Predicting Churn to Minimize Business Loss

Contents

1 - Description of the Problem:

What is churn and why is it of value to businesses:

Customer churn, also known as customer attrition, occurs when customers stop doing business with a company. The companies are interested in identifying segments of these customers because the price for acquiring a new customer is usually higher than retaining the old one. For example, if Netflix knew a segment of customers who

were at risk of churning they could proactively engage them with special offers instead of simply losing them.

Churn can also be defined as "The use of customer data and/or feedback to forecast the likelihood of a customer or group of customers discontinuing their subscription in the future."

WHY IS IT NECESSARY?

Having the ability to accurately predict future churn rates is necessary because it helps your business gain a better understanding of future expected revenue.

In addition, when you're able to use churn prediction to forecast the potential churn rate of a particular customer, it allows you to target that individual in an attempt to prevent them from discontinuing their subscription with you.

And, since the cost of acquiring a new customer is 5x higher than keeping an existing one, there's plenty of revenue-based reason to do everything in your power to keep those existing customers.

Predicting churn rates can also help your business identify and improve upon areas where customer service is lacking. And, by making those improvements, you can decrease churn and improve revenue numbers.

In the end, the bottom line is that churn prediction is essential because it helps you understand what preventative steps are necessary to ensure lost revenue is minimized.

WHERE IS IT USED?

Churn prediction is used in a variety of different industries and types of businesses.

It is, however, most relevant to SaaS companies and membership based businesses that charge an ongoing monthly, quarterly, or annual fee for their software or services.

As far as how churn prediction can be used within your business, it's one of the key components of determining the lifetime value of customers. And, armed with accurate, real-time data about the lifetime value of your customers, your company will be in a much better position to ensure that you're making decisions that keep you moving forward.

So, this project is aimed to leverage customer's data of sales of Chicago metropolitan area and predict whether he/she will churn in a given time or will remain loyal to the business!