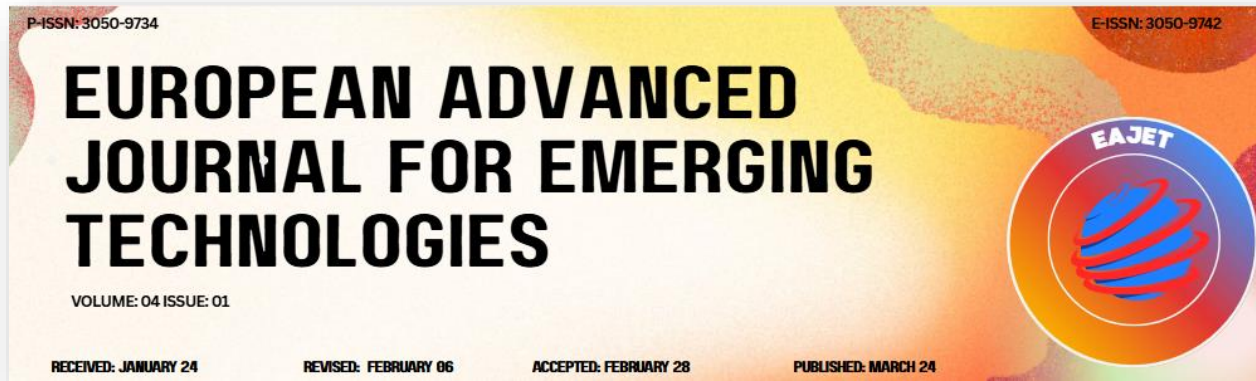




# Neural Demand Forecasting for Modern Retail

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## Abstract

Retail demand forecasting is crucial for intelligent decision-making, resource allocation, and meeting customer expectations. Algorithms based on machine learning or deep learning have improved the state of the art. However, companies can fall short of realized benefits due to data engineering deficits. Consequently, data ingestion and preparation need to be in place to support such algorithms in production environments. Data acquisition, quality and governance, lineage tracking, and compliance play critical roles. Robust model backtesting and validation, together with systematic monitoring and alerting, are equally vital. The requirements are presented, and an architecture designed around them is described, supporting an ensemble hybrid forecasting algorithm. These capabilities represent a significant step toward a complete AI-augmented demand-forecasting solution.

Demand forecasting influences almost all intelligent decisions in retail operations, from procurement and distribution to store staffing and marketing. Accurate forecasting enables optimal resource allocation and alignment with demand, thereby satisfying customer expectations. Many different quantitative forecasting techniques have been developed over the years, ranging from traditional statistical approaches to more recently developed machine learning or deep learning algorithms. The accuracy of demand forecasts has gradually improved because machine learning and deep learning algorithms have been executed in business environments. Nevertheless, the investment in AI or AI-capable algorithms does not guarantee a return in the form of improved forecasting accuracy. While investment in algorithms is part of the equation, other factors come into play during the tedious—yet often underestimated—task of supply and feature engineering.

**Keywords :** Retail; demand forecasting; data quality; feature engineering; explainable AI; machine learning for business (ML4B).

## 1. Introduction

Accurate short- to medium-term demand forecasting is critical for intelligent retail systems. In addition to optimal replenishment control, projection of demand is a requirement for logistical cost management, effective merchandise promotion, and streamlined new product introduction. Despite recognition of forecasting as a core requirement for such systems, many retailers, including technology giants, have traditionally relied on simplistic statistical algorithms, augmented occasionally with rule-based systems that fail to adapt on their own. Consequently, they have not leveraged the most salient characteristics of recent advances in AI, particularly large, internal-scale, and robust ML capabilities. Demand projections for a multimillion-SKU catalog—covering multiple regions and product categories, subject to numerous product-specific seasonal patterns, promotion events, and gradually varying trend components—are rather compute-intensive. AI allows not only the application of superior ML methods but also AI augmentation of the data-engineering aspect of forecasting.

Such techniques have been applied to the demand problem at a global scale. Numerous models have been implemented in a modular manner, allowing isolation and investigation of various elements comprising an intelligent demand system. Backtesting has verified the robustness of the solutions and highlighted advantages over benchmark statistical forecasting methods. Expansion of the forecasting framework to multiple retailers or other industries is feasible, with several academic and business avenues meriting investigation.

### 1.1. Background and Significance

As online channels rapidly gain in popularity, dangers of stockouts and excess inventory associated with inaccurate demand forecasting loom larger than ever for retailers. While classic statistical methods such as exponential smoothing and seasonal decomposition have long been supplemented with machine-learning models, the latest advancements in deep learning offer further opportunities for improvement. Specifically, seasonal-temporal extensions of deep-learning models have been shown to outperform traditional time-series methods. Yet, despite their advantages, implementing such demand-forecasting models in industry remains difficult.

Two key aspects of model creation and evaluation continue to hinder the practical adoption of accuracy-oriented machine-learning forecasting methods: data engineering—that is, the acquisition and preparation of data appropriate for forecasting—and the specification of forecast accuracy and robustness metrics. AI software can encode and organize demand-related data of multiple types for subsequent use in accuracy-focused forecasting models. However, rather than completely replacing domain expertise, such AI capabilities are better seen as augmenting human efforts by allowing deeper explorations of more datasets and encouraging the discovery of novel patterns. As AI-augmented data-engineering approaches continue to evolve, industry practitioners need to be mindful of the inherent limitations of data engineering and the potential for both improvement and bias-introduction that machine learning presents.

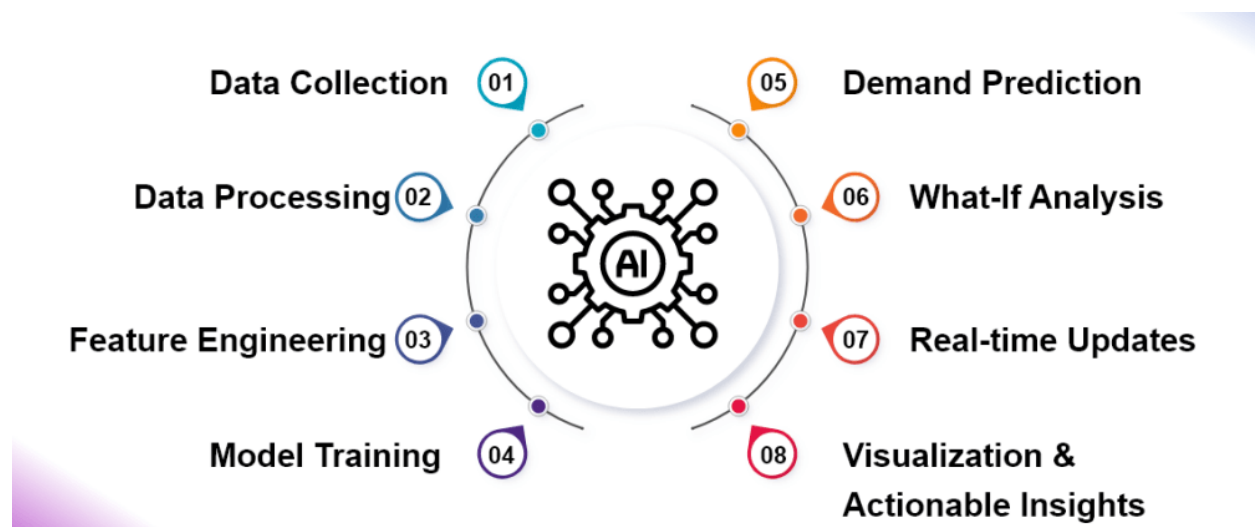


Fig 1: AI in Demand Forecasting

## 1.2. Research design

The research investigates data engineering and preparation in AI-augmented retail demand forecasting, focusing on retailers' technical and organizational capabilities to take advantage of AI. These duties include acquiring and ingested data from different sources and ensuring its quality and governance. The main aims are to discover the data preparation requirements for AI-driven demand forecasting, covering data sources, data quality, and data governance; and to demonstrate the business impact of AI on demand forecasting declared by practitioners but unsubstantiated by historical backtesting or simulation.

The trade-off between accuracy and explainability in the choice of the forecasting model is also examined, supported with hypotheses or research questions. Secondary data are analysed using a design science research approach, based on the Explorer-Builder-Evaluator framework by elaborating on existing literature or by simulating what-if scenarios. Limitations are twofold: on the demand forecasting side, the data preparation aspects are addressed only indirectly, and the results are not based on a SWOT analysis of the various data preparation modules; neither are they the dataset used nor the demand forecasting performance metrics leveraged.

### Equation 1: Mean Absolute Percentage Error (MAPE) — step by step

AI-Augmented Data Engineering f...

$$\text{MAPE} = \frac{100}{N} \sum_{t=1}^N \left| \frac{A_t - F_t}{A_t} \right|$$

#### Derivation (from “percentage error” to the final formula)

##### Step 1: Define the point error

$$e_t = A_t - F_t$$

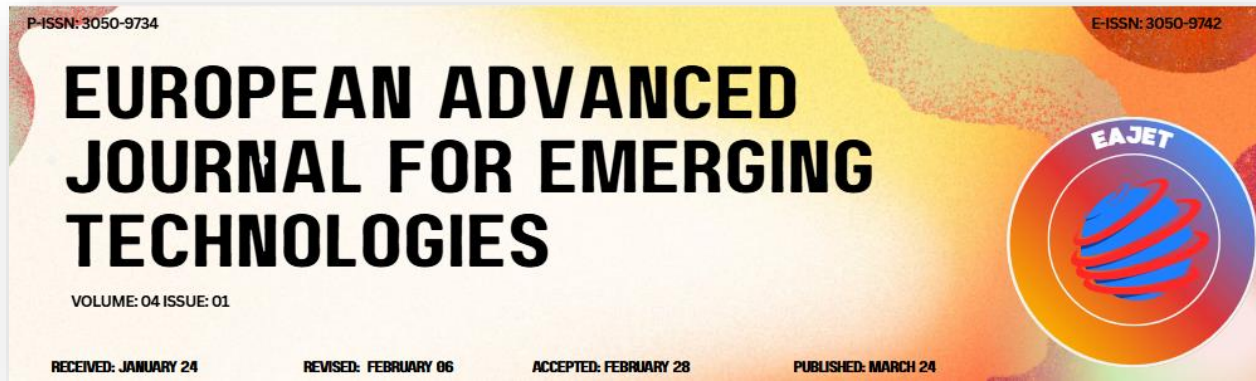
##### Step 2: Make it scale-free via percent error (relative to actual)

$$\text{PE}_t = \frac{e_t}{A_t} = \frac{A_t - F_t}{A_t}$$

##### Step 3: Use absolute value (so over- and under-forecasts don't cancel)

$$|\text{PE}_t| = \left| \frac{A_t - F_t}{A_t} \right|$$

##### Step 4: Average across the horizon (N time points)



$$\frac{1}{N} \sum_{t=1}^N \left| \frac{A_t - F_t}{A_t} \right|$$

**Step 5: Convert to percent by multiplying by 100**

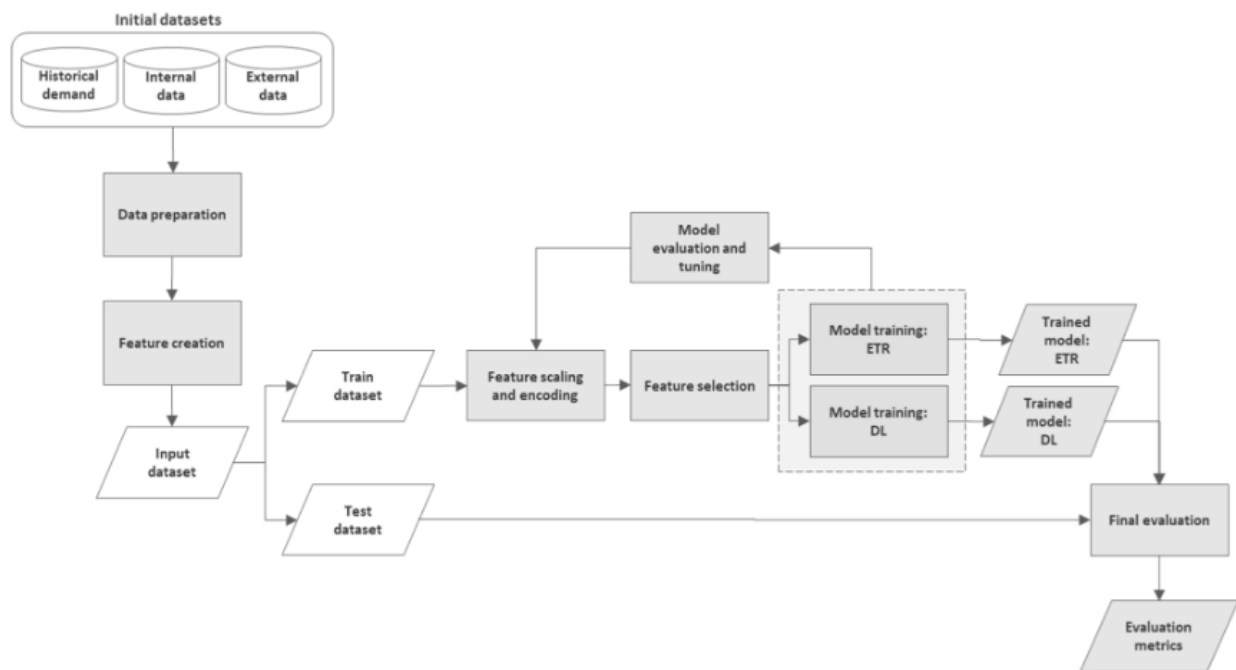
$$\text{MAPE} = \frac{100}{N} \sum_{t=1}^N \left| \frac{A_t - F_t}{A_t} \right|$$

## 2. The Landscape of Retail Demand Forecasting

Accurate short- and mid-term demand forecasts are critical for the efficient functioning of the retail ecosystem. Inaccurate predictions can incur substantial carrying costs, impact customer experience through stockouts, and lead to lost sales and associated profits. Demand forecasting can broadly be classified into three categories, covering statistical methods, model/rule-based approaches, and machine learning (ML) and deep learning (DL) paradigms. Statistical forecasting covers time-series models such as Autoregressive Integrated Moving Average (ARIMA), Seasonal Autoregressive Integrated Moving-Average (SARIMA), and Exponential Smoothing State Space Model (ETS). Such techniques provide reasonable accuracy when data exhibits strong seasonality and trend but may deliver misleading forecasts for low-volume items and periods of promotion or sudden demand shifts. Benchmarks published by companies such as Walmart and Target have consistently found that demand forecasts based on statistical methods typically outperform more complex techniques.

ML and DL modeling paradigms have made significant headway in many application areas where label data is abundant, and demand forecasting is no exception. Hybrid forecasting models that combine modeling architectures appear to be an effective solution when sufficient data is available, but strong accuracy for individual products is elusive. Demand forecasting typically requires feature engineering to incorporate the multitude of factors that influence retail demand (promotions, assortment, economic and weather signals), and automation is key to scalability. ML models need to be able to handle time-series patterns in the data such as trend, seasonality, and holiday effects, which appear in holidays such as Christmas and Ramadan, and temporal backtesting is essential to verify performance. Machine learning (ML) and deep learning (DL) modeling paradigms have significantly advanced demand forecasting, particularly in environments where large volumes of labeled historical data are available. In retail settings, hybrid forecasting approaches that combine multiple modeling architectures—such as gradient boosting, recurrent neural networks, and transformer-based models—often deliver improved aggregate performance by capturing complementary signal structures. However, achieving consistently strong accuracy at the individual product level remains challenging due to sparse demand patterns, intermittent sales, and rapidly shifting consumer behavior. Effective demand forecasting therefore relies heavily on robust feature engineering to encode the diverse drivers of retail demand, including promotions, pricing, assortment changes, macroeconomic indicators, competitor activity, and exogenous variables such as weather conditions. To ensure scalability across thousands or millions of SKUs, automation in feature generation, model training, and deployment is essential. Moreover, ML models must explicitly account for core time-series characteristics—such as trend,

multiple seasonalities, and holiday effects associated with events like Christmas and Ramadan—while avoiding information leakage. Rigorous temporal backtesting using rolling or expanding windows is critical to reliably assess generalization performance and ensure models remain robust under real-world forecasting conditions.

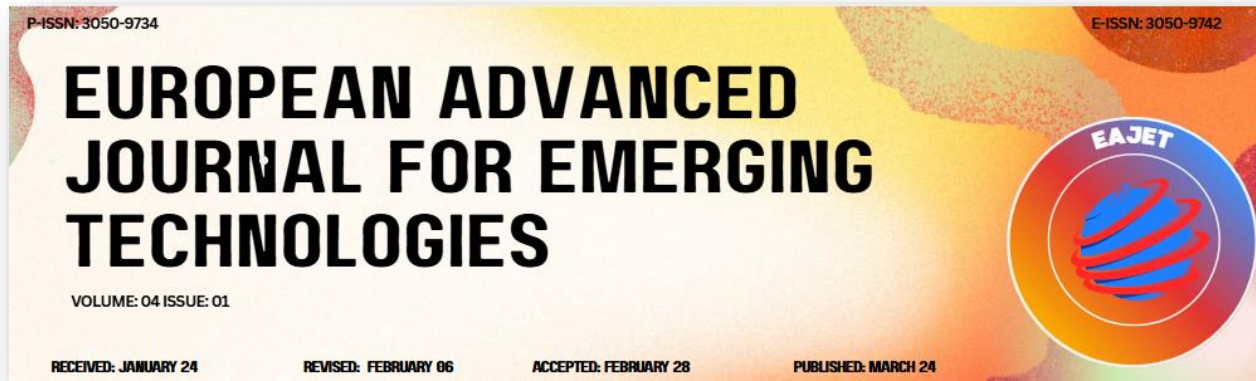


**Fig 2: Retail Demand Prediction**

## 2.1. Traditional Methods and Limitations

Benchmark studies benchmark established accuracy levels for retail demand forecasts produced by large players using a variety of statistical models or rule-based methods. These methods are often deemed acceptable, particularly for long-lead times; moreover, externally-provided forecasts are frequently used. However, the inherent limitations of such forecasting paradigms can impact business performance. Predictions are often prepared for a one-off use and applied across multiple stores in a single sweep. Quantities are generally rounded to integer values without a clear business rationale. Activating many stores simultaneously without credible monitoring increases the risk of stock-outs, markdowns, customer dissatisfaction, and brand damage. Simultaneously predicting demand for the entire assortment is also risky, especially for retailers that depend on brand manufacturers.

In particular, the rules applied to interpret forecasting output are usually defined ad-hoc, across various stakeholders in the company, rather than being incorporated directly into the models. These factors hinder the accuracy of forecasting outcomes,



especially for short-lead time horizons. Although retail player portals typically communicate supply level information four weeks in advance, use of these signals is usually limited to short-lead time horizons. Given the high speed and volume of traffic, demand fluctuations during extremely busy sales peaks are associated with greater uncertainty, calling for a more robust forecasting process. End-to-end forecasting accuracy may also be poor when facing drastic step-changes caused by promotional events. Additional uncertainty will also appear during distribution centers' peak periods driven by the primary distribution for supporting store deliveries. Transfers between distribution centers and replenishment orders from suppliers may also introduce further demand forecasting uncertainty due to internal lead times. External sources—for example, providing sales estimates for a category by brand—are often used but these benchmarks are considered as a “last resort.”

## 2.2. Emergence of AI-Driven Approaches

A second generation of retail demand forecasting, driven by machine learning (ML) and deep learning (DL) technologies, has begun to level up performance. This solution class requires building new prediction engines tailored to specific demand patterns and product details rather than embedding rules and heuristics directly into the forecasting logic. Accordingly, broad-feature models trained to predict demand for all products or all stores in a chain have been largely abandoned. Yet the move to data-driven and AI-enabled approaches is not without its challenges. First, these techniques need a great deal of data, combining historical product demand and external signals like promotions, proximity to national holidays, weather, and prices. Second, with any ML technique, modeling and tuning budgets have to be high to increase prediction accuracy.

Despite these hurdles, research by the Boston Consulting Group shows that companies using AI-models achieve a level of forecasting performance not possible with traditional statistical models and most rule-based systems. Sixty-five percent of the AI-modeled companies measure MAPE scores below 10% and 96% below 20% on their tail assortment. Nevertheless, even AI-modeled forecasts remain susceptible to demand shocks that were not anticipated by the underlying model. Consequently, some retailers use AI to augment rather than replace conventional forecasting techniques. Statistical models typically stay in the prediction engine as the main demand estimator, while models using other techniques are invoked selectively with a resampling of features when the likelihood of success is deemed higher.

### Equation 2: Symmetric MAPE (sMAPE) — step by step

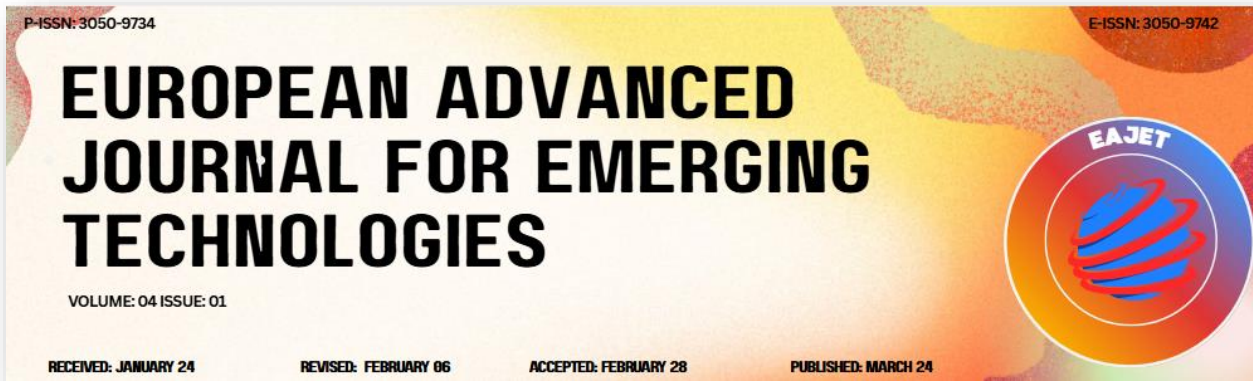
$$\text{sMAPE} = \frac{200}{N} \sum_{t=1}^N \frac{|A_t - F_t|}{|A_t + F_t|}$$

#### Derivation intuition

##### Step 1: Start with absolute error

$$|A_t - F_t|$$

##### Step 2: Replace “divide by actual” with a “symmetric” scale



$$\frac{|A_t - F_t|}{|A_t + F_t|}$$

**Step 3: Average over time**

$$\frac{1}{N} \sum_{t=1}^N \frac{|A_t - F_t|}{|A_t + F_t|}$$

**Step 4: Scale to percent-like units**

The paper multiplies by 200:

$$\text{sMAPE} = \frac{200}{N} \sum_{t=1}^N \frac{|A_t - F_t|}{|A_t + F_t|}$$

### 3. Data Engineering Foundations for Forecasting

Data-supported forecasting typically builds on three key foundations: acquisition and ingestion, quality and governance, and modeling and preparation, each of which plays a crucial role in shaping model accuracy and robustness.

Data acquisition and ingestion for forecasting draw on three families of sources: transaction and inventory data, promotion information, and external signals. While historical sales and stock positions furnish the inputs to the forecasting tasks, an array of supporting data enhances performance. Promotion details highlight demand changes resulting from visible mark-downs or bundled offers, while publicity information alert models to effects from marketing efforts or business initiatives, such as new product launches. The pivotal requirement is to satisfy business needs by enabling a near-real-time view. short-lived promotions typically call for a pipeline orchestration capable of automated near-real-time report delivery, while the forecasting process's batch character generally allows for scheduled, low-latency processing. Regardless of pipeline type, data freshness remains vital. Delivery of aggregates reporting sales for yesterday, today, and tomorrow, or for the next few weeks or months, must closely tie to live business operations.

Data quality, governance, and lineage also matter for accurate demand forecasting. Quality is generally assessed using established dimensions—timeliness, reliability, completeness, and so on—alongside business-related parameters that reduce overall error and support decisions on promotional timing and inventory management. Governance functions guarantee compliance, set policies for monitoring quality, and evaluate corrective actions. Lineage tracking illuminates and clarifies the flow and transformation of data through tables and models. Management of these aspects addresses questions about the predicted sales for Company A at Store Z and whether the forecast was created from a full order book or only adjacent months, on the basis of sales from similar stores or for similar products.

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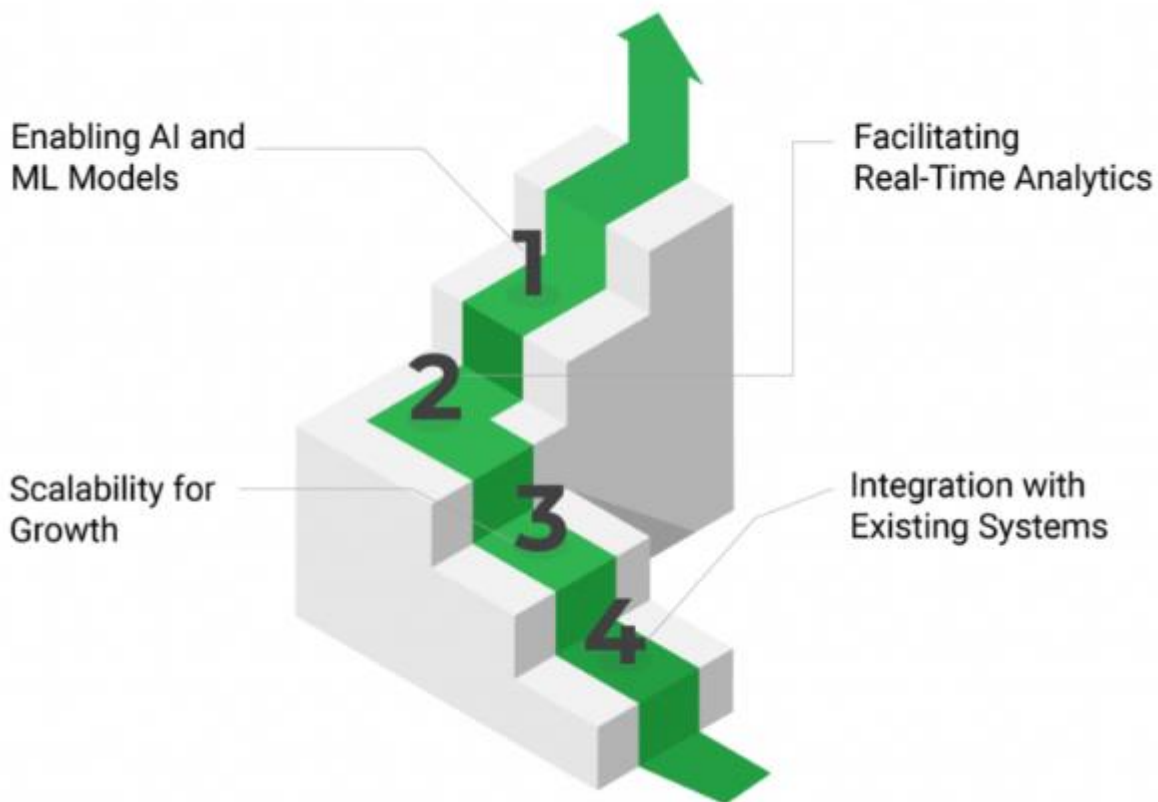
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**Fig 3: Data Engineering Foundations for Forecasting**

### 3.1. Data Acquisition and Ingestion

Retail demand forecasting builds upon data generated by transactions and promotions, along with external signals that capture holiday effects and other temporal aspects. Integrating information from these different sources into near-real-time ingestion pipelines poses a considerable challenge, particularly when the underlying data are stored in separate silos. The level of timeliness required depends on the application: batch-oriented approaches can be used to derive operational decisions, while near-real-time ingestion is suited for supporting tactical and adjustment-type decisions.

Transaction data from a sales-ordering system convey the demand for each individual product per customer at a given point of time. The data contain a wealth of information, including product attributes (size, color, price tiers, etc.), customer features (demographics, segmentation, etc.), as well as information about competitors and weather or climatic conditions at the location of

the consumer. The demand that is forecasted is typically a grouping at the store or store-bucket level, where buckets are combinations of store and product category. Daily summarization of transaction data is relatively straightforward, provided historical transaction data are aligned with the same product catalog.

### Equation 3: Root Mean Square Error (RMSE) — step by step

$$\text{RMSE} = \sqrt{\frac{1}{N} \sum_{t=1}^N (A_t - F_t)^2}$$

#### Derivation (from squared error to RMSE)

##### Step 1: Error

$$e_t = A_t - F_t$$

##### Step 2: Square it (penalizes large misses more)

$$e_t^2 = (A_t - F_t)^2$$

##### Step 3: Mean squared error (MSE)

$$\text{MSE} = \frac{1}{N} \sum_{t=1}^N (A_t - F_t)^2$$

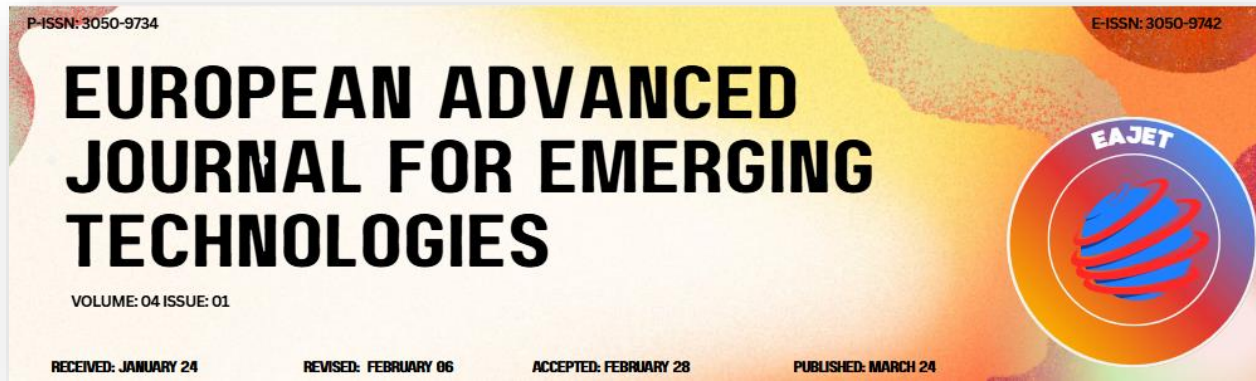
##### Step 4: Take the square root (back to original units of demand)

$$\text{RMSE} = \sqrt{\text{MSE}} = \sqrt{\frac{1}{N} \sum_{t=1}^N (A_t - F_t)^2}$$

### 3.2. Data Quality, Governance, and Lineage

Data quality, governance, and lineage are cornerstones of forecasting and underpin successful deployments of AI-driven machine learning and deep learning models. It is important to understand the dimensions of data quality (including accuracy, completeness, consistency, and uniqueness), assign data governance roles, maintain lineage information for data sets, manage data-related metadata, and apply descriptive techniques in compliance with privacy regulations.

Forecasting models are highly sensitive to data quality issues. Addressing them, however, is difficult and often neglected in benchmarking frameworks. Poor data can even cause AI-driven forecasting solutions to produce biased predictions and



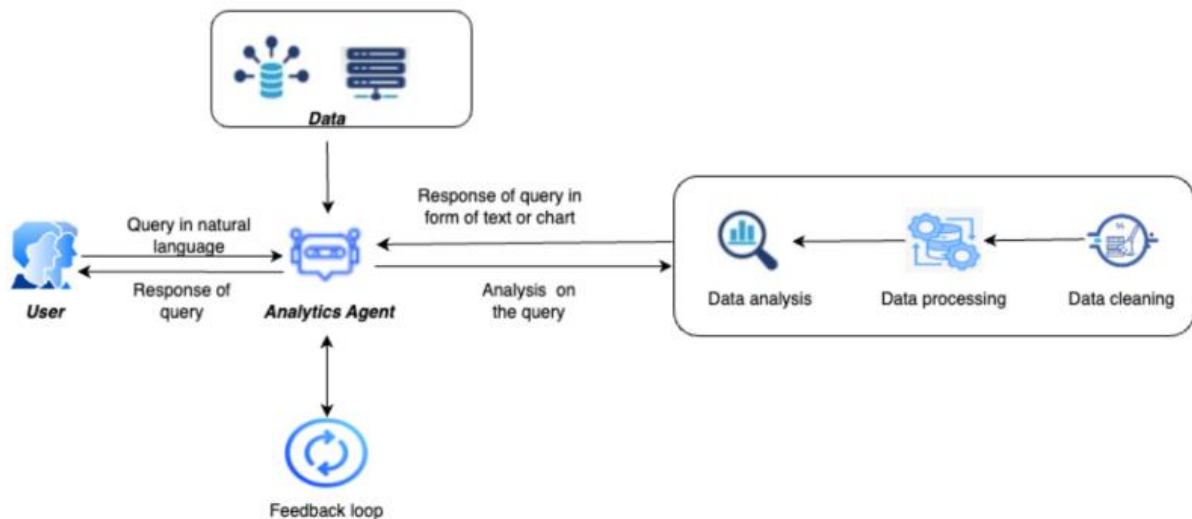
negatively affect companies' bottom lines. A lack of focus on data governance can further compound these issues by making organizations unaware of who owns data sets, whether they're easily accessible, and what controls are in place to manage their use. Without clearly defined roles and responsibilities, organizations struggle to implement any governance framework effectively.

Tracking data lineage—the process of maintaining a record of where data is stored and how it originates, moves, and evolves throughout the organization—boosts data quality and forecasting accuracy. It reassures users about the integrity of the predictive features consumed by models. In-depth tracking of the data supply chain also helps with compliance, allowing organizations to excel at external audits and internal checks with minimal effort.

#### **4. AI Augmentation in Demand Forecasting**

To derive the forecast, the choice of model is only one piece of the solution. While statistical forecasting methods serve as well-established baselines, supervised learning (SL) approaches provide a feasible alternative that outpaces Statistical methods for a large portion of the tested product group. Several studies demonstrate evidence of SL forecasting outperforming Statistical methods. Nevertheless, Statistical forecasting methods can still be relied upon as strong baselines for demand forecasting. Hybrid architectures combining Statistical and ML models are on the rise, particularly in the retail space. Although superior, ML methods are more complex regarding their data and feature requirements. A proper choice of time-series features, together with state-of-the-art SL models, may even eliminate the need for time-series learners. AI's potential in demand forecasting thus ultimately hinges on features. Given that the relative performance of different model families is data-set-dependent, feature engineering becomes the key pivot point for AI augmentation. A systematic exploration of the feature space can therefore offer extra gain relative to classical models.

The connection between AI and features may also be the bridge that mitigates the danger of biases and provide a degree of interpretability. Separating into demand building blocks—trends, seasonality, promotional effects—is the first step toward acquiring trustworthy AI. In light of the qualitative character of these signals, this decomposition can be applied even before data manipulation for neural networks or other systems that lack built-in temporal encoders. Responsible forecasting on unclean data is ultimately not just an AI challenge but a data engineering necessity.



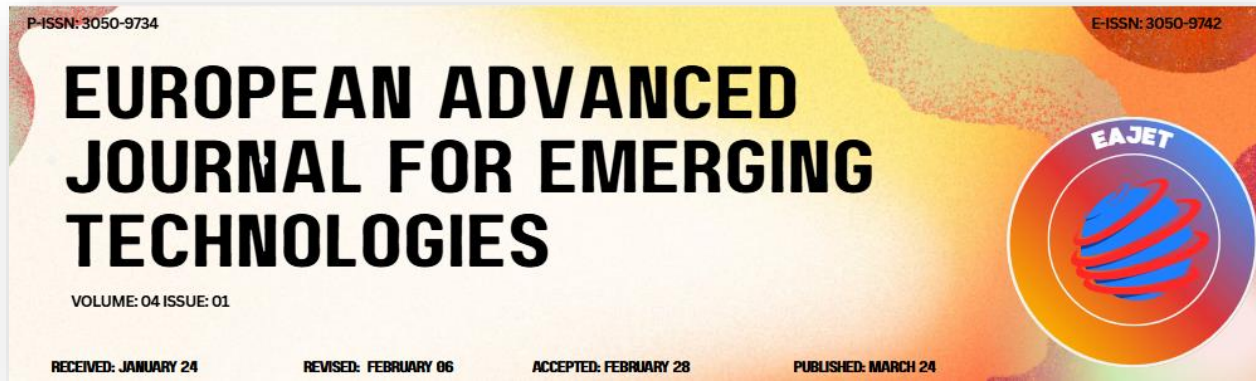
**Fig 4: Augmenting Data Analytics Workflow**

#### 4.1. Model Selection and Hybrid Architectures

Statistical baselines, machine learning models, and hybrid architectures incorporating both are compared to improve forecast accuracy and create an AI-augmented demand forecasting system for the retail industry. While ML models outperform statistical ones, the results signal caution regarding model selection and the use of feature-engineering-heavy approaches for seasonal time series. For some product categories, a more straightforward architecture that exploits simple algorithms likely achieves better-scaled solutions. Benchmarking studies are crucial for sound decision-making. Maintaining a statistical representation of the series, using temporal encoders, and proactively incorporating seasonality, holiday effects, and drift management reinforce the probabilities of attaining usable accuracy and robustness. Ensemble strategies combining distinct model types at different decision levels may yield the best outcome.

Statistical methods are the industry standard in demand forecasting. Their low resource requirement, ease of explanation, and quick execution provide considerable competitive advantages. Machine learning approaches are on the rise, thanks to their increased capacity for exploiting feature engineering as the volume of data grows, but their results are not consistently strong. Moreover, when additional simulations for selected products are undertaken, the complexity of the ML implementations may not meaningfully reduce forecast error. Industry practice indicates that whenever ML models require substantial feature engineering, simpler models frequently produce better-scaled solutions. An intuitive rule-of-thumb applies: achieve good-enough results first, then seek ultimate accuracy. Nevertheless, deep learning models are gaining traction, particularly in the areas of visual and text analysis.

**Equation 4: Probabilistic view + “Radius” concept**



- Let the model output a distribution for demand, e.g. with center  $m$  (mean/median) and a scale  $s$  (like std dev).
- Define an “acceptable interval” around the center:

$$[m - r s, m + r s]$$

where  $r$  is the “Radius”.

Then:

- If  $r \leq 1$ : “within the expected uncertainty band”
- If  $r > 1$ : “outside” the expected band → potentially a major miss

One simple computed Radius could be:

$$\text{Radius} = \frac{|A - m|}{s}$$

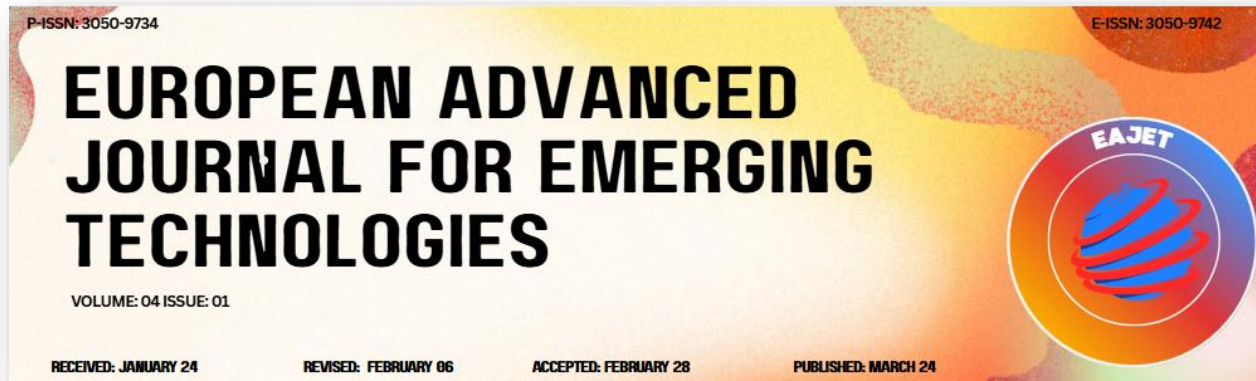
#### 4.2. Temporal Modeling and Seasonal Adjustment

Incorporating seasonality into forecasting models is essential to avoid significant performance degradation. A time-series encoder designed to model time-varying patterns consists of sinusoidal transformations that operate at different frequencies. Such temporal embeddings enable the model to capture relationships across weeks, months, or years. Seasonality is formally modeled and removed with autoregressive terms—features that represent prior demand quantities on the same day or week in previous years. Demand predictions around public holidays often exhibit higher accuracy than those for other days due to associated sales campaigns. Nonetheless, the demand-determining features are frequently absent or less relevant. A separate dataset gathers holiday variables and models demand in the pre-, during-, and post-holiday periods.

Temporal dynamics usually do not pertain to promotional events, where demand often exceeds the baseline because of the deficiency of sufficient similar past events. Stress testing with historical promotional sales estimates demand levels during future promotions while gating demand dynamics during supply shortages. Seasonal drift emerges in products with a high share of niche demand—promotions or events that occurred only in the previous year. Cumulative loading models aggregate product demand onto narrow time windows while accounting for gradual preparation efforts.

### 5. System Architecture for AI-Augmented Forecasting

Demands from retailers for automation and speed, as well as from machine learning practitioners for performance, trigger a paradigm shift in demand forecasting systems, from purely statistical modeling to AI-augmented architectures. Focus now shifts from model training to operational features that capture and emphasize the inductive bias of best-in-class demand forecasts before the actual modeling. Other AI/ML technologies, such as feature stores, MLOps, and monitoring, complement traditional model training and deployment.



The Data Lakehouse and feature store model provides multiple use-case discovery, exploration, and feature database capabilities while maintaining the lineage, freshness, and reliability of a feature store. Similar to feature stores, the model registry tracks the lifecycle of all project artifacts: not only modeling code and model parameters but also the data, libraries, and hardware used for training and inference. Moreover, MLOps provides the checks and balances of a traditional JIRA-and-confluence-oriented project while integrating CI/CD ideas and tooling for simplicity and speed. Success factors for MLOps in demand forecasting overlap with those of production supervision: automation and speed.

#### Equation 5: Backtesting idea

A standard “expanding window” backtest can be written:

- Train on  $[1..k]$ , forecast  $k + 1$
- Then train on  $[1..k+1]$ , forecast  $k + 2$
- Continue until the end of the history

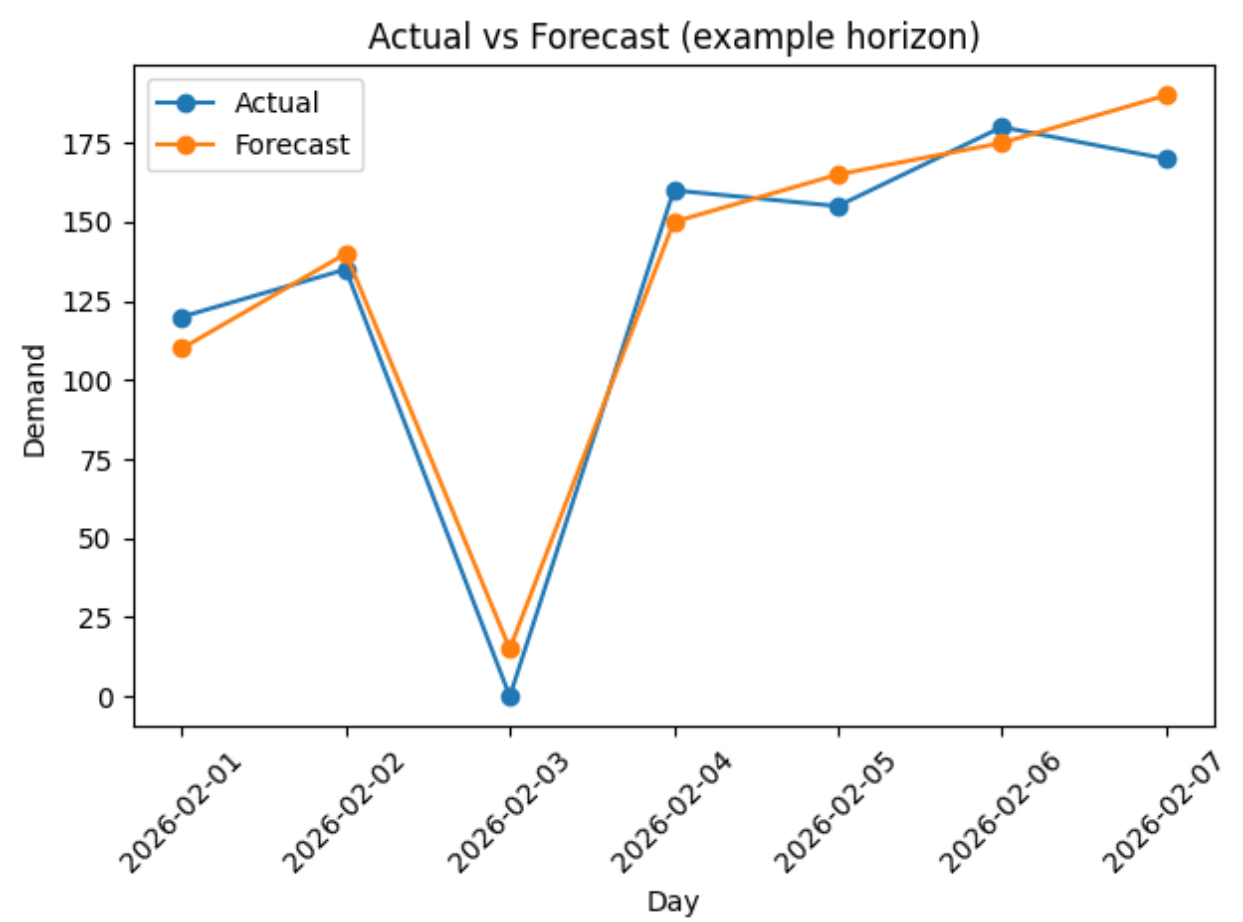
#### 5.1. Data Lakehouse and Feature Stores

Reaping the benefits of a data lakehouse architecture for storing the vast amounts of data generated by retail operations requires the corresponding development of controls and capabilities so that models can efficiently consume data. A feature store facilitates this process by serving as an organized repository of relevant data in a form that is easy for models to consume. Such a component aids in addressing issues of lineage, discoverability, and reuse.

The data engineering dimension of a retail demand forecasting solution can be bolstered by an advanced architecture using the lakehouse concept. This architecture exploits the strengths common to data lakes and data warehouses while minimizing their weaknesses. A data lakehouse, which combines the capabilities of data lakes and data warehouses into a single architecture, is designed to store and manage the vast amounts of data generated by retail companies. Apart from standard storage and governance capabilities, a properly designed lakehouse solution can provide controls that help address concerns around performance and usability when advanced machine-learning models are built and deployed. Of these advanced capabilities, a feature store—a component that acts as a central repository for storing, sharing, and discovering features—is particularly relevant. Feature stores encapsulate a number of important aspects that help bridge the gap between data engineering and modelling, including lineage, discoverability, and reuse.

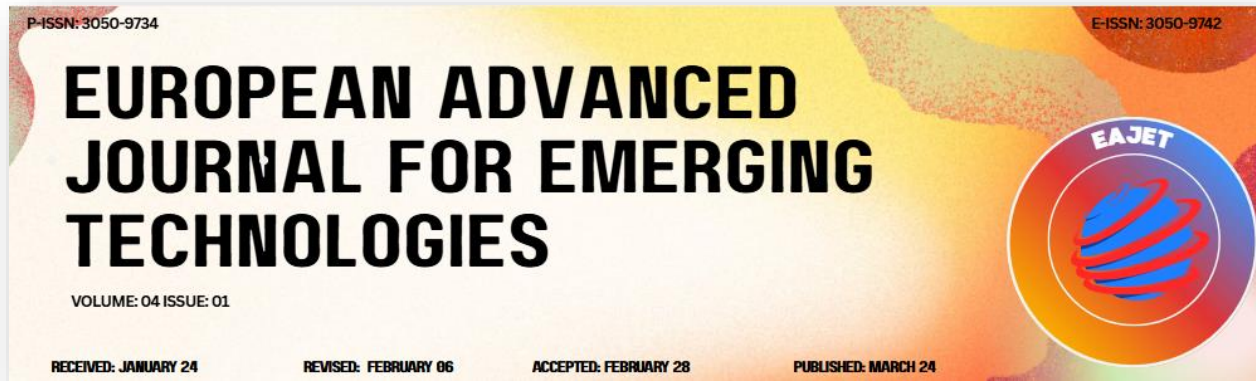
In a modern retail demand forecasting solution, the data engineering layer can be significantly strengthened through a lakehouse architecture that unifies the scalability of data lakes with the structured performance and governance of data warehouses. By consolidating raw transactional data, inventory records, promotions, pricing history, and external signals such as weather or macroeconomic indicators into a single governed platform, the lakehouse ensures both flexibility and reliability across the data lifecycle. This unified foundation not only supports large-scale batch and streaming ingestion but also enables efficient querying and analytics required for advanced machine learning workflows. A critical component within this architecture is the feature store, which serves as a centralized system for creating, storing, and managing machine learning features. By maintaining feature lineage, enforcing consistency between training and inference datasets, and promoting discoverability and reuse across teams, the feature store effectively bridges the gap between data engineering and modeling. As a result, it enhances collaboration, reduces

duplication of effort, improves model performance consistency, and accelerates the deployment of robust forecasting solutions in dynamic retail environments.



5.2. Model Deployment, MLOps, and Monitoring

Model deployment involves making machine learning models available for prediction, either on demand or in batch mode. Demand forecasting models are typically served continuously to feed into analytics or decision-making applications. Continuous integration practices check model performance periodically, and new model snapshots can be released (via canary deployments) if drift is detected. If substantial backlogs form, an asynchronous batch pipeline generates predictions from older model snapshots to catch up. A/B testing, performance monitoring, and alerting strategies help ensure that model drift and prediction quality issues are detected and addressed early.



In practice, demand forecasting is performed not just every hour but every few minutes in a busy retailer. As a result, prediction serving is decoupled from model training. Continuous integration pipelines monitor the model's performance; when a drift violation is detected, a new model is retrained and deployed. MLOps best practices recommend tracking validation metrics like precision, recall, and F1 score. Model monitoring is stricter for regression problems. In addition to checking against threshold values, performance is continuously recorded, and drift detection techniques are employed. For time series forecasts, model performance is expected to be roughly stable and should not vary wildly from one period to another. Substantial performance dips may trigger alerts.

## 6. Evaluation and Validation

Metrics for Forecast Accuracy and Robustness: MAPE, RMSE, sMAPE, and probabilistic metrics quantify forecast accuracy. Backtesting evaluates model performance over historical data. Supplementary analysis underlines the decision-support role of forecasts by measuring sensitivity to input perturbation.

Forecasting accuracy relies on a variety of metrics. Mean absolute percentage error (MAPE) gauges relative error, while root mean square error (RMSE) emphasizes large errors. Symmetric MAPE (sMAPE) improves interpretability by bounding the metric in the 0–1 range. A probabilistic view of forecasting expresses the result as a distribution. For a given market and time period  $a, b$  forecasting AADab, the model estimates a distribution  $p(\text{AADab})$ . Given the validity of the distribution and the correct underlying history of information, the error can be considered accurate if falling within the interval of relative Radius  $\in [0,1]$ . Radius  $>1$  reflects an inaccurate estimate in order of magnitude.

Backtesting measures forecasting performance on a historical collaboration interval. The last  $n$  months of the period are masked, predictions are calculated, and accuracy is evaluated through the selected metrics. Backtesting is complemented by simulation scenarios that optimize historical collaboration for the logical selection of a minimum. These are hypothetical scenarios designed to evaluate forecasts from the decision-support perspective. Forecasts play a decision-support function based on their influence on the resolution of the issues they seek to address. A relevant aspect to analyze is forecast sensitivity to input perturbation. The classical stepwise test can be modified and repeated for all four time-series inputs: demand in the previous period, promotion activity, user-generated content, and temperature.

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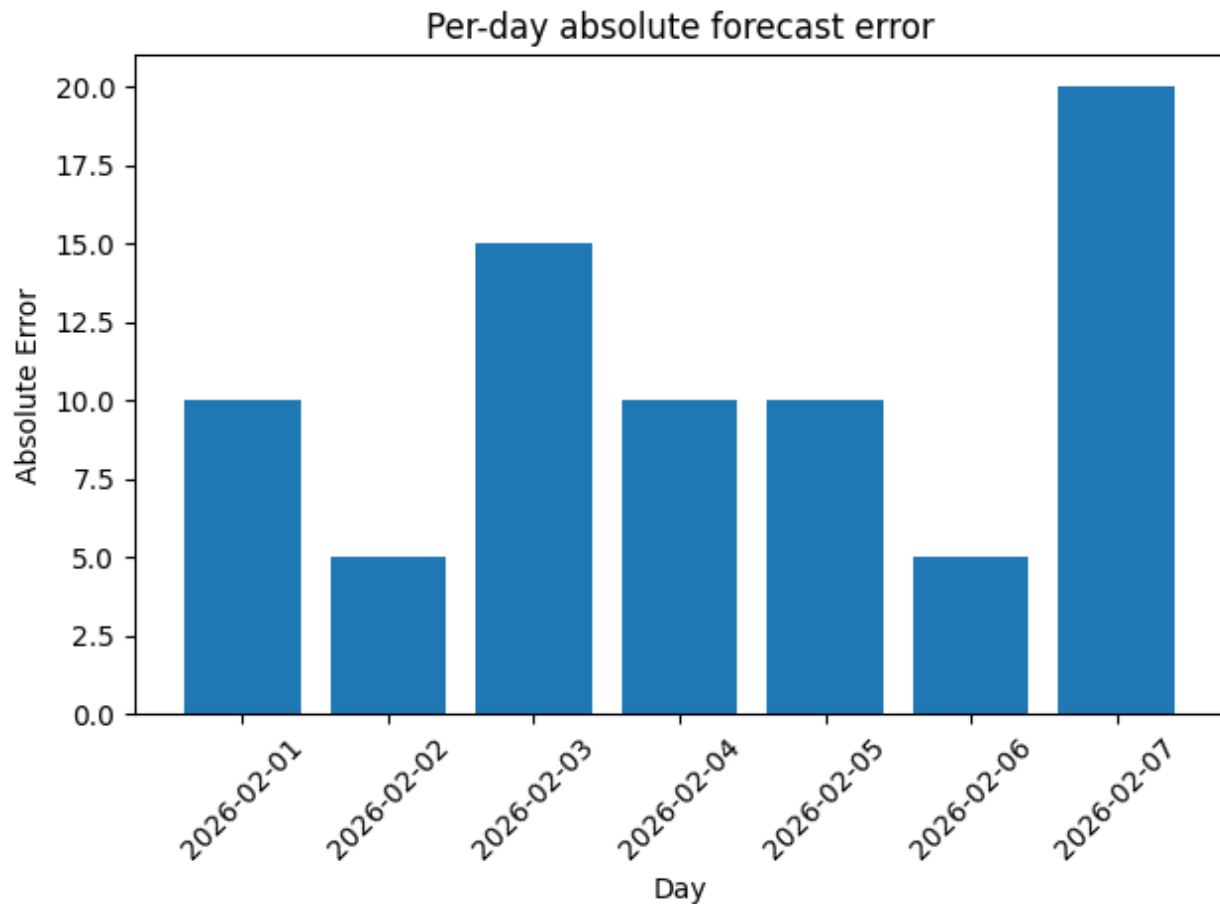
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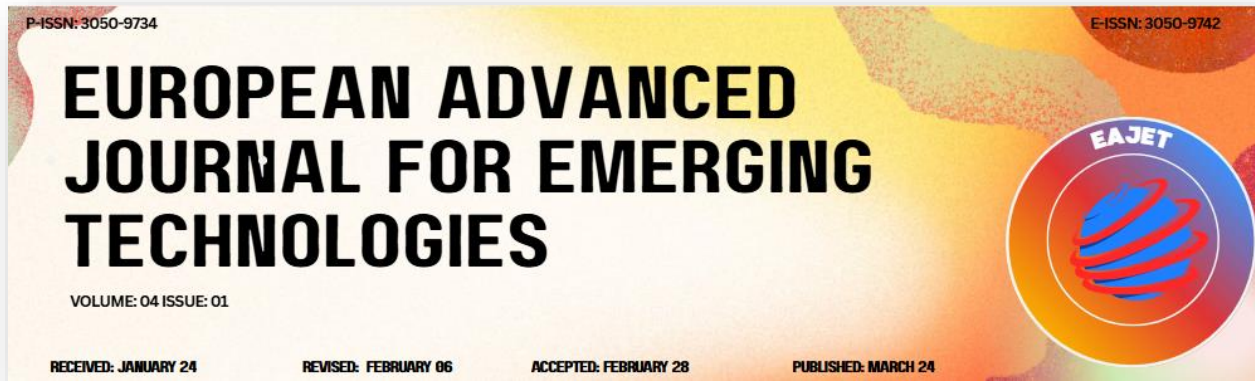
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## 6.1. Metrics for Forecast Accuracy and Robustness

Evaluation of retail demand forecasting requires suitable functional and performance metrics. The Mean Absolute Percentage Error (MAPE), Root Mean Square Error (RMSE), symmetric MAPE (sMAPE), and probabilistic metrics quantify accuracy, whereas backtesting simulate scenarios that challenge robust service delivery. Retailers require elegant monitoring solutions that swiftly capture model deficiencies, including erratic behavior, regular versus irregular patterns, seasonal or cyclic variation, and sensitivity to sudden shifts in the data. The danger from poor-quality forecasts can be alleviated, at least in part, by investigating the stability of models over time and their performance under stress tests.

Accuracy or loss functions operate over sets of forecasts, typically predicting all or part of the future sequence of a time series. The most widely used is the Mean Absolute Percentage Error (MAPE), defined as



$$\text{MAPE} = \frac{100}{N} \sum_{t=1}^N \left| \frac{A_t - F_t}{A_t} \right|$$

where  $A_t$  is the actual value and  $F_t$  is the forecast. Different variations of this measure have been proposed, e.g. the symmetric MAPE (sMAPE):

$$\text{sMAPE} = \frac{200}{N} \sum_{t=1}^N \frac{|A_t - F_t|}{|A_t + F_t|}$$

The Root Mean Square Error (RMSE) has also been utilized, defined as

$$\text{RMSE} = \sqrt{\frac{1}{N} \sum_{t=1}^N (A_t - F_t)^2}$$

The MAPE is easy to understand but poorly suited to distributions with zero values. Thus, probabilistic metrics Pal and Zulkernine, robust for any distribution, are also assessed. Robustness tests determine whether a model is sensitive to changes in the data. They check whether model failures occur for unreasonable input values, whether large inputs generate large outputs, and whether significant shifts in input distributions produce excessive errors.

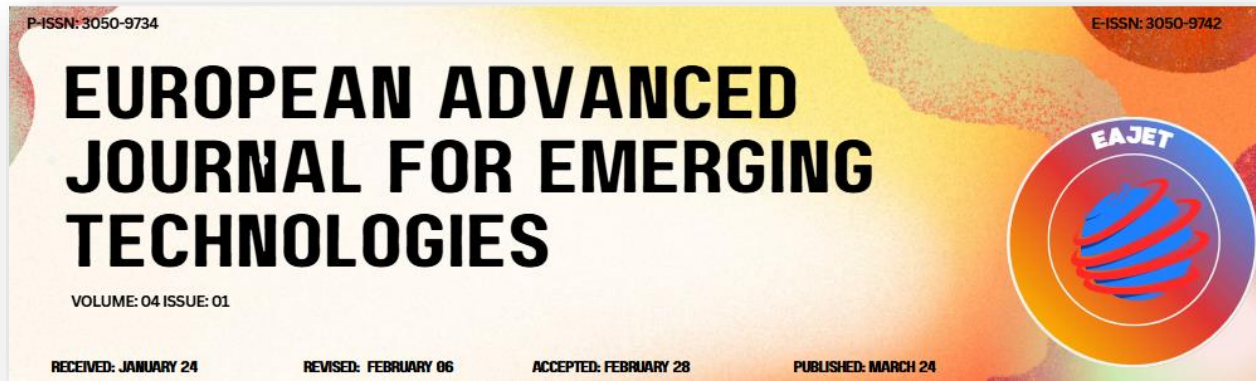
## 6.2. Backtesting and Simulation Scenarios

The evaluation of demand forecasting models requires measuring both accuracy and robustness. Forecast accuracy is traditionally assessed using point evaluation metrics such as mean absolute percentage error (MAPE), root mean square error (RMSE), and symmetric MAPE (sMAPE). MAPE measures the average absolute percentage error over an entire forecast horizon, while RMSE provides a useful error heuristic for business processes. Both metrics should be interpreted with caution, as they are sensitive to low-volume SKUs or extreme demand changes. A probabilistic outlook can complement point forecasts by quantifying uncertainty, enabling the implementation of risk-averse business strategies. Probabilistic metrics such as CRPS, ranked probability score prop (RPS), and PINB score gauge the quality of probabilistic forecasts.

Statistical backtesting is crucial for assessing robustness. Past demand trajectories are backtested using expanding windows—forecasts for the next demand period are generated repeatedly, each time constrained to data available up to that time. Simulated scenario analysis tests robustness against plausible future conditions that differ from historical data (e.g., demand spikes, prolonged drops, erratic fluctuations). In retail forecasting, coverage of promotions is essential. Stress tests require that models predict demand for promoted weeks while also adhering to the present-situation-only rule: promotions are added to the forecast model only if the vending history of the SKU categorically indicates promotion relevance (i.e., the SKU has been promoted before). Supply chain reliability further influences robustness. Demand long-lived lead-time products while in stock typically suffers little from forecast inaccuracy, while basing demands for rapidly changing products on stock-outs rather than actual consumption usually leads to peak over-forecasting.

## 7. Conclusion

A TIMELY FORECAST IS A USABLE FORECAST. SMART USE OF NEAR REAL-TIME DATA TO ACCURATELY DRIVE RETAIL DEMAND PROJECTIONS.



AI-augmented data engineering successfully enables accurate forecasts not only in the near term but also when accounting for promotions or supply shortages. For retailers, timely and usable demand predictions are fundamental. As comprehensively covering the full demand engine with deep learning is unlikely to yield real-time projections, close collaboration between experienced demand planners and a newly opened data engineering team has enabled an alternative approach. Relying on best practices in data acquisition, data quality, model selection, monitoring, and simulation has resulted in a solution that satisfies the planners by producing forecasts that match their finest designs before the deadline for submission, while also being reliable for the period immediately following, including when promotions or supply shortages arise.

Two aspects would benefit from continued effort. One is deep learning—a trusted framework for tackling any new demand problems where predicting the target directly, rather than through feature engineering, is plausible. The other is the recruitment of additional retail industry experts. Such individuals are needed to help cover all points along the demand-planning horizon and address emergent planning tasks in near real time. Specifically, AI-assisted demand forecasting in the context of Data Engineering at a Global Retail Organization has clarified the involvement of data-augmented machine learning and the timely preparation of usable forecasted demand predictions aligned with business Operating Plan transactional models.

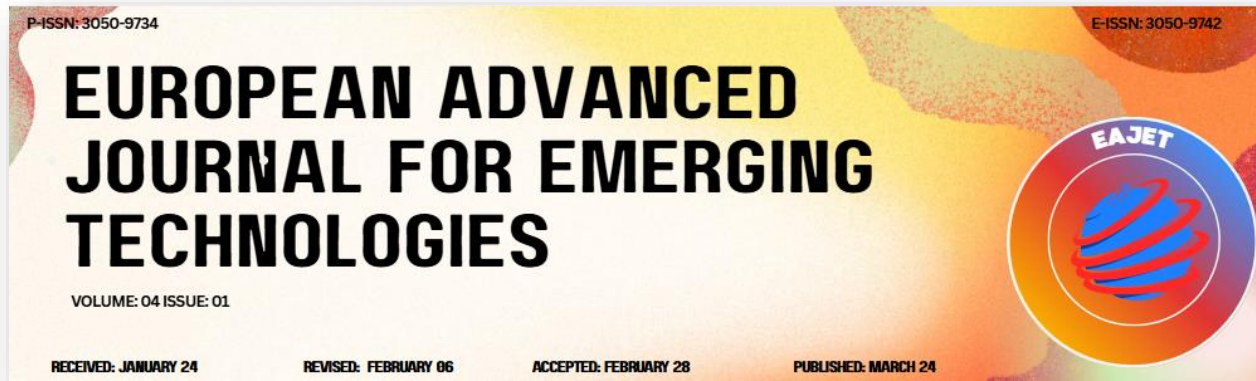
| Day        | Actual (A <sub>t</sub> ) | Forecast (F <sub>t</sub> ) | Error (A <sub>t</sub> - F <sub>t</sub> ) |
|------------|--------------------------|----------------------------|------------------------------------------|
| 2026-02-02 | 135.0                    | 140.0                      | -5.0                                     |
| 2026-02-03 | 0.0                      | 15.0                       | -15.0                                    |
| 2026-02-04 | 160.0                    | 150.0                      | 10.0                                     |
| 2026-02-05 | 155.0                    | 165.0                      | -10.0                                    |
| 2026-02-06 | 180.0                    | 175.0                      | 5.0                                      |

**Table : Worked example: per-period error terms**

### 7.1. Emerging Trends

Despite decades of research, demand forecasting remains a significant problem for retailers at different time horizons. Conventional models are widely perceived by practitioners to be of limited accuracy, especially for another vendor, and they often require significant effort to use operationally. At the same time, machine learning (ML) methods developed over the past decade have achieved state-of-the-art forecasting performance for high-order consumers of retail demand signal processing, such as demand sensing and forecasting for the supply chain and order fulfilment. However, both types of methods rely on extensive historical demand data and are most often applied in a batch mode at longer time horizons.

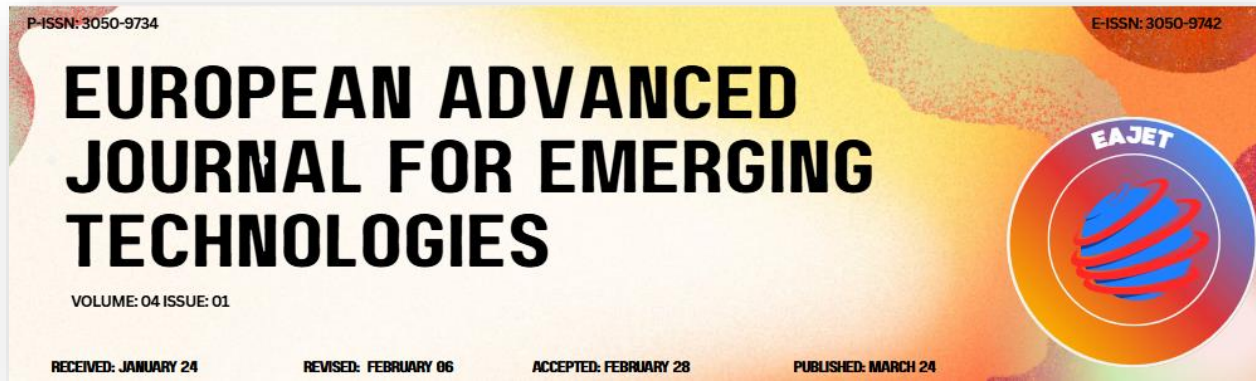
Incorporating near-real-time demand signal data into ML demand forecasting in a scalable way remains an open research problem. Even with current industry best-in-class implementations, the results tend to suffer from lack of ad-hoc temporal modelling of seasonality and other qualitative effects at multiple levels of disaggregation. Combining both classes of methods in



a hybrid demand forecasting approach offers the potential to achieve better accuracy, reduced effort in model development and deployment, and improved user experience, making suite-level forecasting more appealing to retailers.

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