

May 20, 2023

# 1 Business Problem: Predicting Customer Lifetime Value (CLV)

Customer Lifetime Value (CLV) is a crucial business metric that estimates the total amount of revenue that a customer is expected to generate over their entire lifetime. The higher the CLV, the more valuable the customer is to the business. By predicting the CLV of each customer, a bank can identify its most valuable customers and focus its marketing and retention efforts on them. This can help the bank increase customer loyalty, reduce churn, and improve its overall profitability.

## 1.1 Data mining technique used: Regression Analysis

Regression analysis can be used to predict the CLV of each customer. By using the demographic and transactional data of customers from the given dataset, we can train a regression model to predict the total amount of revenue that each customer is expected to generate over their entire lifetime. We can use features such as age, income, transaction history, and location to train the model. Once the model is trained, we can use it to predict the CLV of new customers and identify the most valuable ones.

## 1.2 Data Description

' transactions.csv ' has the following data:- | cc\_num | acct\_num | trans\_num | unix\_time |  
category | amt | is\_fraud | merchant | merch\_lat | merch\_long | | — | — | — | — | — | — | — |  
— | — | — |

category: this column conatins category of the payment like gas\_transport, grocery\_pos, etc

amt: This column contains amount

is\_fraud: This column conatins a flag varibale for fraud transaction

acct\_num: This column conatins account number of the customer

trans\_num: This column conatins the unique ID for transaction

cc\_num: This column conatins credit card reference number

merchant\_name: This column conatins merchant name

merch\_lat: This column conatins merchant latitude

merch\_long: This column conatins merchant longitude

unix\_time: This column conatins unix time

'customer.csv' has the following data:- | ssn | cc\_num | first | last | gender | street | city | state | zip | lat | long | city\_pop | job | dob | acct\_num | | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |

first: This column contains first name of the customer

last: This column contains last name of the customer

gender: This column contains gender of the customer

ssn: This column contains Standard Shipping Note

street: This column contains street name of the customer's address

city: This column contains city name of the customer's address

state: This column contains state name of the customer's address

zip: This column contains zip code of the customer's address

lat: This column contains latitude of the customer's address

long: This column contains longitude of the customer's address

city\_pop: This column contains City Point of Purchase data

job: This column contains customer's job description

dob: This column contains customer's date of birth

acct\_num: This column contains account number of the customer

Here are the steps to build a Machine Learning Model for predicting CLV:

### 1.2.1 Step 1: Importing required libraries and packages

```
[ ]: import pandas as pd
import glob
import os
import csv
import numpy as np
from sklearn.model_selection import train_test_split
from sklearn.linear_model import LinearRegression
from sklearn.metrics import mean_squared_error, r2_score
from sklearn.model_selection import GridSearchCV
import matplotlib.pyplot as plt
import seaborn as sns
from sklearn.preprocessing import PolynomialFeatures
from sklearn.linear_model import LinearRegression
from sklearn.model_selection import learning_curve
from sklearn.preprocessing import PolynomialFeatures
```

##

If you have 'merged\_data.csv', just load it and skip to step 3 or [click here](#)

### 1.2.2 Step 2: Data Preprocessing

1. Load the transactional data from the CSV files.

```
[ ]: def process_transactions_files():
    for i in range(132):
        # Generate the filename
        filename = f'dataset/transactions_{i}.csv'

        # Load CSV file
        df = pd.read_csv(filename, delimiter='|')

        # Print the DataFrame
        print(f'{filename}:')
        print(df)

        # Save the DataFrame to a new CSV file
        new_filename = f'dataset/new_transactions_{i}.csv'
        df.to_csv(new_filename, index=False)

process_transactions_files()
```

2. Merge the all the transactional data into one file

```
[ ]: # Define the directory where the files are located
directory = "dataset"

# Define the filename for the merged file
merged_filename = "transactions.csv"

# Create a CSV writer object with '|' as the delimiter for the merged file
with open(os.path.join(directory, merged_filename), 'w', newline='') as outfile:
    writer = csv.writer(outfile, delimiter='|')

# Loop through all the files that match the pattern
for filename in glob.glob(directory + "/transactions_[0-9]*.csv"):
    # Open the file for reading
    with open(filename, 'r') as infile:
        # Create a CSV reader object with '|' as the delimiter
        reader = csv.reader(infile, delimiter='|')

        # Loop through each row in the file and write it to the merged file
        for row in reader:
            writer.writerow(row)

trans= pd.read_csv('dataset/transactions.csv', delimiter='|')
trans.to_csv('transactions.csv', index=False)
trans
```

3. Remove any unnecessary columns and handle missing or inconsistent data.

```
[ ]: trans.dropna()
```

4. Loading customer data from CSV file

```
[ ]: # Load CSV file
df = pd.read_csv('dataset/customers.csv', delimiter='|')
# Print the DataFrame
print(df)
# Save the DataFrame to a new CSV file
df.to_csv('customers.csv', index=False)
```

```
[ ]: cus= pd.read_csv('customers.csv')
cus.dropna()
cus
```

```
[ ]: trans = pd.read_csv('transactions.csv')
cus = pd.read_csv('customers.csv')
```

/var/folders/df/npmhf4fs0qb8cnwm2kmptxxk00000gn/T/ipykernel\_18713/2234585526.py:1  
: DtypeWarning: Columns (0,1,3,5,6,8,9) have mixed types. Specify dtype option  
on import or set low\_memory=False.

```
trans = pd.read_csv('transactions.csv')
```

5. Checking for null values

```
[ ]: null_values_trans = trans.isnull().sum()
print("transactions.csv:")
print(null_values_trans, end='\n\n')
print("customers.csv:")
null_values_cus = cus.isnull().sum()
print(null_values_cus)
```

6. Checking data types for each column

```
[ ]: print("Data type of each column in transactions.csv:")
print(trans.dtypes, end="\n\n")
print("Data type of each column in customers.csv:")
print(cus.dtypes, end="\n\n")
```

7. Merging both csv files into one file

```
[ ]: merged_data = pd.merge(trans, cus, on="acct_num")
print(merged_data.columns)
merged_data.to_csv('merged_data.csv', index=False)
null_values_merged_data = merged_data.isnull().sum()
print(null_values_merged_data)
```

### 1.2.3 Step 3: Feature Engineering

#### 1. Dropping unwanted columns

```
[ ]: # Drop unnecessary columns
#merged_data.drop(['trans_num', 'cc_num_x', 'cc_num_y', 'merchant'], axis=1,
↳ inplace=True)
# Handle missing values
merged_data = pd.read_csv('merged_data.csv')
merged_data.fillna(0, inplace=True)
```

```
[ ]: merged_data
```

```
[ ]:
```

	cc_num_x	acct_num	trans_num	\
0	3599621836677199	767424968491	ae56f7ac5f358dc9f1687bb1c63d229c	
1	3599621836677199	767424968491	7dead700180c288b8c7e269ef228f4d6	
2	3599621836677199	767424968491	af5d266facca97758cd2f4f94a93708e	
3	3599621836677199	767424968491	c24b06dfe405827196ae72ff9e878439	
4	3599621836677199	767424968491	5807a4106d24f2346316728b991b3a74	
...	...	...	...	
1705126	6011969874869415	976596062877	55d5bce8a4fb44a738e4161e8a84354b	
1705127	6011969874869415	976596062877	e0c275b51e16a50ce16c621c580d75d7	
1705128	6011969874869415	976596062877	316db17a0b0888dec9e9d29c2e1aff0e	
1705129	6011969874869415	976596062877	ca81fd9d698069a12aebad3474c472a1	
1705130	6011969874869415	976596062877	bc79c5f69d61bae52f2296c098070c45	

	unix_time	category	amt	is_fraud	\
0	1580580336	misc_pos	28.31	0	
1	1607464205	entertainment	588.07	0	
2	1552175268	gas_transport	5.11	0	
3	1593965946	shopping_net	1.08	0	
4	1608669921	entertainment	9.66	0	
...	...	...	...	...	
1705126	1661488043	kids_pets	524.40	0	
1705127	1661228576	kids_pets	475.71	0	
1705128	1631875114	health_fitness	478.33	0	
1705129	1644737532	home	560.93	0	
1705130	1671868982	travel	536.41	0	

	merchant	merch_lat	merch_long	...	gender	\
0	King-Nguyen	40.090754	-104.110826	...	F	
1	Kent-Lee	39.380580	-104.979279	...	F	
2	Townsend-Taylor	39.224870	-105.999769	...	F	
3	Wilkins-Hamilton	39.894093	-104.834570	...	F	
4	Patterson, Fleming and Sanchez	40.640231	-105.543930	...	F	
...	...	...	...	...	...	
1705126	Yu, George and Ryan	33.205210	-92.552918	...	M	
1705127	Norman-Hanson	34.060344	-92.933577	...	M	

1705128		Trevino Group	33.631931	-93.740141	...	M
1705129		Brown, Watkins and Moody	32.809922	-94.270471	...	M
1705130		Hanson LLC	33.197554	-93.290357	...	M

		street	city	state	zip	lat	\
0		1025 Herman Harbors Apt. 022	Denver	CO	80226	39.7123	
1		1025 Herman Harbors Apt. 022	Denver	CO	80226	39.7123	
2		1025 Herman Harbors Apt. 022	Denver	CO	80226	39.7123	
3		1025 Herman Harbors Apt. 022	Denver	CO	80226	39.7123	
4		1025 Herman Harbors Apt. 022	Denver	CO	80226	39.7123	
...		...	...	...	...	...	
1705126	011	Jennifer Springs Apt. 075	Rosston	AR	71858	33.5617	
1705127	011	Jennifer Springs Apt. 075	Rosston	AR	71858	33.5617	
1705128	011	Jennifer Springs Apt. 075	Rosston	AR	71858	33.5617	
1705129	011	Jennifer Springs Apt. 075	Rosston	AR	71858	33.5617	
1705130	011	Jennifer Springs Apt. 075	Rosston	AR	71858	33.5617	

		long	city_pop		job	dob
0		-105.0918	990452	Contracting	civil engineer	1936-02-26
1		-105.0918	990452	Contracting	civil engineer	1936-02-26
2		-105.0918	990452	Contracting	civil engineer	1936-02-26
3		-105.0918	990452	Contracting	civil engineer	1936-02-26
4		-105.0918	990452	Contracting	civil engineer	1936-02-26
...		...	...	...	...	...
1705126	-93.3039	1710		Fine artist		1993-04-26
1705127	-93.3039	1710		Fine artist		1993-04-26
1705128	-93.3039	1710		Fine artist		1993-04-26
1705129	-93.3039	1710		Fine artist		1993-04-26
1705130	-93.3039	1710		Fine artist		1993-04-26

[1705131 rows x 24 columns]

```
[ ]: merged_data.info()
```

```
<class 'pandas.core.frame.DataFrame'>
RangeIndex: 1705131 entries, 0 to 1705130
Data columns (total 24 columns):
#   Column      Dtype
---  -
0   cc_num_x    int64
1   acct_num    int64
2   trans_num   object
3   unix_time   int64
4   category    object
5   amt         float64
6   is_fraud    int64
7   merchant    object
8   merch_lat   float64
```

```

9  merch_long  float64
10 ssn        object
11 cc_num_y   int64
12 first      object
13 last       object
14 gender     object
15 street     object
16 city       object
17 state      object
18 zip        int64
19 lat        float64
20 long       float64
21 city_pop   int64
22 job        object
23 dob        object
dtypes: float64(5), int64(7), object(12)
memory usage: 312.2+ MB

```

```
[ ]: merged_data.describe()
```

```

[ ]:
count      cc_num_x      acct_num      unix_time      amt      is_fraud  \
mean      4.107406e+17  4.971373e+11  1.611078e+09  7.126194e+01  7.190063e-04
std       1.293583e+18  2.905397e+11  3.648932e+07  1.581055e+02  2.680466e-02
min       6.042928e+10  2.348758e+09  1.546261e+09  1.000000e+00  0.000000e+00
25%       2.131270e+14  2.593455e+11  1.577732e+09  9.580000e+00  0.000000e+00
50%       3.550106e+15  4.759571e+11  1.609511e+09  4.612000e+01  0.000000e+00
75%       4.640859e+15  7.572477e+11  1.641097e+09  8.361000e+01  0.000000e+00
max       4.983666e+18  9.993899e+11  1.672492e+09  3.141268e+04  1.000000e+00

count      merch_lat      merch_long      cc_num_y      zip      lat  \
mean      3.737953e+01  -9.174718e+01  4.107406e+17  5.125834e+04  3.737950e+01
std       5.583652e+00  1.644449e+01  1.293583e+18  2.926924e+04  5.553923e+00
min       1.870250e+01  -1.588275e+02  6.042928e+10  1.571000e+03  1.970250e+01
25%       3.361558e+01  -9.847466e+01  2.131270e+14  2.811000e+04  3.371690e+01
50%       3.835259e+01  -8.688335e+01  3.550106e+15  4.834600e+04  3.845340e+01
75%       4.140874e+01  -7.974548e+01  4.640859e+15  7.811400e+04  4.142010e+01
max       6.577610e+01  -6.919192e+01  4.983666e+18  9.970500e+04  6.478050e+01

count      long      city_pop
mean      -9.174640e+01  3.145833e+05
std       1.643393e+01  5.675419e+05
min       -1.578284e+02  1.710000e+03
25%       -9.867220e+01  2.198500e+04
50%       -8.692370e+01  7.443800e+04

```

```
75%    -8.000550e+01  2.701000e+05
max     -7.019160e+01  2.906700e+06
```

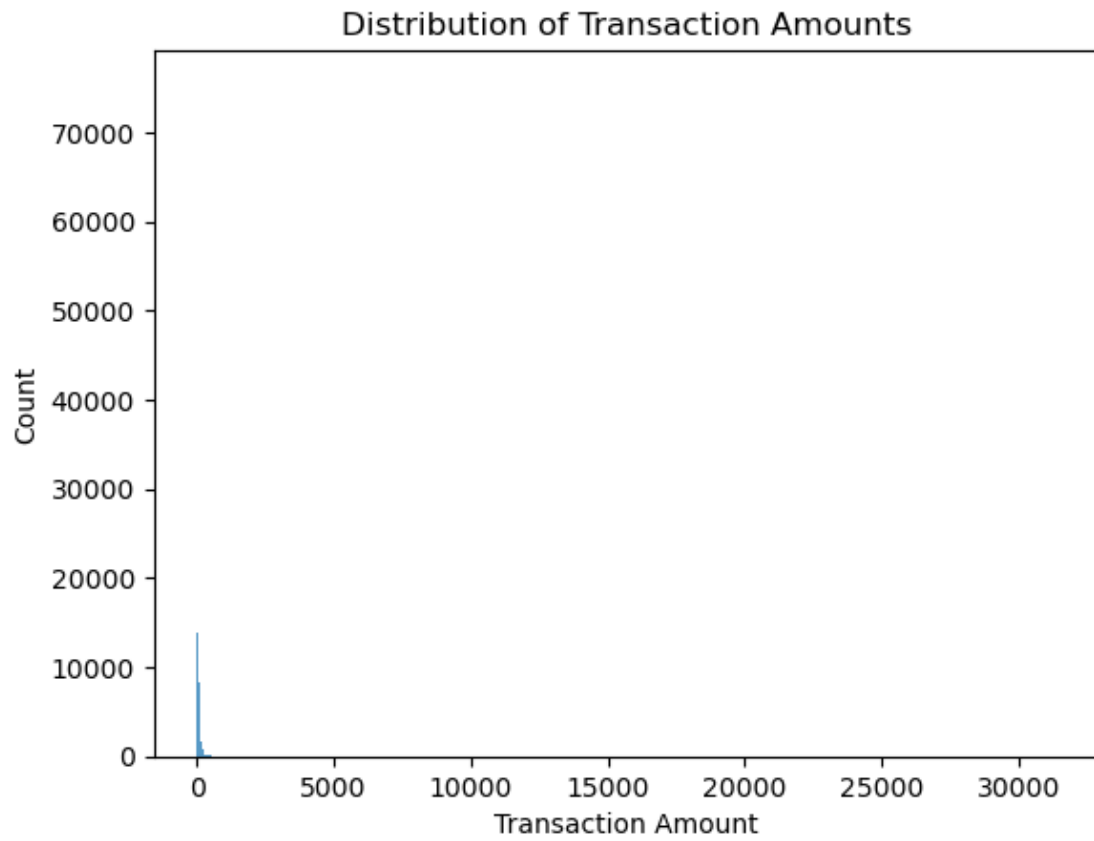
## 2. Plotting graphs

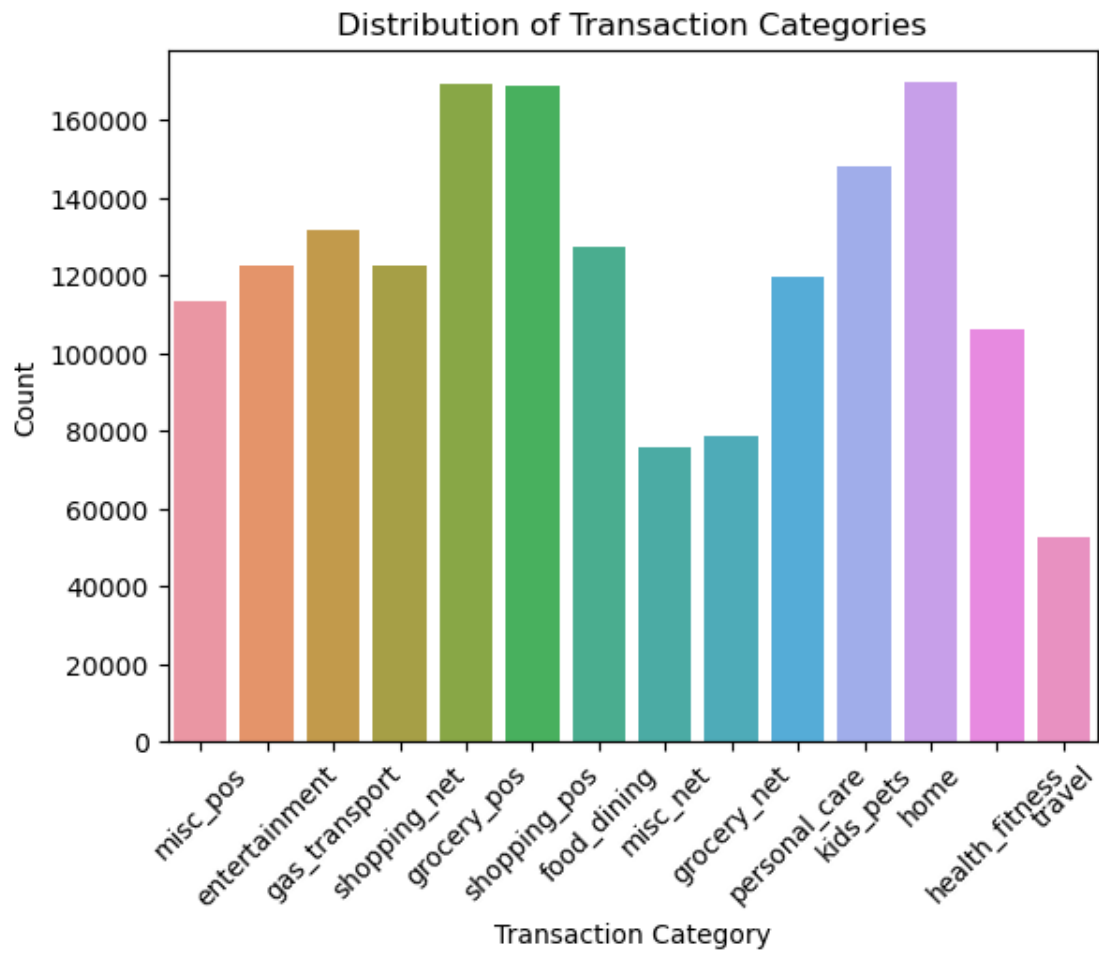
```
[ ]: # Plot a histogram of transaction amounts
sns.histplot(data=merged_data, x='amt')
plt.xlabel('Transaction Amount')
plt.ylabel('Count')
plt.title('Distribution of Transaction Amounts')
plt.show()

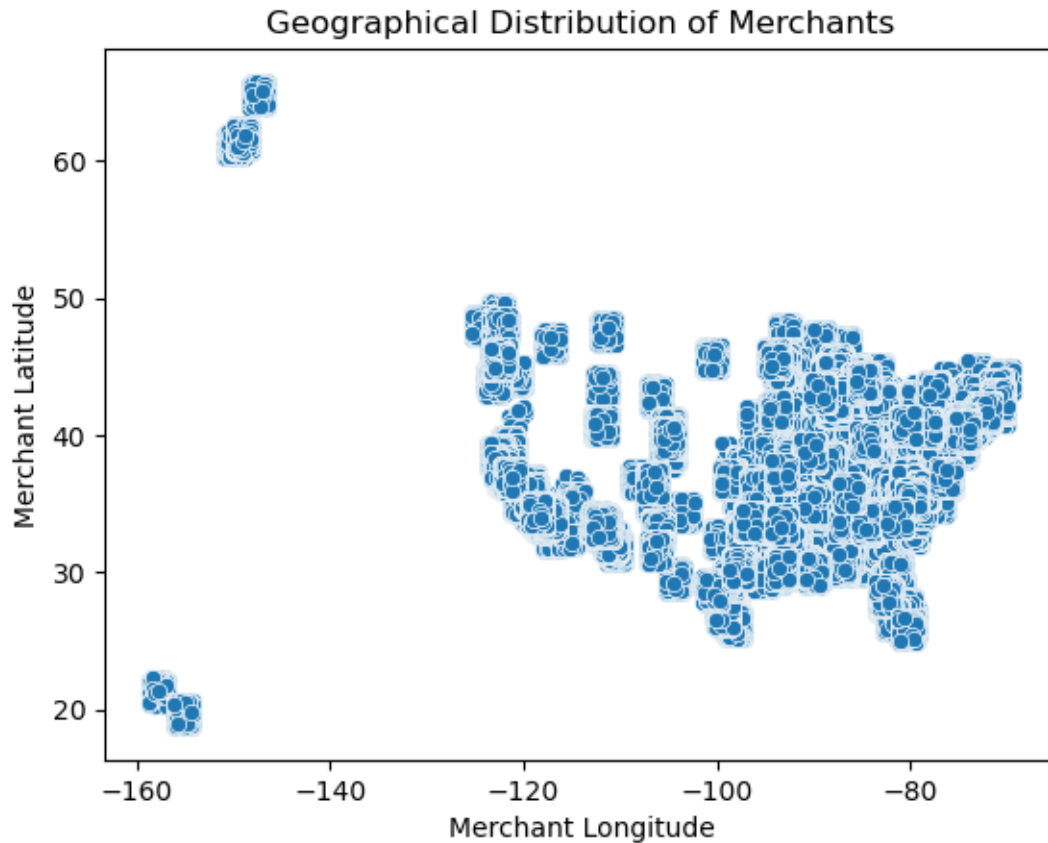
# Plot a bar chart of transaction categories
sns.countplot(data=merged_data, x='category')
plt.xlabel('Transaction Category')
plt.ylabel('Count')
plt.title('Distribution of Transaction Categories')
plt.xticks(rotation=45)
plt.show()

# Plot a scatter plot of latitude and longitude of merchants
sns.scatterplot(data=merged_data, x='merch_long', y='merch_lat')
plt.xlabel('Merchant Longitude')
plt.ylabel('Merchant Latitude')
plt.title('Geographical Distribution of Merchants')
plt.show()
```







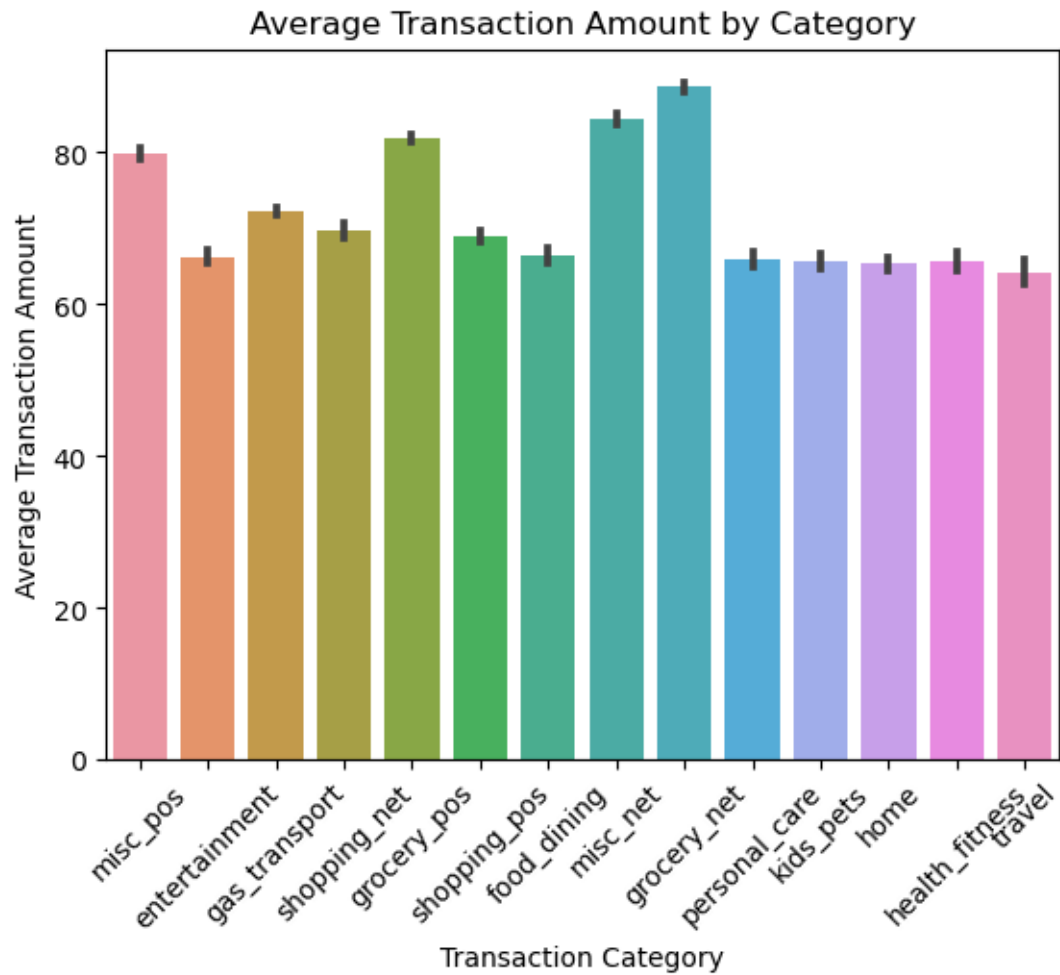


```
[ ]: # Plot a bar chart of transaction categories with average transaction amount
sns.barplot(data=merged_data, x='category', y='amt')
plt.xlabel('Transaction Category')
plt.ylabel('Average Transaction Amount')
plt.title('Average Transaction Amount by Category')
plt.xticks(rotation=45)
plt.show()

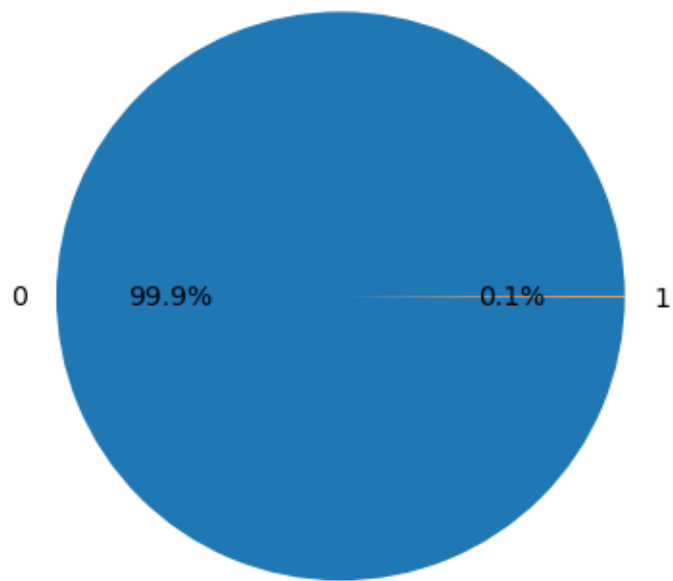
# Plot a pie chart of transaction fraud proportions
fraud_counts = merged_data['is_fraud'].value_counts()
plt.pie(fraud_counts, labels=fraud_counts.index, autopct='%1.1f%%')
plt.title('Proportion of Fraudulent Transactions')
plt.show()

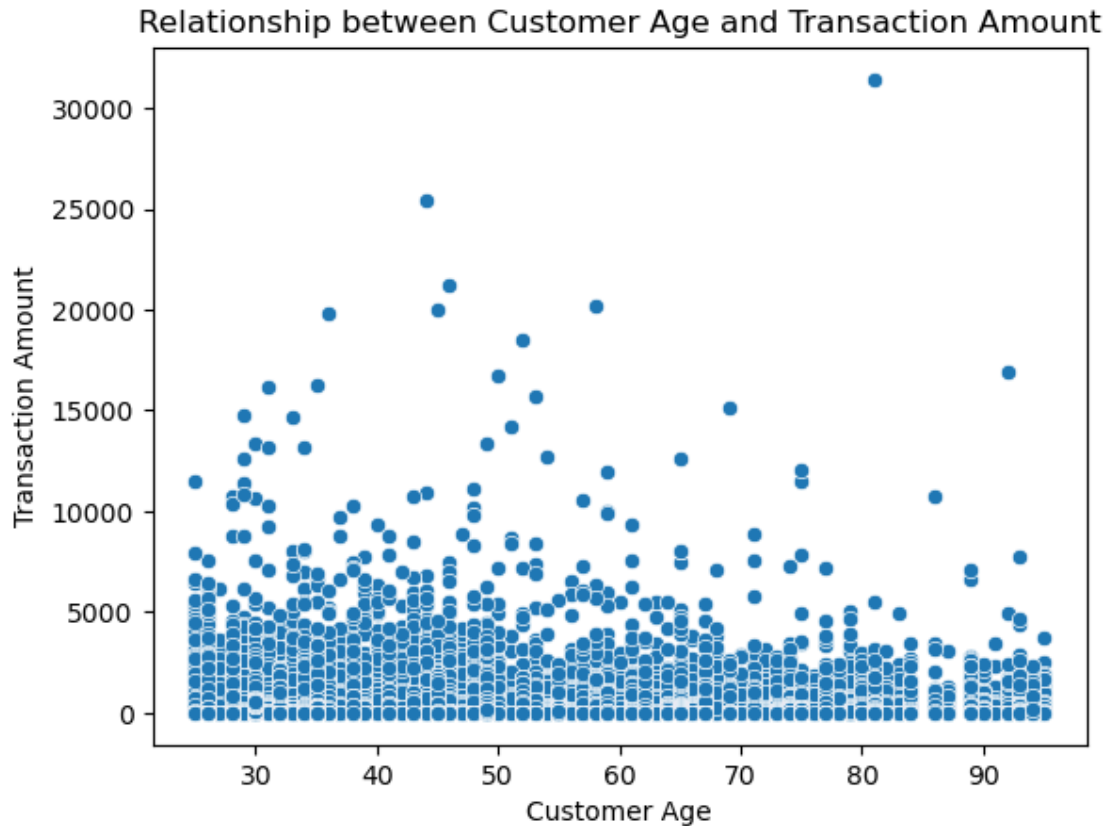
# Plot a scatter plot of customer age (derived from 'dob') and transaction
↳ amount
merged_data['dob'] = pd.to_datetime(merged_data['dob'])
merged_data['age'] = (pd.to_datetime('today') - merged_data['dob']).
↳ astype('<m8[Y]')
```

```
sns.scatterplot(data=merged_data, x='age', y='amt')
plt.xlabel('Customer Age')
plt.ylabel('Transaction Amount')
plt.title('Relationship between Customer Age and Transaction Amount')
plt.show()
```



### Proportion of Fraudulent Transactions





3. Creating new features from the existing data that could be useful in predicting CLV

i. Frequency of Transactions: Calculate the total number of transactions made by each customer.

```
[ ]: transaction_frequency = merged_data.groupby('acct_num')['trans_num'].count().
      ↪reset_index()
transaction_frequency.rename(columns={'trans_num': 'transaction_frequency'},
      ↪inplace=True)
merged_data = pd.merge(merged_data, transaction_frequency, on='acct_num',
      ↪how='left')
```

ii. Average Transaction Amount: Calculate the average transaction amount for each customer.

```
[ ]: average_transaction_amount = merged_data.groupby('acct_num')['amt'].mean().
      ↪reset_index()
average_transaction_amount.rename(columns={'amt':
      ↪'average_transaction_amount'}, inplace=True)
merged_data = pd.merge(merged_data, average_transaction_amount, on='acct_num',
      ↪how='left')
```

iii. Total Transaction Amount: Calculate the total transaction amount for each customer.

```
[ ]: total_transaction_amount = merged_data.groupby('acct_num')['amt'].sum().
      ↪reset_index()
total_transaction_amount.rename(columns={'amt': 'total_transaction_amount'},
      ↪inplace=True)
merged_data = pd.merge(merged_data, total_transaction_amount, on='acct_num',
      ↪how='left')
```

iv. Time since First Transaction: Calculate the time duration since the first transaction for each customer.

```
[ ]: merged_data['unix_time'] = pd.to_datetime(merged_data['unix_time'], unit='s')
first_transaction_time = merged_data.groupby('acct_num')['unix_time'].min().
      ↪reset_index()
first_transaction_time['time_since_first_transaction'] = (pd.
      ↪to_datetime('today') - first_transaction_time['unix_time']).dt.days
merged_data = pd.merge(merged_data, first_transaction_time[['acct_num',
      ↪'time_since_first_transaction']], on='acct_num', how='left')
```

4. Creating a CLV column based on 'average\_transaction\_amount' and 'transaction\_frequency'

CLV can be calculated in various ways, depending on the specific business context and available data. Here we will be creating CLV column based on the average transaction amount and the frequency of transactions

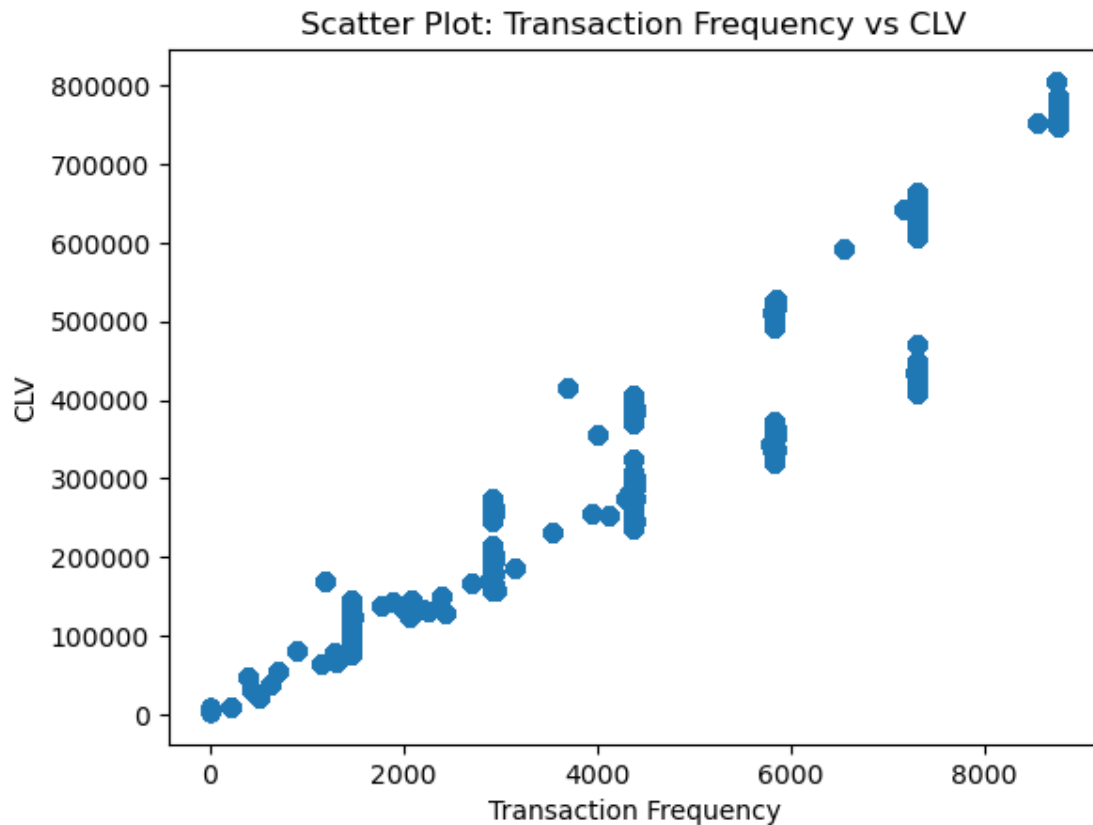
```
[ ]: # Calculate CLV
merged_data['CLV'] = merged_data['average_transaction_amount'] *
      ↪merged_data['transaction_frequency']
merged_data['CLV']
```

```
[ ]: 0      123080.32
1      123080.32
2      123080.32
3      123080.32
4      123080.32
...
1705126  169742.40
1705127  169742.40
1705128  169742.40
1705129  169742.40
1705130  169742.40
Name: CLV, Length: 1705131, dtype: float64
```

6. Plotting graphs based on new features

```
[ ]: # Plot scatter plot
plt.scatter(merged_data['transaction_frequency'], merged_data['CLV'])
plt.xlabel('Transaction Frequency')
plt.ylabel('CLV')
plt.title('Scatter Plot: Transaction Frequency vs CLV')
```

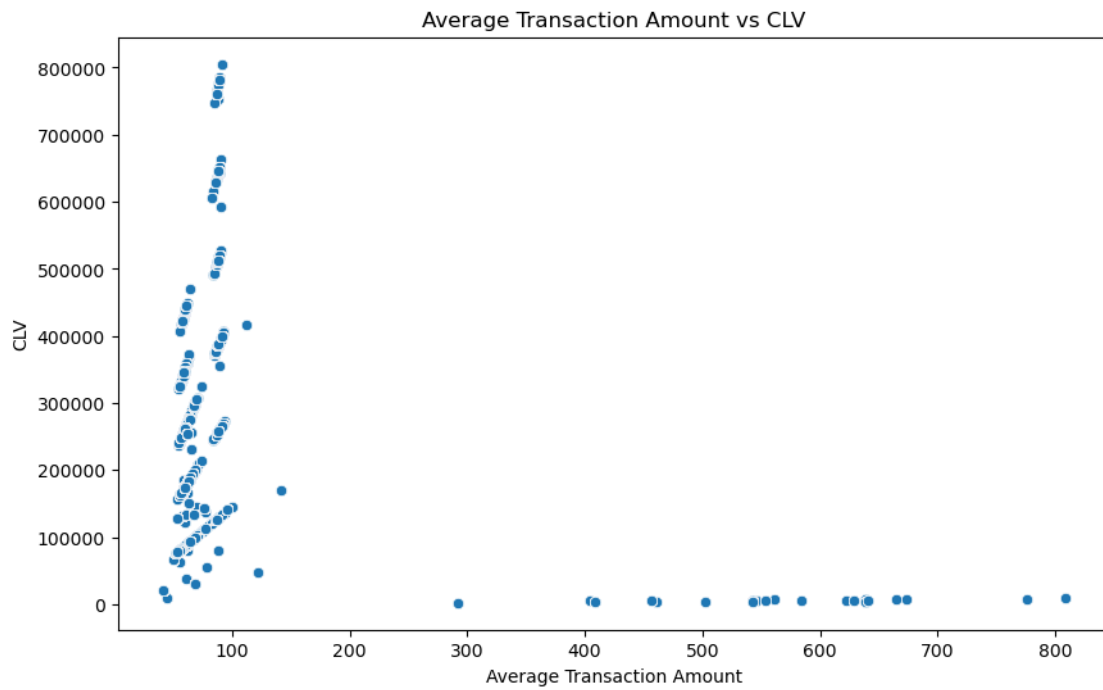
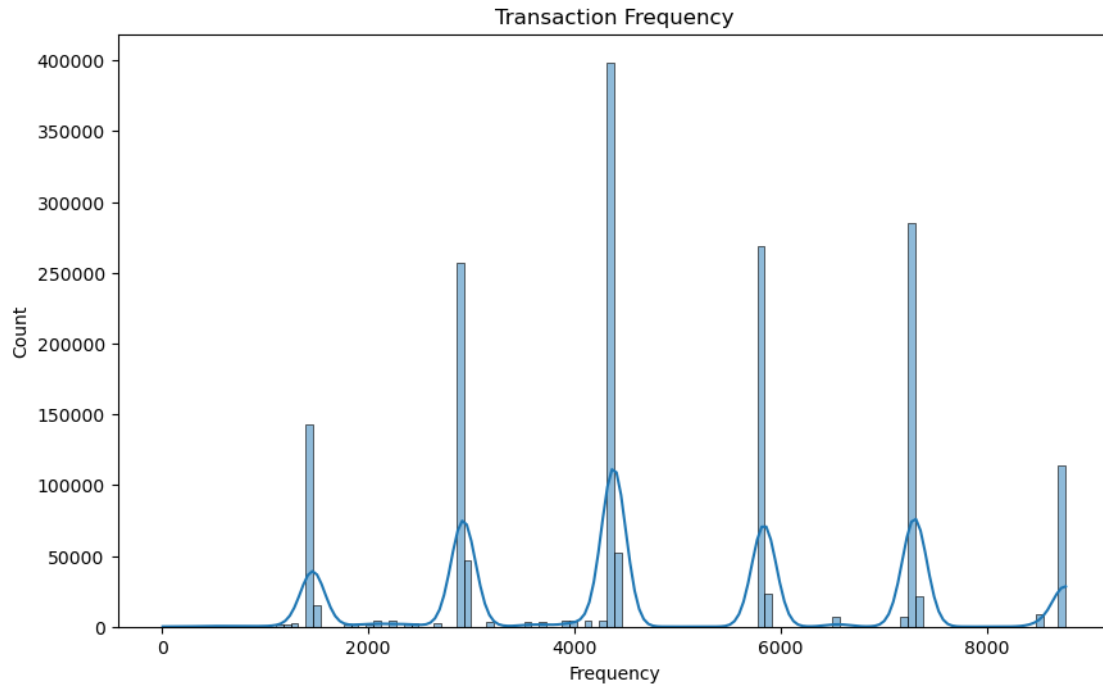
```
plt.show()
```



```
[ ]: # Plot histogram of transaction frequency
plt.figure(figsize=(10, 6))
sns.histplot(data=merged_data, x='transaction_frequency', kde=True)
plt.title('Transaction Frequency')
plt.xlabel('Frequency')
plt.ylabel('Count')
plt.show()

# Plot scatter plot of average transaction amount vs CLV
plt.figure(figsize=(10, 6))
sns.scatterplot(data=merged_data, x='average_transaction_amount', y='CLV')
plt.title('Average Transaction Amount vs CLV')
plt.xlabel('Average Transaction Amount')
plt.ylabel('CLV')
plt.show()
```





The first graph plots a histogram of the transaction frequency, showing the distribution of customer transaction frequencies. The second graph plots a scatter plot of the average transaction amount on the x-axis and the CLV on the y-axis, allowing you to visualize the relationship between these

two variables.

### 1.2.4 Step 4: Model Training

```
[ ]: merged_data
```

1. Creating a Linear Regression Model using new features

```
[ ]: X = merged_data[['transaction_frequency', 'total_transaction_amount',  
    ↳ 'average_transaction_amount']]  
y = merged_data['CLV']  
  
# Split the data into training and testing sets  
X_train, X_test, y_train, y_test = train_test_split(X, y, test_size=0.2,  
    ↳ random_state=42)  
  
# Create a linear regression model  
reg_model = LinearRegression()  
  
# Train the model on the training data  
reg_model.fit(X_train, y_train)  
  
# Make predictions on the testing data  
y_pred = reg_model.predict(X_test)  
  
# Evaluate the model  
mse = mean_squared_error(y_test, y_pred)  
rmse = np.sqrt(mse)  
r2_score = reg_model.score(X_test, y_test)  
  
print("Mean Squared Error (MSE):", mse)  
print("Root Mean Squared Error (RMSE):", rmse)  
print("R-squared (R2) Score:", r2_score, end="\n\n\n\n")  
  
# Print the first 10 predictions  
print("Print the first 10 predictions:")  
print(y_pred[:10])  
  
# Create a scatter plot of true vs predicted values  
plt.scatter(y_test, y_pred)  
plt.xlabel('True Values')  
plt.ylabel('Predicted Values')  
plt.title('True vs Predicted Values')  
plt.show()
```

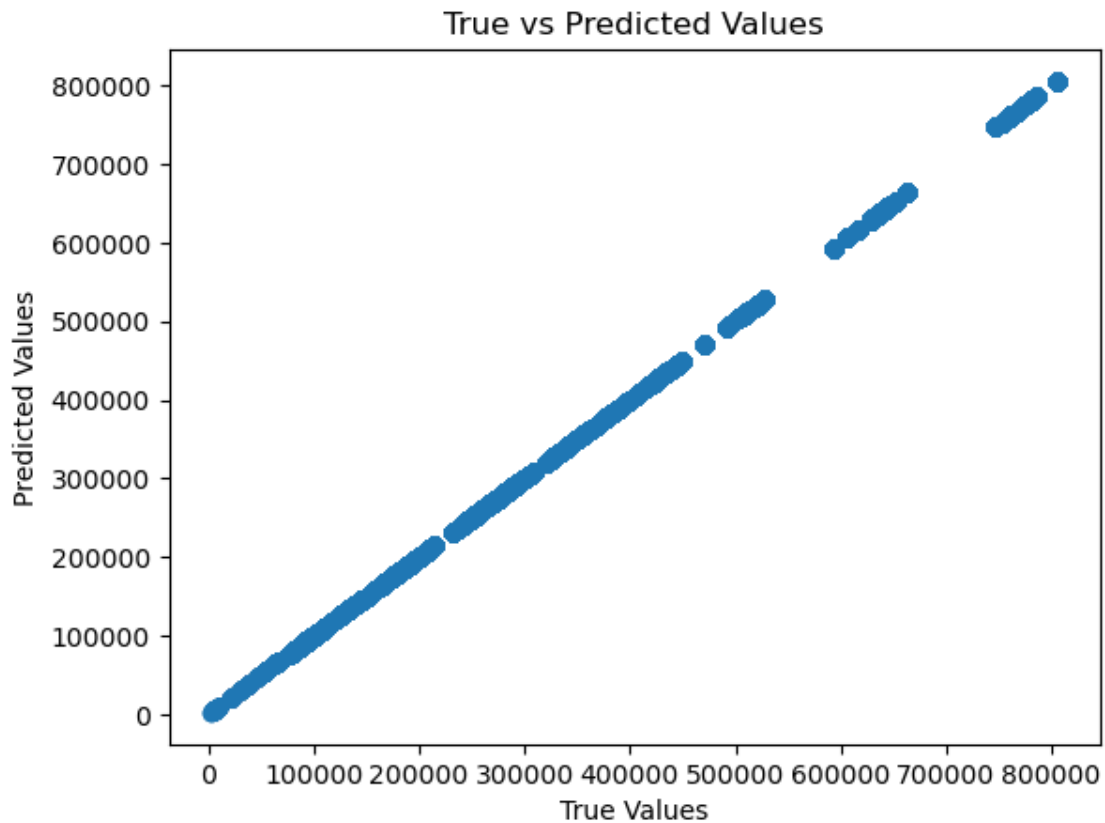
Mean Squared Error (MSE): 8.410641433390422e-16

Root Mean Squared Error (RMSE): 2.900110589855225e-08

R-squared (R2) Score: 1.0

Print the first 10 predictions:

```
[776967.92999996 264583.61000002 132891.38999997 260034.30000002
 338721.26000004 355672.88999997 390193.51999997 398775.40999997
 190180.82      773778.44999996]
```



For evaluating a linear regression model, we are focusing on metrics such as mean squared error (MSE), root mean squared error (RMSE), and R-squared (R2) score. These metrics provide insights into how well the model is able to predict continuous values. We have plotted the predicted values against the true values using a scatter plot above.

```
[ ]: # Generate the learning curve data
train_sizes, train_scores, test_scores = learning_curve(reg_model, X, y, cv=5,
    ↳scoring='neg_mean_squared_error', train_sizes=np.linspace(0.1, 1.0, 10))

# Calculate the mean and standard deviation of training and test scores
train_mean = -np.mean(train_scores, axis=1)
train_std = np.std(train_scores, axis=1)
```

```

test_mean = -np.mean(test_scores, axis=1)
test_std = np.std(test_scores, axis=1)

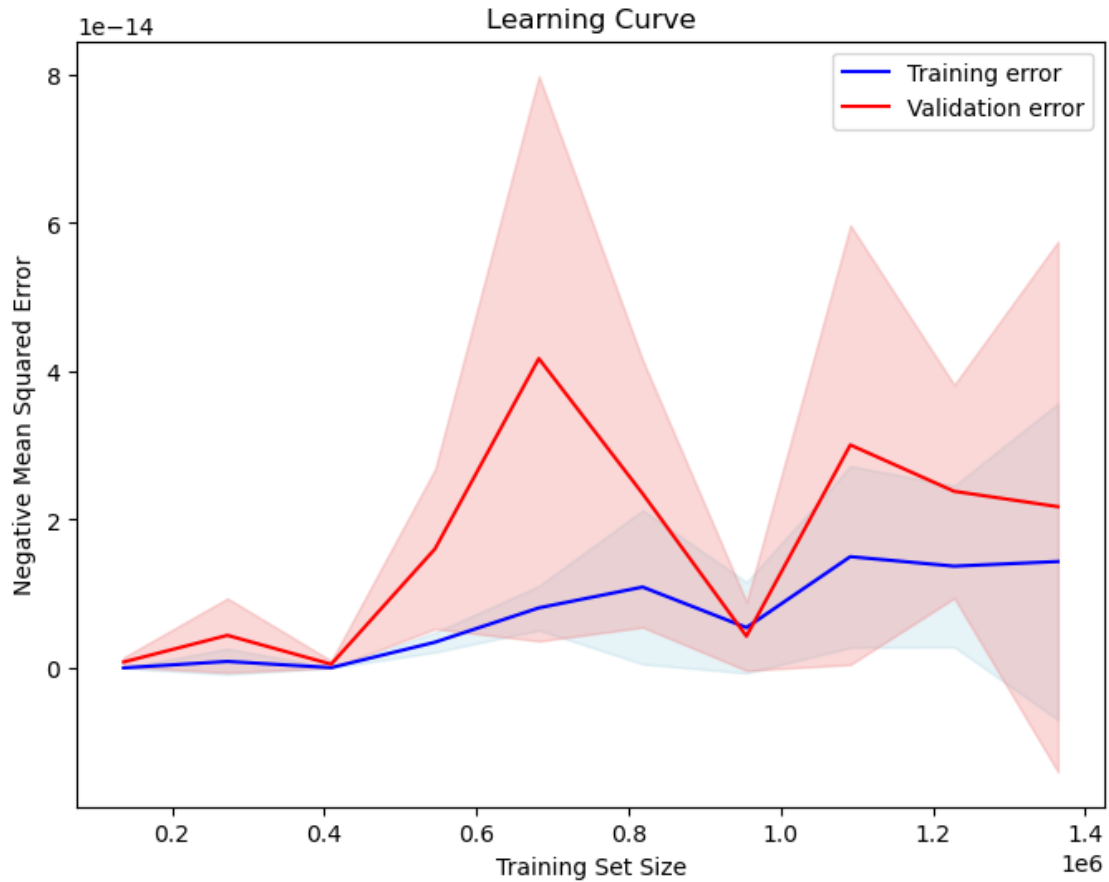
# Plot the learning curve
plt.figure(figsize=(8, 6))
plt.plot(train_sizes, train_mean, label='Training error', color='blue')
plt.plot(train_sizes, test_mean, label='Validation error', color='red')

# Draw the bands
plt.fill_between(train_sizes, train_mean - train_std, train_mean + train_std,
                 color='lightblue', alpha=0.3)
plt.fill_between(train_sizes, test_mean - test_std, test_mean + test_std,
                 color='lightcoral', alpha=0.3)

# Add labels and title
plt.xlabel('Training Set Size')
plt.ylabel('Negative Mean Squared Error')
plt.title('Learning Curve')
plt.legend(loc='best')

# Show the plot
plt.show()
if train_mean[-1] < test_mean[-1]:
    print("The model is potentially underfitting.")
elif train_mean[-1] > test_mean[-1]:
    print("The model is potentially overfitting.")
else:
    print("The model is neither underfitting nor overfitting.")

```



The model is potentially underfitting.

```
[ ]: # Create polynomial features
poly = PolynomialFeatures(degree=2) # Adjust the degree as needed
X_poly = poly.fit_transform(X)

# Split the data into training and testing sets
X_train, X_test, y_train, y_test = train_test_split(X_poly, y, test_size=0.2,
    random_state=42)

# Create a linear regression model
reg_model = LinearRegression()

# Train the model on the training data
reg_model.fit(X_train, y_train)

# Make predictions on the testing data
y_pred = reg_model.predict(X_test)
```

```

# Evaluate the model
mse = mean_squared_error(y_test, y_pred)
rmse = np.sqrt(mse)
r2_score = reg_model.score(X_test, y_test)

print("Mean Squared Error (MSE):", mse)
print("Root Mean Squared Error (RMSE):", rmse)
print("R-squared (R2) Score:", r2_score)

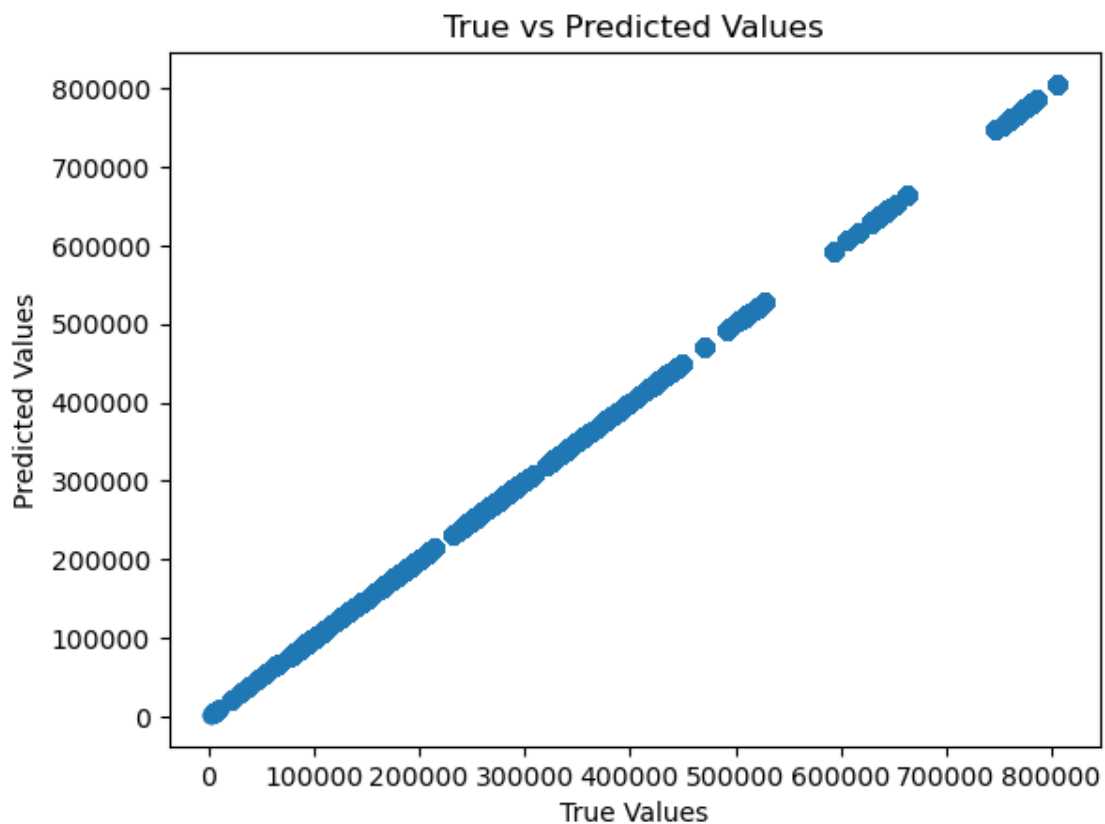
# Create a scatter plot of true vs predicted values
plt.scatter(y_test, y_pred)
plt.xlabel('True Values')
plt.ylabel('Predicted Values')
plt.title('True vs Predicted Values')
plt.show()

```

Mean Squared Error (MSE): 1.22446306052368e-13

Root Mean Squared Error (RMSE): 3.499232859533186e-07

R-squared (R2) Score: 1.0



```
[ ]: from sklearn.metrics import mean_squared_error, r2_score

# Calculate performance metrics for your model
y_pred = reg_model.predict(X_test)
mse = mean_squared_error(y_test, y_pred)
rmse = np.sqrt(mse)
r2 = r2_score(y_test, y_pred)

# Calculate performance metrics for the baseline (e.g., using mean or median)
y_baseline = np.full_like(y_test, y_train.mean()) # Use mean as the baseline
baseline_mse = mean_squared_error(y_test, y_baseline)
baseline_rmse = np.sqrt(baseline_mse)
baseline_r2 = r2_score(y_test, y_baseline)

# Print the performance metrics
print("Model Performance Metrics:")
print("Mean Squared Error (MSE):", mse)
print("Root Mean Squared Error (RMSE):", rmse)
print("R-squared (R2) Score:", r2)
print()

print("Baseline Performance Metrics:")
print("Mean Squared Error (MSE):", baseline_mse)
print("Root Mean Squared Error (RMSE):", baseline_rmse)
print("R-squared (R2) Score:", baseline_r2)
```

```
Model Performance Metrics:
Mean Squared Error (MSE): 1.22446306052368e-13
Root Mean Squared Error (RMSE): 3.499232859533186e-07
R-squared (R2) Score: 1.0
```

```
Baseline Performance Metrics:
Mean Squared Error (MSE): 35180725566.10877
Root Mean Squared Error (RMSE): 187565.25682041643
R-squared (R2) Score: -7.317909870963035e-06
```

In this code, the performance metrics for the model are calculated using the predicted values `y_pred` and the actual values `y_test`. The metrics include mean squared error (MSE), root mean squared error (RMSE), and R-squared (R2) score, which measures the proportion of the variance in the target variable that is predictable by the model.

For the baseline, I have used a simple strategy such as predicting the mean or median value of the training target variable for all test instances. In the above code block, the mean value of the training target variable `y_train.mean()` is used as the baseline prediction `y_baseline`. The same performance metrics are then calculated for the baseline.

By comparing the performance metrics of the model with those of the baseline, we can assess whether the model provides better predictions than a simple baseline approach. (Lower MSE and RMSE values and higher R2 scores indicate better model performance compared to the baseline.)

```
[ ]: # Calculate performance metrics for the model before polynomial transformation
y_pred_before = reg_model.predict(X_test)
rmse_before = np.sqrt(mean_squared_error(y_test, y_pred_before))

# Create polynomial features
poly = PolynomialFeatures(degree=2) # Adjust the degree as needed
X_poly = poly.fit_transform(X)

# Split the data into training and testing sets
X_train_poly, X_test_poly, y_train, y_test = train_test_split(X_poly, y,
    ↪test_size=0.2, random_state=42)

# Create a new linear regression model
reg_model_poly = LinearRegression()

# Train the model on the polynomial features
reg_model_poly.fit(X_train_poly, y_train)

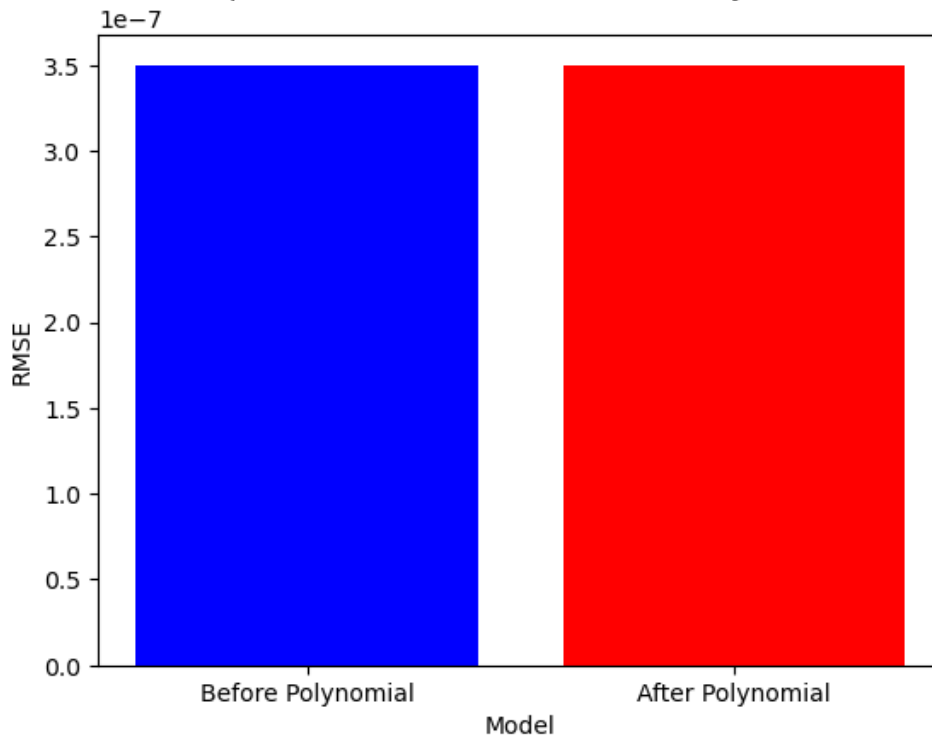
# Make predictions on the testing data with polynomial features
y_pred_poly = reg_model_poly.predict(X_test_poly)
rmse_poly = np.sqrt(mean_squared_error(y_test, y_pred_poly))

# Plot the performance comparison
labels = ['Before Polynomial', 'After Polynomial']
rmse_values = [rmse_before, rmse_poly]

plt.bar(labels, rmse_values, color=['blue', 'red'])
plt.xlabel('Model')
plt.ylabel('RMSE')
plt.title('Performance Comparison: Model Before and After Polynomial_
    ↪Transformation')
plt.show()
```



Performance Comparison: Model Before and After Polynomial Transformation



In this code, the root mean squared error (RMSE) values are calculated for the model before and after applying the polynomial features. The RMSE values are then plotted using a bar plot, where the blue bar represents the model's performance before the polynomial transformation, and the red bar represents the performance after the transformation. The x-axis shows the model labels, and the y-axis represents the RMSE values.

## 2. Tuning the model hyperparameters for better performance of the model

```
[ ]: # Define the hyperparameters to tune
param_grid = {
    'fit_intercept': [True, False]
}

# Create a linear regression model
reg_model = LinearRegression()

# Perform grid search with cross-validation
reg_model_grid_search = GridSearchCV(reg_model, param_grid, cv=5)
reg_model_grid_search.fit(X_train, y_train)

# Get the best hyperparameters and model
best_params = reg_model_grid_search.best_params_
best_model = reg_model_grid_search.best_estimator_
```

```

# Make predictions on the testing data using the best model
y_pred = best_model.predict(X_test)

# Evaluate the model
mse = mean_squared_error(y_test, y_pred)
rmse = np.sqrt(mse)
r2_score = best_model.score(X_test, y_test)

print("Best Hyperparameters:", best_params)
print("Mean Squared Error (MSE):", mse)
print("Root Mean Squared Error (RMSE):", rmse)
print("R-squared (R2) Score:", r2_score, end="\n\n")

# Print the first 10 predictions
print("Print the first 10 predictions:")
print(y_pred[:10])

# Create a scatter plot of true vs predicted values
plt.scatter(y_test, y_pred)
plt.xlabel('True Values')
plt.ylabel('Predicted Values')
plt.title('True vs Predicted Values')
plt.show()

```

```

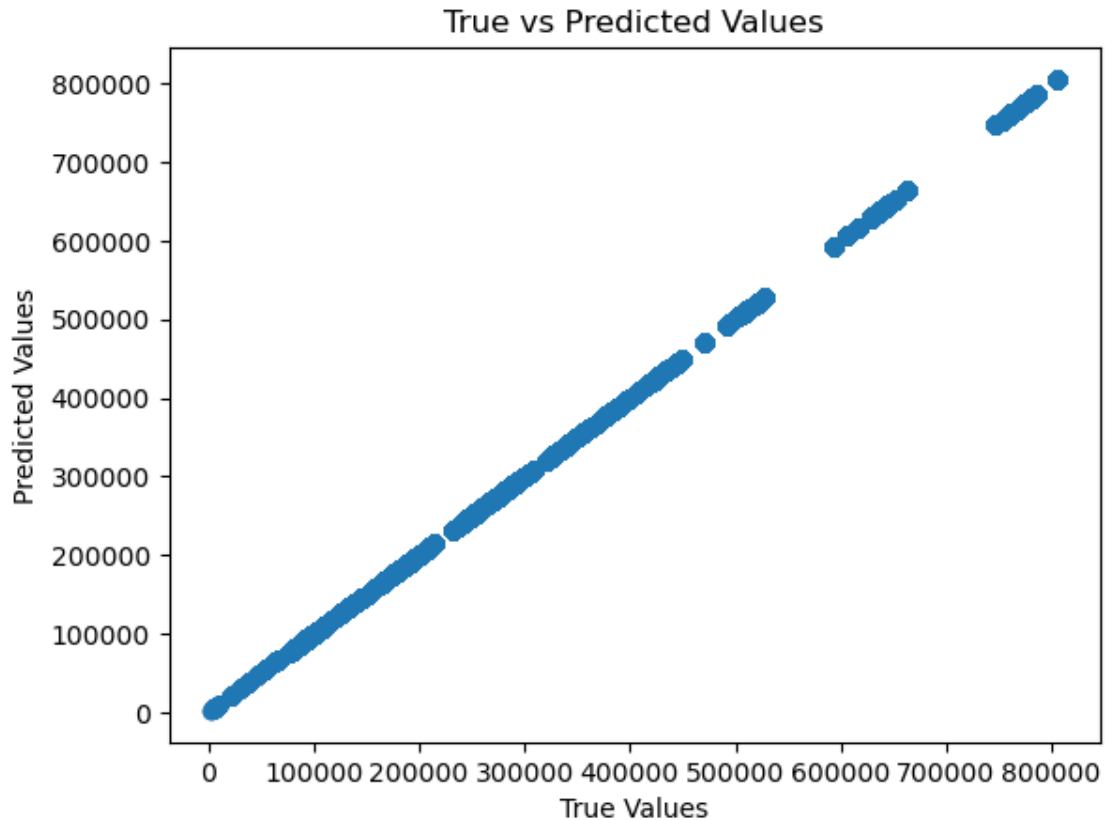
Best Hyperparameters: {'fit_intercept': True}
Mean Squared Error (MSE): 1.22446306052368e-13
Root Mean Squared Error (RMSE): 3.499232859533186e-07
R-squared (R2) Score: 1.0

```

```

Print the first 10 predictions:
[776967.92999964 264583.60999969 132891.38999954 260034.2999997
 338721.25999977 355672.88999956 390193.51999956 398775.40999955
 190180.81999963 773778.44999965]

```



```
[ ]: # Generate the learning curve data
train_sizes, train_scores, test_scores = learning_curve(best_model, X, y, cv=5,
    ↳scoring='neg_mean_squared_error', train_sizes=np.linspace(0.1, 1.0, 10))

# Calculate the mean and standard deviation of training and test scores
train_mean = -np.mean(train_scores, axis=1)
train_std = np.std(train_scores, axis=1)
test_mean = -np.mean(test_scores, axis=1)
test_std = np.std(test_scores, axis=1)

# Plot the learning curve
plt.figure(figsize=(8, 6))
plt.plot(train_sizes, train_mean, label='Training error', color='blue')
plt.plot(train_sizes, test_mean, label='Validation error', color='red')

# Draw the bands
plt.fill_between(train_sizes, train_mean - train_std, train_mean + train_std,
    ↳color='lightblue', alpha=0.3)
plt.fill_between(train_sizes, test_mean - test_std, test_mean + test_std,
    ↳color='lightcoral', alpha=0.3)
```

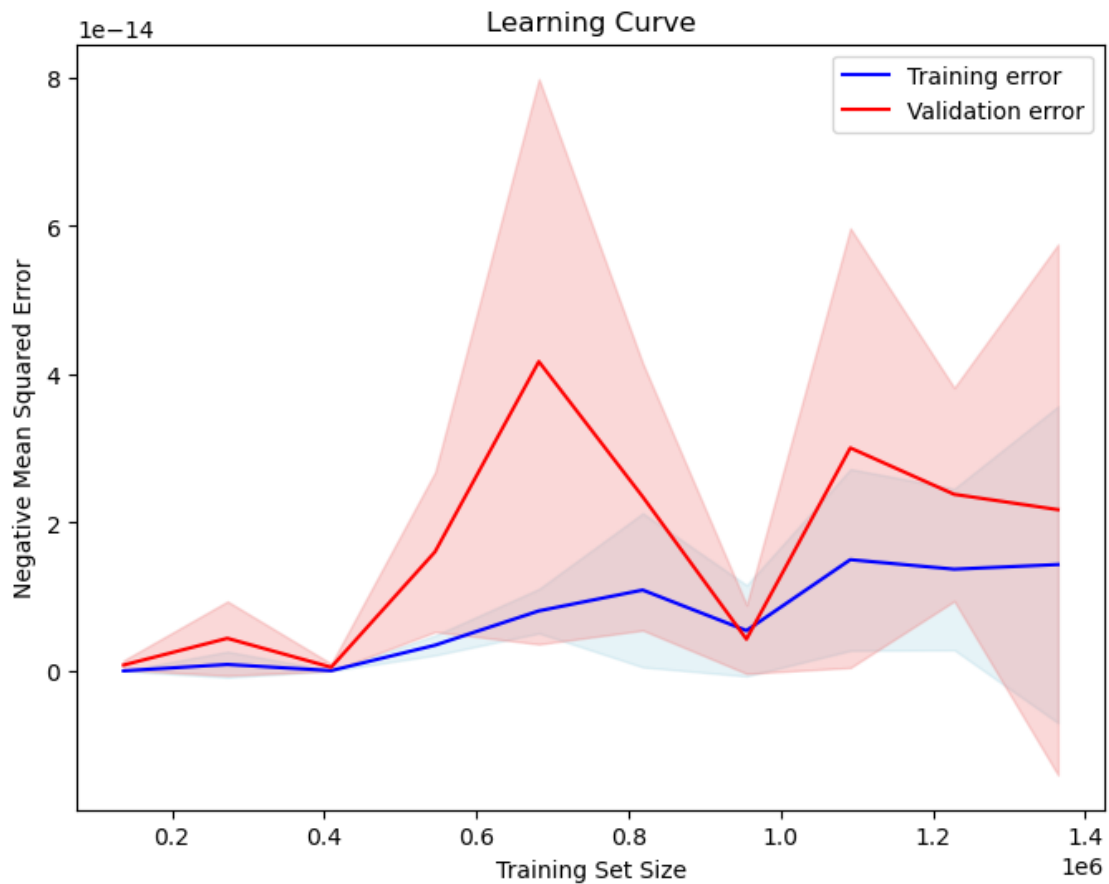
```

# Add labels and title
plt.xlabel('Training Set Size')
plt.ylabel('Negative Mean Squared Error')
plt.title('Learning Curve')
plt.legend(loc='best')

# Show the plot
plt.show()

if train_mean[-1] < test_mean[-1]:
    print("The model is potentially underfitting.")
elif train_mean[-1] > test_mean[-1]:
    print("The model is potentially overfitting.")
else:
    print("The model is neither underfitting nor overfitting.")

```



The model is potentially underfitting.

```
[ ]: from sklearn.preprocessing import PolynomialFeatures

# Create polynomial features
poly = PolynomialFeatures(degree=3) # Adjust the degree as needed
X_train_poly = poly.fit_transform(X_train)
X_test_poly = poly.transform(X_test)

# Create a polynomial regression model
reg_model_poly_grid_search = LinearRegression()

# Train the model on the polynomial features
reg_model_poly_grid_search.fit(X_train_poly, y_train)

# Make predictions on the testing data with polynomial features
y_pred_poly = reg_model_poly_grid_search.predict(X_test_poly)

# Evaluate the model
mse_poly = mean_squared_error(y_test, y_pred_poly)
rmse_poly = np.sqrt(mse_poly)
r2_score_poly = reg_model_poly_grid_search.score(X_test_poly, y_test)

print("Polynomial Regression Performance Metrics:")
print("Mean Squared Error (MSE):", mse_poly)
print("Root Mean Squared Error (RMSE):", rmse_poly)
print("R-squared (R2) Score:", r2_score_poly)
```

```
Polynomial Regression Performance Metrics:
Mean Squared Error (MSE): 190140917.9169767
Root Mean Squared Error (RMSE): 13789.159434750789
R-squared (R2) Score: 0.9945952703848084
```

In this code, the PolynomialFeatures class from scikit-learn is used to transform the original features into polynomial features with a higher degree. You can adjust the degree parameter to specify the desired degree of the polynomial. Then, a new linear regression model reg\_model\_poly is created and trained on the polynomial features X\_train\_poly. The model is evaluated on the testing data with polynomial features, and the performance metrics are calculated and printed.

By using polynomial features, the model becomes more flexible and can capture non-linear relationships in the data, which helps alleviate underfitting.

```
[ ]: from sklearn.metrics import r2_score as r2

# Create polynomial features
poly = PolynomialFeatures(degree=3) # Adjust the degree as needed
X_poly = poly.fit_transform(X)

# Split the data into training and testing sets
X_train_poly, X_test_poly, y_train, y_test = train_test_split(X_poly, y,
    ↪ test_size=0.2, random_state=42)
```

```

# Create a new linear regression model with polynomial features
reg_model_poly = LinearRegression()

# Train the model on the polynomial features
reg_model_poly.fit(X_train_poly, y_train)

# Make predictions on the testing data with polynomial features
y_pred_poly = reg_model_poly.predict(X_test_poly)

# Evaluate the model with polynomial features
mse_poly = mean_squared_error(y_test, y_pred_poly)
rmse_poly = np.sqrt(mse_poly)
r2_score_poly = r2(y_test, y_pred_poly)

# Calculate baseline performance
y_baseline = np.full_like(y_test, y_train.mean()) # Use mean as the baseline
baseline_mse = mean_squared_error(y_test, y_baseline)
baseline_rmse = np.sqrt(baseline_mse)
baseline_r2_score = r2(y_test, y_baseline)

# Print the performance metrics
print("Polynomial Regression Performance Metrics:")
print("Mean Squared Error (MSE):", mse_poly)
print("Root Mean Squared Error (RMSE):", rmse_poly)
print("R-squared (R2) Score:", r2_score_poly)
print()
print("Baseline Performance Metrics:")
print("Mean Squared Error (MSE):", baseline_mse)
print("Root Mean Squared Error (RMSE):", baseline_rmse)
print("R-squared (R2) Score:", baseline_r2_score)
print()

# Plot the performance comparison
labels = ['Model with Polynomial Features', 'Baseline']
rmse_values = [rmse_poly, baseline_rmse]

plt.bar(labels, rmse_values, color=['blue', 'red'])
plt.xlabel('Model')
plt.ylabel('RMSE')
plt.title('Performance Comparison: Model with Polynomial Features vs Baseline')
plt.show()

```

```

Polynomial Regression Performance Metrics:
Mean Squared Error (MSE): 0.08810878911479278
Root Mean Squared Error (RMSE): 0.29683124686392565
R-squared (R2) Score: 0.9999999999974956

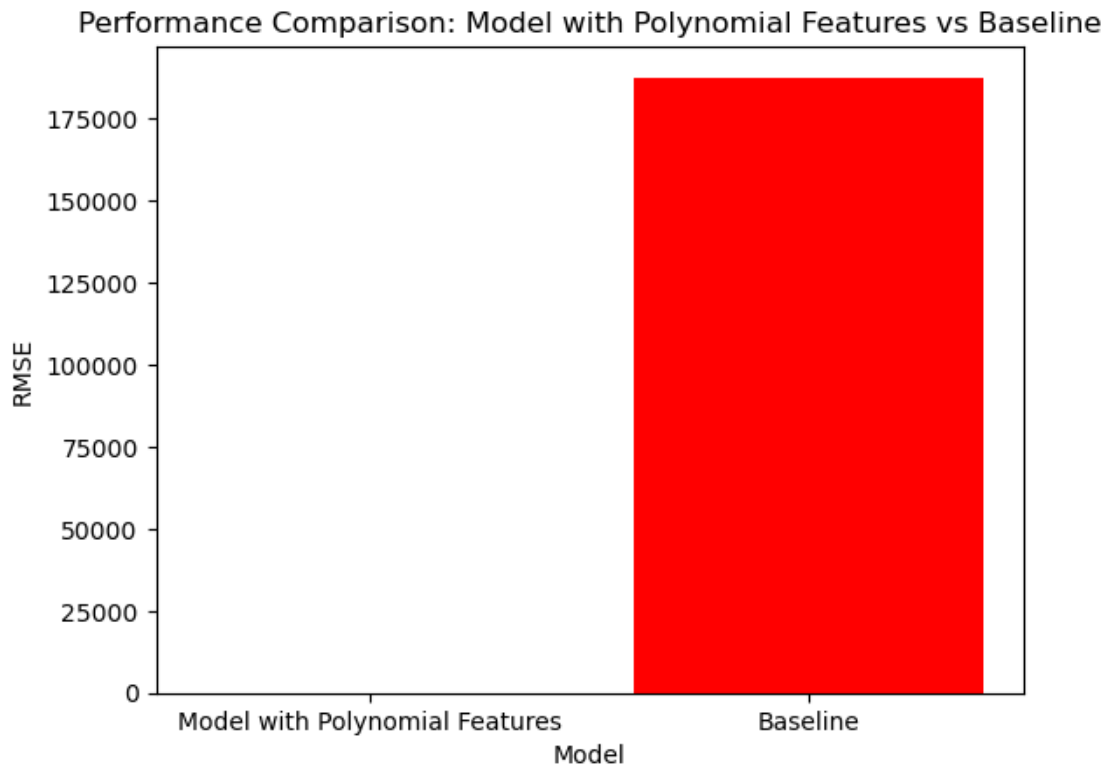
```

Baseline Performance Metrics:

Mean Squared Error (MSE): 35180725566.10877

Root Mean Squared Error (RMSE): 187565.25682041643

R-squared (R2) Score: -7.317909870963035e-06



In this code, after applying the polynomial transformation to the features using `PolynomialFeatures`, the polynomial regression model (`reg_model_poly`) is trained and evaluated on the testing data with polynomial features. The evaluation metrics, including MSE, RMSE, and R-squared score, are calculated for the polynomial model.

A baseline prediction is also generated using the mean value of the training target variable, and the baseline performance metrics are calculated. Finally, a bar plot is created to compare the RMSE values between the polynomial model and the baseline.

```
[ ]: #code to save all the above models
import joblib

# Save the Linear Regression model
joblib.dump(reg_model, 'linear_regression_model.pkl')
joblib.dump(reg_model_poly_grid_search, 'reg_model_poly_grid_search.joblib')
joblib.dump(reg_model_grid_search, 'reg_model_grid_search.joblib')
```

```
[ ]: ['reg_model_grid_search.joblib']
```

3. Creating another model using Random Forest

```
[ ]: from sklearn.model_selection import train_test_split
from sklearn.ensemble import RandomForestRegressor
from sklearn.metrics import mean_squared_error

# Separate the features (X) and target variable (y)
X = merged_data[['transaction_frequency', 'total_transaction_amount',
    ↪ 'average_transaction_amount']]
y = merged_data['CLV']

# Split the data into training and testing sets
X_train, X_test, y_train, y_test = train_test_split(X, y, test_size=0.2,
    ↪ random_state=42)

# Create a random forest regressor
rf_model = RandomForestRegressor(random_state=42)

# Train the model on the training data
rf_model.fit(X_train, y_train)

# Make predictions on the testing data
y_pred = rf_model.predict(X_test)

# Evaluate the model
mse = mean_squared_error(y_test, y_pred)
rmse = np.sqrt(mse)
r2_score = rf_model.score(X_test, y_test)

print("Mean Squared Error (MSE):", mse)
print("Root Mean Squared Error (RMSE):", rmse)
print("R-squared (R2) Score:", r2_score)
```

Mean Squared Error (MSE): 0.0037291912391644744

Root Mean Squared Error (RMSE): 0.06106710439479241

R-squared (R2) Score: 0.9999999999999894

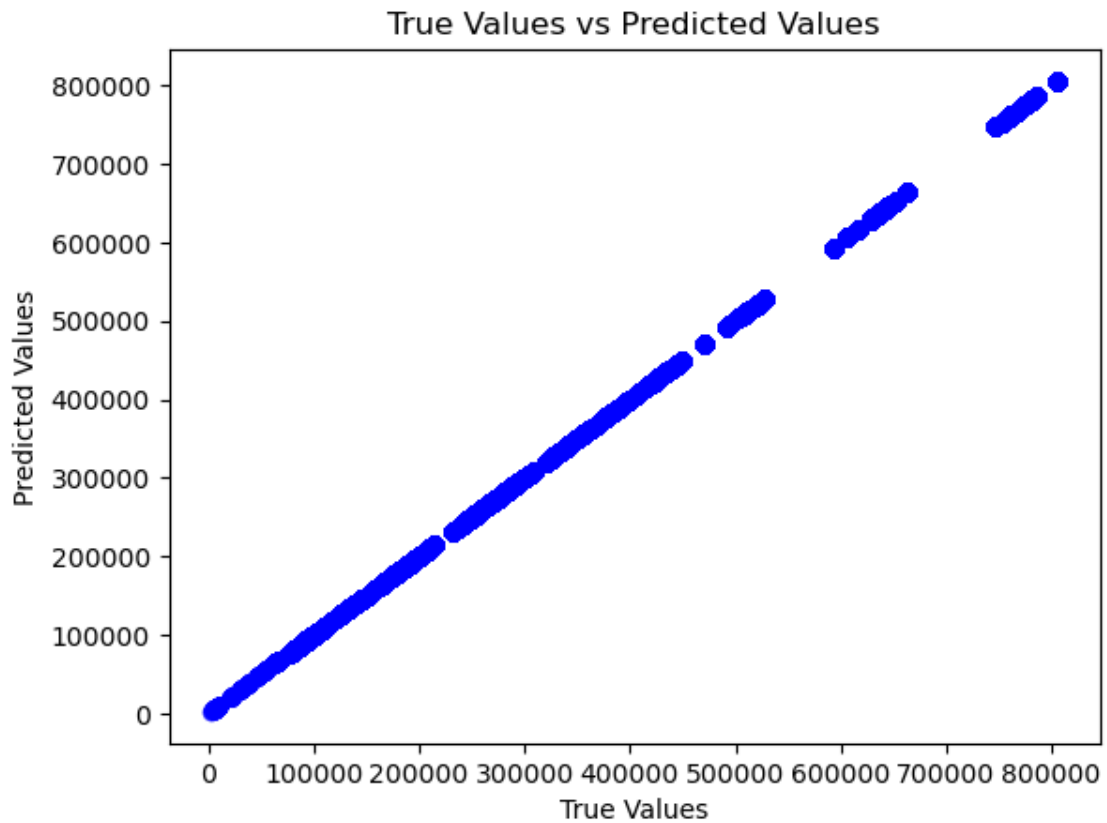
```
[ ]: import matplotlib.pyplot as plt
import matplotlib
matplotlib.rcParams['agg.path.chunksize'] = 1000 # Adjust the value as needed

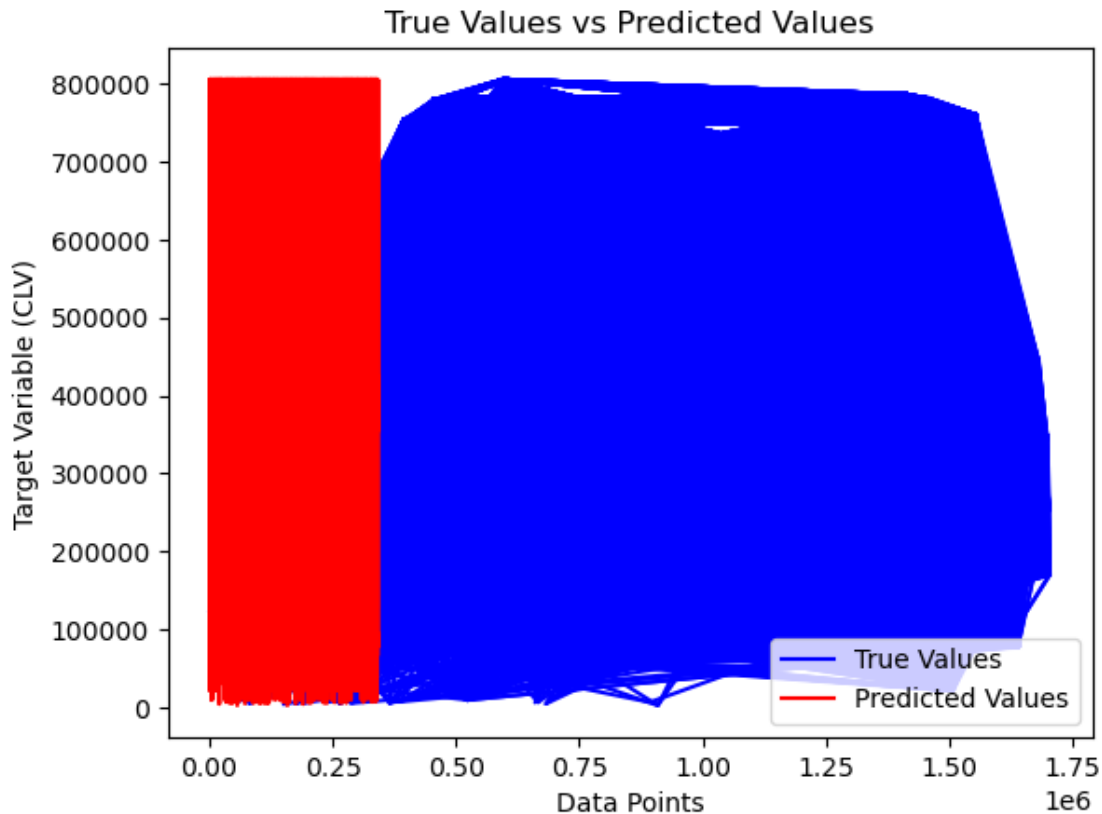
# Create a scatter plot of true values versus predicted values
plt.scatter(y_test, y_pred, color='blue', alpha=0.5)
plt.xlabel('True Values')
plt.ylabel('Predicted Values')
plt.title('True Values vs Predicted Values')
```



```
plt.show()

# Create a line plot of predicted values versus true values
plt.plot(y_test, label='True Values', color='blue')
plt.plot(y_pred, label='Predicted Values', color='red')
plt.xlabel('Data Points')
plt.ylabel('Target Variable (CLV)')
plt.title('True Values vs Predicted Values')
plt.legend()
plt.show()
```





The first plot creates a scatter plot where the x-axis represents the true values ( $y_{\text{test}}$ ) and the y-axis represents the predicted values ( $y_{\text{pred}}$ ). Each data point is represented as a blue dot. This plot helps visualize the relationship between the true and predicted values.

The second plot creates a line plot showing the true values ( $y_{\text{test}}$ ) as a blue line and the predicted values ( $y_{\text{pred}}$ ) as a red line. This plot helps visualize the trend and deviations between the true and predicted values.

#### 4. Tuning the model hyperparameters for better performance of the model

```
[ ]: from sklearn.model_selection import GridSearchCV

# Define the parameter grid
param_grid = {
    'n_estimators': [100, 200, 300], # Number of trees in the random forest
    'max_depth': [None, 5, 10], # Maximum depth of each tree
    'min_samples_split': [2, 5, 10], # Minimum number of samples required to
    ↪ split a node
    'min_samples_leaf': [1, 2, 4] # Minimum number of samples required at
    ↪ each leaf node
}
```

```

# Create a random forest regressor
rf_model = RandomForestRegressor(random_state=42)

# Perform grid search with cross-validation
grid_search = GridSearchCV(rf_model, param_grid, cv=5)
grid_search.fit(X_train, y_train)

# Get the best hyperparameters and model
best_params = grid_search.best_params_
best_model = grid_search.best_estimator_

print("Best Hyperparameters:", best_params)
print("Best Model:", best_model)

```

Best Hyperparameters: {'max\_depth': None, 'min\_samples\_leaf': 1, 'min\_samples\_split': 2, 'n\_estimators': 100}  
Best Model: RandomForestRegressor(random\_state=42)

#### 5. Creating another model using Gradient Boosting

```

[ ]: from sklearn.ensemble import GradientBoostingRegressor
from sklearn.model_selection import train_test_split
from sklearn.metrics import mean_squared_error

X = merged_data[['transaction_frequency', 'total_transaction_amount',
↪ 'average_transaction_amount']]
y = merged_data['CLV']

# Split the data into training and testing sets
X_train, X_test, y_train, y_test = train_test_split(X, y, test_size=0.2,
↪ random_state=42)

# Create a Gradient Boosting regressor
gb_model = GradientBoostingRegressor(random_state=42)

# Train the model on the training data
gb_model.fit(X_train, y_train)

# Make predictions on the testing data
y_pred = gb_model.predict(X_test)

# Evaluate the model
mse = mean_squared_error(y_test, y_pred)
rmse = np.sqrt(mse)
r2_score = gb_model.score(X_test, y_test)

print("Mean Squared Error (MSE):", mse)
print("Root Mean Squared Error (RMSE):", rmse)

```

```
print("R-squared (R2) Score:", r2_score)
```

Mean Squared Error (MSE): 563135.5159778388

Root Mean Squared Error (RMSE): 750.423557717799

R-squared (R2) Score: 0.9999839929498926

6. Tuning the model hyperparameters for better performance of the model

```
[ ]: from sklearn.ensemble import GradientBoostingRegressor
from sklearn.model_selection import GridSearchCV, train_test_split
from sklearn.metrics import mean_squared_error

# Split the data into training and testing sets
X_train, X_test, y_train, y_test = train_test_split(X, y, test_size=0.2,
    random_state=42)

# Create a Gradient Boosting regressor
gb_model = GradientBoostingRegressor(random_state=42)

# Define the hyperparameter grid
param_grid = {
    'learning_rate': [0.1, 0.01, 0.001],
    'n_estimators': [100, 200, 300],
    'max_depth': [3, 4, 5]
}

# Perform grid search with cross-validation
grid_search = GridSearchCV(gb_model, param_grid, cv=5)
grid_search.fit(X_train, y_train)

# Get the best hyperparameters and model
best_params = grid_search.best_params_
best_model = grid_search.best_estimator_

# Make predictions on the testing data using the best model
y_pred = best_model.predict(X_test)

# Evaluate the model
mse = mean_squared_error(y_test, y_pred)
rmse = np.sqrt(mse)
r2_score = best_model.score(X_test, y_test)

print("Best Hyperparameters:", best_params)
print("Mean Squared Error (MSE):", mse)
print("Root Mean Squared Error (RMSE):", rmse)
print("R-squared (R2) Score:", r2_score)
```

Best Hyperparameters: {'learning\_rate': 0.1, 'max\_depth': 5, 'n\_estimators': 300}

Mean Squared Error (MSE): 564.3083168733981  
Root Mean Squared Error (RMSE): 23.75517452837167  
R-squared (R2) Score: 0.9999999839596132

### 1.2.5 Step 5: Model Deployment

Saving all the models, so that the models are ready for deployment

```
[ ]: from sklearn.ensemble import GradientBoostingRegressor, RandomForestRegressor
from sklearn.linear_model import LinearRegression
#from sklearn.externals import joblib
import joblib
# Save the GradientBoostingRegressor model
joblib.dump(gb_model, 'gradient_boosting_model.pkl')

# Save the RandomForestRegressor model
joblib.dump(rf_model, 'random_forest_model.pkl')

# Save the Linear Regression model
joblib.dump(reg_model, 'linear_regression_model.pkl')
```

```
[ ]: ['linear_regression_model.pkl']
```

```
[ ]: import joblib
joblib.dump(grid_search, 'grid_search.joblib')
```

```
[ ]: ['grid_search.joblib']
```

End of CLV Part

Github Link