Segmentation
READ ME

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Overview

Customer segmentation is the process of categorizing one's customer base based on common characteristics such as the region, industry, product preference, revenue generation etc. It serves as a powerful technique that helps companies to resonate better with the customer's needs and behavior and also use the information to market each group effectively and appropriately.

Significance of segmentation based on purchase pattern

Segmenting customers based on a single characteristic or parameter may sometimes limit the vision and cause misinterpretations by analyzing the entire customer base as a single entity.

For example, if you segmented your customers based only on the total revenue that is generated by them, and deduce that the one's who fetch the highest revenue are the best for your business, the information may only be partially true. Because, you don't know how many times these customers have bought from you? When was their last purchase? Are they returning? How frequently do they purchase? What if most of them bought only once?

It is these responses, that will help you guide them towards the next step, suitable product, best offer or next purchase. For example, you can send announcements of "premium features" only to those customers who frequently buy from you and also spend a good amount, as they will more likely be interested in upgrading. Analyzing the customer behaviour based on their previous purchases will help you determine a better customer retention strategy.

RFM metric for post-purchase segmentation

The most common metric that is used for a post-purchase segmentation is the RFM metric. It evaluates the customers based on the recency, frequency, and monetary values.

- Recency - When was the last time they purchased?
- Frequency - How frequently did they purchase?
- Monetary - How much did they spend?
These metrics help you to segment the customers into homogeneous groups, understand their traits based on past purchases, and engage them with more personalized campaigns.

Feature Availability

This feature is available in the Enterprise and Ultimate editions

Limits:

- **Enterprise** - 13 segmentation (includes the segmentation that are unpublished or saved as draft)
- **Ultimate** - 25 segmentation (includes the segmentation that are unpublished or saved as draft)

**Segmentation in Zoho CRM**

You must select the appropriate fields that represent the recency, frequency, and monetary values in your business and give a score ranging between 1-5 for different levels of RFM metric. For example,

- If the last purchase date is last month, the recency score can be 2.
- If the total number of products purchased is 5, then the frequency score can be 4.
- And, if the total amount of purchase is above $60000, the monetary score can be 4.
Based on the scores that you set, the system will compute the RFM metric for the record (customer/contact/prospect) and display it in the records detail page.

![Segmentation](image)

**Note**

The RFM and the segment label fields will currently be shown only in the Standard modules.

**Labeling the segments**

You can create different labels based on the RFM scores of the customers, this will also help the other teams to understand the customers position in the sales cycle and take appropriate actions. Each segment can have up to 8 labels, and for ease of understanding Zoho CRM gives a set of predefined labels, which are:

<table>
<thead>
<tr>
<th>Segment Label</th>
<th>RFM scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Champion</td>
<td>R: 4-5</td>
</tr>
<tr>
<td></td>
<td>F: 4-5</td>
</tr>
<tr>
<td></td>
<td>M: 4-5</td>
</tr>
<tr>
<td>Loyal customer</td>
<td>R: 2-3</td>
</tr>
<tr>
<td></td>
<td>F: 4-5</td>
</tr>
<tr>
<td></td>
<td>M: 4-5</td>
</tr>
<tr>
<td>Recent customer</td>
<td>R: 1</td>
</tr>
<tr>
<td></td>
<td>F: 4-5</td>
</tr>
<tr>
<td></td>
<td>M: 4-5</td>
</tr>
<tr>
<td>Promising</td>
<td>R: 3</td>
</tr>
</tbody>
</table>
You can edit these predefined labels or delete them and add new labels such as:

<table>
<thead>
<tr>
<th>Segment label</th>
<th>Factors influencing the RFM scores</th>
<th>RFM score</th>
</tr>
</thead>
</table>
| Must be pursued      | • The last visit dates back to above six months  
                        • Not visited in the past six months  
                        • Usually spends good amount        | R: 2  
                        F: 1  
                        M: 4                                      |
| Seasonal visitors   | • The last visit was a year back  
                        • Used to visit one a month  
                        • Spent very less            | R: 1  
                        F: 4  
                        M: 2                                      |

**Configuring segmentation**

You can create segmentation in both standard and custom modules. The key factors that you should decide before configuring segmentation are:
1. **Module that should be segmented** - The module for which you want to configure the segmentation, in other words, the module that stores the customers details. We will select the **Customers** module, you can choose an equivalent module like the students, property buyers or policy holders.

2. **Module that contributes to the segmented module** - The module that stores the RFM metrics or details related to the purchases done such as, the last purchase date, number of purchases, total amount spent etc. You can select modules like **Products**, courses, or service requests that will have the above or equivalent fields in it.

3. **Linking field** - It is the lookup field that bridges information between the segmented (customers) and the contributing (products) modules. A field that creates a link between the modules and allows you to fetch information about the segmented module is called a linking field. For example, a lookup field from the contacts module within the deals module or customer module within the products module.

![Create Segmentation](image)

**Five steps to set up segmentation**

1. Choosing segmented module, contributing module and linking field.
2. Selecting RFM fields
3. Defining segmenting (global) rule entry
4. Setting score range and defining criteria for each score
5. Adding segment labels

**Step 1 - Choose segmented module, contributing module, and linking field**

**Step 2 - Select RFM fields**

The appropriate fields in the contributing module that represent the RFM fields should be selected.

1. **Recency field** - Any date or data-time field that will represent the last or the most recent purchased date qualifies as the recency field. For example, "sale closing date", "purchase completion date", "deal closed on" or "sold on".

**Note**

- Zoho CRM will consider the most recent date as the value for the recency field.
- For date-time field, date will be considered as the recency field, time will not be taken into consideration.

2. **Frequency field** - You can either select by count or by field.

   - If you choose "by count", system will automatically consider all the records that are associated with the segmenting record that is, number of deals associated with a contact, number of products bought by the customer.
   - If you choose by field, you have to manually select any field that represents the number of times an activity is done, for example, fields like "number of products bought", "number of items sold", "number of deals associated" or "number of service requests received" indicate the frequency.

**Note** that, a frequency field must be present in the segmenting module and not the contributing module.
3. **Monetary field** - Any currency field that indicates amount. For example, "order value", "cost", "purchased amount", "deal amount" etc. If a customer has purchased multiple products or a contact has many closed deals associated with it, then system will automatically compute an aggregate amount and derive a value for the monetary field.

**Step 3 - Define segmenting (global) rule entry**

If you want only selected records to be segmented, then you can set a criteria based on which only the records that satisfy the criteria will be segmented. By defining the rule, you can segment a small set of customers from a particular region, product type, industry type, or preferred service and evaluate their purchase pattern. For example, you can perform a geographical segmentation by allowing the records that are from the US and Florida.

![Global Rule Entry]

**Step 4 - Set the score range and define criteria for each score**

By default, the score range for each metric (recency, frequency, and monetary) is set to 1-5. You can decrease the range by dragging the score range slider to the desired position like 1-2, 1-3 or 1-4. You can either set the score manually or allow the system to do it automatically.

**Manual** - You have to manually define a criteria so the system will know when the R, F, and M scores should be 1, 2, 3, 4 or 5. For example,

- In **recency field**, you can give the score as 5 if the sale closing date is sometime "between this week and last week" or "it is not last month".
Similarly, the score can be 4 if the recent purchase time is “till yesterday”.

- In frequency field, you define if the number of purchases is more than 8 the score must be 5 and if it is between 5 to 10 the score must be 4 and so on.
• In **monetary field**, you can give the score as 5 if the amount spent is above $1500 and 4 when the amount is between $800 to $1200.

**Automatic** - The system will automatically compute the RFM score using the percentile method. The entire data set is divided into five parts (to give scores within a range of 1-5) with distribution at the 20th percentile. That is, each RFM score will range from 1st to 20th percentile - 0 to 20, 20 to 40, 40 to 60.

For the **recency** score, data set will be distinguished between the most recent purchase and the oldest purchase. For example, if the recent purchase was a week ago and the old purchase was 6 months ago, then CRM will set these two timelines as the boundaries and draw the percentile within this duration. The scoring will be done at every 20th percentile rank.

Similarly, for **frequency** and **monetary** fields the highest to lowest occurrence and highest to lowest value will be computed respectively.

**Note**

• The recent date, the highest frequency, and highest value are subject to change, therefore the system will recalculate the data range and the number of records automatically everyday.

• You can change the scoring criteria from automatic to manual or vice-versa. However, doing so will reset the computed values to default and
recalculation will occur based on the new criteria that is set.

Adjusting the percentile bar

The default percentile ranking is set to 20th percentile for ease of understanding and proper record distribution, however, you can reposition the slider and change the percentile ranking.

Note - The system will take into account 20,000 records for automatic RFM scoring for the first configuration. After that, up to one million records can be computed.

Reset the score range

You can reset the score range after defining the criteria, however this will render the scoring to be reset to the default values.

You can also reposition the score range slider, but, it will remove all the settings and set it to default settings that apply to the revised score range. Also, the
existing labels will be removed and adjusted to the labels in the revised score.

**Edit the segment**

You can edit the segment from the segmentation page and revise the values in the following fields:

- Linking
- Recency
- Frequency
- Monetary

Note that, both the segmented and contributed modules cannot be edited.

**Step 5 - Creating labels for the segment**

CRM provides 8 predefined labels that you can use for the segment. You can edit or delete these labels and add new ones. For each label you need to define the RFM range between 0 to 9.

**To configure segmentation**

1. Go to **Setup > Automation > Segmentation**.
2. In the **Customer Segmentation** page, click **Create New Segmentation** and specify the following:
   a. **Segmentation Name** – Enter value. (Buying pattern, behavioural segmentation, preferred technology.)
b. **Which module would you like to segment?** - Choose a module from the drop-down list. (Leads, Customers, Contacts.)

c. **Which module contributes to the above segmentation?** - Choose a module from the drop-down list. (Deals, Products, Devices or Applications.)

d. **Linking field** - Select a field from the drop-down list. (Customer)

e. **RFM Fields Entry:**
   - **Recency field** - Select a field from the drop-down list.
   - **Frequency field** - Select by count or by field. (choose a field from the drop-down list)
   - **Monetary value** - Select a field from the drop-down list.

f. **Global Rule Entry** - Choose either all records or based on criteria.

3. Click **Next**.
   You will be redirected to choosing customer scoring.

4. In **How would you like to set criteria for customer scoring?** choose **Automatic** or **Manual**.
   - **In automatic**, move the slider to change the default percentile rank for each R,F, and M level and click **Compute**.
   - **In manual** for each level click **Add Criteria** > Select the field > Mention the value > **Submit**.

5. Click **Next**.
   You will be redirected to the labeling of the segments.

6. Click **Add New Label** and enter label name and the RFM values.

7. Click **Submit**.

8. Click **Publish**, to configure the segmentation.