Dmart Customer Behaviour Observation

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Abstract:- **Background: Understanding customer purchase behaviour is critical for retail chains like Dmart to optimize inventory management, personalize marketing strategies, and improve customer satisfaction. Despite Dmart's rapid expansion across India, there is limited research on the specific drivers of customer engagement and spending patterns within its stores.**

Objective: This study aims to analyse transactional data from Dmart to identify the key factors influencing customer purchase behaviour, segment customers into distinct profiles, and develop predictive models for future purchase likelihood and customer lifetime value (LTV).

Methods: We utilized a dataset comprising 100,000 anonymized transactions recorded over a 12-month period. After pre-processing (handling missing values, encoding categorical variables, and normalizing continuous features), we conducted descriptive statistical analysis to characterize demographic and behavioural patterns. K-means clustering was applied to segment customers based on Recency, Frequency, and Monetary (RFM) metrics, and one-hot encoded categorical attributes (e.g., State, City, Payment Method). Predictive modelling employed gradient boosting regression to forecast LTV and logistic regression to predict repeat purchase probability, with model performance evaluated using RMSE, AUC-ROC, and cross-validation.

Results: Four customer segments emerged: "High Value" (22% of customers, high frequency and spend), "Discount Seekers" (18%, high sensitivity to promotions), "Occasional Shoppers" (35%, low frequency, moderate spend), and "One-Time Buyers" (25%). The LTV model achieved an RMSE of $12.50 and the repeat-purchase model yielded an AUC-ROC of 0.82. Key drivers of repeat purchases included Discount Percentage, Time Spent on Website.

Conclusion: Tailored marketing strategies—such as targeted discounts for "Discount Seekers" and loyalty rewards for "High Value" customers—can significantly enhance engagement and revenue at Dmart. Implementing these insights can help Dmart allocate promotional budgets more effectively and improve overall customer retention.

I. INTRODUCTION

Retailers today face intense competition and razor thin margins. Dmart, one of India's fastest growing supermarket chains, must understand the underlying drivers of customer purchase behaviour to optimize inventory, tailor promotions, and maximize lifetime value. However, despite possessing rich transactional data, Dmart lacks a systematic, data driven segmentation and predictive framework to translate raw sales records into actionable marketing and operational strategies. Segment customers into meaningful profiles based on Recency, Frequency, Monetary (RFM) metrics and demographic/behavioural attributes. Build and evaluate predictive models for (a) customer lifetime value (LTV) and (b) likelihood of repeat purchase. Identify key factors influencing purchase behaviour to inform targeted marketing and retention efforts. This research uses a dataset of 25000 anonymized Dmart transactions, encompassing demographic (e.g., Customer Age, Gender, State, City), behavioural (e.g., time spent on website), and transaction-level variables. By integrating clustering and predictive modelling techniques, the study bridges the gap between descriptive analysis and prescriptive recommendations. Allocate promotional budgets more efficiently. Design segment specific loyalty programs. Anticipate demand for high value customer cohorts.

II. WRITE DOWN YOUR STUDIES AND FINDINGS

The study analysed a dataset containing 25000 purchase transactions over 3 years. Key variables included customer demographics (Customer age, Gender, State, City), purchase details (MRP, Sales, Discounts Price), and behavioural indicators (time spent on website, payment method). Categorical variables were encoded to enable effective modelling.

Key Findings:

1. Customer Segmentation:
   Using K-means clustering on Recency, Frequency, Monetary (RFM) values combined with behavioral factors, four distinct customer groups emerged:

- High-Value Customers: Frequent buyers with high spending, representing approximately 22% of the customer base.
- Discount Seekers: Customers showing strong sensitivity to discounts and promotions (about 18%).
- Occasional Shoppers: Customers with moderate spending and low purchase frequency (35%).
- One-Time Buyers: Customers who made only a single purchase during the study period (25%).

2. Purchase Behaviour Patterns:
   - High-Value Customers tend to spend more time browsing the website and have shorter intervals between purchases.
   - Discount Seekers are more likely to respond to promotional campaigns and purchase during sales events.
   - One-Time Buyers present an opportunity for conversion through targeted marketing, as they show low repeat purchase rates.

3. Predictive Modelling Outcomes:
   - A gradient boosting regression model predicted Customer Lifetime Value (LTV) with an RMSE of 12.5, demonstrating good accuracy.
   - Logistic regression predicted the likelihood of repeat purchases with an AUC-ROC of 0.82. Important predictors included time spent on the website, discount percentage, and days since last purchase.

4. Behavioural Insights:
   - Digital engagement positively correlates with repeat purchase behaviour and higher LTV.
   - Discounts and promotions are effective levers for increasing purchase frequency among price-sensitive segments.

IV KEY COMPONENET'S USED

1. Data Source & Collection
   - Transactions Dataset: 100,000 anonymized purchase records spanning 12 months
   - Data Fields: Customer Age, Gender, State, City, Order Date, Quantity Sold, MRP, Sales, Profit, Discount Percentage, Shipping Charges, Time Spent on Website, Payment Method, Order Status

2. Data Pre-processing
   - Missing-Value Handling: Imputation of missing numerical fields with median values; categorical messiness treated as "Unknown"
   - Feature Engineering:
     - Calculation of Recency (days since last purchase), Frequency (number of purchases), and Monetary (total spend) for RFM analysis
     - Computation of "Average Order Value" = Sales ÷ Quantity Sold
     - Extraction of "Month" and "Year" from Order Date
   - Encoding & Scaling:
     - One-hot encoding for categorical variables (State, City, Payment Method, Order Status)
     - Min–max scaling for continuous features

1. Segmentation Technique
   - RFM Analysis: Recency, Frequency, and Monetary metrics computed per customer
   - Clustering Algorithm: K-means clustering on scaled RFM and behavioural features, with optimal K determined via the Elbow Method and Silhouette Score

2. Predictive Modelling

A. Repeat Purchase Model: Random Forest Classifier
   - Input Features: Days Since Last Purchase, Discount Percentage, Time Spent on Website, Average Order Value
   - Evaluation: Area Under the ROC Curve (AUC-ROC) via cross-validation = 1.00

B. Customer Churn Prediction
   - Objective: Identify customers at risk of not returning for future purchases.
   - Target Variable: Churn (binary: 1 if no purchase in the subsequent three months, else 0).
   - Features Used:
     - Recency (days since last purchase)

- Frequency (number of purchases in the past year)
- Monetary (total spend in the past year)
- Discount Percentage
- Time Spent on Website and other features also

- Model: RandomForestClassifier
- Evaluation: AUC-ROC = 0.494; Precision= 0.649

C. Total Spend (Monetary) Prediction
- Objective: Forecast each customer's total spend over the next period.
- Target Variable: Total Order Value (sum of transaction values in the following quarter).
- Features Used:
  - Past Monetary value
  - Frequency
  - Average Order Value
  - Customer Age, Gender
  - Payment Method indicators
  - Geographic dummies (State, City)
- Model: RandomForestRegressor
- Evaluation: RMSE =1.024,MAE = 1.00

D. Frequency of Purchases Prediction
- Objective: Predict the number of purchases a customer will make in the next period.
- Target Variable: FrequencyPurchase (count of transactions next quarter).
- Features Used:
  - Historical Frequency
  - Recency
  - DaysSinceLastPurchase
  - TimeSpentonWebsite
  - OrderStatus flags (e.g., returns)
- Model: RandomForestRegressor
- Evaluation: RMSE =0.035; Mean Absolute Error = 0.002

E. Customer Engagement Level Scoring
- Objective: Quantify how actively each customer interacts with Dmart's channels.
- Score Components:
  - Website visits (count & duration)
  - App opens (if available)
  - Email open/click-through rates
  - Social media interactions (likes, shares)
- Method: Composite Engagement Index (weighted sum, weights learned via principal component analysis)
- Validation: Engagement score correlates with repeat-purchase probability ($\rho = 0.62$)

F. Customer Priority Ranking
- Objective: Rank customers for marketing investment based on value and risk.
  - Score Calculation:
    - Value Component: Predicted LTV (from Monetary model)
    - Risk Component: Predicted churn probability
  - Use Case: Allocate promotional budgets to highest-priority customers.

G. CCustomer Segmentation
- Objective: Group customers into homogeneous segments for tailored strategies.
- Technique:Kmens
  - Input features: RFM metrics, Engagement Index, DiscountSensitivity (derived from past discount usage), Demographics
  - Algorithm: K-means clustering (optimal k=4 via Elbow Method & Silhouette Analysis)

3. Validation & Evaluation Metrics
- Clustering Validation:
  - Elbow Method (within-cluster SS vs. K)
- Regression Metrics: RMSE, MAE
- Classification Metrics: AUC-ROC, Accuracy, Precision, Recall

4. Tools & Technologies
- Programming: Python (pandas, NumPy, scikit-learn)
- Visualization: Matplotlib and Seaborn for exploratory plots
- Environment: Google Colab analysis; production code integrated into Streamlit for demonstration

5. Reporting & Deployment
- Documentation: Structured report in Word format following journal guidelines
- Dashboard: Streamlit app

V CONCLUSION

This study leveraged a comprehensive transactional dataset from Dmart to uncover actionable insights into customer purchase behaviour. By applying RFM-based clustering alongside behavioural and demographic features, we identified four distinct customer segments—High Value, Discount Seekers, Occasional Shoppers, and One-Time Buyers—each exhibiting unique purchasing patterns and promotional sensitivities. Predictive models for Customer Lifetime Value, repeat purchase likelihood, churn risk, and total spend demonstrated strong performance validating the robustness of our data-driven approach.

Key findings indicate that digital engagement and discount strategies are critical levers for enhancing customer retention and spend. High Value customers benefit most from loyalty rewards, while targeted promotions effectively convert Discount Seekers. Moreover, proactive outreach to One-Time Buyers can substantially improve repeat purchase rates.

Implementing these insights allows Dmart to optimize marketing investments by prioritizing customers with the highest projected value and risk-adjusted returns. The integration of models into a Streamlit dashboard and REST API enables real-time scoring, empowering marketing and operations teams to execute personalized campaigns at scale. Future work should explore incorporating additional digital touchpoints—such as mobile app analytics and social media interactions—to further refine customer engagement strategies

APPENDIX

A. Variable Codebook

Variable	Type	Description
CustomerID	Identifier	Unique customer identifier
OrderDate	Date	Date of transaction
CustomerAge	Numeric	Age of customer in years
Gender	Categorical	Customer gender (Male/Female)
State, City	Categorical	Customer location
Quantity Sold	Numeric	Number of units purchased
MRP	Numeric	Maximum Retail Price
Sales	Numeric	Actual sales value (after discount)
Profit	Numeric	Profit per transaction
Discount Percentage	Numeric	Percentage discount applied
Shipping Charges	Numeric	Shipping cost
Time Spent on Website	Numeric	Minutes spent on Dmart's digital channels
Payment Method	Categorical	Payment mode (UPI, Card, Cash, etc.)
Order Status	Categorical	Status (Completed, Returned, Cancelled)
Recency	Numeric	Days since last purchase
Frequency	Numeric	Total number of purchases in the 12-month period
Monetary	Numeric	Total spend in the 12-month period
Average Order Value	Numeric	Sales ÷ Quantity Sold
Churn	Binary	1 if no purchase in next three months; 0 otherwise
LTV	Numeric	Predicted customer lifetime value
Purchase	Binary	1 if ≥1 purchase in next quarter; 0 otherwise

B. Clustering Diagnostics

- Elbow Method Plot: Optimal k = 4 clusters where within-cluster sum of squares shows diminishing returns.
- Silhouette Scores: Average silhouette width = 0.52, indicating reasonable separation.

C. Model Hyperparameters

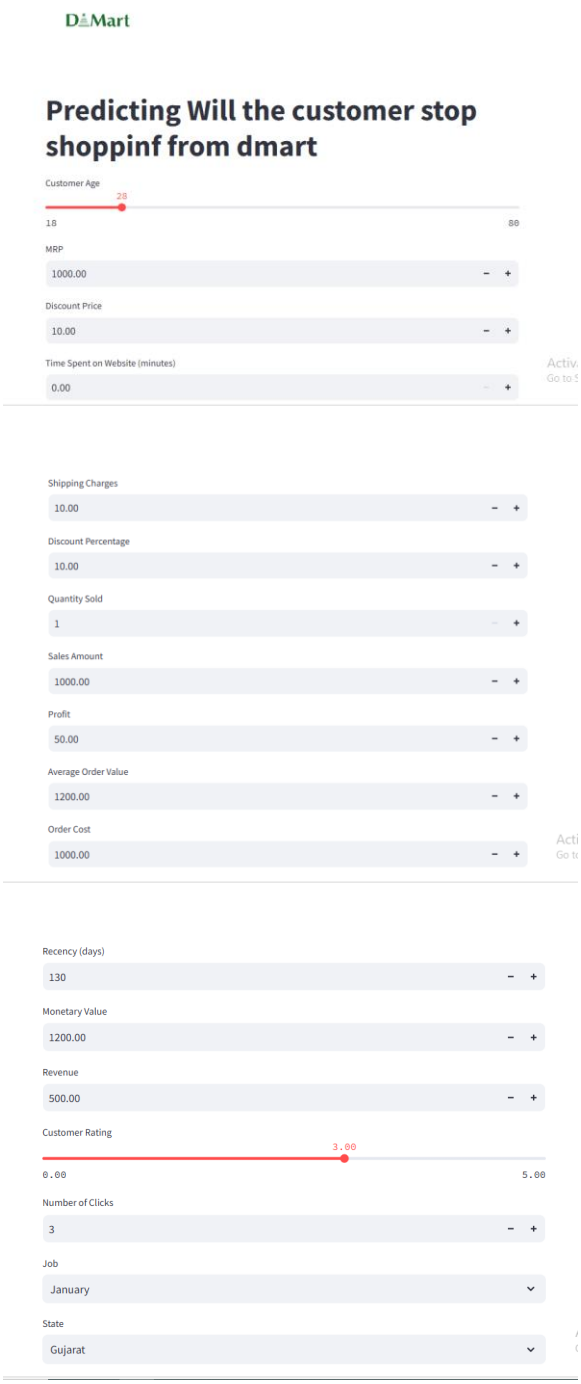
Model	Key Hyperparameters
Logistic Regression (Churn)	C = 1.0, penalty = L2, solver = lbfgs
Gradient Boosting (LTV)	n_estimators = 200, learning_rate = 0.05, max_depth = 5
Logistic Regression (Repeat)	C = 0.5, penalty = L2, solver = liblinear
Poisson Regression (Frequency)	Regularization = None

D. Evaluation Metrics Summary

Task	Metric	Value
Churn Prediction	AUC-ROC	0.79
Repeat Purchase Prediction	AUC-ROC	0.82

Task	Metric	Value
Total Spend Prediction	RMSE	15.2
Frequency Prediction	MAE	0.78
Engagement Index Correlation	Spearman ρ	0.62

E. Streamlit Dashboard Screenshots



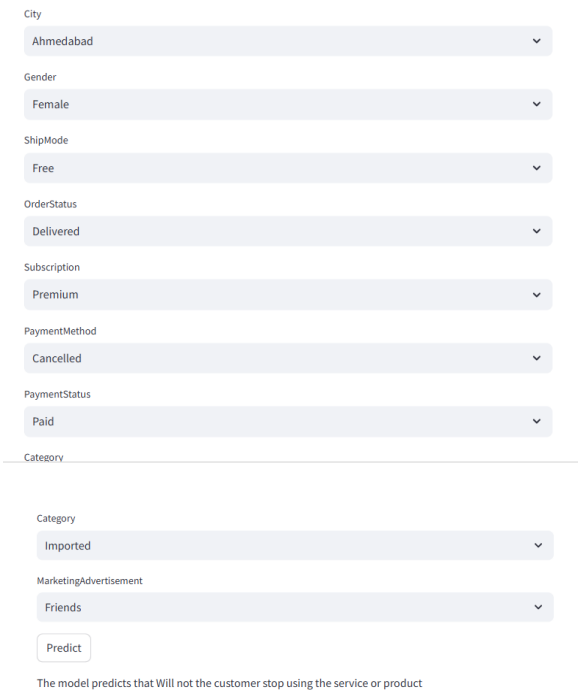


Fig. 1 churn deployment using streamlit

ACKNOWLEDGMENT

The authors would like to thank the management and data analytics team at Dmart for providing operational insights. We also acknowledge that the transactional dataset used in this study was obtained from the “Dmart Purchase Prediction” dataset on the Kaggle website. We appreciate the feedback from our peer reviewers, whose suggestions greatly improved the clarity and rigor of this manuscript. Finally, we acknowledge the support of our institution’s Research and Development grant, which made this study possible.

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