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| BELGIUM CAMPUS |
| MLG382 PROJECT CYO |
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GitHub Link:

[MLG382\_ProjectCYO\_GroupX](https://github.com/KCSchmutz/MLG382_CYO_PROJ_GroupX.git)

Render Link:

# Introduction

For small to medium businesses Inventory Management has become a hard requirement (Praveen et al., 2020), the importance of effective inventory management cannot be underestimated. It allows for operational efficiency and improving customer satisfaction whilst, traditional approaches frequently prove to be lacking in addressing the issues associated with fluctuating demand, variable supplier lead times, and the associated risks of overstocking or stockouts. The application of machine learning presents a comprehensive solution by harnessing historical sales data, analysing market trends, and evaluating supply chain variables. Using these predictions organizations can mitigate risks. According to (Praveen et al., 2020) high competition, labour unrest and changes in governmental laws can be addressed with predictions for products and services. This produces precise demand forecasts and optimizes inventory levels. Applying an inventory management methodology gives predictive insights and encourages better decision making (Chaudhary et al., 2023). Inventory management then changes from a reactive measure to a proactive strategy.

# Research Problem

Vertex PC Supply faces multiple internal inventory management challenges that significantly impact both operational efficiency and customer satisfaction. Despite collecting vast amounts of sales and inventory data, the company struggles to understand how to change this information into a proactive response to stop these issues from happening. Below are the Key issues discussed:

* Frequent Stockouts of High-Demand Items:
  + Incorrect demand forecasting often leads to empty shelves during peak demand period, resulting in lost sales and a decline in customer trust (Chaudhary et al., 2023).
* Excess Inventory and Elevated Carrying Costs:
  + Over purchasing of certain items causes surplus inventory, and a demand for capital incurring unnecessary storage expenses (Chaudhary et al., 2023).
* Low Profitability in Certain Regions or Categories:
  + According to (Sudirjo, 2023), global markets show that companies adapt their strategies to align with the unique consumer preferences, legal requirements and market conditions. This explains why a product will have different sales worldwide.
* Cost and Complexity:
  + Designing machine learning models can take a long time before it is effective and beneficial to the business. Costs are impacted not only by the time required for the model to be developed and deployed but also the expertise required to design it (Chaudhary et al., 2023).

The aim of this research is to design and implement a machine learning framework that predicts profitability based on key product, regional, and pricing attributes. By identifying what makes profit increase and decrease, Vertex PC Supply can optimize inventory decisions, regional marketing and distribution, reduce excess inventory and minimize stockouts.

# Dataset Details

The dataset utilized for this research contains various data from Vertex PC Supply, which provides essential variables that significantly impact inventory management decisions. Following are attributes within the dataset:

|  |  |
| --- | --- |
| Attribute | Description |
| RegionName | Region of operation |
| CountryName | Country of transaction |
| State | State within country |
| City | City of transaction |
| WarehouseName | Warehouse fulfilling order |
| CategoryName | Product category (e.g., Video Card) |
| ProductName | Specific product name |
| ProductStandardCost | Standard unit cost |
| Profit | Profit per unit |
| ProductListPrice | Product list price |
| CustomerCreditLimit | Customer’s credit limit |
| Status | Order status |
| OrderDate | Date of order |
| OrderItemQuantity | Quantity per order item |
| PerUnitPrice | Price paid per unit |
| TotalItemQuantity | Total items in order |

The dataset provided by [Kaggle](https://www.kaggle.com/datasets/hetulparmar/inventory-management-dataset) captures essential details across geographic locations, product specifications, financial metrics and order details. It includes attributes such as region, country, and warehouse to track the flow of inventory, alongside product categories and specific component names for precise analysis. Pricing elements like standard cost, list price, and per-unit price help in financial evaluation, whilst quantities and order dates enable demand forecasting and trend analysis. Additional fields such as customer credit limits and order status support customer management and operational efficiency. Combining these attributes provides a comprehensive view to effectively apply machine learning for inventory optimization and decision making.

## Dataset (Cleaned)

|  |  |
| --- | --- |
| Attribute | Description |
| WarehouseName | Warehouse fulfilling order |
| ProductName | Specific product name |
| ProductStandardCost | Standard unit cost |
| Profit | Profit per unit |
| ProductListPrice | Product list price |
| CustomerCreditLimit | Customer’s credit limit |
| Status | Order status |
| OrderItemQuantity | Quantity per order item |
| PerUnitPrice | Price paid per unit |
| TotalItemQuantity | Total items in order |
| Year | Derived feature from OrderDate |
| Month | Derived feature from OrderDate |
| Day | Derived feature from OrderDate |
| DayOfWeek | Derived feature from OrderDate |
| CostPriceRatio | Derived feature from ProductStandardCost/ProductListPrice |
| RegionName\_Australia | One-hot encoded region name |
| RegionName\_North America | One-hot encoded region name |
| RegionName\_South America | One-hot encoded region name |
| RegionName\_Canada | One-hot encoded region name |
| RegionName\_China | One-hot encoded region name |
| RegionName\_India | One-hot encoded region name |
| RegionName\_Mexico | One-hot encoded region name |
| CountryName\_United States of America | One-hot encoded country name |
| State\_California | One-hot encoded state |
| State\_Distrito Federal | One-hot encoded state |
| State\_Maharashtra | One-hot encoded state |
| State\_New Jersey | One-hot encoded state |
| State\_New South Wales | One-hot encoded state |
| State Ontario | One-hot encoded state |
| State\_Texas | One-hot encoded state |
| State\_Washington | One-hot encoded state |
| City\_Bombay | One-hot encoded city |
| City\_Mexico City | One-hot encoded city |
| City\_Seattle | One-hot encoded city |
| City\_South Brunswick | One-hot encoded city |
| City\_South San Francisco | One-hot encoded city |
| City\_Southlake | One-hot encoded city |
| City\_Sydney | One-hot encoded city |
| City\_Toronto | One-hot encoded city |
| CategoryName\_Mother Board | One-hot encoded product category |
| CategoryName\_RAM | One-hot encoded product category |
| CategoryName\_Storage | One-hot encoded product category |
| CategoryName\_Video Card | One-hot encoded product category |

# Hypothesis Generation

## H0 (Null Hypothesis):

There is no significant correlation between product pricing, product category, regional factors and overall profitability.

## H1 (Alternative Hypothesis):

Profitability is significantly affected by factors such as product list price, standard cost, regional factors. An example of this is that certain products and specific markets tend to have an increase in profits, where other products and regions would have a negative effect on profitability.

# Correlation Data

## Features that increase profits:

|  |  |  |
| --- | --- | --- |
| Feature | Correlation | Description |
| Product List Price | +0.85 | Selling higher-priced products brings significantly more profit. |
| Product Standard Cost | +0.77 | More expensive source products (high end tech) yield better profits when sold correctly. |
| USA as Country | +0.59 | U.S. market is a major profit centre. More sales should be targeted here. |
| Category: Video Card | +0.38 | These are among the most profitable items. Increase marketing and inventory for these items. |
| State: New Jersey | +0.34 | Customers in this state are consistently providing higher profits. |

## Features that decrease profits:

|  |  |  |
| --- | --- | --- |
| Feature | Correlation | Description |
| Category: Mother Board | -0.48 | These items generate poor profits. Investigate inventory and pricing |
| Region: Australia / City: Sydney / State: NSW | -0.41 | Sales in this region drag down profit. Investigate reasons (low demand, taxes, shipping costs) |
| Total Item Quantity | -0.40 | Selling large quantities lowers profits due to bulk discounts or shopping costs |

# ML Model(s)

To effectively address the inventory management and profitability forecasting objectives, multiple supervised machine learning models were developed and used during this project.

## Objective of Model Development

The primary objective was to generate accurate predictions of order profitability based on key features such as product pricing, category, regional data and order quantity. These insights allow for Vertex PC Supply to prioritize strong fields (product and regional based combinations). This approach optimizes profits and decreases risk.

## Models Implemented

* Random Forest Regressor
  + An ensemble learning technique renowned for its robustness in modelling complex data interactions and its calculated resistance to overfitting data.
* Gradient Boosting Regressor
  + An iterative approach that sequentially improves prediction accuracy. This is achieved by correcting prior errors, suitable for our dataset for use.
* AdaBoost Regressor
  + An ensemble method that emphasizes difficult to predict instances. Very effective in managing noisy data.
* XGBoost Regressor
  + An advanced optimized boosting algorithm. It is recognized for its speed and high predictive accuracy.
* Deep Learning (Neural Network)
  + A feedforward neural network was employed to model nonlinear relationships between features and profit metrics.

## Model Evaluation (Metrics)

Each model’s performance was assessed by employing standard regression evaluation metrics:

* R2 Score:
  + Provides the proportion of the variance in the target variable defined by the model.
* Mean Absolute Error (MAE):
  + Represents the average absolute difference between predicted and actual values.
* Mean Squared Error (MSE):
  + Measures the average squared difference, penalizing larger errors to a greater extent.

## Model Performance

|  |  |  |  |
| --- | --- | --- | --- |
| Model | R2 Score | MAE | MSE |
| Random Forest | 0.9628 | 0.15 | 0.04 |
| Gradient Boosting | 0.9880 | 0.09 | 0.01 |
| AdaBoost | 0.9324 | 0.23 | 0.07 |
| XGBoost | 0.9738 | 0.12 | 0.03 |
| Deep Learning | 0.9523 | 0.17 | 0.05 |

With the results above the best model for our dataset was **Gradient Boosting Regressor**. This training model achieved the highest performance across all metrics.

# Web Application

# Deployment Steps

# Development Process

The development of this project was conducted through an iterative and collaborative process that kept improving substantially over time. Initially, all code, visualizations, and models existed within a single Jupyter notebook. This method proved challenging to maintain as the project lifespan continued.

Following team discussions and strategic planning, the project’s structure was redesigned into a more structured and organized framework. Each machine learning model was moved to its own dedicated notebook, and a central notebook was established for data analysis and visualization interpretation. This restructuring improved clarity, ease of maintenance, and overall presentation quality.

Furthermore, reusable data preparation, preprocessing and modelling functionalities were encapsulated into standalone Python scripts. These are discussed below:

* A python script file ‘prepare\_data.py’ exists of functions that split columns of the dataset to target the column that is used for prediction as well as splitting train & test data.
* Another python script file ‘preprocess\_data.py’ uses functions for data cleaning, encoding and feature engineering.
* The last python file ‘train\_models.py’ includes reusable functions for training various machine learning models, such as Random Forest, AdaBoost and Deep Learning architectures.

This object-oriented programming-inspired modular design allowed notebooks to remain focused and easily interpretable, allowed for consistent logic reuse, and simplified debugging processes. The resulting directory structure presents the project in a professional manner, ensuring scalability and maintainability.

Throughout development, issues such as data transformation errors, encoding issues, and model performance limitations were identified and addressed through rigorous testing. Leading to restructuring of data pipelines and continuous parameter tuning.

After multiple development cycles and collaborative refinements, the project successfully achieved high accuracy and fulfilled the team’s initial performance and usability objectives.

# Conclusion

# References

Chaudhary, V. et al. (2023) 'Exploring the Use of Machine Learning in Inventory Management for Increased Profitability', *New Zealand Herpetology*, 12(1), pp.658-66.

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