



Volume 2

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Welcome to the second of RP Direct Tips Newsletter. Today we will cover, what I believe to be the heart of customer segmentation RFM. There have been books written on RFM modeling and if you are interested I recommend Libey and Pickering on RFM.

**RFM** simply stands for (Recency, Frequency & Monetary). RFM scoring allows you to segment your customer base in ways to measure results and determine where your marketing efforts should be directed. The term also lists the attributes in their order of importance.

**Recency** is when a customer last purchased. By itself, it is arguably the most important indicator of the three: recency, frequency and monetary value. A simple excel spreadsheet listing the customers last order date can be sorted by this date. The customers that fall in your 0-12 months segment will be those that can be mailed more often. Every mailer needs to determine how deep they can mail in their customer base before deciding how much prospecting they should do. Usually, you can mail back to 36 months and have those older segments still be more profitable than cold prospecting.

**Frequency** is how many times a customer buys. It is an indication of usage and satisfaction and the primary measurement of demand. Frequency is influenced by product and usage rate. I recommend viewing customers not only by how many times they order in a given time period like a year or two years, but also by the channel in which they order. Example is a web buyer who only orders once a year can be considered a low demand customer and would not justify mailing as often as say a customer who orders by phone, web and at your retail store and orders 8 times a year.

**Monetary value** is how much a customer spends. In total aggregate of all customers, it is expressed as average order value and sales. Some argue that it is the most forceful indicator of the three. This indicator is necessary to determine if a customer spends enough to be profitable. Measuring money spent over time is also critical, I prefer looking at money spent over the lifetime of a customer.

The latest trend in direct marketing involves expanding on the RFM model to create an **"Optimized RFM"** or RFM on steroids. This involves overlaying other optimizing elements to create a sort of RFMx. Whether x is employee size, gender, product category, SIC code or any other attribute, the point is it allows you to better pinpoint where the gold nuggets are in your customer file. The most efficient way to get this level of segmentation is through a co-op database like Merit Direct or others that provide this service to their mailer clients.

Once again the beauty or magic in Direct Marketing is that it is measurable and therefore you can calculate your return on your investment and make future

decisions based on the measurements. Consider outsourcing your database and circulation efforts and find the power how customer segmentation can improve your profits.

If you want a FREE evaluation of how RP Direct can help you, give me a call or click on the email link below.

Please feel free to pass on this email to anyone you feel would benefit from it.

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