purchase sooner.



8. Potential Loyalists. Engagement is rising; likely to become loyal with the right nudge.

Goal of communication: Convert growing interest into consistent purchasing behavior and long-term loyalty.

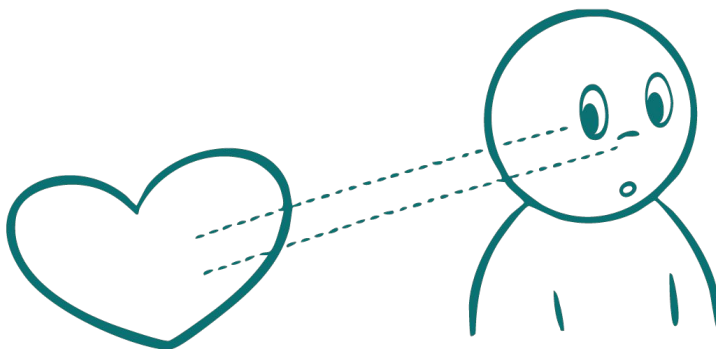
What matters: Strengthen emotional connection, encourage repeat orders, and reward early engagement.

Types of campaigns:

- Personalized recommendations based on browsing or purchase history
- Discounts or special offers on the second/third order
- Invitations to join the loyalty program
- Thank-you emails highlighting customer appreciation

Potential Loyalists are **on the verge of becoming loyal customers**. They've interacted with your brand enough to show promise but still need encouragement. The focus should be on building habits—help them make that second or third purchase quickly, give them a reason to return, and start introducing them to your loyalty ecosystem.

With the right mix of **personalization and rewards**, this group can be nurtured into high-value repeat buyers.



9. About to Sleep. Fading activity; may stop buying soon.

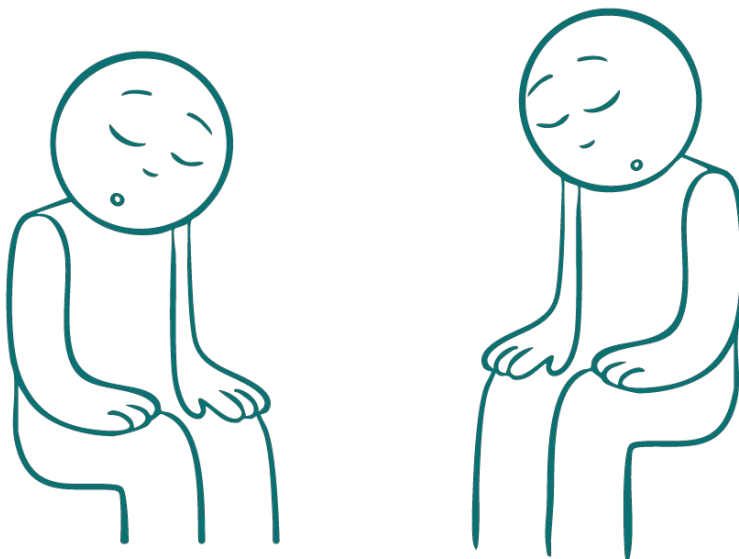
Goal of communication: Reactivate customer activity.

What matters: Try every possible way to “wake up” the customer — and if that doesn’t work, make a last call and unsubscribe them from your mailing list.

Types of campaigns: Reactivation emails

The first step with dormant customers is to launch a reactivation campaign: send an email along the lines of *“It’s been a while since your last purchase — come back!”* If that doesn’t work- no openings or purchases-follow up with a special “welcome back” discount.

If the win-back offer doesn’t work and the customer isn’t opening emails, it’s time to switch the communication channel (for example, try messengers or SMS) — or even reconsider the overall communication strategy.



10. Rare Buyers. Inactive customers who purchase rarely and spend very little.

Goal of communication: Reactivate interest where possible and filter out unprofitable customers.

What matters: Keep communication light and cost-efficient; focus on scalable, automated campaigns.

Types of campaigns:

- Occasional reactivation emails (“We miss you” style)
- Seasonal or holiday promotions
- Broad, low-cost newsletters
- Surveys to understand barriers to purchase

Rare Buyers usually don’t contribute much revenue and are unlikely to become loyal customers. The strategy should be **low-effort, automated communication**: keep your brand visible, test whether they respond to seasonal offers, and collect feedback on why they buy so rarely.

If engagement remains minimal, it may be more efficient to **reduce investment in this group** and prioritize higher-value segments.



Conclusion

RFM segmentation is more than just a way to classify customers-it's an advanced framework for managing the customer lifecycle. To make it effective, businesses need not only the right data but also a **clear strategy for each segment**. Champions, Loyal Customers, At Risk, or Rare Buyers-every group requires a tailored approach, specific communication tactics, and consistent follow-up.

The true value of RFM comes when insights are translated into **actionable marketing strategies**: personalized offers, meaningful engagement, and ongoing optimization. With the right strategy in place, RFM segmentation helps you maximize customer lifetime value, reduce churn, and build stronger, long-lasting relationships with your audience.

