RFM SEGMENTATION ANALYSIS FOR DETERMINE ONLINE MARKETING STRATEGY: THE SOUL COFFEE MATE CASE STUDY

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ABSTRACT
This study explores the impact of digital marketing on a cafe named The Soul, located in Jakarta. The cafe experienced a recent decline in sales attributed to factors such as new competitors, closures of nearby establishments, diminishing trends in working from cafes, and changes in customer demographics. Recognizing the need for a robust online marketing strategy, researchers aim to analyze customer segmentation using the RFM model, focusing on Recency, Frequency, and Monetary aspects of transactions over the past 11 months. The goal is to understand customer behavior, design effective online marketing strategies, and ultimately boost the company's revenue. The RFM analysis results identified eight customer segments for The Soul: Soulmate, Loyal Customers, Potential Loyalists, Promising, New User, At Risk, Can't Lose Them, and Hibernating. Proposed strategies include personalized promotions for different customer segments, such as monthly appreciation for "Soulmate" customers, discounts for loyal customers, and targeted communication for new or inactive users. These strategies aim to enhance customer engagement, loyalty, and satisfaction through digital promotions and personalized interactions.

Keywords: Cafe Business, Customer Behavior, Customer Segmentation, Customer Loyalty, Digital Marketing, Online Promotion, RFM Model, Sales Analysis.

ABSTRAK
INTRODUCTION

The development of information technology has transformed the landscape of the marketing world in recent years. Marketing communication methods that once relied on traditional and conventional approaches have undergone significant transformation with integration into the digital realm. This phenomenon is known as digital marketing. According to (Chavey, 2000), digital marketing, or electronic marketing (e-marketing), has a nearly identical meaning, both describing the management and execution of marketing through electronic media.

The Soul, a cafe located at Jl. Pramuka Kav.56 Rawasari, Cempaka Putih, Jakarta, has also been affected by the advancements in the digital world. The Soul is a cafe that embraces an outdoor concept, offering both coffee and non-coffee beverages, as well as fast-food items. Like many other businesses, The Soul has experienced a significant shift in how they interact with customers and promote their products. In its initial year of establishment, The Soul's owners heavily relied on conventional marketing strategies, targeting potential customers, especially those in the vicinity of the cafe.

In its second year of operation, the cafe's owners recognized the importance of utilizing digital media as a marketing effort to increase product awareness among potential customers. For nearly the past year, The Soul has been leveraging digital media, specifically Instagram, to promote its products. The cafe owners have observed an increase in customer engagement since adopting online media. However, in the last six months, The Soul's sales have experienced a decline of approximately 10%-15%. Several factors are suspected to be contributing to this downturn.

Firstly, the emergence of a new competitor around of The Soul (Kopi Kenangan). Secondly, the closure of some shops around the cafe area has resulted in regular customers no longer visiting The Soul. Thirdly, the trend of working from cafes/homes has diminished with the lifting of the Covid pandemic status in Indonesia. Fourthly, some customers who used to frequent the cafe are now married or have children, leading them to budget and reduce their time spent at The Soul. This has prompted The Soul to recognize the need for developing its online marketing strategy.

Business entities with online access, social media engagement, and developed e-
commerce capabilities generally experience significant benefits in terms of revenue, job opportunities, innovation, and business competitiveness. As an entrepreneur, careful planning of an appropriate business strategy is paramount. Customers are the primary assets and the key to business success. Therefore, many entrepreneurs compete to attract customer attention and exert considerable effort to retain them (Marisa F., Ahmad, S. S., Yusof, Z. I., Fachrudin, & Aziz, T. M., 2019).

Kotler and Keller 2012, state, "In the evaluation stage, consumers choose among the brands in the choice set and may also form an intention to buy the most preferred brand." Consumer purchasing decisions involve an activity where consumers select, assess, and evaluate alternative purchases based on their needs or desires. According to (Kotler, 2007), manufacturers require a consumer behavior strategy to achieve these goals, and there are several internal and external factors that influence this process. The external factors referred to include cultural, social, personal, and psychological elements.

Competition in the cafe business is increasing, and to boost the sales of their products, businesses in this field must have effective strategies to stay ahead. One approach is for companies to leverage existing sales data. Data from product sales made by the cafe will gradually produce a pile of data.

In this research, the analyst will conduct a customer segmentation analysis for The Soul utilizing the RFM model, utilizing transactional data over the past 11 months (January–November 2023). Recency, Frequency, and Monetary (RFM) are methods that can be employed to predict the behavior and potential of loyal consumers (valuable customers) by analyzing when the customer's last purchase occurred (Recency), how frequently the customer engages in transactions (Frequency), and which customers have the highest spending within a specific period (Monetary).

The objective of conducting segmentation analysis using the RFM model is to gather data on The Soul's product sales transactions. This data serves as a foundational basis for understanding consumer behavior. Subsequently, it is utilized to formulate more effective online marketing strategies with the aim of enhancing the company's revenue.

**RESEARCH METHOD**

This research was conducted through four main stages, namely data collection, data transformation, RFM algorithm implementation, and result evaluation. The methodology employed is illustrated in Figure 2.0. The RFM model is a model that has a significant role in assessing the profitability of customer value, as indicated (A. Febrani dan S. Putri Ashari, 2020). The RFM model (Recency, Frequency, Monetary) has been widely applied in the field of marketing due to its effective contribution to decision-making, identification of valuable customers, and become as the foundation for developing efficient marketing strategies (B. E. Adiana, I. Soesanti, dan A. E. Permanasari, 2018).

The RFM model consists of three primary attributes: recency (R), measuring the time interval since the customer's last transaction during the analysis period; frequency (F), reflecting the number of transactions conducted by the customer with the company during the analysis period; and monetary (M), indicating the total amount spent by the customer on the company's products or services during the analysis period (S. Monalisa, 2018). Higher values for attributes R and F increase the greater customers opportunity to make a repeat transaction. On the other hand, a higher value attribute M suggests a greater tendency for customers to engage in transactions (R. Hendrawan, A. Utamima, and H. Annisa, 2015).
RESULT AND DISCUSSION

The research used transaction data from The Soul Cafe for data processing through the SPSS program, complemented by interviews and other techniques to enrich the researcher's understanding of the ongoing study, with the intention of presenting these findings to others. In this section, steps such as data preparation, data collection, data processing, interpretation of grouping results, analysis of grouping results, and strategies for enhancing each customer group will be discussed.

**Data Collection**

To obtain data from the predetermined sample, the author used transaction data from The Soul Cafe from January 2023 to November 2023. From the collected data, 2743 transactions were obtained involving 399 customers conducting transactions at The Soul Cafe. The next step involved inputting this data into the "Microsoft Excel" program as the input for the SPSS program.

**Data Processing**

In the data processing for this research, the author used the "Microsoft Excel" program to input initial data and the SPSS program for RFM analysis, thereby obtaining the final segmentation results for customers at The Soul Cafe.

The steps involved are as follows:
1. Inputting initial data into the "Microsoft Excel" program. This data includes Customer ID, Date, and total sales for each transaction. The results are as follows:
2. Upload 2743 sales transaction data into the SPSS program after inputting it into an Excel file. The SPSS program will display views "data view" as shown below:

![Image](https://via.placeholder.com/150)

**Picture 3. Sample of Some Transactions at The Soul Cafe in Excel File**

3. Perform analysis using the SPSS program for RFM segmentation. Navigate to "Analyze," proceed to "Direct Marketing," and select the "Choose technique" option. Then choose RFM analysis as shown below:

![Image](https://via.placeholder.com/150)

**Picture 4. Result of loading sales transaction data into the SPSS Program**
4. Enter all numeric attributes into the "variable" column, and select "Number of Bins" as 3 for each "Recency," "Frequency," and "Monetary."

**Grouping Result**

In this grouping results stage, the following steps are involved:

After entering all input data into the SPSS program, the output will appear as follows:
Picture 7. SPSS Output in RFM Analysis

1. In this study, based on the SPSS output, we attempted to group RFM scores with the criteria for each group as follows:

<table>
<thead>
<tr>
<th>RFM Groups</th>
<th>RFM Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soulmate</td>
<td>333 233</td>
</tr>
<tr>
<td>Loyal Customers</td>
<td>332 331 223 323</td>
</tr>
<tr>
<td>Potential Loyalists</td>
<td>322 232 231</td>
</tr>
<tr>
<td>Promising</td>
<td>221 321 313 312 222 213 212</td>
</tr>
<tr>
<td>New Users</td>
<td>311 211</td>
</tr>
<tr>
<td>At Risk</td>
<td>131 122 121</td>
</tr>
<tr>
<td>Cant Lose Them</td>
<td>133 132 113 123</td>
</tr>
<tr>
<td>Hibernating</td>
<td>112 111</td>
</tr>
</tbody>
</table>
Customer Segmentation Based on RFM Score

Result Analysis

The segmentation analysis based on RFM Score in the following table:

<table>
<thead>
<tr>
<th>Group Segment</th>
<th>Sales revenue</th>
<th>% contribution of sales</th>
<th>Number of Customer</th>
<th>Number of Transaction</th>
<th>Frequency Per Customer</th>
<th>RFM Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soulmate</td>
<td>15,002,260</td>
<td>16%</td>
<td>30</td>
<td>345</td>
<td>12</td>
<td>333; 233</td>
</tr>
<tr>
<td>Loyal Customers</td>
<td>22,115,220</td>
<td>23%</td>
<td>66</td>
<td>584</td>
<td>9</td>
<td>332; 331</td>
</tr>
<tr>
<td>Potential Loyalty</td>
<td>10,419,160</td>
<td>11%</td>
<td>38</td>
<td>338</td>
<td>9</td>
<td>322; 232</td>
</tr>
<tr>
<td>Promising</td>
<td>19,515,460</td>
<td>20%</td>
<td>105</td>
<td>620</td>
<td>6</td>
<td>322; 312</td>
</tr>
<tr>
<td>New Users</td>
<td>3,055,800</td>
<td>3%</td>
<td>28</td>
<td>114</td>
<td>4</td>
<td>311; 211</td>
</tr>
<tr>
<td>At Risk</td>
<td>7,334,140</td>
<td>8%</td>
<td>44</td>
<td>274</td>
<td>6</td>
<td>131; 122</td>
</tr>
<tr>
<td>Cant Lose Them</td>
<td>15,522,480</td>
<td>16%</td>
<td>58</td>
<td>382</td>
<td>7</td>
<td>133; 113</td>
</tr>
<tr>
<td>Hibernating</td>
<td>2,322,100</td>
<td>2%</td>
<td>30</td>
<td>86</td>
<td>3</td>
<td>112; 111</td>
</tr>
<tr>
<td>Grand Total</td>
<td>95,286,620</td>
<td>100%</td>
<td>399</td>
<td>2,743</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>

Picture 9. Segmentation Analysis

Below is the explanation each group of segment:

<table>
<thead>
<tr>
<th>Group</th>
<th>Group Segment</th>
<th>RFM Score</th>
<th>Explanation each Group of Segment</th>
</tr>
</thead>
</table>
| 1     | Soulmate      | 333; 233  | Your Best Customer:  
333: The highest-scoring customers in recent purchases (recency), frequent visitation, and highest monetary value in purchases.  
233: Although they lack of recent purchases (recency), these customers frequently visit and have the highest monetary value in purchases.  
There are 30 customers, contributing 16% to total sales.  
Average purchase: Rp 43,484 with a frequency of 1-2 times per month |

Picture 8. Customer Segmentation Based on RFM Score
Loyal Customers
332; 331; 223; 323 Valuable customers with the highest recent purchases (recency) and frequent visitation. They can become the best, either by focusing on revenue or frequency. Consists of 66 customers contributing 23% to total sales, with an average purchase of Rp 37,868 and a frequency of 1 time per month.

Potential Loyalists
322; 232; 231 Customers showing potential for loyalty, with good visit frequency, even though they haven't made the highest-value purchases. Need more convincing to become loyal. Comprising 38 customers contributing 11% to total sales, with an average purchase of Rp 30,825 and a frequency of 1 time per month.

Promising
221; 321; 313; 312; 222; 213; 212 Customers with relatively high scores and variation in recent purchases (recency). They have the potential to be more valuable if empowered properly, showing interest in the brand/product with either repeat purchase or good ticket size. There are 105 customers, contributing 20% to total sales (second-largest segment). Average purchase: Rp 31,476, with a frequency of 1 time per 2 months.

New Users
311; 211 New customers needing improvement in visit frequency and monetary aspects. Recently bought low-ticket items. Consist of 28 customers contributing 3% to total sales, with an average purchase of Rp 26,805 and a frequency of 1 time per 3 months.

At Risk
131; 122; 121 Customers showing signs of risk with low visit frequency and low monetary value. Repeat buyers long time ago.

Can't Lose Them
133; 132; 113; 123 Customers in this segment have low recent purchases (recency) with moderate visit frequency and monetary value. Former power users, high-ticket one-timers.

Hibernating
112; 111 Customers showing low scores in all three RFM dimensions—recent purchases (recency), visit frequency, and monetary value. Long ago one-time buyers.

Digital Marketing Strategy
Based on the RFM grouping analysis above, the researcher proposes the use of digital marketing promotion strategies to nurture potential customers, retain existing ones, and enhance loyalty, potentially increasing purchases. The suggested strategies are as follows for each group of segments:

1. Soulmate Group:
   a. Show appreciation by bestowing titles like "Soulmate of the month" upon selected Soulmate category customers each month.
   b. Create a design featuring the customer's name or photo and post it on The Soul's Instagram.
   c. Extend appreciation by inviting the selected customer and their Soulmate (partner, friend, or family) to enjoy two free menu items with a single purchase in that
month.

d. Request the chosen customer to provide a testimonial/endorsement, posted on Instagram and TikTok. This strategy can serve as a monthly promotion.

2. Loyal Customers, Potential Loyalists, and Promising Group:
   a. Personalized approach by sending gratitude messages through Whatsapp to each loyal customer.
   b. Appreciation in the form of a 70% discount for three selected customers on a single purchase in that month.

3. New User, At Risk, Can't Lose Them, and Hibernating Group:
   a. Reach out personally through email with a greeting like, "How are you? We miss having you at The Soul."
   b. Provide information on the latest menu items, facilities, or activities (e.g., live music, exhibitions, birthday party venue availability, etc.) at The Soul.
   c. Promote new menus, activities, and facilities on Instagram and TikTok to attract both existing and potential new customers to visit The Soul.

CONCLUSION AND RECOMMENDATION

Conclusion

Overall, this study successfully applied RFM (Recency, Frequency, and Monetary) analysis to determine the customer behavior at The Soul Cafe. From the RFM analysis results, the author identified eight customer groups at The Soul: Soulmate, Loyal Customers, Potential Loyalists, Promising, New User, At Risk, Can't Lose Them, and Hibernating. Based on these eight groups, the author recommends a digital marketing promotion strategy aimed at nurturing potential customers, retaining those at risk of leaving, and enhancing loyalty to increase purchases.

Recommendation

Based on the conclusions drawn from the RFM (Recency, Frequency, and Monetary) analysis, this study suggests several strategic steps for The Soul Cafe to develop a more effective digital marketing strategy. Through the RFM analysis, the researcher successfully identified eight customer groups at The Soul: Soulmate, Loyal Customers, Potential Loyalists, Promising, New User, At Risk, Can't Lose Them, and Hibernating. These strategic recommendations entail efforts to embrace potential customers, retain those at risk of leaving, and enhance loyalty to increase purchases. The suggestions underscore the importance of focusing on customer segmentation, personalized digital promotions, targeted interaction and communication, as well as continuous efforts to strengthen customer loyalty through ongoing evaluation and adjustment of strategies. It is hoped that these initiatives will assist The Soul Cafe in enhancing customer retention, expanding market share, and boosting revenue through more targeted digital marketing strategies.

REFERENCE


