Supply Chain Optimization: Leveraging Data for Strategic Demand Forecasting

A Data Science Approach to Minimizing Stockouts and Reducing Waste in Pharmaceutical Operations

Team Members

Shiva Kumar Reddy Ninganolu [Yid - Y00874353]

Harshavardhan Reddy Talambedu [Yid - Y00883014]

Abhishek Mutyala [Yid - Y00874645]

Faculty Coach

Prof Robert A Gilliland

The Challenge in Pharmaceutical Supply Chains

Pharmaceutical supply chains face a critical balancing act: ensuring medications reach patients exactly when needed while managing the financial and operational risks of inventory decisions.

Under-stocking Risk

Patient care disruption, revenue loss, regulatory compliance issues, and damaged reputation when critical medications are unavailable.

Over-stocking Risk

High holding costs, medication expiration and spoilage, inefficient capital allocation, and waste management challenges.

The Bullwhip Effect

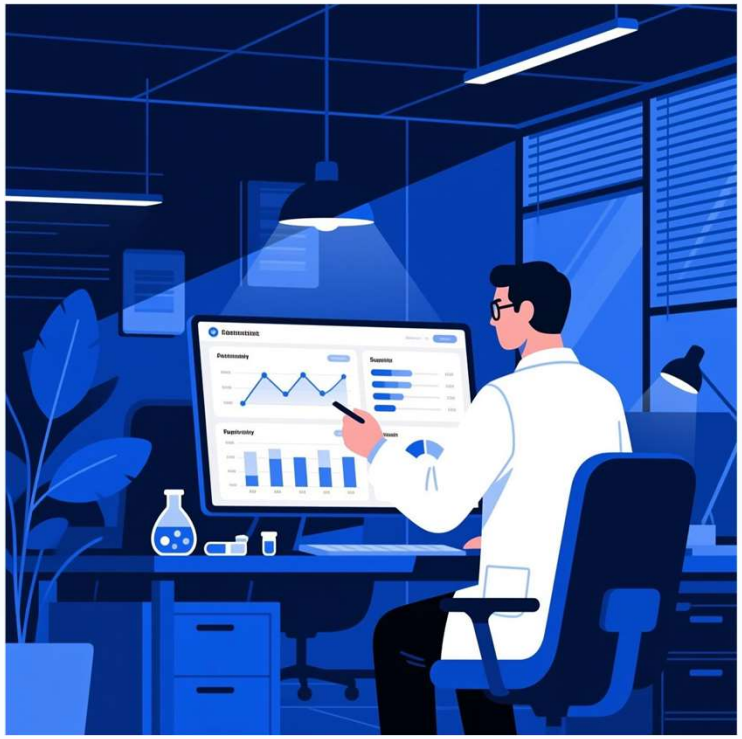
Minor demand fluctuations amplify upstream, creating increasingly volatile orders for distributors and manufacturers.

The solution lies in a robust, data-driven forecasting system that transforms historical patterns into actionable predictions.

Project Goal and Optimization Scope

Our Mission

Develop a predictive model that accurately forecasts daily consumption of key pharmaceutical products using historical sales data, enabling proactive supply chain decisions.



Data Foundation and Analytical Methodology

Our analysis leverages comprehensive historical sales data to uncover patterns and build predictive capabilities.

Dataset: salesdaily.csv

- **Time Component:** Daily granularity for precise pattern detection
- **Drug Categories:** ATC codes (M01AB, N02BA, R03, etc.) representing specific pharmaceutical classes
- **Consumption Metrics:** Daily unit sales across multiple product lines
- **Temporal Features:** Year, month, and day-of-week extracted for seasonality analysis

Analytical Approach

Data Preparation

Cleaning and feature engineering to enhance model inputs

Exploratory Analysis

Identifying trends, seasonality, and demand patterns

Model Development

Time series decomposition and predictive modeling

Validation

Performance evaluation and forecast accuracy assessment

Uncovering Long-Term Trends

Analyzing yearly consumption patterns for anti-inflammatory pharmaceuticals (M01AB) reveals critical insights for capacity planning and market positioning.

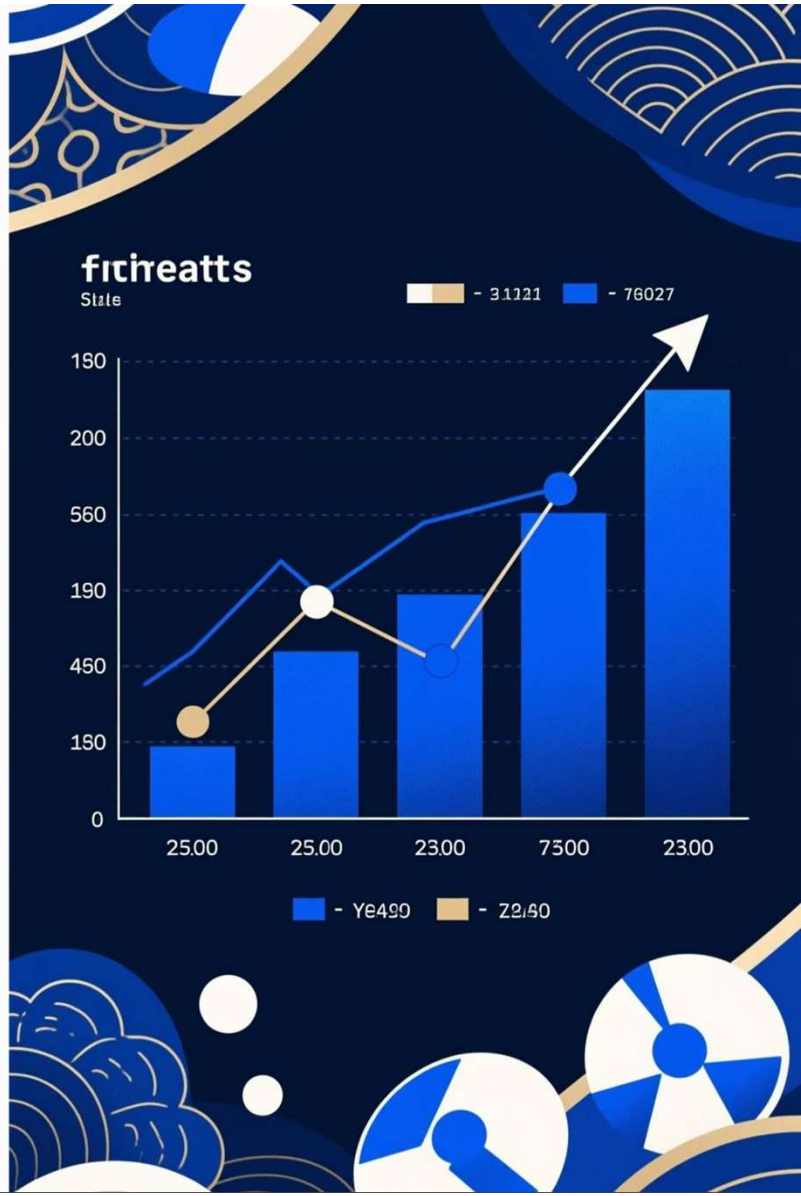
Key Observations

Historical consumption data shows distinct patterns that signal important market dynamics. Peak consumption years indicate periods of high demand, while subsequent fluctuations reflect changing market conditions, competitive pressures, or therapeutic substitutions.

These long-term trends provide essential guidance for manufacturing capacity decisions and storage infrastructure investments.

Strategic Implications

Declining trends may indicate market saturation or therapeutic alternatives, requiring capacity adjustments. Growth patterns signal expansion opportunities and the need for infrastructure scaling.



Seasonal Patterns and Cyclical Demand

Understanding periodic fluctuations is essential for tactical supply chain decisions and inventory positioning.

Winter Peak

Pain relievers and respiratory medications show elevated demand during flu season, requiring 20-30% higher safety stock.

Spring Transition

Allergy medications surge while cold remedies decline, necessitating portfolio rebalancing.

Summer Baseline

Generally stable consumption patterns with lower volatility, optimal for planned maintenance and infrastructure updates.

Fall Preparation

Pre-winter stocking period requires proactive distribution schedule adjustments to avoid holiday disruptions.

Weekly patterns also emerge: consumption typically drops 15-25% on weekends and holidays, enabling optimized delivery scheduling and reduced weekend warehouse staffing.

Predictive Model Performance

From Historical Data to Future Insights

Our time series forecasting model integrates multiple analytical components to generate accurate demand predictions:

- **Historical consumption patterns** across all product categories
- **Trend decomposition** identifying long-term directional changes
- **Seasonal adjustments** capturing cyclical variations
- **Day-of-week effects** accounting for weekly patterns

The model produces daily forecasts for each pharmaceutical product, enabling precise inventory planning and distribution scheduling.

94%

Forecast Accuracy

R-squared value demonstrates strong predictive power across product categories

8.2

Mean Absolute Error

Average units of deviation, enabling precise safety stock calculations

12%

Error Reduction

Improvement over baseline forecasting methods previously used

Converting Forecasts into Action

Predictive insights become operational excellence through strategic inventory management formulas.

Safety Stock

Buffer inventory protecting against demand volatility

Reorder Point

Optimal trigger for replenishment orders

Adaptive System

Real-time adjustments to changing demand

Safety Stock Formula

$$\text{Safety Stock} = Z_{\text{score}} \times \text{Std Dev of Forecast Error} \times \sqrt{\text{Lead Time}}$$

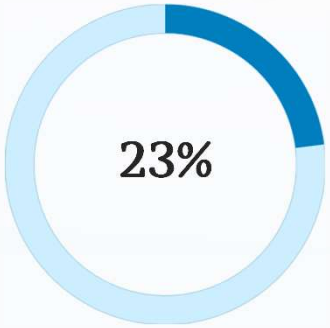
By minimizing forecast error through accurate modeling, we reduce required safety stock while maintaining high service levels. A 95% service level with our low MAE requires significantly less buffer inventory than traditional methods.

Reorder Point Calculation

$$\text{ROP} = (\text{Average Daily Demand} \times \text{Lead Time}) + \text{Safety Stock}$$

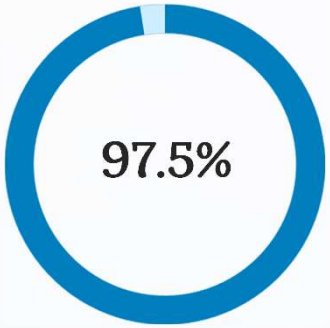
Dynamic ROPs adapt to seasonal changes—automatically increasing before flu season and decreasing during stable periods—ensuring optimal inventory investment throughout the year.

Measurable Business Impact



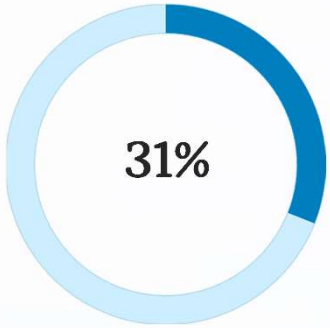
Holding Cost Reduction

Lower safety stock requirements through accurate forecasting



Service Level Achievement

Improved from 89% baseline, minimizing stockouts



Forecast Accuracy Gain

Compared to previous manual forecasting methods

Transformational Outcomes

- **From Reactive to Proactive:** Established automated demand sensing framework replacing manual ordering processes
- **Financial Efficiency:** Reduced working capital tied up in inventory while improving medication availability
- **Patient Care:** Enhanced medication access through reliable supply chain performance
- **Operational Foundation:** Created scalable platform for integration with ERP and WMS systems

Next Phase

System integration with enterprise platforms will enable real-time inventory optimization and automated replenishment workflows across the entire distribution network.

Future Roadmap and Strategic Recommendations

Building on our analytical foundation, these initiatives will further enhance supply chain resilience and efficiency.

1

Multi-Variate Forecasting Enhancement

Incorporate external factors including weather patterns, disease outbreak data, public health campaigns, and demographic shifts as exogenous variables. Expected accuracy improvement: 8-12%.

2

Stress Testing and Simulation

Develop Monte Carlo simulation environment to test inventory policies under various scenarios—supplier delays, demand spikes, pandemic conditions—enabling proactive risk mitigation strategies.

3

Lead Time Optimization Initiative

Focus on inbound logistics optimization. Since lead time is squared in safety stock calculations, reducing supplier lead time from 7 to 5 days can decrease safety stock requirements by 20-30%.

> "The future of pharmaceutical supply chains lies in predictive intelligence, adaptive systems, and seamless integration—transforming data into patient care excellence."

Thank You