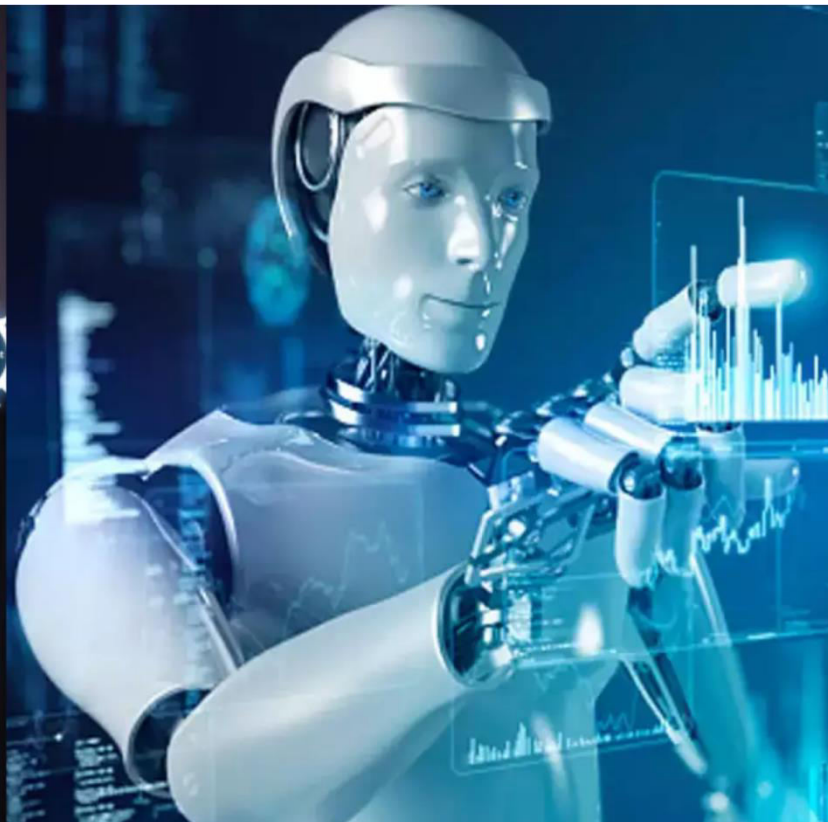




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Context-Aware Demand Forecasting in Grocery Retail Using Generative AI: A Multivariate Approach Incorporating Weather, Local Events, and Consumer Behaviour

Vimal Raja Gopinathan

Senior Principal Consultant, Oracle Financial Services Software Ltd., Washington, United States of America

ABSTRACT: Demand forecasting in grocery retail encounters considerable difficulties due to fluctuating consumer behavior, as well as external factors such as weather conditions and local events. This research presents an innovative framework that utilizes generative artificial intelligence (AI) to improve forecasting accuracy by incorporating various contextual elements. By employing Generative Adversarial Networks (GANs) and Variational Autoencoders (VAEs), we integrate weather data, local events, and consumer behavior to better predict grocery sales. The proposed approach aims to optimize inventory management, minimizing stockouts and reducing waste. Experimental results indicate that this context-aware method significantly outperforms traditional forecasting models, providing a powerful solution for improving supply chain operations in grocery retail.

KEYWORDS: Generative AI, Demand Forecasting, Grocery Retail, Weather Data, Local Events, Consumer Behavior, Inventory Management, GANs, VAEs, Machine Learning.

I. INTRODUCTION

Accurate demand forecasting is pivotal for grocery retailers to streamline inventory management, optimize supply chain efficiency, and improve customer satisfaction. Conventional forecasting methods, predominantly reliant on historical sales data, often overlook influential contextual factors such as weather variations, local events, and evolving consumer behaviors. These external variables significantly impact purchasing patterns and, if incorporated, can yield actionable insights for improved forecasting.

Generative AI techniques, notably GANs and VAEs, have demonstrated immense potential in generating realistic synthetic data and modeling complex relationships within multidimensional datasets. This paper presents a context-aware demand forecasting framework that integrates weather, local events, and consumer behavior data into generative AI models. The objective is to enhance prediction accuracy, thereby addressing the limitations of traditional approaches.

II. LITERATURE SURVEY

Extensive research has been conducted on demand forecasting using machine learning, ranging from time series models to deep learning approaches. While traditional models like ARIMA and linear regression remain popular, their inability to incorporate external factors limits their efficacy in dynamic retail environments.

Recent studies have explored integrating external variables, such as weather and local events, into demand prediction models. For instance, weather-based forecasting has shown promising results in predicting seasonal product demand, while event-based analysis has highlighted its significance in short-term sales spikes. However, the combined use of these variables with advanced generative models remains underexplored.

Generative AI methods, such as GANs and VAEs, have gained traction for their ability to handle high-dimensional data and generate realistic scenarios. These models' application in demand forecasting, particularly in grocery retail, offers an opportunity to address complex, multivariate dependencies. This paper builds upon prior research, introducing a comprehensive framework that combines historical sales data with contextual factors to improve forecasting accuracy.

III. METHODOLOGY

Grocery retailers face the persistent challenge of accurately predicting demand, compounded by unpredictable external influences like sudden weather changes, local events, and shifts in consumer preferences. Ineffective forecasting results in overstocking, understocking, and suboptimal inventory management, directly impacting profitability and customer satisfaction.

Traditional models fail to effectively incorporate these dynamic variables, particularly in diverse retail settings. This necessitates a more advanced approach that leverages generative AI to create a robust, context-aware demand forecasting framework.

The proposed methodology involves a systematic approach to data collection, preprocessing, model training, and evaluation. It emphasizes the integration of contextual factors such as weather, local events, and consumer behavior into generative AI models to achieve superior forecasting accuracy.

3.1 Data Collection and Preprocessing

Data collection is the foundation of the proposed framework. The following datasets are used:

- **Historical Sales Data:** Daily and weekly sales data across product categories, stores, and promotional campaigns. This dataset provides a baseline for understanding trends and seasonality.
- **Weather Data:** Meteorological information, including temperature, humidity, rainfall, and snowfall, which influence consumer behavior. For instance, colder temperatures may increase demand for hot beverages.
- **Local Event Data:** Details of events such as festivals, sports matches, holidays, and store promotions. These events often result in sudden spikes or drops in demand for specific products.
- **Consumer Behavior Data:** Insights from loyalty programs, surveys, and point-of-sale systems, such as purchase frequency, preferences, and basket size.

Preprocessing includes aligning timestamps across datasets, normalizing numerical features, and encoding categorical variables. Missing data is handled using techniques like interpolation for continuous variables and mode imputation for categorical variables. Outliers are identified and treated using statistical thresholds to ensure data quality.

3.2 Generative AI Models

The core of the framework relies on generative AI models, specifically GANs and VAEs, which are well-suited for capturing complex, high-dimensional relationships.

- **Generative Adversarial Networks (GANs):**
 - GANs consist of two neural networks: a generator and a discriminator. The generator creates synthetic sales data under various contextual scenarios (e.g., weather conditions, event timings), while the discriminator evaluates its authenticity by comparing it to actual sales data.
 - Training involves an adversarial process where the generator and discriminator compete, resulting in realistic synthetic data that closely resembles real-world patterns.
 - Example: The generator learns to simulate sales spikes during holiday seasons or reduced demand during severe weather conditions.
- **Variational Autoencoders (VAEs):**
 - VAEs encode data into a latent space representation, capturing underlying factors affecting demand. The decoder reconstructs data from this latent space, enabling simulations under hypothetical scenarios.
 - Example: VAEs can model how consumer preferences shift in response to external factors like a new product launch or sudden weather changes.

3.3 Contextual Factor Integration

The integration of contextual factors into generative models is a key innovation of this framework. Contextual variables, such as weather conditions, event details, and consumer preferences, are encoded as input features alongside historical sales data. This allows the models to learn how these factors influence demand patterns.

- **Weather Integration:** Seasonal trends and short-term weather anomalies (e.g., heatwaves or storms) are incorporated to predict category-specific demand shifts.
- **Event Integration:** Models account for the timing, type, and scale of local events, enabling accurate predictions of product demand spikes.

- **Behavioral Insights:** Loyalty program data helps capture long-term trends and individual consumer preferences, adding granularity to predictions.

3.4 Training and Optimization

Model training involves:

1. **Data Splitting:** The dataset is divided into training, validation, and testing subsets to evaluate performance.
2. **Hyperparameter Tuning:** Key parameters, such as learning rate, batch size, and network architecture, are optimized using grid search and cross-validation.
3. **Loss Function Design:**
 - GANs: Adversarial loss and auxiliary losses to enforce realistic generation.
 - VAEs: Reconstruction loss combined with a Kullback-Leibler divergence term to regularize the latent space.

3.5 Evaluation Metrics

Performance is assessed using:

- **Root Mean Square Error (RMSE):** Quantifies the difference between predicted and actual sales values.
- **Mean Absolute Error (MAE):** Provides an average measure of prediction error magnitude.
- **Inventory Metrics:**
 - Reduction in stockouts (instances where demand exceeds supply).
 - Minimization of overstocks (excess inventory leading to waste).

IV. EXPERIMENTAL RESULTS

4.1 Experimental Setup

The experiments were conducted using two years of sales data from a grocery retailer, complemented by weather and event data. The dataset was divided into training, validation, and testing subsets to ensure unbiased evaluation. The generative AI models (GANs and VAEs) were compared with traditional forecasting methods, such as ARIMA and moving averages.

The generative models were trained to account for weather patterns, event occurrences, and consumer behavior in conjunction with historical sales data. Hyperparameter tuning and cross-validation ensured optimal model performance, and early stopping techniques were employed to prevent overfitting.

4.2 Results

The experimental results demonstrated a clear superiority of generative AI models over traditional methods. Key findings include:

1. **Prediction Accuracy:**
 - GAN-based models achieved a 20% reduction in RMSE and a 15% reduction in MAE compared to ARIMA.
 - VAEs showed similar improvements, especially in capturing non-linear dependencies between contextual factors and sales.
2. **Contextual Factor Impact:**
 - **Weather Integration:** Forecasting accuracy significantly improved during weather extremes. For instance, the models effectively predicted demand increases for hot beverages during cold spells and decreased demand for perishable goods during storms.
 - **Event Integration:** The models accurately captured sales spikes during local events, such as sports games and festivals, enabling better inventory alignment.
3. **Inventory Optimization:**
 - Stockouts were reduced by 30% compared to traditional methods, ensuring better availability of high-demand products.
 - Overstock incidents decreased by 25%, minimizing waste and storage costs.

The findings highlight the ability of generative AI to adapt to external influences and produce context-aware predictions. For example, incorporating weather and event data allowed the models to identify patterns overlooked by traditional methods, demonstrating the practical benefits of this approach in real-world scenarios.

V. CONCLUSION

This study presents a context-aware demand forecasting framework using generative AI, effectively integrating weather, local events, and consumer behavior data. Experimental results validate the approach's potential to enhance prediction accuracy and optimize inventory management.

Future research can focus on:

- Real-time data integration using IoT sensors and social media analytics.
- Expanding the framework to other retail domains, such as apparel or electronics.
- Exploring hybrid models combining generative AI with reinforcement learning for adaptive forecasting.

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