

**BUSINESS CASES WITH DATA SCIENCE**

**MASTER DEGREE PROGRAM IN DATA SCIENCE AND ADVANCED ANALYTICS – MAJOR IN BUSINESS ANALYTICS**

**Business Case #4 – Recommender System**



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# 

# INTRODUCTION

Thank you for choosing **Data4Business Consulting (D4B)** to help you with the challenge of better understanding your customers preferences. Our main objective is helping **ManyGiftsUK** to build a recommender system that is able to facilitate user choices and suggest relevant items to customers.

The world is experiencing a great technological and digital revolution where understanding business data, customers and their needs is essential for the business success. Taking advantage of that, e-commerce is growing daily and now it is a fundamental strategy for any business to gain value, market share and to stay relevant in the market. Consequently, the competition between sellers leads to a constant search for the improvement of their business models and decisions. One of the important challenges is helping customers sort through a large variety of offered products to easily find the ones they will enjoy the most. *[1]*

Through innovative technological programs, well-referenced data mining methods and insights of digital marketing, the present report intends to provide an overview of the process behind the analysis, presents the results and insights you need to be successful in this new era.

In addition to the present report, the following deliverables will be submitted:

* Outcomes presentation to ManyGifts.
* Jupyter Notebook with the code of the entire process.

All files can be accessed in Github:

*https://github.com/Debs86/Business\_Cases\_Projects/tree/main/BC2*

We are excited to take part of this challenge.

# BUSINESS UNDERSTANDING

## Background

**ManyGiftsUK (MGUK)** is non-store online retailer with some 80 members of staff. The company was established in 1981, with the focus on selling unique all-occasion gifts. The company is based on UK, but it has customers in many countries on the world. Many of its customers are wholesalers.

In the past, the merchant relied heavily on direct mailing catalogues, and orders were taken over phone calls. Two years ago, the company launched its own website and shifted completely online. The company also uses Amazon.co.uk to market and sell its products.

Given the number of possible product choices available, having some extra guidance on these choices can improve the customerexperience and lead to an increase in sales. Recommender systems are an essential feature in our digital world, as users are often overwhelmed by choice and need help finding what they are looking for. *[3]* These systems have become a very important part of the retail industries, by providing users personalized recommendations for products or services which hopefully suit their unique taste and needs.

On the past years, MGUK has accumulated a huge amount of data about many customers. Now, they expect to build a recommender system, therefore they have reached D4B.

## Business Objectives

The customer’s primary objective is to build models to answer the follow problems:

* Implement a recommender system.
* Cold star problem: offer relevant products to new customers.

## Business Success criteria

The main expected outcome will be implementing a recommendation system that appears in MGUK website home page and offers a wide range of relevant products to both, new and old customers. The success of the proposed task will be evaluated by MGUK management director and, if needed, we will go back to the model until we get an outcome that matches with their expectation.

Also, another success criteria would be an increase on sales. For example, 35% of Amazon sales come from recommendations. We believe that implementing a recommender system the sales would increase.

Finally, recommender systems would improve customers satisfaction providing them good recommendations and consequently easy choices.

## Situation assessment

### Inventory of resources

This project was made following the CRISP-DM reference model (Cross Industry Standard Process for Data Mining). CRISP-DM is a standard process built in the end of 90’s and it was built by more than 200 members lead by a consortium of big companies. *CRISP-DM succeeds because it is soundly based on the practical, real-world experience of how people conduct data mining projects.*[2]

This project has the support of MGUK’s Management and staff.

On the D4B Consulting side, this project will be conducted by a team of 3 Data Scientists and Business Analysts.

We have been provided by the MGUK team with a dataset with transactions of customers occurring between December 1, 2010 and December 09, 2012. Along with this dataset, we were also provided with its metadata file.

The main technology used to achieve the objectives of this report was Python. Python is one of most important and commonly used program languages in data science projects. The main packages for recommender systems are mlxtend and AlgorithmX for network visualizations. We also used Plotly and Dash packages to produce visualizations and a final application.

### Requirements, assumptions, and constraints

The completion date of the present phase of the project is May 03, 2021, but we expect to continue giving support and helping MGUK to achieve the next goals for the growth of the business.

Recommendation systems are divided in two main categories:

1. Collaborative filtering utilizes the past data of user’s interactions as well similar choices made by other users. “Similarity” is measured against the similarity of users. *[3]*
2. Content based filtering uses the knowledge about each product to recommend items with similar properties.  “Similarity” is measured against product attributes*. [3]*

In collaborative filter, the system can find similarity based on purchase history, but also based on demographic data. One of the constraints of this project is the lack of demographic data. It is not a mandatory requirement, but it would improve the quality of the recommendations. Examples of demographic data are genre, age, and location.

In addition, it would also not be possible to find similarity based on products attributes as the data does not provide details of products, only code and name.

### Risks and contingencies

Table 2.1 identifies a list of risks and contingency proposed.

|  |  |
| --- | --- |
| **Risk** | **Contingency** |
| Insufficient features of customers’ behaviors/ characteristics | Work with remaining features |
| Insufficient product attributes | Work with remaining features or ask for different variables |
| Only one year of transaction data | Ask for more observations (transactions) |

Table 2.1 - Risks and contingency.

#### Terminology

***Business glossary***

Recommender systems usually make use of two types of data:

* Explicit data: Taking, score or like. It is a directly feedback from customer regarding product or service. From this rating is possible to understand the like or dislike user level in an intuitive way. From explicit data is possible to calculate similarity and provides recommendations according to the users’ ratings.
* Implicit data: Attached to users’ behaviors, implicit data is collected based in an indirectly way of users shows preferences. An example of implicit data is how long the user spent in a website, how many clicks were made in a webpage by a user, how many times a song were played and so on.

***Data mining glossary***

* Recommendation system: Machine learning system which help users discover new products and services. The system seeks to predict the "rating" or "preference" a user would give to products or services and filter the one with highest predict rating to the user. There are three main ways:
  + Collaborative filtering (see section 2.4.2)
  + Content based filtering (see section 2.4.2)
  + Hybrid: combine multiple recommendations techniques together.
* AUC - ROC Curve (Area Under Receiver Operating Characteristics) [2]: This is a performance measurement in which ROC is a probability curve and AUC represents the measure of separability. The higher the AUC is, the better the model is at predicting the true positives and negatives.  It will also work well for our purposes of ranking recommendations. A greater AUC means we are recommending items that end up being purchased near the top of the list of recommended items.

## Determine Data Mining goals

The data mining goals states project objectives in technical terms:

1. Create a model that will be able to predict good recommendations for the users.

*Success criteria*: Definir as metricas para avaliar a qualidade do modelo.

1. Implement a recommendation system.

*Success criteria*: Implement the recommender system on the website homepage.

1. Lead with cold star problem.

*Success criteria*: Implement the recommender system on the website homepage.

## Project Plan

Figure 2.1 - Project’s timeline.

Resources wise, for the business understanding we plan to use all the information provided in the kickoff meeting’s presentation. For the core stages of the project, we plan to use Python to work the data provided. To present the results, we expect to use Word for the report and Power point for the presentation.

The performance of the model will be directly connected with the quality of the input data. For this reason, we identify the Modelling stage as dependent of the Data preparation stage. During the project, we must go and back between Data preparation and Modelling many times, repeat this iteratively until we get the desired outcome.

For the Modelling stage we aim to build a supervised model (predictive) using Random Forecast classifier algorithm. We opted for this model because it presented the best results compared with other algorithms. Further details will be presented in section 3.3 – Modelling and evaluation. The model evaluation will be made using accuracy, precision and F1 score metrics. The accuracy metric is good to see the overall performance of the model. Precision to measure how good the model is predicting the cancellations. Finally, F1 to check the balance between recall and precision. It will also be presented a confusion matrix and an ROC curve.

# Predictive Analysis

In this section we go through the process of understanding and preparing the data for modelling, the modelling itself, the different algorithms used and, finally, the results evaluation.

## Data understanding

At this stage we analyzed the dataset to understand its potential and limitations. First, we looked on the data in the excel file to check inconsistences. The data understanding step is good to understand what variables are in the dataset, what they mean, number of variables (8 features, from which 6 categorical and 2 numerical as shown on Table 3.1) and observations (541909 purchase transactions), if there are inconsistences, if there are missing values (135.080 *CustomerID* and 1.454 *Description*) and/or duplicated values (10.147).

We have also looked at the metadata file provided to understand the meaning of each feature to understand their relevancy in the project.

|  |  |
| --- | --- |
| **Numeric** | **Categorical** |
| *Quantity, UnitPrice* | *InvoiceNo, StockCode, Description, InvoiceDate, CustomerID, Country* |

Table 3.1 - Numerical and categorical features.

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Going into more details, April to June are the months where there is a higher proportion of cancellations. Most of the bookings with no children and/or babies have a higher percentage of cancellations. Also, Bed & Breakfast bookings tend to cancel more than average. On the other hand, guests those requiring parking space, booking changes and/or special requests are more willing to show up. Repeated guests also have low percentage of cancellations, but they represent less than 3% of bookings.

Bookings through Travel Agents or Tour Operators (representing nearly 87% of the total bookings) tend to cancel more often, while groups reservations tend to cancel less than others.

Customer’s bookings made far in advance are more willing to cancel the reservation.

## Data preparation

On this stage, the dataset should be prepared to ensure a good quality of the data to the algorithms achieve good performance.

On the first step of data preparation, we removed duplicate observations. Next, we eliminated all observations whose *StockCode* does not fit with the described format on the metadata (“Nominal, a 5-digit integral number uniquely assigned to each distinct product”). Therefore, we only keep the observations whose *StockCode* is 5 numbers, and the only exception was made is that we also keep *StockCode* with 5 numbers followed by one letter. We also remove the remain observations with price equal to 0. Regarding these last 2 inconsistences (stock code and unit price), we could verify that most of the transactions are about adjustments, post and amazon fees, damages, and others that it could not be used by a recommender system. We removed 2% of the data until this step.

The next step was feature engineering which we built 2 new features, for data analysis purpose:

|  |  |
| --- | --- |
| **New variables** | **Description** |
| *Month\_Year* | *Month and Year related to that transaction.* |
| *Total\_Value* | *Value of the transaction, calculated by multiplying the unit price and quantity* |

Table 3.2 - New variables.

After these changes, the missing descriptions were already dropped. For the missing *CustomerID*, we applied to approaches: For the purpose of a better understanding of the data, we create a fake *CustomerID* to each observation, according with the invoice number. Observations with the same *InvoiceNo* have the same *CustomerID*. The algorithms for recommender system work with datasets in a matrix format. For the recommender system purpose, we drop all the observations without CustomerID. We are going to lead with them in the same way we are going to lead with new customers as we do not have track of their transactions.

## modelling and evaluation

On this step, we are going to train and test the algorithms for the recommender system.

The first stage of this process was to reduce the sparsity of the data. As we have a big dataset, for a better importance of the model, it is important we have only transactions that really matters. Transactions related to customers or items without significant history were removed from the data.

Next step, we create the sparse matrix. It is a requirement for the kind of algorithms we are going to use. EXPLAIN HERE THE MATRIX AND THE FACTORIZATION.

After that, we ran 3 different algorithms (ALS, BPR and LMF write the complete names) with the default (???) parameters. We chose these algorithms based on their ability to predict the positive results (i.e. cancelations) and its ease of interpreting the results.

To measure the performance of each algorithm, we used a 10-fold cross validation only on the train set and calculated the average score for each fold. The metric used was AUC (explained in section 2.4.3.1). Explicar a parte da comparação do mean AUC com os itens mais populares

The results are presented on Figure 3.4. (fazer um grafico com os resultados)

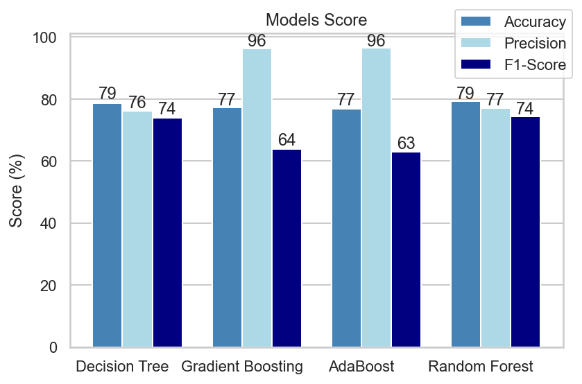
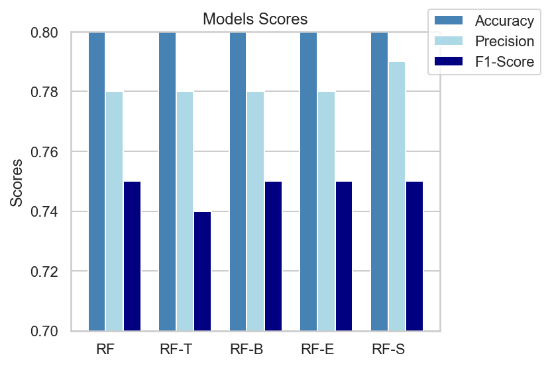


Figure 3.4 - Models score.

Analyzing the results, we chose as our final algorithm the Random Forest Classifier. Although in one hand Gradient Boosting and Adaboost presented very good scores for precision metric, on the other hand they presented low score for F1 metric, so we decided to not use them. Compared to Decision trees, Random Forest presented better accuracy and precision.

The next stage was trying to improve the scores of Random Forest tunning the parameters. At this time, we applied the model in the test set. We tested 6 different types of parameters. The table with the parameters of each model and the graphic with the results are presented below:

|  |  |  |
| --- | --- | --- |
| **Model** | **Parameter changed** | **Value** |
| modelRF | random\_state | 5 |
| modelRF\_ent | Criterion | Entropy |
| modelRF\_10trees | n\_estimators | 10 |
| modelRF\_b | bootstrap | False |
| modelRF\_s | max\_samples | 0.7 |

Table 3.5 - Tuning RF parameters and results.

The model with the best performance was the one with the parameter *max\_samples = 0.7*. All models have very similar results, but the one chosen has a better precision when compared to the others.

You can see below the ROC curve and the confusion matrix for the final algorithm .

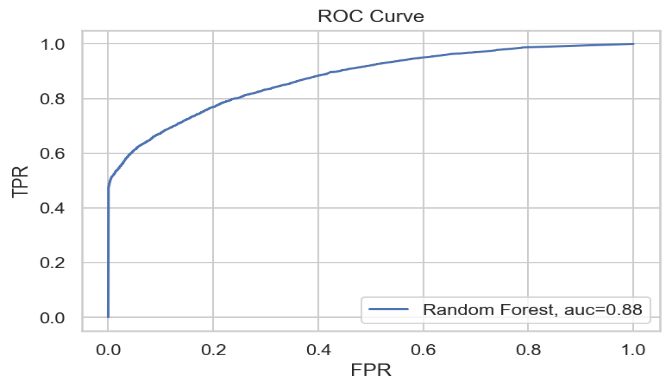
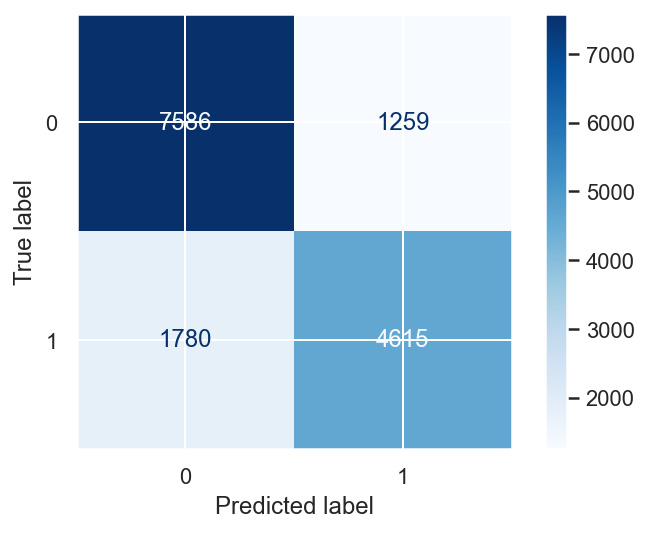
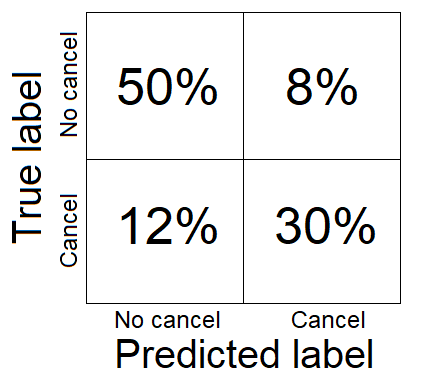


Figure 3.6 – ROC Curve and Confusion matrix to RFC.

The classification report and confusion matrix for all models with Random forest classifier can be found on the notebook.

# RESULTS EVALUATION

The model developed by B4C reached good values on many important measures which will certainly help Hotel Chain C to implement actions to prevent cancellations.

Random Forest Classifier predicts cancellation/no cancellation correctly 80% of the times. However, 12% of the bookings will be cancelled but the model will wrongly predict them as not cancelled, which may cause that some rooms are not occupied, leading to loss on revenue. 8% of the bookings will wrongly be labelled as cancelled, however the customer will show up, which may lead to overbooking or extra expense costs on trying to reverse the suppose cancellation.

We could say we found a good balance between the false cancellations and false no-cancellations reducing the costs generated by this.

To conclude, because the model achieves 80% of accuracy, it will probably lead to a reduction on cancellations to a rate of 20%, which was stated as one of the business goals.

# DEPLOYMENT AND MAINTENANCE PLANS

We understand that the process of implementing the model is very critical. Hotel’s market is very dynamic and bookings are changing daily. Every day, there are new bookings on the systems, cancellations or/and changes on the reservations on-the books. So, we understand that it would be very important to implement the model integrated with the hotel reservation system. Integrating both, the results will be generated in a daily basis and the hotel could react faster to the cancellations.

Another important point is the data is that we have some problems of quality in the data. We advise to improve the quality of variables Deposit Type and country. We also find some reservations with no adult guests and believe this might be an issue on the records. Also, on the data provided we found a good percentage of very similar bookings that can reduce the performance of the model.

We are going to monitor the performance of the model after it is implemented for some months and make some adjustments if necessary.

We also suggest updating the model from time to time as the behavior of the customers, and even the market trends, can change, reducing the model performance.

Lastly, considering this model was built with only few thousands of observations, we consider that re-training the model when new data is available would potentially improve its quality.

# CONCLUSIONS

As state in the section 2.2 – Business objectives, the main objective of this project was to implement a predictive model to forecast net demand based on reservations on-the-books.

The model developed by B4C reached good values on many important measures such as 80% of accuracy and 87% of AUC. It would certainly help Hotel Chain C to implement actions to prevent cancellations.

We were also able to describe the key characteristics of bookings to help to identify high cancellation likelihood bookings.

In addition, we set some risks on this project. One of these risks is the model performance, as we have been working with almost 30% of duplicated observations. We implemented some actions to reduce this risk, but the model will have improvement margin if we get additional datasets to test its performance.

We hope Hotel Chain C is satisfied with D4B work and we can continue working together

# REFERENCES

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