

Customer Analytics in Retail Supermarket Chain

BY:

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Introduction & Background

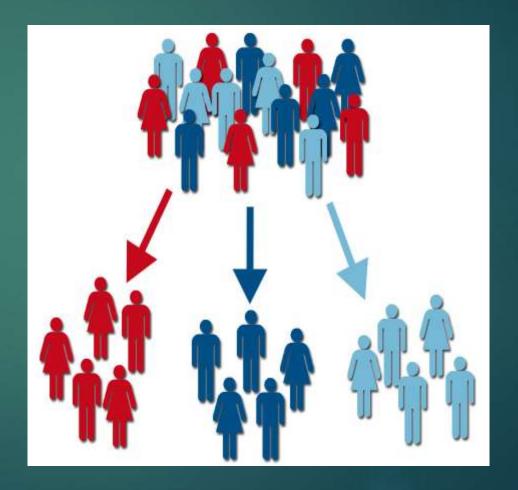
- ▶ Dunnhumby is a worldwide retail chain spread across 29 countries with the revenue of \$3 billion.
- The business of retail industry depends largely upon the customers they serve. So, it becomes very important to build and sustain relationship with customers.
- In order to manage customer relationships successfully, segmentation of customers becomes a crucial part.
- Customer segmentation would help in increase in company's profit apart from providing selective marketing strategies as per customers segment.

Approach: Data Preparation and Cleaning

- Transactional data consist of purchase details of 2500 households for period of 2 years whereas demographic data consist of 800 households only.
- ▶ We are planning to aggregate the transactional data at household level (customer level) and then merge it with demographic data to make it to 800 households only.
- ▶ The transaction data didn't have any missing values, but we are planning to perform exploratory data analysis on this dataset to find out the probable outliers, if any using boxplot.
- We will also look at the distribution of all the attributes to check for any skewness of data.
- Three attributes from demographic data will be removed as each contain more than 20% missing values. However absence of 2 of these attributes viz. HH_COMP_DESC and KID_CATEGORY_DESC can be compensated with HOUSEHOLD_SIZE_DESC attribute which has no "Unknown" values.

Approach: Learnings and Approach

- ► The goal is to form clusters which distinctly represent the customer purchase behaviour.
- ▶ Feature selection in WEKA, will be performed using Linear Regression as classifier which is Supervised learning. The class of this regression data would be the customer spend.
- Unsupervised learning will be used for clustering the customers.
- K-means and EM clustering algorithms will be applied on this merged dataset and then resulting clusters will be compared.



Approach: Evaluation Methods

- ► The resulting clusters should distinctly represent customer spend and involved demographic attributes.
- ► Thus our evaluation would be focused on gauging whether the clusters formed are representative of the average sales value of that cluster, for example all customers associated with high sales value should be the part of one cluster.
- Classes to Clusters Evaluation method would be employed by using class as "Customer spend".
- ► The correctness of the clusters would be decided on the basis of whether the instances belonging to a particular class falls under a same cluster or not. This would be shown by incorrectly clustered instances percentage in WEKA.

Literature Review

- One of our primary literature review Segmenting customers in online stores based on factors that affect the customer's intention to purchase highlighted the importance of clustering techniques in segmenting the data of online customers.
- According to literature these segments can be utilized in designing customized marketing offers. Before performing segmentation important features, that determine the customer purchase intention, were selected using Structural equation Model (SEM).
- K-means and SOM (Self-organized maps) are two commonly used clustering methods for customer segmentation.

Literature Review

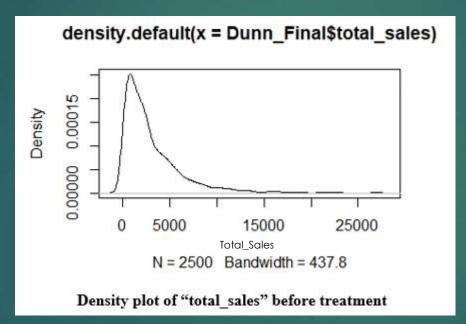
► K-means – In Weka, the fitness of data to the model can be measured by minimising sum of squared error.

Fit indices		Recommended criteria	Model
Absolute fit indices	Chi-square/df	≤5.00 (Hayduk, 1987)	1.892
	GFI	≥0.90 (Jöreskog & Sörbom, 1993)	0.871
	RMSR	≤0.08 (Jöreskog & Sörbom, 1993)	0.049
	RMSEA	0.05~0.08 (Jöreskog & Sörbom, 1993)	0.068

Expectation maximization – The fitness of data to the model can be measured by loglikelihood.

Results and Discussion – Data Preparation

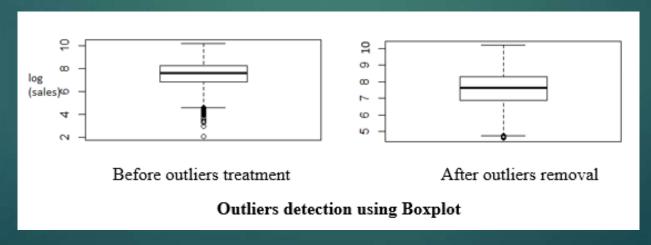
▶ The initial distribution of customer spend showed right skewed result.



On deep diving we found that Gasoline-Reg-Unleaded have very low product price, nearly 0.2 cents and are purchased in very high quantities. So these inaccurate instances were removed from the dataset.

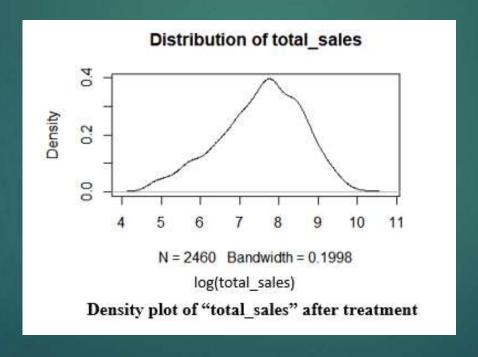
Results and Discussion – Data Preparation

- Then the skewness in data was further reduced by implementing different transformations on customer spend like log, square, square root. Finally, Logarithmic function gave the better results among others in reducing the skewness by a larger degree.
- Box Plot in R was used for detecting the outliers in customer spend and the resulting 40 outliers were removed from the dataset.



Results and Discussion – Data Preparation

The final density plot of customer spend showed the normal distribution of customers.



Results and Discussion – EDA of Demographic data

- ► The maximum number of customers fell in the age bucket of 45-54 (Age_Index** = 4).
- Customers having the household size of 2 (Household_size_Index** =
 2) showed the maximum frequency.
- Most of the customers in dataset have income in the range of 50-74k (Income_Index** = 5).

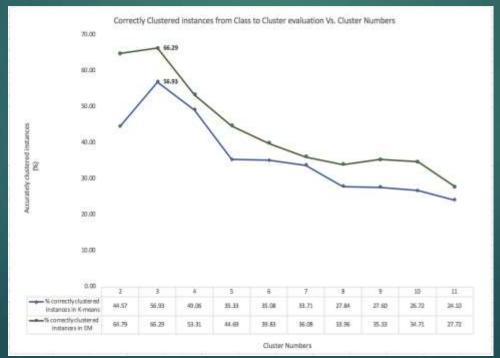


Results and Discussion – Features Selection

- Feature selection in WEKA was performed using Wrapper Subset.
- ▶ In this process, linear regression was used to identify the significant features corresponding to "customer spend" (class).
- Attributes were selected as the input for executing clustering algorithms were number of product purchased, total number of order, total number of visits, number of national products and income.
- From demographic data income was the only attribute that came as significant.

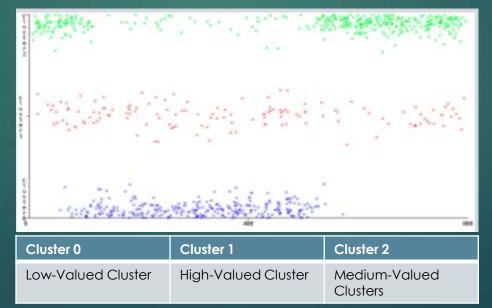
Results and Discussion – Optimal Number of Cluster

► Graph was plotted between "class to cluster" performance accuracy of clustering algorithms and different cluster numbers ranging from 2 to 11. Both the algorithms performed best at "3" value of cluster number.



Results and Discussion – K-Means Clustering

- K-means clustering was performed with value of k as 3 and seed as 10 using WEKA tool.
- The Unsupervised filter of WEKA was used to add resulting cluster numbers in the dataset and evaluated using Class to Cluster feature of WEKA



Results and Discussion – Class to Cluster Evaluation of K-means

▶ The output showed three different clusters of customers associated with the three different class labels of "high", "medium" and "low" value customers as well as the percentage of accurately clustered instances based on class values of customer spend.

▶ The percentage of correctly clustered instances by K-means was

around 57%.

1871	-	:20%
n 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	clusters	shater2
Cluster 0	Cluster 1	Cluster 2
Low-Valued Cluster	High-Valued Cluster	Medium-Valued Clusters

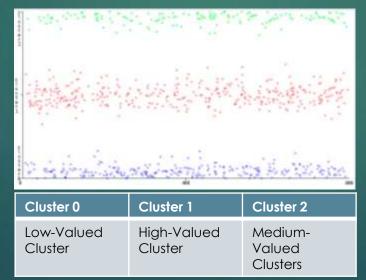
Results and Discussion – Class to Cluster Evaluation of K-means

- ► Low-valued customers were most incorrectly clustered using K-means algorithm, i.e., 68% customers were inaccurately segmented.
- Majority of these customers which were actually medium valued customer were inaccurately clustered into low-valued segment.

Low	Medium	High			
Value	Value	Value			
Cluster	Cluster	Cluster		5	
95	86	1	Low		ų.
178	243	21	Medium	es	Bucket
28	31	118	High	Sales	Bu

Results and Discussion – Expectation Maximization

- ► EM was performed with the seed value as 100 and number of clusters as 3
- Assignment of 800 instances into different clusters are visualized in WEKA.



Results and Discussion – Class to Cluster Evaluation of EM

► The Unsupervised filter of WEKA was used to add resulting cluster numbers in the dataset.

► The percentage of correctly clustered instances by EM was around 66%.

No.		- 1
		174
a clusters	Clariter	cluster)
Cluster 0	Cluster 1	Cluster 2
Medium- Valued Cluster	Low-Valued Cluster	High-Valued Clusters

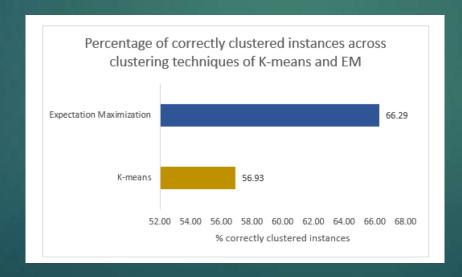
Results and Discussion – Class to Cluster Evaluation of EM

- ► EM showed a relatively higher performance than K-means in terms of correctly clustering the low-valued instances by reducing the inaccurate percentage to 49%.
- Moreover, EM keeps a separate boundary between High and Low-Valued customers as there was "0" inaccurate assignment of actual high valued customer into low valued cluster.

Low	Medium	High			
Value	Value	Value			
Cluster	Cluster	Cluster			
143	34	5	Low		+
139	271	32	Medium	sales	Rucket
0	60	117	High	Sal	B

Results and Discussion – Performance comparison of Kmeans & EM

- ▶ EM performed better in segmenting the retail customers distinctively based on customer spend with 66% of correctly clustered instances.
- Clusters formed by EM were chosen for Classification Via Clustering.



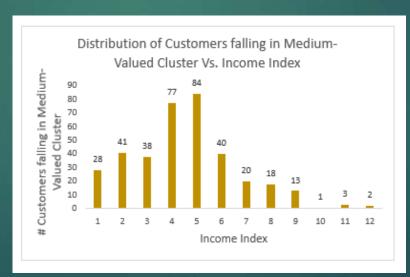
Results and Discussion – Clusters Interpretation

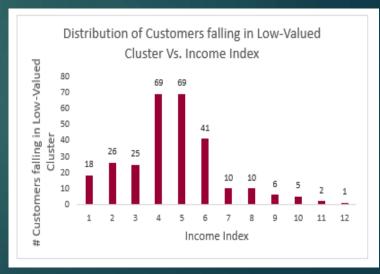
- ▶ Low-Valued Cluster Customers falling in this cluster had the least number of product purchased, customer spend, number of orders they have made, number of visits as well as quantity of products with Brand National purchased as shown in below fig().
- Medium-Valued Cluster Customers falling in this cluster made purchase having products quantity intermediate between that of customers falling into Low and High valued clusters. Moreover, their spend values, number of orders made, their number of visits as well as quantity of products with Brand National purchased in 2 years fell in range intermediate between that of customers in low and high valued clusters.
- ▶ High-Value Cluster Customers falling in this cluster had the maximum number of product purchased, customer spend, number of orders they have made, number of visits as well as quantity of products with Brand National purchased.

Results and Discussion – Clusters Interpretation

	Avg Product Purchased	Avg Customer Spend	Avg Orders Size	Avg Visits	Avg National Product Purchased
Low Value Cluster	1189	2656	83	76	644
Medium Value Cluster	2304	5090	147	131	1273
High Value Cluster	4285	9713	318	240	2414







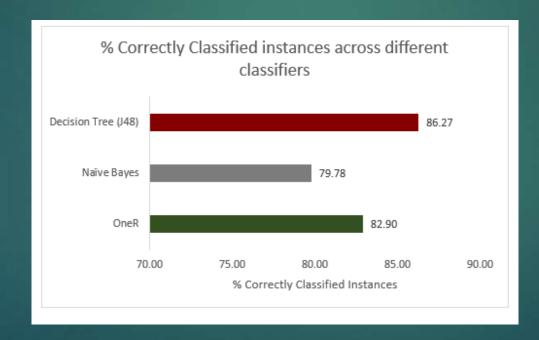
INCOME_INDEX	1	2	3	4	5	6	7	8	9	10	11	12
INCOME_DESC	Under 15	15-24K	25-34K	35-49K	50-74K	75-99K	100-124K	125-149K	150-174K	175-199K	200-249K	250K+

Results and Discussion – Clusters Interpretation

- ▶ Low-Valued Cluster Only 12% of the total customer falling in low-valued cluster were having the income above 99K. Thus, customers falling in this cluster are not high-income customers.
- Medium-Valued Cluster Among all the customers falling in medium valued cluster ,16% were having the income above 99K. Thus, customers falling in this cluster have a greater number of high-income customers than that present in low-valued cluster, whereas when compared with high-valued cluster, this number is lower.
- ▶ High-Valued Cluster Among all the customers falling in this cluster 25% were having the income above 99K. Thus, customers falling in this cluster are having maximum number of high-income customers.

Results and Discussion – Classification Via EM Clustering

 J48 performed best among all classifiers with prediction accuracy of 86%



Conclusion

- ► EM yielded better clustering results than K-means.
- Few number of attributes of transaction data and only one income attribute of demographic data can yield a fairly high correctly clustered instances.
- Income attribute associated with customer spend behaviour.
- Clusters formed can be utilized in predicting the sales of new customers.
- Customer segmentation can be treated as an intermediate step for designing personalized marketing strategy. Each customer segment would then be analyzed at customer level and based on the his/her spend behavior one-to-one marketing offer would be rolled out.
- Another important aspect is Store Layout which has a significant impact on sales of products in retail supermarkets. Sequential Pattern Mining can be used to find out frequently occurring product categories as well as the products within them.



Appendix

References

Primary

- 1.Aloysius, G., & Binu, D. (2012). <u>An approach to products placement in supermarkets using PrefixSpan algorithm</u>. Journal of King Saud University "C Computer and Information Sciences, 25(1), 77–87. https://doi.org/10.1016/j.jksuci.2012.07.001
- 2.Hong, T., & Kim, E. (2011). <u>Segmenting customers in online stores based on factors that affect the customer's intention to purchase.</u> Expert Systems With Applications, 39(2), 2127–2131. https://doi.org/10.1016/j.eswa.2011.07.114
- 3. Sharma, N., Bajpai, A., & Litoriya, M. R. (2012). <u>Comparison the various clustering algorithms of weka tools</u>. facilities, 4(7), 78-80.

Secondary

- 4. Lockshin, L. S., Spawton, A. L., & Macintosh, G. (1997). <u>Using product, brand and purchasing involvement for retail segmentation</u>. Journal of Retailing and Consumer services, 4(3), 171-183.
- 5.Katsaras, N., Wolfson, P., Kinsey, J., & Senauer, B. (2001). <u>Data mining: A segmentation analysis of US grocery shoppers.</u> St. Paul, MN: The University of Minnesota, The Retail Food Industry Center, Working Paper, 01-01.
- 6.Ziafat, H., & Shakeri, M. (2014). <u>Using Data Mining Techniques in Customer Segmentation.</u> Journal of Engineering Research and Applications, 4(9), 70-79.

Values for Demographic attributes Indices

AGE_DESC	AGE_INDEX
19-24	1
25-34	2
35-44	3
45-54	4
55-64	5
65+	6

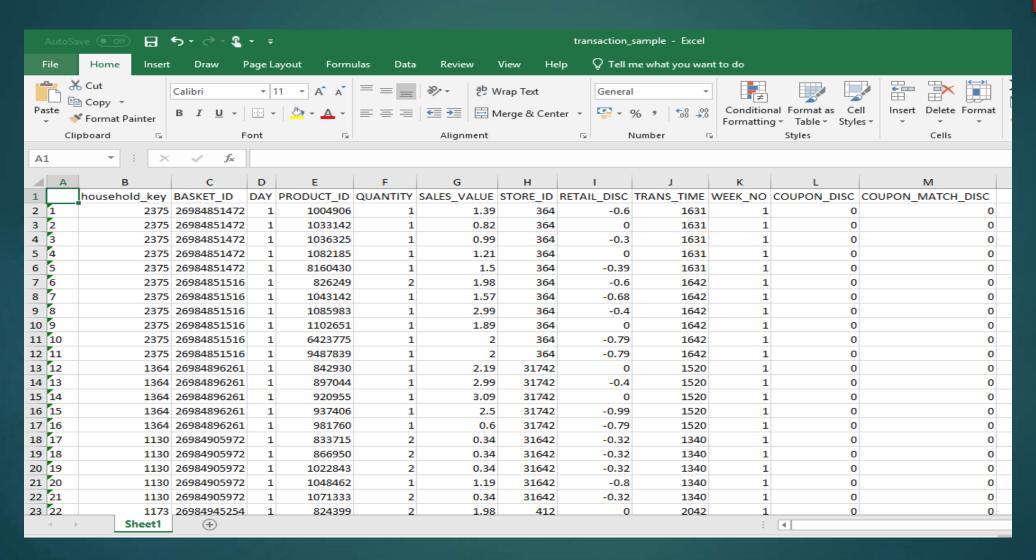
INCOME_DESC	INCOME_INDEX
Under 15K	1
15-24K	2
25-34K	3
35-49K	4
50-74K	5
75-99K	6
100-124K	7
125-149K	8
150-174K	9
175-199K	10
200-249K	11
250K+	12
	·

HOUSEHOLD_SIZE_DESC	HOUSEHOLD_SIZE_INDEX
1	1
2	2
3	3
4	4
5+	5

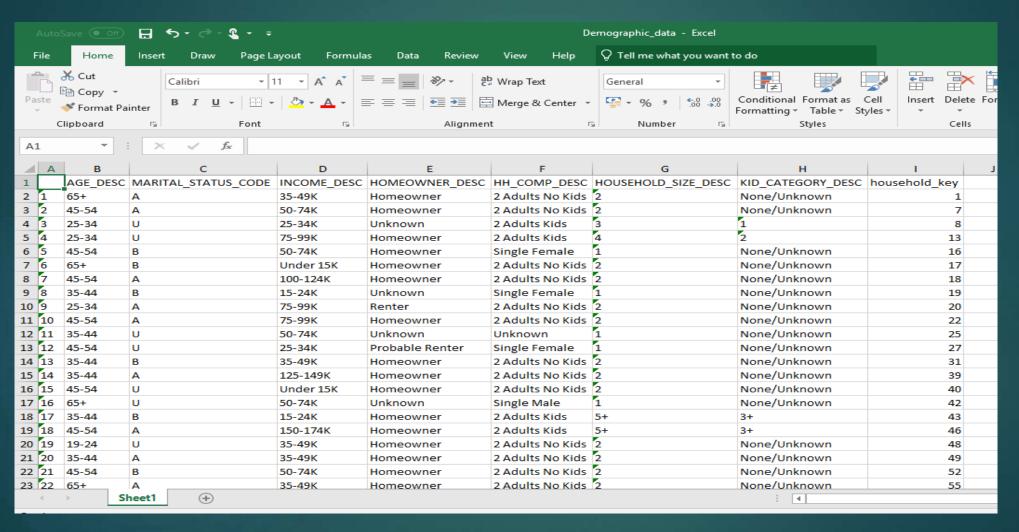
Final Dataset for input to Modelling

	O	Viewer						
F	Relat	tion: dataset_v3_10	_12-weka.filters.unsupe	rvised.attribute.F	Remove-R2,4,	8-13,15-16		
-	No.	1: household_key	2: products_purchased	3: no_of_orders	4: total_visits	5: no_of_national_products	6: INCOME_INDEX	7: total_sales_class
		Numeric	Numeric	Numeric	Numeric	Numeric	Numeric	Nominal
-	1	1.0	1997.0	85.0	78.0	1507.0	4.0	Medium
1	2	1001.0	1736.0	90.0	79.0	831.0	5.0	Medium
1	3	1003.0	1055.0	63.0	47.0	486.0	3.0	Low
- 1	4	1004.0	1040.0	219.0	192.0	605.0	2.0	Low
_	5	101.0	2399.0	165.0	133.0	690.0	1.0	Medium
_	6	1012.0	1058.0	106.0	91.0	637.0	4.0	Low
_	7	1014.0	1865.0	146.0	133.0	1007.0	2.0	Medium
1	8	1015.0	2301.0	106.0	102.0	715.0	5.0	Medium
_	9	1018.0	796.0	160.0	137.0	455.0	4.0	Low
1	10	1020.0	3759.0	167.0	152.0	2456.0	3.0	High
1	11	1021.0	876.0	99.0	87.0	488.0	5.0	Low
1	12	1024.0	4200.0	133.0	114.0	1719.0	1.0	High
-	13	1031.0	1317.0	116.0	103.0	753.0	6.0	Medium
1	14	1038.0	1128.0	273.0	220.0	454.0	1.0	Low
-	15	104.0	3358.0	125.0	113.0	2049.0	4.0	Medium
Н	16	1040.0	2042.0	229.0	223.0	1551.0	7.0	Medium
-	17	1041.0	3562.0	290.0	186.0	1774.0	4.0	High
-	18	1042.0	3027.0	231.0	206.0	1432.0	6.0	Medium
-	19	1045.0	1913.0	224.0	183.0	1125.0	1.0	Medium
1	20	105.0	2994.0	169.0	130.0	1596.0	1.0	Medium
1	21	1053.0	1987.0	94.0	94.0	1228.0	7.0	Medium
-	22	1057.0	3696.0	184.0	175.0	1681.0	5.0	High
-	23	1060.0	2411.0	62.0	60.0	1732.0	4.0	Medium
1	24	1062.0	926.0	214.0	195.0	436.0	2.0	Low
	25	1066.0	2102.0	245.0	217.0	1052.0	3.0	Medium
	26	1069.0	1417.0	55.0	52.0	570.0	4.0	Medium
	27	1070.0	1863.0	138.0	123.0	1142.0	5.0	Medium
	28	1074.0	3367.0	120.0	111.0	1885.0	4.0	High
	29	1076.0	669.0	86.0	80.0	483.0	4.0	Low

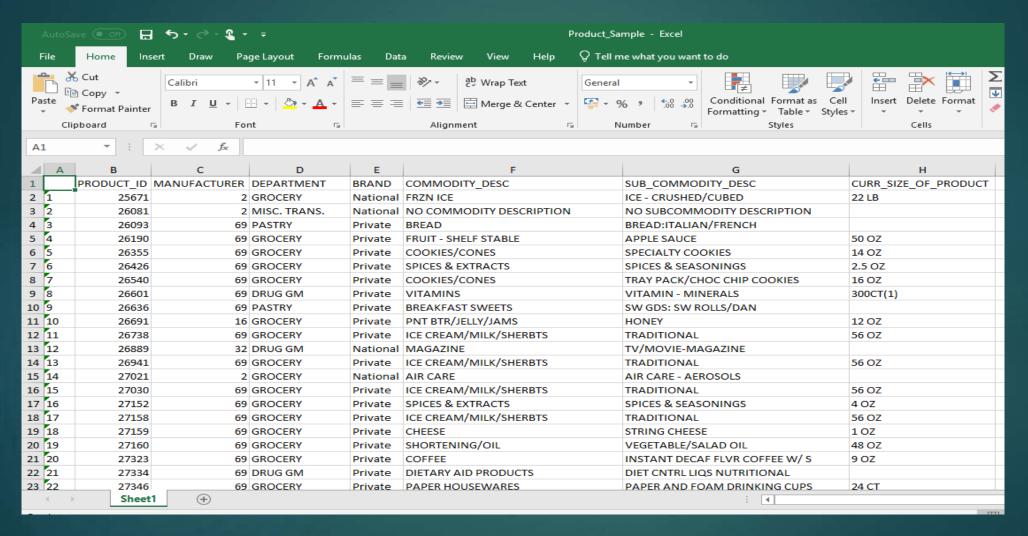
Transaction Data



Demographic Data



Product Data



Time Log

Log1: Namrita Gupta 10/13:11-1:2 Topic Selection 10/14:2-3:1 Topic Selection 10/20:12-1:1 Finding out Dataset 10/21:2-3:1 Finding out Dataset 10/27:1-3:2: Finding out Dataset 10/30: 4-5:1 Literature Search 11/1:12-2:2 Literature Search 11/2:8-9:1 Understanding of EM algorithms by Youtube videos 11/4:10-12:2 Literature Search 11/5: 2-4:2 Writing Proposal 11/6:8-11:3 Writing Proposal 11/7:10-1:3 Writing Proposal 11/7:3-4:1 Making Power point presentation 11/8:10-2:4 Importing datasets 11/9:10-12:2 Datasets merging with calculation of additional fields 11/10:11-1:2 Univariate analysis 11/14:2-4:2 Outliers detection & treatment 11/18: 3-5: 2 Missing value treatment 11/20: 4-6:2 Inaccurate values identification & treatment 11/25: 3-4:1 Attribute Transformations 11/25: 6-8:2 Attribute Conversion from categorical to numeric 11/26:2-4:2 Class value conversion from numeric to categorical 12/1: 3-4:1 Feature selection in Weka 12/1: 2-4:2 Rerun K-means to find out optimal Value of cluster numbers 12/2: 10-1:3 Pre-processing data in Weka and K-means on evaluated cluster number 12/3:2-4:2 Class to cluster evaluation and Visualizing the clusters 12/3:2-4:2 Elevator pitch preparation 12/4: 3-5:2 Poster preparation 12/4: 2-4:2 Classification Via clustering for K-means 12/6: 2-3:1 Resulting Cluster analysis using excel and Weka 12/6: 2-4:2 Resulting Cluster analysis using excel and Weka 12/8: 4-6:2 Class to cluster evaluation matrix analysis using excel 12/9: 2-4:2 Report writing 12/10: 2-3:1 Final Presentation Preparation. 12/11: 2-4:2 Report writing 12/12: 2-3:1 Final Presentation Preparation

Log2: Akanksha Sharma 10/13:11-1:2 Topic Selection 10/14: 2-3:1 Topic Selection 10/21:12-1:1 Searching Dataset 10/22:2-3:1 Searching Dataset 10/28:1-3:2 Searching Dataset 10/30: 4-5:1 Literature Search 11/1:12-2:2 Literature Search 11/2: 8-9:1 Learning EM algorithm on Youtube 11/4: 2-4:2 Writing Proposal 11/4:10-12:2 Literature Search 11/7:10-1:3 Writing Proposal 11/6:12-3:3 Writing Proposal 11/7:3-4:1 Creating PPT 11/8:11-3:4 Importing datasets 11/9:10-12:2 Datasets merging with calculation of additional fields 11/10:11-1:2 Univariate analysis 11/14:2-4:2 Outliers detection & treatment 11/18: 3-5: 2 Missing value treatment 11/20: 4-6:2 Inaccurate values identification & treatment 11/25: 4-5:1 Attribute Transformations 11/25: 4-6:2 Attribute Conversion from categorical to numeric 11/27: 3-5:2 Class value conversion from numeric to categorical 12/1: 2-3:1 Feature selection in Weka 12/1: 4-6:2 Rerun EM to compare its performance with K-means 12/2: 2-5:3 Pre-processing data in Weka and EM on evaluated cluster number 12/3:2-4:2 Class to cluster evaluation and Visualizing the clusters 12/3:2-4:2 Elevator pitch preparation 12/4: 3-5:2 Poster preparation. 12/4: 2-4:2 Classification Via clustering for EM 12/6: 2-3:1 Resulting Cluster analysis using excel and Weka 12/6: 2-4:2 Resulting Cluster analysis using excel and Weka 12/8: 4-6:2 Class to cluster evaluation matrix analysis using excel 12/9: 2-4:2 Report writing 12/10: 2-3:1 Final Presentation Preparation. 12/11: 2-4:2 Report writing 12/12: 2-3:1 Final Presentation Preparation