Customer Retention

By Being Proactive

Overview

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The Business Problem

- A Telecom company observes customer “Churn”
- Estimated loss of income: $140k per month
- Attraction of new ones is more expensive than retention of current ones
- Expectations from this project: Given historical data on loyal and churn customers,
    - Understand relation between churn and certain factors
    - Provide a predictive model that ranks the customers
    - Make recommendations to the business to minimize the revenue loss.

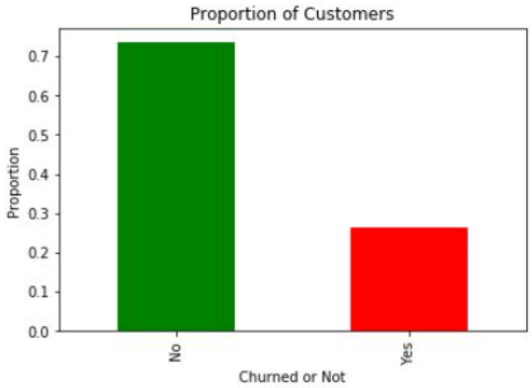
Data Set

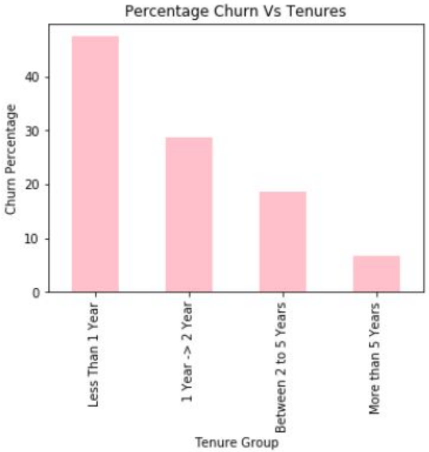
- Dataset link is given in Ref [1] in the last slide.
- 7043 records, 21 columns
- The target variable: Churn : { “Yes”, “No”} entries.
- One column has unique customer ID
- 19 Predictor Variables, which are of following types:
- Service specific :
  - Phone: Phone Service, Multiple Lines
  - Internet: Internet Service, Online Security, Online backup, Streaming TV, Streaming Movies, Tech support, Device protection
- Person specific : Gender, Senior Citizen,Partner, Dependents, Tenure (num)
- Money specific: Monthly Charges (num), Total Charges (num), Contract, Paperless billing, Payment Method
- *(num) above indicates numerical. Rest are all categorical: 2 to 4 categories

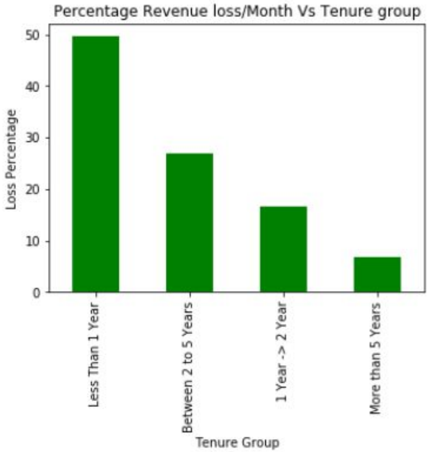
Data Wrangling

- Only Total Charges has 11 missing entries.
  - All of them are in rows with Churn “No”
  - tenure values are 0 for them
  - No other information is given.
  - Concluded that these should be for customers just registered
- Cleaning:
  - Set Total Charges to 0
  - Converted all other entries from string to float
- Observed : Total Charges is almost = tenure * Monthly Charges
- Verified: By fitting a simple linear regression through Tenure * Monthly Charges [Refer Appendix Slide 1 for statmodels OLS summary]
- Total Charges is hence redundant

Business Problem visualization

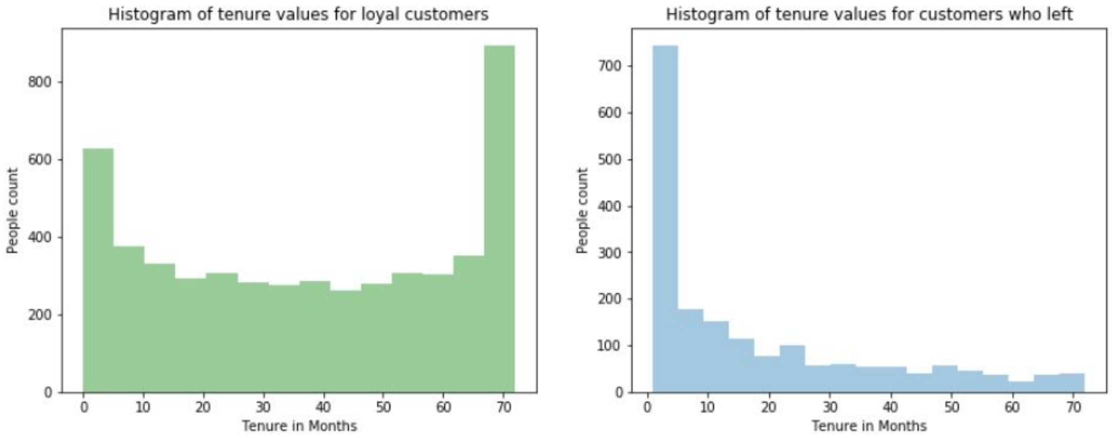






- 26.54% Churn rate overall
- $139130 loss per month, about 30% of the total income
- Less than a year tenure category has highest churn and result in highest revenue loss
- 2 to 5 year tenure category results in highest revenue loss

Data Stories (1) : Tenure in Months



- Fig 1: Drop from bin 70 to bin 60 => Huge churn happened about 5.5 years ago.
- Fig 1: Between 10 to 60 months, not much variation => Once they cross a year, they remain loyal
- Fig 2: High count in first bin, drastic drop=> Most in churn group < 5 months tenure

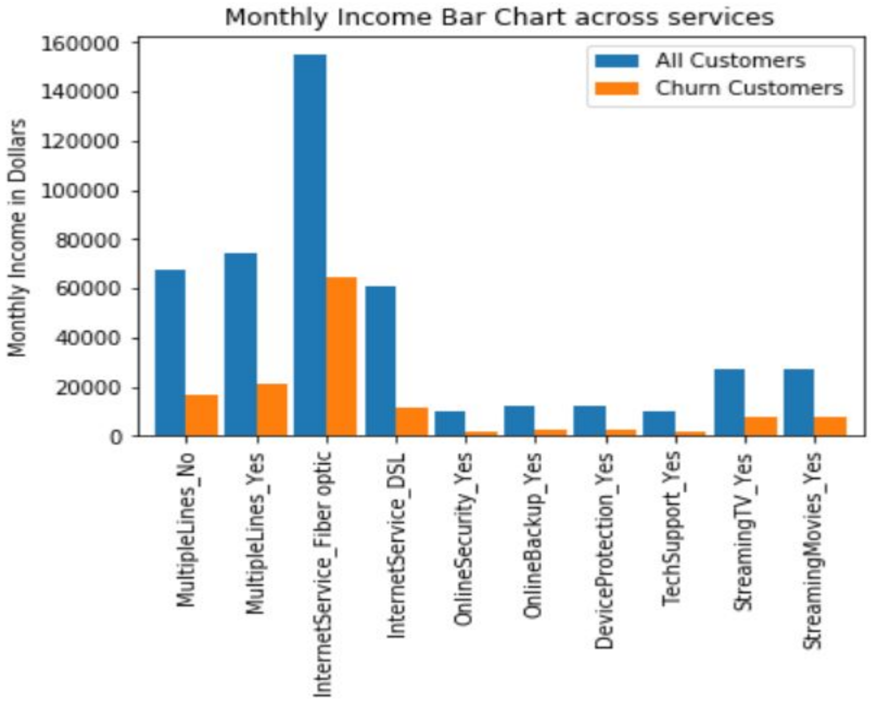
Data Stories (2) Monthly Charges Vs Services

- Rate sheet is not available, hence linear regression was done to know the rate per each service. The curve was a great fit. Intercept 0 indicated no fixed monthly charges

Type of Service	**Charges**
Phone Line Single	$20
Phone Line Multiple	$25
Online Security,Online Backup,Tech Support,Device Protection	$5 per service
Streaming Movies/ Streaming TV	$10 per service
Internet DSL	$25
Internet Fiber Optic	$50

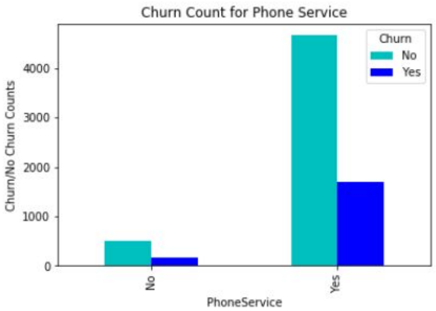
- See Appendix Slide 2 for validation of regression assumptions

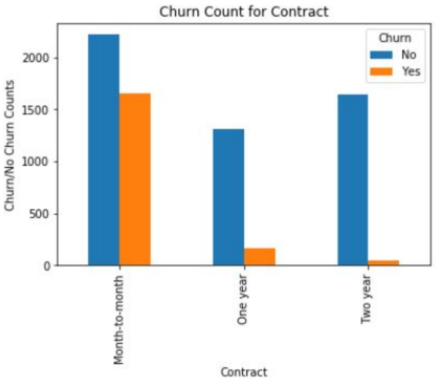
Monthly Charges Split by Services

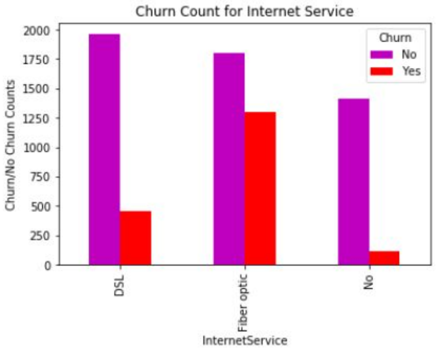


- The height of the bar = count of people subscribed * Charge as per rate table of previous slide
- Blue bars are from the entire 7043 rows
- Orange bars are from the Churn group
- The importance of Fiber Optic Service on the Monthly Income is very clear!
- MulipleLines_No essentially means Phone Line Single

Data Stories (3) Categorical Data








```
Mean Churn Across Contract
Month-to-month    0.427097
One year          0.112695
Two year          0.028319
Name: Ch10, dtype: float64
Mean Churn Across PhoneService
No     0.249267
Yes    0.267096
Name: Ch10, dtype: float64
Mean Churn Across InternetService
DSL            0.189591
Fiber optic    0.418928
No             0.074050
Name: Ch10, dtype: float64
```

- The bar charts show counts in each category of these variables
- Mean rate of churn shown
- Plots can show individual variations
- The effect of several combinations, and also specific types of services within internet services can be understood only by modeling

Predictive Modeling

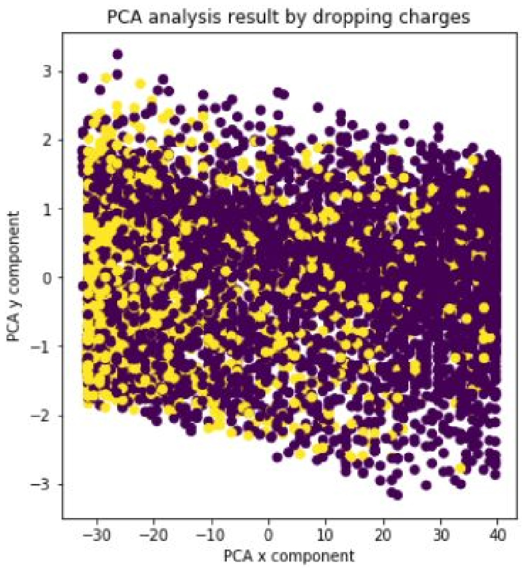
- Acceptance Criteria:
  - Mainly Area Under ROC Curve (AUC)
  - Train and Test Accuracy approx equal or not.
  - “Recall” on the Churn class to be higher priority than maximizing accuracy
- Data Prep/Feature Selection :
  - Drop numerical variable Total Charges, and Monthly Charges
  - Drop the column Phone Service, as it is a subset of Multiple Lines

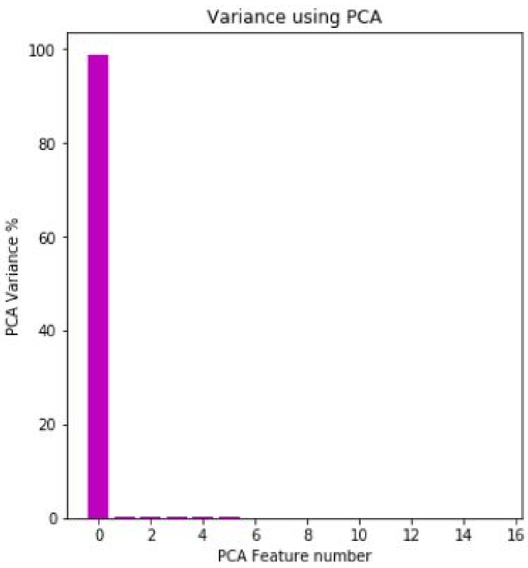
For logistic regression: (and previously for Monthly Charges Linear Regression)

  - Convert to dummies, and drop first, drop originals
  - “No internet service” dummy in some services are dropped, correlated with Internet Services (See Appendix Slide 3 for correlations)

Principal Component Analysis (PCA)

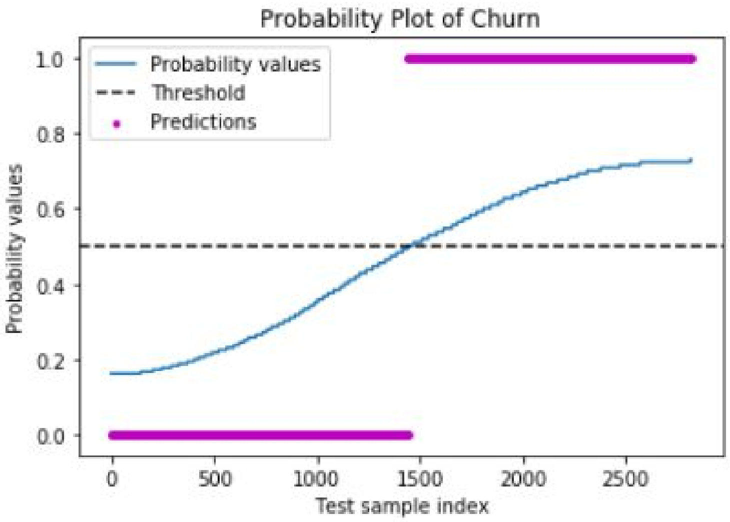
- First plot: Helps in understanding whether classes could be separable
- Second plot: 98.7% of the variance is explained by tenure alone





Logistic Regression with Tenure alone

- Fitted a simple logistic regression of Tenure to find out the relation
- Between 9 and 60 months, probability curve is almost linear
- Threshold Tenure = 27 months. Samples above black dotted lines correspond to < 27



Coefficient:-0.037, Intercept:0.997

Train Set Accuracy :63.67%
Dev Set Accuracy 64.16%

Report:

	precision	recall	f1-score	support
0	0.87	0.60	0.71	2070
1	0.40	0.74	0.52	748
avg / total	0.74	0.64	0.66	2818

Logistic Regression with many

- Trained using 60% of the records
- Membership from both classes in same proportion as original set
- Class weight Balancing done
- C should be kept very high to prevent regularization

How good is this model?

- Can accurately classify 74 to 75% overall
- Among every 100 churn predictions, 51 could be truly churn customers
- For every 100 churn customers, it could identify 80 correctly
- For any new data, this is expected to predict about 41% as Churn (i.e. 0.8 * 0.51)
- AUC is 0.84, indicating good fit.

Confusion Matrix	Pred 0	Pred 1
True 0	1497	573
True 1	146	602

```
Report:
             precision    recall  f1-score   support

          0       0.91      0.72      0.81      2070
          1       0.51      0.80      0.63       748

avg / total       0.81      0.74      0.76      2818
```

Decision Tree Classifier

- Most or categorical features, hence tried decision trees.
- First three conditions same as previous slide
- min_weight_fraction_leaf = 0.03

How good is this model?

- Training accuracy is always 75.5+%
- 53% of Churn predictions would be true
- For every 100 churn customers, this would identify 75 correctly
- AUC score is 0.83
- Recall is not as good as logistic regression!

Confusion Matrix	Pred 0	Pred 1
True 0	1577	493
True 1	186	562

Report:

	precision	recall	f1-score	support
0	0.89	0.76	0.82	2070
1	0.53	0.75	0.62	748
avg / total	0.80	0.76	0.77	2818

Random Forest Classifier

- Sometimes ensemble methods could give better fits than simple classifiers. Hence tried.
- First three points same as log reg slide
- Number of estimators: 25
- ‘Entropy’ index
- min_weight_fraction_leaf = 0.03
- 4 features were used at each tree.

How good is this model?

- Overall accuracy slightly lesser at 73-74%
- AUC is 0.83
- Logistic Regression wins!

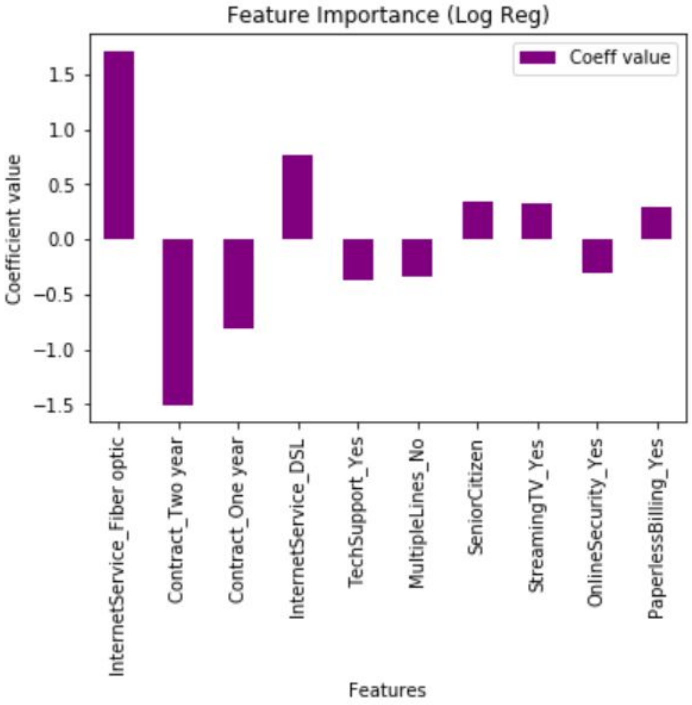
Confusion Matrix	Pred 0	Pred 1
True 0	1456	614
True 1	149	599

```
Report:
             precision    recall  f1-score   support

          0       0.91      0.70      0.79      2070
          1       0.49      0.80      0.61       748

avg / total       0.80      0.73      0.74      2818
```

Feature Importance



Top 10 Features with their influence shown

- Tenure is second last among 21. (not shown).
- PCA indicated tenure is most important, but tenure is related to the rest, although not linearly.
- Interpretation:
    - Features with negative coefficients are favorable.

Solutions Proposed

- A predictive model is given that ranks customers based on their probability of churn and the revenue that they bring.
- Use this model to prioritize whose concerns to be addressed first. Sometimes it might be case by case basis.
- Take the following actions immediately:
    - Try striking a longer contract with new customers: two year or one year in that order of preference.
    - Leverage the time to improve the quality of services, of the high cost ones like Fiber optic.
    - Improve on the Technical support on all services like streaming, phone connection and internet.
    - Be up-to-date with current technology.
    - Collect customer feedback and act on it immediately to prevent new customer churn
- Next: It will be helpful to understand why churn started 5.5 years ago. Give more historical data to the data scientist for analysis.

Potential Money Savings!

- Assuming the business makes an attempt to convince all the customers identified as Churn (likelihood >= 0.5),
- The income loss prevented using the given dataset: $115,480 / month if all of them change their mind.

Scope for Further Work

- Collect more data through surveys, analyze them using NLP techniques.
- Collect more historical data on customer churn. Especially it might be useful to see what happened 5+ years ago as seen from tenure plot.

References/Links

1. IBM page has many, out of that this Telecom dataset
2. Introduction to Statistical Learning by Gareth James et. al
3. Predicting Customer Churn using R by Susan Li
4. My Code

Appendix Slide 1: Goodness of fit for Total Charges

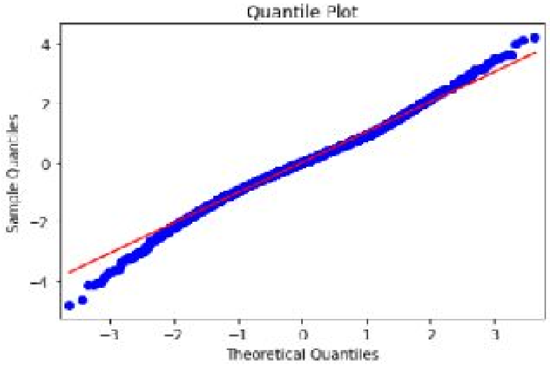
OLS Regression Results

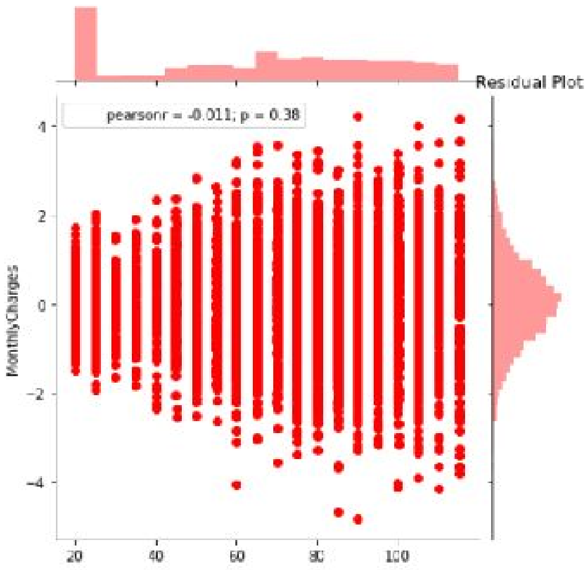
Dep. Variable:	TotalCharges	**R-squared:**	0.999
Model:	OLS	**Adj. R-squared:**	0.999
Method:	Least Squares	**F-statistic:**	8.006e+06
Date:	Mon, 12 Feb 2018	**Prob (F-statistic):**	0.00
Time:	13:31:50	**Log-Likelihood:**	-39627.
No. Observations:	7043	**AIC:**	7.926e+04
Df Residuals:	7041	**BIC:**	7.927e+04
Df Model:	1		
Covariance Type:	nonrobust		

	coef	std err	t	P>|t|	[0.025	0.975]
Intercept	-0.9229	1.136	-0.812	0.417	-3.150	1.304
Temp	1.0005	0.000	2829.477	0.000	1.000	1.001

Omnibus:	538.795	**Durbin-Watson:**	2.055
Prob(Omnibus):	0.000	**Jarque-Bera (JB):**	3067.278
Skew:	-0.034	**Prob(JB):**	0.00
Kurtosis:	6.232	**Cond. No.**	4.56e+03

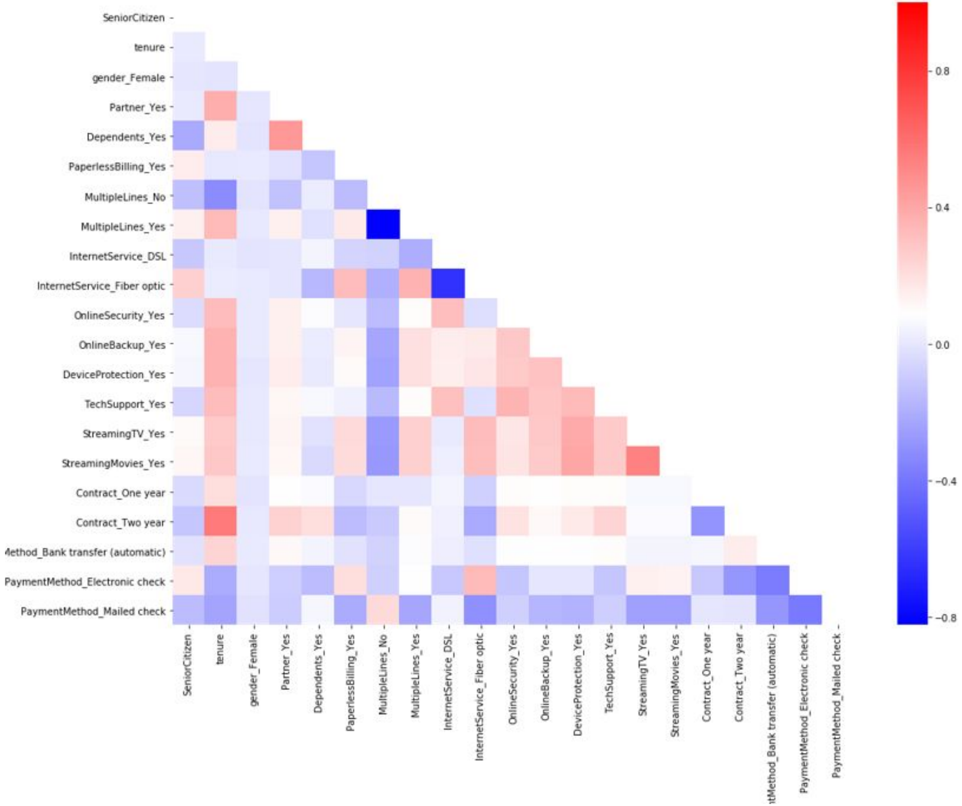
Slide 2: Quantile and Residual Plots of Monthly Charges





1. Assumptions verified as seen by plots
2. R^2 = 0.999
3. MSE of the fit = 1.05
4. Percentage of outliers = 3.96

Slide 3 Correlation plot for Log Reg inputs



There are hardly any highly correlated features