

Customer Lifetime Value Prediction

Using Machine Learning to Predict Customer Value

The Starks

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Context

What is Customer Lifetime Value (CLV)?

The total revenue a business expects from a customer over their entire relationship.

Why Does It Matter?

- ▶ Acquiring new customers costs **5-25x more** than retaining existing ones
- ▶ CLV-driven strategies improve acquisition efficiency by **5-8%**
- ▶ Enables smarter allocation of marketing budgets

Business Applications

- ▶ Identify high-value customers for VIP treatment
- ▶ Target at-risk customers with retention campaigns
- ▶ Segment customers for personalized marketing

Hypothesis

"Historical purchase patterns (recency, frequency, and monetary value) can accurately predict a customer's future lifetime value."

What We're Testing

- ▶ Can RFM features predict future customer spending?
- ▶ Which ML model performs best? (Linear vs. Random Forest vs. XGBoost)
- ▶ Can we create actionable customer segments from predicted CLV?

Success Metrics

RMSE

Prediction Error

R²

Model Fit

Lift

Top 20% Identification

Data

Online Retail II Dataset — UCI Machine Learning Repository

541K

Transactions

2 Years

Dec 2009 - Dec 2011

UK

Online Giftware Retailer

RFM Features

- ▶ **Recency** — days since last purchase
- ▶ **Frequency** — number of orders
- ▶ **Monetary** — total spend

Behavioral Features

- ▶ **Tenure** — customer age
- ▶ **Avg time** between purchases
- ▶ **Unique products** bought

Target Variable

CLV = Total customer spend in the next 6 months

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Summary

Problem: Identify high-value customers

Data: 541K retail transactions over 2 years

Approach: RFM features → ML models → Segmentation

Goal: Enable targeted, data-driven marketing

Questions?