Customer classification

Focusing on high value clients

Retaining the right customers is paramount to ensure profitability and high customer lifetime value Predicting a customer's value enables a company to focus its retention efforts on the right clients and improve products, services, and customer experience.

The Challenge

Customer retention is critical to profitability and high customer lifetime value. Retaining valuable customers demands far fewer resources than acquiring new ones. The ability to predict customer value enables a company to focus efforts on improving the customer experience for the right clients.

Data Describing Your Customers

Building a predictive model that classifies customers requires data on the current customer base, the services they bought, and which class they belonged to. This information includes:

• Customer profile information
• Subscribed services and associated details
• Customer class high value / low value

Variables should be available in the historical data, but they also have to be generated each time the customer's value is computed. It is essential to select variables that can generate for each customer.

The historical data is usually supplied in databases via a connection, an API, or as .csv files (especially for PoC's). Predictions are generated by sending a JSON request to the model's API and receiving a prediction list.

Model – Customer Classification

We use a supervised classification model, which will be trained on the historical data to recognize the label assigned to the training data. The model is deployed using the auto-deployment functionality in our enterprise AI platform, Grace. After the deployment, data is sent via a POST endpoint of an exposed API to the model.

The customer classification model is available as a Grace Standard Model. It is the fast track to your first AI model implementation without sacrificing future flexibility or extensibility for scaling AI across your organization. We maintain algorithms that are 70% ready-made and fitted to your data.

3 Facts About The Model

1

Customer classification as a standard model is a fast track to AI model implementation.

2

The model uses customer and purchase data to predict which those that are the most valuable.

3

The model enables you to focus on customers with a high lifetime value.

Predictions Of Customer Behavior

When buying the Grace classification model, historical predictions and model insights are stored alongside the predictions and visualized in a BI-tool. The Grace Standard Model for classification also delivers the reason for the given prediction, which can help you understand why a customer may discontinue a product or service. In this case, 2021.AI can help set up the BI dashboards to give customer service an updated overview (e.g., in PowerBi).

Our Solution

2021.AI offers Grace Standard Models for customer classification through a supervised algorithm. The mathematical model is trained on a data set, describing the customers and the services they bought, together with a label (supervised) that classifies the case as a high-value customer or not.

The model stores the profiles associated with high value, the descriptive variables most likely to classify the cases. While predicting the customer value probability, the model also produces insights for each prediction. The model is no longer a black box, but instead, we know which variables drive the model prediction and the main reason for the customer value. We store these insights alongside the predictions to be re-used and displayed in a BI dashboard for further analysis.

The Business Outcome

Using the Grace Standard Model for customer classification, the company gets an overview of more vs. less valuable customers. Now, the company can direct its retention efforts to the customers with the highest value. The company can also use these insights to improve the customer experience.