TEAM ID: **592110** 

Wholesale Customer
Segmentation
Analysis using ML

# **Project Description:**

This project focuses on analyzing the spending behavior of wholesale customers with the goal of uncovering patterns and identifying growth opportunities. The dataset contains annual spending data (in monetary units) across various product categories, such as fresh, milk, grocery, frozen, detergents and paper, and delicatessen products. Additionally, it includes information on the customer's channel (hotel/restaurant/cafe or retail) and region (Lisbon, Oporto, or other).

The primary objectives of this project are:

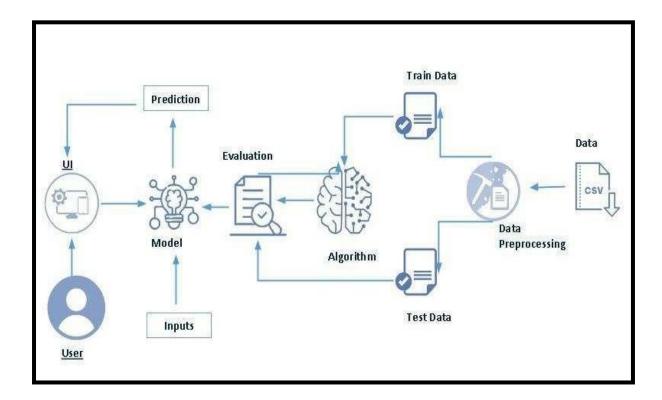
- 1. \*\*Segmentation of Customers: Identify distinct customer segments based on their spending behaviors. By doing so, the project aims to reveal unique patterns and characteristics within the dataset.
- 2. \*\*Insight Generation: Provide insights into the identified customer segments. Understanding the specific needs and preferences of each segment can guide wholesale businesses in tailoring their marketing strategies and product offerings.
- 3. \*\*Predictive Modeling: Develop predictive models to categorize new customers into the identified segments. This can assist businesses in real-time decision-making and customization of services based on predicted spending behaviors.

Potential applications of the project outcomes include:

- Targeted Marketing Strategies: Tailor marketing campaigns to specific customer segments, optimizing the effectiveness of promotional efforts.
- Product Offerings: Adjust product offerings based on the preferences of different customer segments, ensuring a more personalized and appealing selection.
- Resource Allocation: Efficiently allocate resources by understanding the varying needs of different customer groups.

By undertaking this analysis, wholesale businesses can gain actionable insights, enhancing their ability to adapt and cater to the diverse spending behaviors of their customers.

# **Technical Architecture:**



# Pre requisites:

To complete this project we must require few software's, concepts and packages



### • Anaconda navigator and pycharm:

We use anaconda for distribution of the Python and R programming languages for data science and machine learning. We utilize it by using pre-installed Data science libraries and for package management.

#### Python packages:

- Open anaconda prompt as administrator
- o Type "pip install numpy" and click enter.
- o Type "pip install pandas" and click enter.
- o Type "pip install scikit-learn" and click enter.
- o Type "pip install matplotlib" and click enter.
- o Type "pip install scipy" and click enter.
- o Type "pip install pickle-mixin" and click enter.
- o Type "pip install seaborn" and click enter.
- o Type "pip install Flask" and click enter.

# **Prior Knowledge:**

We must have prior knowledge of following topics to complete this project.

## **ML** concepts

<u>Supervised learning</u> is a machine learning paradigm where the algorithm is trained on a labeled dataset, learning the mapping from input data to corresponding output labels. The model generalizes from the training data to make predictions on new, unseen data. It involves a clear target variable, and the goal is to minimize the difference between predicted and actual outcomes.

<u>Unsupervised learning</u> is a machine learning approach where the algorithm explores patterns and structures in unlabeled data without explicit guidance. It aims to discover inherent relationships or groupings within the data, helping to uncover hidden insights or clusters. Unlike supervised learning, there's no predefined target variable, and the algorithm learns independently from the data's inherent structure.

**K-Nearest Neighbors (KNN)** is a simple and intuitive machine learning algorithm. It classifies a data point based on the majority class of its k nearest neighbors in the feature space. The choice of k influences the model's sensitivity to local variations, and it's commonly used for classification tasks.

<u>Logistic Regression</u> is a binary classification algorithm used in machine learning. It models the probability of an instance belonging to a particular class, transforming linear combinations of input features into values between 0 and 1 using the logistic function. The decision boundary is set to classify instances based on whether their predicted probability is above or below a specified threshold.

**Evaluation metrics** assess the performance of machine learning models. Common metrics include accuracy, measuring the proportion of correctly predicted instances; precision, quantifying the accuracy of positive predictions; and recall, gauging the ability to capture all positive instances. These metrics collectively aid in understanding the model's effectiveness and potential trade-offs.

### Flask Basics

- Model Integration:
- Input Handling:
- Output Format:
- Endpoint Creation:
- Error Handling:
- Security Considerations:
- Scalability:
- Asynchronous Requests (Optional):
- Logging:
- Documentation:

# **Project Objectives:**

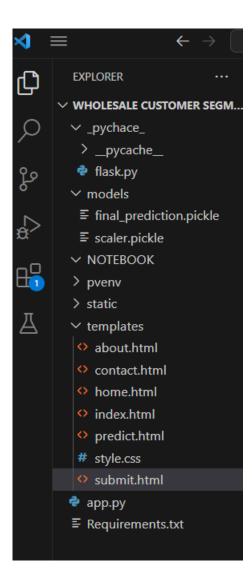
- Know fundamental concepts and techniques used for machine learning.
- Gain a broad understanding about data.
- Have knowledge on pre-processing the data/transformation techniques on outlier and somevisualization concepts.

To accomplish this, we have to complete all the activities listed below,

- Data collection
  - o Collect the dataset or create the dataset
- Visualizing and analyzing data
  - o Univariate analysis
  - o Bivariate analysis
  - o Multivariate analysis
  - o Descriptive analysis
- Data pre-processing
  - o Checking for null values
  - Handling outlier
  - o Handling categorical data
  - o Splitting data into train and test
- Model building
  - o Import the model building libraries
  - o Initializing the model
  - o Training and testing the model
  - Evaluating performance of model
  - o Save the model
- Application Building
  - o Create an HTML file
  - o Build python code

# **Project Structure:**

The Project folder which contains files as shown below:



- We are building a flask application which needs HTML pages stored in the templatesfolder and a python script app.py for scripting.
- model.pkl is our saved model. Further we will use this model for flask integration.

# Milestone 1: Define Problem/Problem Understanding

## **Activity 1: Specify the business problem**

The Wholesale Customer Segmentation project aims to comprehensively analyze the spending behavior of wholesale customers to pinpoint growth opportunities. The dataset includes annual spending data across product categories like fresh, milk, grocery, frozen, detergents and paper, and delicatessen. It also incorporates customer information on channels (hotel/restaurant/café or retail) and regions (Lisbon, Oporto, or other).

Utilizing unsupervised machine learning, particularly clustering algorithms, the project seeks to group customers based on similar spending patterns. The primary goal is to unearth distinct customer segments, offering insights into tailoring marketing strategies and product offerings for each segment. This strategic customization aims to enhance overall customer satisfaction and retention.

Moreover, the project aims to identify growth prospects, uncovering underrepresented products among customers and determining segments receptive to new offerings. In essence, the Wholesale Customer Segmentation project endeavors to equip wholesale businesses with valuable insights to optimize operations and foster growth.

## **Activity 2: Business Requirements**

For Wholesale Customer Segmentation, the project must fulfill the following business requirements:

- 1. \*\*Accurate Forecasting:\*\*
- The predictive model should accurately forecast the spending behavior of wholesale customers, providing reliable insights for informed decision-making.
- 2. \*\*User-Friendly Interface:\*\*
- The predictor must feature a user-friendly interface for easy navigation and comprehension. Results should be presented clearly to help wholesale businesses optimize operations, enhance customer satisfaction, and improve retention.

# **Activity 3: Literature Survey**

Wholesale customer segmentation involves categorizing customers based on shared characteristics, aiding businesses in understanding and customizing marketing and sales strategies. Existing literature highlights its significance, with studies showing that segmented businesses are more likely to achieve revenue goals and effectively target marketing campaigns, develop customer-centric products, and increase satisfaction and retention.

## **Common segmentation methods include:**

- Geographic Segmentation: Dividing customers by location for localized campaigns.
- Demographic Segmentation: Categorizing based on age, gender, income, etc., for targeted offerings.
- Behavioural Segmentation: Grouping based on buying habits for tailored marketing and product development.

Wholesale customer segmentation is universally valuable, enabling businesses to align strategies with customer needs.

# **Activity 4: Social or Business Impact**

The Wholesale Customer Segmentation project can have significant social and business impacts:

- 1. Increased Customer Satisfaction and Retention
- Tailoring strategies to customer segments enhances satisfaction and retention, fostering stronger customer-business relationships.
- 2. Improved Operational Efficiency:
- -Identifying growth opportunities streamlines the supply chain, optimizes inventory, and allocates resources efficiently, improving overall operational efficiency.
- 3. Increased Profitability:
- Enhanced customer satisfaction, improved efficiency, and targeted strategies contribute to increased profitability by generating more revenue, acquiring new customers, and reducing costs.

# **Milestone 2: Data Collection**

ML depends heavily on data, It is most crucial aspect that makes algorithm training possible. So this section allows you to download the required dataset.

### Activity 1: Download the dataset

There are many popular open sources for collecting the data. Eg: kaggle.com, UCI repository, etc.

In this project we have used The Wholesale Customer Segmentation data

Channel												
	4	Α	В	С	D	Е	F	G	Н			
	1	Channel	Region	Fresh	Milk	Grocery	Frozen	Detergents	Delicasse			
	2	2	3	12669	9656	7561	214	2674	133			
	3	2	3	7057	9810	9568	1762	3293	177			
	4	2	3	6353	8808	7684	2405	3516	784			
	5	1	3	13265	1196	4221	6404	507	178			
	6	2	3	22615	5410	7198	3915	1777	518			
	7	2	3	9413	8259	5126	666	1795	145			
	8	2	3	12126	3199	6975	480	3140	54.			
	9	2	3	7579	4956	9426	1669	3321	256			
	10	1	3	5963	3648	6192	425	1716	75			
	11	2	3	6006	11093	18881	1159	7425	209			
	12	2	3	3366	5403	12974	4400	5977	174			
	13	2	3	13146	1124	4523	1420	549	49			
	14	2	3	31714	12319	11757	287	3881	293			
	15	2	3	21217	6208	14982	3095	6707	60			
	16	2	3	24653	9465	12091	294	5058	216			
	17	1	3	10253	1114	3821	397	964	41			
	18	2	3	1020	8816	12121	134	4508	108			
	19	1	3	5876	6157	2933	839	370	447			
	20	2	3	18601	6327	10099	2205	2767	318			
	21	1	3	7780	2495	9464	669	2518	50			
	22	2	3	17546	4519	4602	1066	2259	212			
	23	1	3	5567	871	2010	3383	375	56			
	24	1	3	31276	1917	4469	9408	2381	433			
	25	2	3	26373	36423	22019	5154	4337	1652			
	26	2	3	22647	9776	13792	2915	4482	577			

# Milestone 3: Visualizing and analysing the data

As the dataset is downloaded. Let us read and understand the data properly with the help of somevisualization techniques and some analysing techniques.

Note: There is n number of techniques for understanding the data. But here we have usedsome of it. In an additional way, you can use multiple techniques.

#### **Activity 1: Importing the libraries**

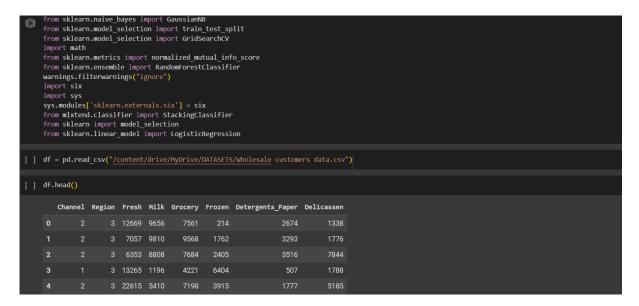
```
# Import all required Libraries:
 import pandas as pd
 import matplotlib.pyplot as plt
 import re
 import time
 import warnings
 import numpy as np
 from nltk.corpus import stopwords
 from sklearn.decomposition import TruncatedSVD
 from sklearn.preprocessing import normalize
 from sklearn.feature_extraction.text import CountVectorizer
 from sklearn.manifold import TSNE
 import seaborn as sns
 from sklearn.neighbors import KNeighborsClassifier
 from sklearn.metrics import confusion matrix
 from sklearn.metrics import accuracy_score, log_loss
 from sklearn.feature_extraction.text import TfidfVectorizer
 from sklearn.linear_model import SGDClassifier
 from imblearn.over sampling import SMOTE
 from collections import Counter
 from scipy.sparse import hstack
 from sklearn.multiclass import OneVsRestClassifier
 from sklearn.svm import SVC
 from sklearn.model selection import StratifiedKFold
 from collections import Counter, defaultdict
 from sklearn.calibration import CalibratedClassifierCV
 from sklearn.naive bayes import MultinomialNB
```

```
from sklearn.model_selection import GridSearchCV
import math
from sklearn.metrics import normalized_mutual_info_score
from sklearn.ensemble import RandomForestClassifier
warnings.filterwarnings("ignore")
import six
import sys
sys.modules['sklearn.externals.six'] = six
from mlxtend.classifier import StackingClassifier
from sklearn import model_selection
from sklearn.linear_model import LogisticRegression
```

### **Activity 2: Read the Dataset**

Our dataset format might be in .csv, excel files, .txt, .json, etc. We can read the dataset with thehelp of pandas.

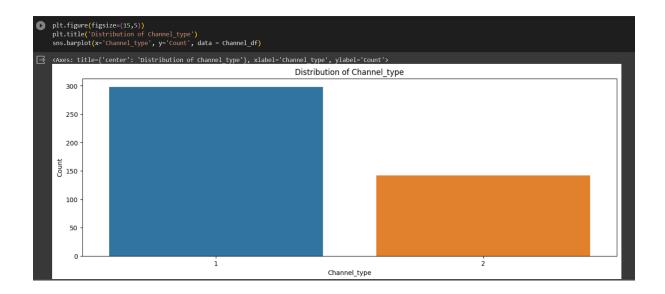
In pandas we have a function called read\_csv() to read the dataset. As a parameter we have to give the directory of csv file.



#### **Activity 3: Univariate analysis**

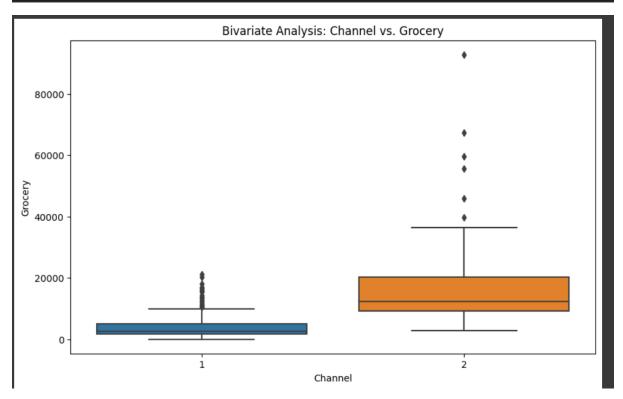
In simple words, univariate analysis is understanding the data with single feature. Here we have displayed two different graphs such as distplot and countplot.

• Seaborn package provides a wonderful function distplot. With the help of distplot, we canfind the distribution of the feature. To make multiple graphs in a single plot, we use subplot.



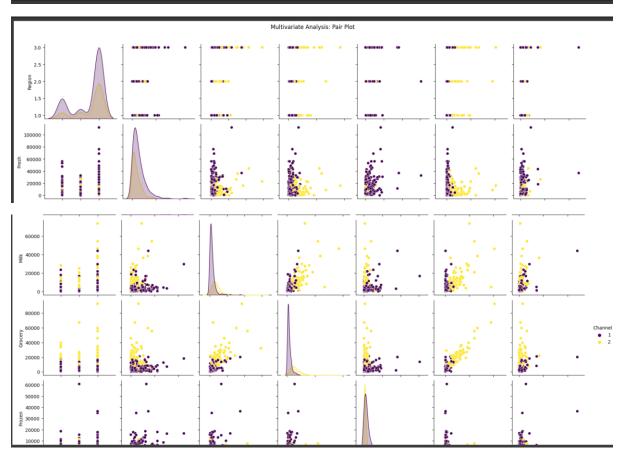
# **Activity 4: Bivariate analysis**

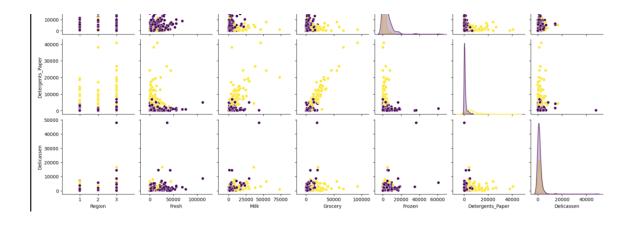
```
# Bivariate Analysis
plt.figure(figsize=(10, 6))
sns.boxplot(x='Channel', y='Grocery', data=df)
plt.title('Bivariate Analysis: Channel vs. Grocery')
plt.xlabel('Channel')
plt.ylabel('Grocery')
plt.show()
```



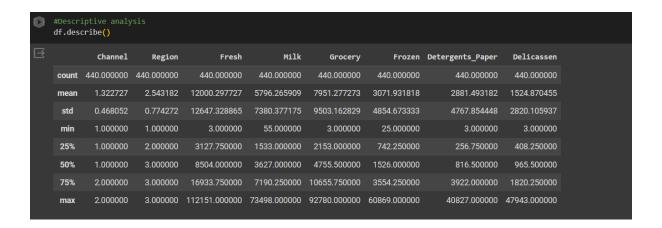
# **Activity 5: Multivariate analysis**

```
# Multivariate Analysis: Pair Plot
sns.pairplot(df, hue='Channel', palette='viridis', diag_kind='kde')
plt.suptitle('Multivariate Analysis: Pair Plot', y=1.02)
plt.show()
```





## **Activity 6: Descriptive analysis**



# Milestone 4: Data Pre-processing

As we have understood how the data is lets pre-process the collected data.

The download data set is not suitable for training the machine learning model as it might have somuch of randomness so we need to clean the dataset properly in order to fetch good results. This activity includes the following steps.

- Handling missing values
- Handling categorical data
- Handling outliers
- Scaling Techniques
- Splitting dataset into training and test set

# **Activity 1: Checking for null values**

Let's find the shape of our dataset first, To find the shape of our data, df.shape method is used. To find the data type, df.info() function is used.

For checking the null values, df.isnull() is used.

To sum those null values we use .sum() function in it.

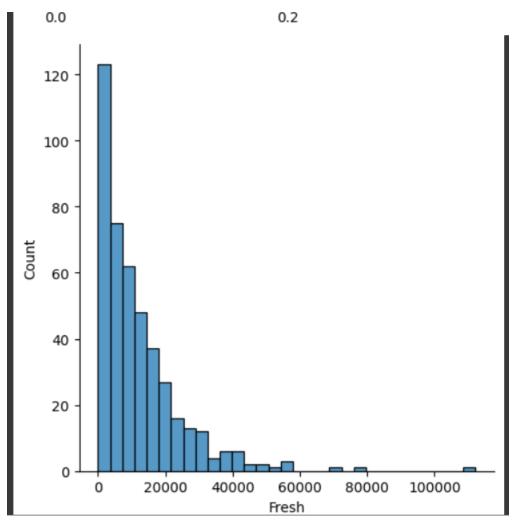
#### **Activity 2: Handling outliers**

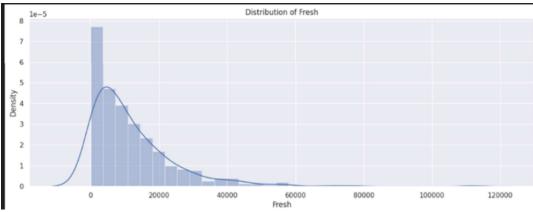
With the help distribution, outliers are visualized. And here we are going to find upper bound andlower bound of all features with some mathematical formula.

• From the below diagram, we could visualize that Distribution of feature has outliers orNot.

```
df.Fresh.describe([.75,.90,.95,.99])
           440.000000
count
          12000.297727
mean
          12647.328865
std
            3.000000
min
          8504.000000
75%
         16933.750000
98%
         27090.500000
95%
         36818.500000
          56082.610000
         112151.000000
Name: Fresh, dtype: float64
```

```
#Distribution of FRESH
plt.figure(figsize=(15,5))
plt.title("Distribution of FRESH")
sns.displot(df['Fresh'])
```





Activity 3: Splitting data into train and test

Now let's split the Dataset into train and test sets. First split the dataset into x and y and then splitthe data set

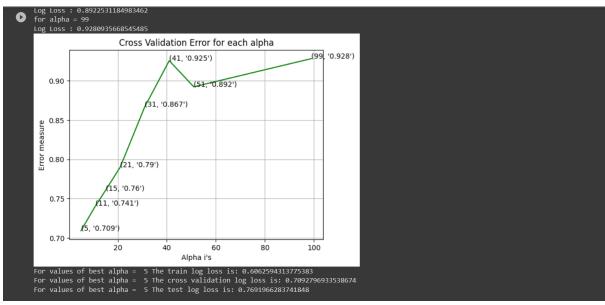
# split the data into test and train by maintaining same distribution of output varaible 'y\_true' [stratify=y\_true]
X\_train, test\_df, y\_train, y\_test = train\_test\_split(X, y, stratify=y, test\_size=0.2)
# split the train data into train and cross validation by maintaining same distribution of output varaible 'y\_train' [stratify=y\_train]
train\_df, cv\_df, y\_train, y\_cv = train\_test\_split(X\_train, y\_train, stratify=y\_train, test\_size=0.2)

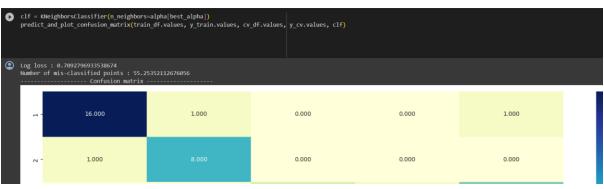
# **Milestone 5: Model Building**

Now our data is cleaned and it's time to build the model. We can train our data on different algorithms. For this project we are applying Three classification algorithms **KNN**, **Logistic Regression and Random Forest Classifier**. The best model is saved based on its performance.

```
Hyper parameter tuning

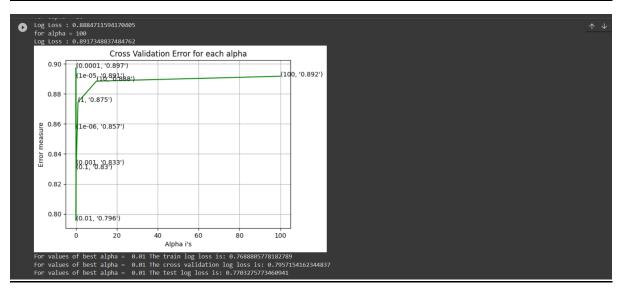
alpha = [5, 11, 15, 21, 31, 41, 51, 99]
cv_log_error_array = []
for i in alpha:
    print("for alpha =", i)
    clf = KNeighborsClassifier(n_neighbors=i)
    clf.fit(train_df, y_train)
    sig_clf = Calibratedclassifiercv(clf, method="sigmoid")
    sig_clf.fit(train_df, y_train)
    sig_clf.probs = sig_clf.predict_proba(cv_df)
    cv_log_error_array.append(log_loss(y_cv, sig_clf_probs, labels=clf.classes_, eps=1e-15))
    # to avoid rounding error while multiplying probabilites we use log-probability estimates
    print("Log_Loss :",log_loss(y_cv, sig_clf_probs))
```





## **LOGISTIC REGRESSION:**

```
#Logistic Regression
#Hyper paramter tuning
alpha = [10 ** x for x in range(-6, 3)]
ccv_log_erro_array = []
for i in alpha:
    print("for alpha =", i)
    clf = SGDClassifier(class_weight='balanced', alpha=i, penalty='l2', loss='log', random_state=42)
    clf.fit(train_df,y_train)
    sig_clf = CalibratedclassifierCv(clf, method="sigmoid")
    sig_clf.fit(train_df, y_train)
    sig_clf_probs = sig_clf.predict_proba(cv_df)
    cv_log_error_array.append(log_loss(y_cv, sig_clf_probs, labels=clf.classes_, eps=1e-15))
    # to avoid rounding error while multiplying probabilites we use log_probability estimates
    print("Log_Loss:",log_loss(y_cv, sig_clf_probs))
```





#### **RANDOM FOREST CLASSIFIER:**

```
#Random forest alpha = [100,200,500,1000,2000]

max depth = [5, 10]

cv_log_error_array = []

for i in alpha:

for j in max_depth:

    print("for n_estimators =", i,"and max depth = ", j)

    clf = RandomForestClassifier(n_estimators=i, criterion='gini', max_depth=j, random_state=42, n_jobs=-1)

    clf.fit(train_df,y_train)

    sig_clf = calibratedClassifiercv(clf, method="sigmoid")

    sig_clf.fit(train_df,y_train)

    sig_clf.probs = sig_clf.predict_proba(cv_df)

    cv_log_error_array.append(log_loss(y_cv, sig_clf_probs, labels=clf.classes_, eps=1e-15))

    print("log_loss:",log_loss(y_cv, sig_clf_probs))
```

```
for n_estimators = 500 and max depth = 10
Log Loss : 0.33627466397753847
for n_estimators = 1000 and max depth = 5
Log Loss : 0.35958773898185126
for n_estimators = 1000 and max depth = 10
Log Loss : 0.3321872393872705
for n_estimators = 2000 and max depth = 5
Log Loss : 0.3613571962299473
for n_estimators = 2000 and max depth = 10
Log Loss : 0.3348180412449007
For values of best estimator = 1000 The train log loss is: 0.14729812788957383
For values of best estimator = 1000 The cross validation log loss is: 0.3321872393872705
For values of best estimator = 1000 The test log loss is: 0.3429767213548854
```



#### We applied 3 different classification algorithms

KNN -55.25 classified points

Logistic Regression – 55.0 classified points

Random Forest Classifier – 55.40 classified points

So we can predict that using RANDOM FOREST CLASSIFIER is best among all the other classification algorithms.

# **Milestone 6: Application Building**

In this section, we will be building a web application that is integrated to the model we built. A UIis provided for the uses where he has to enter the values for predictions. The enter values are given to the saved model and prediction is showcased on the UI.

This section has the following tasks

- Building HTML Pages
- Building serverside script

## **Activity1: Building Html Pages:**

For this project we created six HTML files namely

- Index.html
- Home.html
- About.html
- Comtact.html
- Predict.html
- Submit.html

We create all the files using the above names and save them all

Index.html

## • Home.html

```
O index.html O home.html X O about.html O contact.html O predict.html W style.css

O home.html X D html X D body X D div.form X D form

1 <|DOCTYPE html>
2 <a href="html">html</a>
3 <a href="html">html X D body X D div.form X D form</a>
1 <|DOCTYPE html>
4 <a href="html">html X D body X D div.form X D form</a>
2 <a href="html">html X D body X D div.form X D form</a>
3 <a href="html">html X D body X D div.form X D form</a>
4 <a href="html">html X D body X D div.form X D form</a>
5 <a href="html">html X D body X D form</a>
6 <a href="html">html X D form</a>
6 <a href="html">html X D form</a>
7 <a href="html">html X D form</a>
8 <a href="html">html X D form</a>
9 <a href="html">httml X D form</a>
9 <a href="html">
```

#### • About.html

#### Contatct.html

#### • Predict.html

#### • Submit.html

## We used CSS to for styling our web application

• Style.css

## **Activity 2: Build Python code:**

Import the libraries

```
from flask import Flask, render_template, url_for,request
import pickle as p
import pickle
from flask import Flask,request,jsonify,render_template
import numpy as np
import pandas as pd
from sklearn.preprocessing import StandardScaler
```

Render HTML page:

```
@app.route('/')
def welcome():
    return render_template('index.html')
```

Here we will be using declared constructor to route to the HTML page which we have createdearlier.

In the above example, '/' URL is bound with home.html function. Hence, when the home page of the web server is opened in browser, the html page will be rendered. Whenever you enter the values from the html page the values can be retrieved using POST Method.

Retrieves the value from UI:

```
@app.route('/predict',methods =['GET','POST'])
def predict():
   Channel = float(request.form["Channel"])
   Region =float(request.form['Region'])
   Fresh = float(request.form['Fresh'])
   Milk=float(request.form['Milk'])
   Grocery = float(request.form['Grocery'])
   Frozen = float(request.form['Frozen'])
   Detergents_Paper= float(request.form['Detergents_Paper'])
   Delicassen= float(request.form['Delicassen'])
   total = [[Channel,Region,Fresh,Milk,Grocery,Frozen,Detergents_Paper,Delicassen]]
    prediction = model.predict(scaler.transform(total))
   prediction = int(prediction[0])
    if prediction==0:
       return render_template('index.html',predict="Customer Belongs to Cluster Label 0")
   if prediction==1:
       return render_template('index.html',predict="Customer Belongs to Cluster Label 1")
    if prediction==2:
       return render_template('index.html',predict="Customer Belongs to Cluster Label 2")
    if prediction==3:
       return render_template('index.html',predict="Customer Belongs to Cluster Label 3")
       return render template('index.html',predict="Customer Belongs to Cluster Label 4")
```

Here we are routing our app to predict() function. This function retrieves all the values from the HTML page using Post request. That is stored in an array. This array is passed to the model.predict() function. This function returns the prediction. And this prediction value will rendered to the text that we have mentioned in the submit.html page earlier.

Main Function:

```
if __name__ == "__main__":
| app.run(debug = True)
```

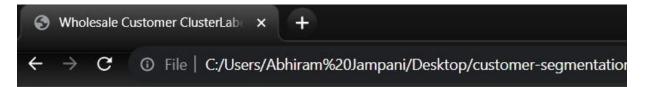
## **Activity 3: Run the application**

- Open anaconda prompt from the start menu
- Navigate to the folder where your python script is.
- Now type "python app.py" command
- Navigate to the localhost where you can view your web page.
- Click on the predict, enter the inputs, click on the submit button, and see the result/prediction on the web.

## **Final Output:**



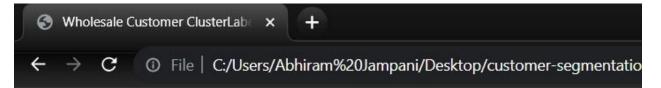
When we select the **HOME** we get:



# WHOLESALE CUSTOMER CLUSTER LABEL PREDICTION

About Home Contact Predict Enter The Value Channel → Enter The Value Region → Enter The Value Fresh → Enter The Value Milk → Enter The Value Grocery → Enter The Value Frozen -> Enter The Value Detergents Paper → Enter The Value Delicassen → submit

#### When we select ABOUT we get:



# WHOLESALE CUSTOMER CLUSTER LABEL PREDICTION

Home About Contact Predict

- Market segmentation seeks to identify targeted groups of consumers to tailor products and branding in a way that is attractive to the group.
- Markets can be segmented in several ways such as geographically, demographically, or behaviorally.
- Market segmentation helps companies minimize risk by figuring out which products are the most likely to earn a share of a target market and the best ways to market and deliver those products to the market.
- With risk minimized and clarity about the marketing and delivery of a product heightened, a company can then focus its resources on efforts likely to be the most profitable.
- Market segmentation can also increase a company's demographic reach and may help the company discover products or services they hadn't previously considered

## When we select **CONTACT** we get:



# WHOLESALE CUSTOMER CLUSTER LABEL PREDICTION

Home About Contact Predict

#### Reach Us

Email: A\_S\_C\_H@gmail.com

mobile: +9178936331021

#222,5th floor,3th cross

Address: ILP, guntur (522002)

Andhra Pradesh

When we enter the values to find the prediction for which cluster we get :



# WHOLESALE CUSTOMER CLUSTER LABEL PREDICTION

<u>Home</u>	About	Contact	Predict	
Channel →	1			
$\textbf{Region} \rightarrow$	3			
$\mathbf{Fresh} \rightarrow$	13265	5		
$\mathbf{Milk} \rightarrow$	1196			
$\mathbf{Grocery} \rightarrow$	4221			
Frozen →	6404			
$Detergents\_Paper \rightarrow$	507			
Delicassen →	1788			
submit				

#### AFTER SELECTING THE SUBMIT BUTTON AFTER YOUR VALUES ARE ENTERED WE GET

