

Ascent360 has an aggregate called RFM -- "Recency, Frequency and Monetary". At its core, the RFM score is a tool to understand customer value by comparing individuals against one another. RFM has been used in database marketing for 20+ years.

- Recency - How recently did the customer purchase?
- Frequency - How often does the customer purchase?
- Monetary Value - How much does the customer spend?

In this article:

- [How RFM is calculated](#)
- [Putting The Three Scores Together](#)

How RFM is calculated

To calculate RFM, Ascent360 looks at all customers, records and transactions in the customer database, and divides the customer list into equal groups of 20% (known as Quintiles) for each dimension.

Recency:

The idea behind 'Recency' is that customers who have purchased from your business recently are much more likely to respond to a new offer than someone who had made a purchase in the distant past.

Recency quintiles are based on the date of most recent purchase at your business and are organized by the Min / Max number of days since last purchase. As a result, the more recent a record's last transaction date is, the higher the quintile score will be assigned to that record. Thus, customers with the top 20% most recent transactions (in terms of Recency) are given a code of "5". The next 20% in terms of recent purchases is coded as "4", and so on until all records in your database are now assigned either a 5, 4, 3, 2, or 1 in terms of Recency.

Example of Recency quintile breakdown:

- #5: 7 days – 60 days
- #4: 60 days – 120 days
- #3: 120 days – 240 days
- #2: 240 days – 300 days
- #1: 300 days – Oldest transaction date associated with a record in your database

Frequency

Frequency quintiles are based on the sum quantity of total lifetime transactions each customer has made at your

business.

Customers are sorted in your the database by this number – from the most to least frequent, coding the top 20% as "5", and the less frequent quintiles as 4, 3, 2, and 1. Note: brand new customers will have a Recency code of "5", but a frequency code of "1", resulting in the lowest frequency quintile containing your newest customers.

Example of Frequency quintile breakdown:

- #5: 5 transactions – Maximum number of transactions associated with a record in your database
- #4: 4 transactions
- #3: 3 transactions
- #2: 2 transactions
- #1: 1 transaction
- #0: 0 transactions

Monetary

Monetary scores are organized into quintiles based on the sum of an individual's total lifetime spend. Your biggest spenders will be assigned a "5", and the others, 4, 3, 2, and 1. Customers are organized into your database by min / max amount of total dollars spent with your business.

Example of Monetary quintile breakdown:

- #5: \$400.00 – Highest lifetime total dollar sales associated with a record in your database
- #4: \$200.00 - \$400.00
- #3: \$100.00 - \$200.00
- #2: \$50.00 - \$100.00
- #1: \$1.00 - \$50.00
- #0: \$0.00

Putting The Three Scores Together

RFM analysis depends on Recency, Frequency, and Monetary measures, but the real power of the technique comes from combining them into a three digit RFM "cell code".

Using the quintile system explained above, all customers end up with three digits in their database records. They are either 555, 554, 553, 552, 551, 545,...down to 111. There are 125 different "cells" in all, with all cells containing approximately the same number of customers.

You may notice that not all RFM buckets are utilized AND that you don't actually have an even 20% in each bucket. Your RFM may only have customers assigned a 4 or 5 and not 1, 2, 3. This is because the frequency of known purchasers is not large enough to create a complete segment. If 80% of your customers have only purchased once, than it's impossible to break this 80% into different frequency buckets. The entire 80% will be assigned a frequency of 4. The other 20% that have more than one transaction will be assigned a 5.