Retail Marketing Analysis

AIDI 1002: AI Algorithms
Statement of Work

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Executive summary:

Retail industry is the major driving cause of many powerful economies in the world. It is estimated 16.9% of the US economy is from retail industry. There has been surge in online shopping activity in the past 4 years due to many companies starting to sell their products online and the convenience that online shopping gives to the customers. Due to prevalence of both online and in-store availability of products, companies always have faced a challenge to provide customers with a seamless experience across both platforms.

There has been a downward trend in in-store purchases in the past few years due to very competitive markdowns online vs that of in-store. Hence finding the right markdown percentage or markdown amount would greatly improve the in-store experience for the customer and enhance margins for the company.

Rationale statement:

Most of the companies have the biggest sales seasonally in their business based on the product that is being sold by them. The biggest time frame when you have the highest bottom-line sales would be during holidays (valentine's day, Mother's Day, super bowl, Christmas, thanksgiving). This is when most of the companies tend to offer their products with a heavy markdown percentage which would affect that company's margins. The dataset that' is being used has sales data broken down by departments over a period of 3 years for physical stores.

The model developed would predict which departments will be affected and to what extent during the key holiday time frames so that executives and marketing department can make informed and data-driven decisions about markdown amounts to preserve margins.

Data requirements:

- Data is required to have at least 2 years' worth sales information by department
- Population should be represented across all seasons in a year
- population should have no more than 10% of outliers and missing values
- data should be provided in csv or json format for injection
- dependent variables should be normally distributed
- The data size must be feasible according to the available machine.

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Assumptions

- Assuming good data quality from source system
- Assuming the dataset is the representation of whole population
- The features are relevant to the dataset
- Assuming that the definitions provided to the dataset are correct
- Assuming that holiday sales in the dataset are weighed more than that of the non holiday time frame
- Assuming there is no wild variation in the data
- Assuming that there is at least 2 years worth data to overcome underfitting/ overfitting problems
- Assuming stores that have no sales in the first year are new stores

Limitations and constraints:

- Definitions of features given in the data source not very clear
- Missing values in at least 3 columns that need to be imputed
- Size of the stores vary across the whole dataset
- Type of the store is not consistent with size of the store
- Some stores have no sales during the 2year period

Data source:

The data set contains anonymized information about the 45 stores, their sales over 3 years and features like store size, department, etc. The dataset is split into 3 csv files:

1. **Stores** - Type and Size of 45 stores

2. **Features** – Store, Date, Temperature of the region, Fuel Price, Mark down, CPI(customer price index), Unemployment rate, Holiday flag

3. **Sales** - Store, Department, Date, Weekly Sales, Holiday flag

   https://www.kaggle.com/manjeetsingh/retaildataset?select=stores+data-set.csv *by Manjeet Singh.*

Data set:

Stores

Anonymized information about the 45 stores, indicating the type and size of store

Features

- Store - the store number
- Date - the week
- Temperature - average temperature in the region
- Fuel_Price - cost of fuel in the region
- MarkDown1-5 - anonymized data related to promotional markdowns. Markdown data is only available after Nov 2011 and is not available for all stores all the time. Any missing value is marked with an NA
- CPI - the consumer price index
- Unemployment - the unemployment rate
- IsHoliday - whether the week is a special holiday week

Sales

- Store - the store number
- Dept - the department number
- Date - the week
- Weekly_Sales - sales for the given department in the given store
- IsHoliday - whether the week is a special holiday week

Test Process:

- Make sure the features are normally distributed across the population
- Check distribution of all features in the dataset by conducting EDA
- Identify outliers and missing data in the dataset
- Make sure that the data is balanced and impute data using the most appropriate imputation method if unbalanced
- Observe corelation between the features
- Remove highly corelated features and perform feature selection to solve for over/underfitting problems and to eliminate any bias
- Check for linearity requirements

- Split the data into training and validation sets
- Train and test relevant models
- Plot ROC curves to understand the sensitivity and accuracy of models
- Based on ROC curves and confusion matrix, perform hyper parameter tuning to improve efficiency of the model
- Choose the model with best accuracy.