Project Report: Customer Segmentation and Predictive Modeling for E-commerce

This project aims to improve targeted marketing and boost customer satisfaction by segmenting customers based on purchase behavior.

OB **by Oindrilla Banerjee**

Executive Summary

1 **Customer Segmentation**

Identify distinct customer groups based on purchase history, demographics, and preferences.

2 **Predictive Modeling**

Develop a model to classify customers into specific segments based on their future purchasing behavior.

3 **Targeted Marketing**

Optimize marketing campaigns by tailoring messages and promotions to individual customer segments.

Understanding the Business Challenge

Limited Customer Insights

Lack of understanding of customer segments and their unique needs.

Ineffective Marketing Campaigns

Generic marketing strategies fail to resonate with specific customer groups.

Lost Revenue Opportunities

Inability to personalize offers and promotions leading to missed sales and customer churn.

Data Collection and Preprocessing

1

Data Sources

Gather customer data from various sources, including website interactions, purchase history, and CRM systems.

2

Data Cleaning

Handle missing values, inconsistencies, and outliers to ensure data quality and accuracy.

3

Data Transformation

Convert data into a suitable format for analysis and modeling, including feature engineering and normalization.

Exploratory Data Analysis

Customer Demographics

Analyze age, gender, location, and other demographic factors to identify customer characteristics.
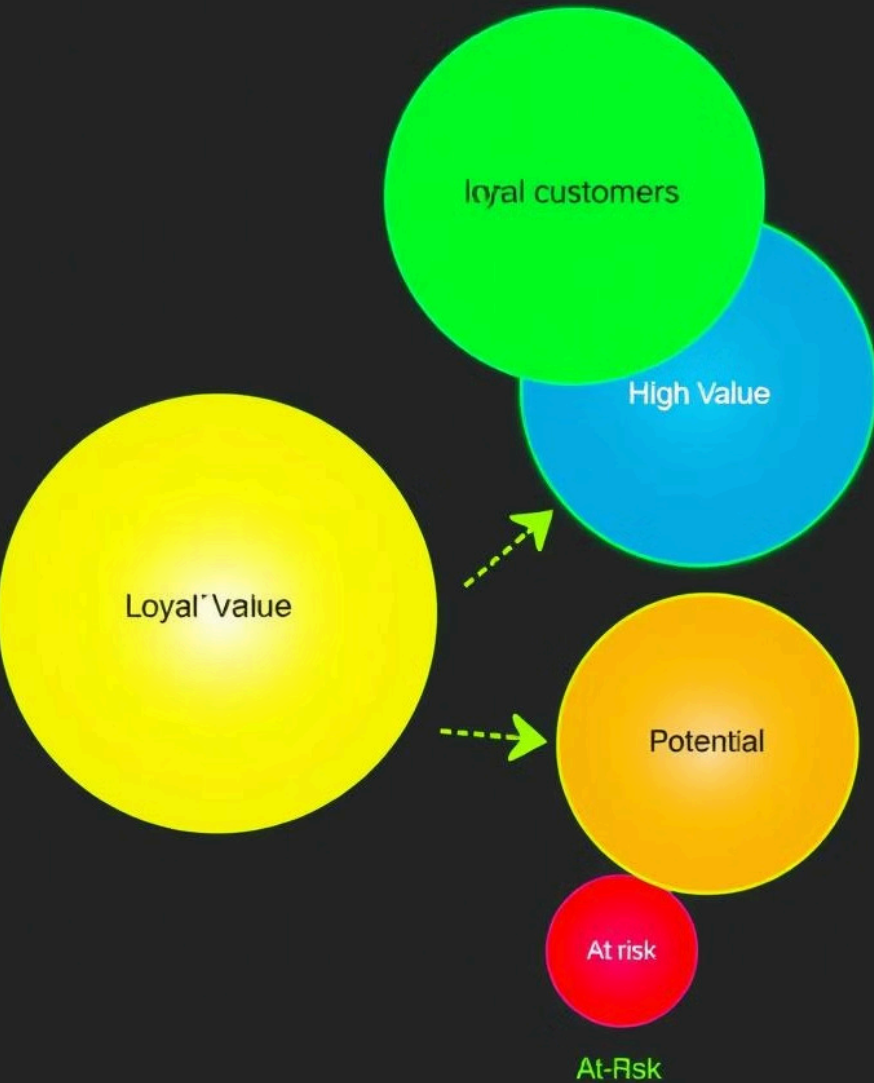
Purchase Behavior

Examine purchase history, average order value, frequency of purchases, and product categories.

Website Activity

Track website visits, page views, search queries, and interactions to understand customer journey.

Customer Segmentation Methodology

1 Clustering Algorithms

Employ unsupervised learning techniques, such as k-means clustering, to group customers based on similarity.

2 Decision Trees

Use decision trees to create hierarchical segments based on customer attributes and purchase patterns.

3 RFM Analysis

Analyze customer recency, frequency, and monetary value to identify distinct customer segments based on their purchasing behavior.

Predictive Modeling to Classify Customers

Logistic Regression	Predict the probability of a customer belonging to a specific segment.
Support Vector Machines	Classify customers by identifying optimal hyperplanes that separate different segments.
Random Forest	Combine multiple decision trees to improve prediction accuracy and robustness.

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Key Insights and Recommendations

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Loyalty Program

Reward high-value customers with exclusive offers and personalized experiences.

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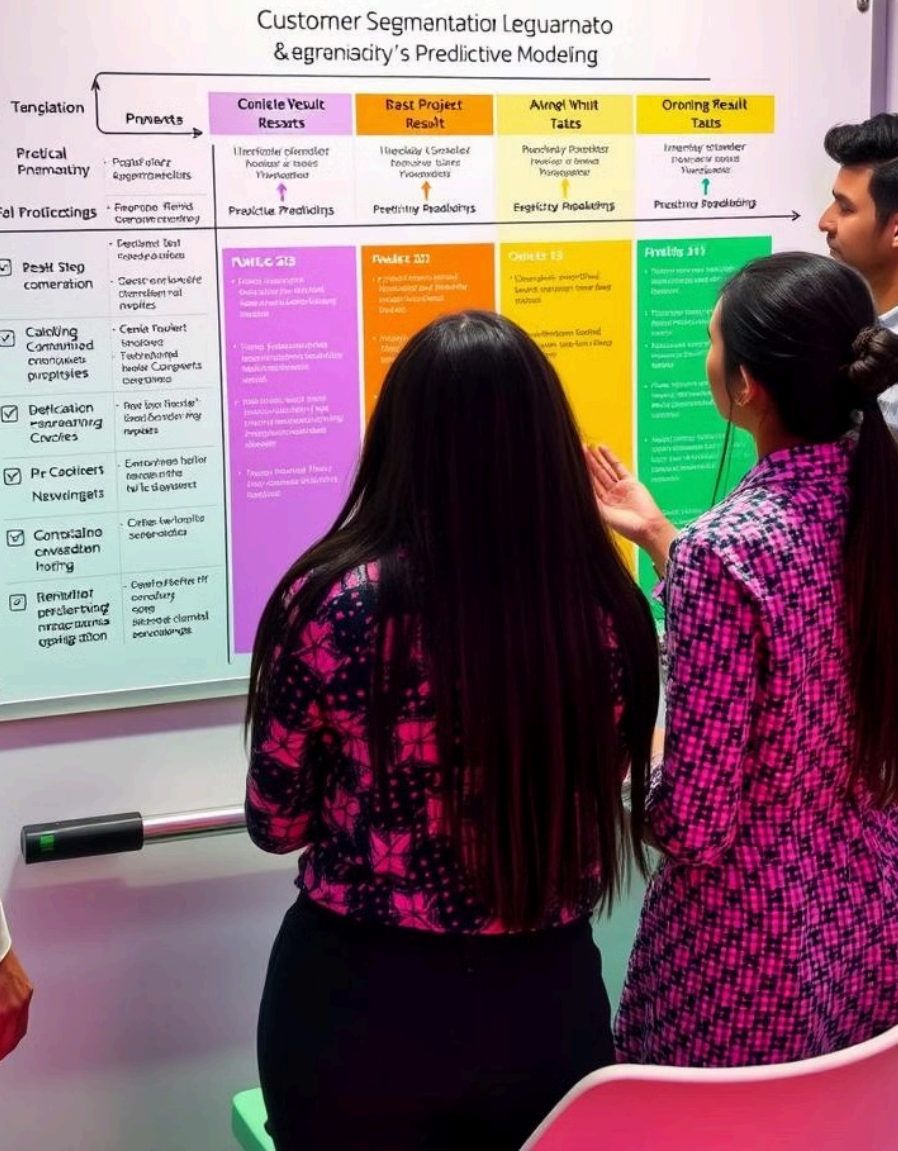
Personalized Recommendations

Provide tailored product recommendations based on customer segments and purchase history.

Targeted Promotions

Offer segment-specific discounts and promotions to encourage repeat purchases and drive sales.

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Next Steps and Implementation

1 ## Model Deployment

Integrate the predictive model into the e-commerce platform to classify new customers in real-time.

2 ## Marketing Campaign Optimization

Develop and execute targeted marketing campaigns based on customer segments and their predicted behavior.

3 ## Continuous Monitoring

Regularly evaluate model performance, customer segmentation effectiveness, and campaign results to ensure optimal outcomes.