SALES FORECASTING MODELS FOR DIRECT SELLING BUSINESS: A DATA-DRIVEN APPROACH TO PREDICTIVE ANALYTICS

SIVARAJAN A/L S.ESVARAN

UNIVERSITI TEKNOLOGI MALAYSIA

CHAPTER 1

INTRODUCTION

1.1 Overview

Direct selling, which is selling face-to-face outside of fixed retail locations, is a big business all over the world. Companies like Amway have grown their networks of independent distributors, who rely on personal connections and face-to-face deals to make sales. This model is flexible and lets you make changes and build relationships with customers, but it has some unique problems when it comes to inventory and business planning because consumer demand is very unpredictable and changes with the seasons (Al-maaitah, 2023; Korherr et al., 2022).

Predictive analytics is an important technology that helps people make strategic decisions in all areas of business in the data-driven economy. Companies use advanced forecasting models to figure out what will happen in the market, make sure they have the right amount of stock, and make customers happier. But the direct selling field, especially at the level of a single distributor, has not been quick to adopt predictive analytics and has instead relied on gut feelings instead of data-driven models.

The growth of machine learning and cloud-based analytics technology gives independent distributors a chance to completely change how they plan their sales. Distributors with good forecasting models can switch from a reactive business model to a proactive one, where they make the most of their business by managing their inventory strategically and based on accurate, predictable demand. This study looks at

how to create and use sales forecasting models for the direct selling industry, using the Amway distributor network as an example. The study aims to create useful, accurate forecasting tools for independent distributors to help them run their businesses better by using new predictive analytics techniques.

1.2 Problem Background

Independent distributors in direct selling companies have a particularly difficult time anticipating future sales performance and achieving successful inventory management. While it is common for larger retailers to have sophisticated enterprise resource planning (ERP) systems and an analytical team in place individual distributors rarely have access to these tools and forecasting capabilities (Daradkeh et al., 2022).

The nature of direct sales makes forecasting a nightmare. Sales trends can impact sales from various aspects including seasonal fluctuations, sales promotions, customer segment lifecycle changes, product launch, and economic environment. The first is that without predictive models to forecast these ebbs and flows, distributors either carry excess inventory that stifles cash or they go out of stock, stealing sales opportunities and angering customers.

Another issue is that the private and personal nature of person-to-person sales makes individual customer relations and purchasing behaviour within these diffuse sales force networks vary widely, thus preventing application of generic forecasting methods. The traditional time-series forecasting techniques may not be able to capture the complex dynamics involved in the direct selling relationships and need to be replaced with more complex models that can combine multiple factors and non-linear dynamics (Sivanathan et al., 2024).

Inaccurate sale forecast capability also affects strategic decisions at various hierarchies. Distributors face challenges in defining achievable monthly and quarterly targets, or preparing parties, and deciding how to further develop or focus their market segments. And their inability to predict and respond proactively often means they're unable to optimize their monetization opportunity and build a solid, growing business.

1.2 Problem Statement

While it is a well-known fact that predictive analytics have brought tremendous success in the retail and e-commerce industries, individual distributors in direct selling companies do not have access to advanced sales forecasting models that can forecast future performance, steering strategic business decisions. Without accurate forecasting facilities suboptimal business results inefficient stock management, missed sales opportunities, poor planning for promotions, the list goes on. Thus, the fundamental problem solved by this work is as follows:

How to design and implement advanced sales forecasting models to generate reliable, actionable predictions to direct selling industry, allowing independent distributors to streamline their operations with data-based prediction analytics?

1.4 Research Questions

Based on the comprehensive analysis of Amway transaction data spanning April 2023 to April 2025, this research addresses the following key questions:

1. What are the dominant temporal patterns in direct selling transactions, and how do seasonal variations affect sales forecasting accuracy across different time horizons?
2. How do traditional statistical models (ARIMA) compare to machine learning approaches (LSTM, Random Forest, Linear Regression) in terms of forecasting performance for direct selling businesses with highly variable sales patterns?

3. What factors contribute to the superior performance of ARIMA models in achieving acceptable forecasting criteria compared to machine learning approaches in this specific business context?

4. How can the identified customer demographics patterns and purchasing behaviours be leveraged to improve sales forecasting models?

1.5 Research Aim and Objectives

Aim: To investigate and evaluate the effectiveness of different sales forecasting methodologies in direct selling business environments through comprehensive data analysis and model comparison, in order to determine the most suitable approaches for independent distributors facing highly variable market conditions.

Objectives:

- **To conduct comprehensive exploratory data analysis** of transactions over a 24-month period to identify key patterns, trends, and characteristics that influence sales forecasting in direct selling environments.

- **To analyse temporal sales patterns** including monthly seasonality, day-of-week effects, and yearly trends to understand the cyclical nature of direct selling transactions and their impact on forecasting model selection.

- **To develop and implement multiple forecasting models** including traditional time series methods (ARIMA) and modern machine learning approaches (LSTM, Random Forest, Linear Regression) to address different aspects of sales prediction challenges.

- **To establish comprehensive model evaluation criteria** using multiple performance metrics to provide robust assessment of forecasting effectiveness across different business contexts.

- **To identify optimal forecasting approaches** by comparing model performance against established business criteria to determine practical applicability for direct selling operations.

1.6 Research Scope

This study will use detailed transaction and customer data from a single Amway distributor over the period April 2023 to April 2025. The study will address the development of forecast models from short-term (weekly) to long-term (quarterly) forecast horizon.

Critical components of the project scope are as follows:

- Data Sources: Two year of granular sales transaction data, customer demographics, product catalogues, promotional calendars, and external factors such as economic indicators, seasonality.
- Implementing and comparing traditional statistical forecasting models like ARIMA, Exponential Smoothing and more modern machine learning models like Random Forest, **Linear Regression**, LSTM).
- Horizons of Prediction: Developing systems that can model predictions at representative time scales, 1-week, 4-weeks, and 12-weeks, to meet different business planning requirements.
- Tech Stack: Python for model-building, focusing on scikit-learn, Tensorflow/Keras, as well as specialized forecasting libraries like Prophet and statsmodels.
- Validation Framework: Develop robust cross validation methods and walk-forward analysis to ensure that the model was reliable and did not suffer from overfitting.
- Deployment Consideration: Develop models considering deployment challenges, such as automation, scale and ease of use for non-technical users.

1.7 Significance of Research

This research contributes significant value to both academic knowledge and practical business applications. On a business level, it fills a unique void within the direct selling industry as it allows independent distributors access to a level of predictive analytics they would not otherwise have access to. The power of being able to accurately predict sales can revolutionize the way that a distributor operates, driving more efficient inventory management, better customer service and greater business profitability. From the perspective of the wider direct selling industry, a system for scaled deployment of predictive analytics is proposed through this research. Companies such as Amway can use these findings to design tools to support distributors, better training programs, and to improve network effectiveness in general. The methods we have built are a potential template for other direct selling businesses to update their analysis capabilities.

Theoretically, this paper adds to the burgeoning field of retail analytics by investigating distinct challenges and opportunities in direct selling settings. It contributes to knowledge regarding the uses of traditional forecasting techniques for person-to-person sales and offers practical applications of machine learning for small business. The study also adds to the more general discussion of democratization of advanced analytics, revealing that complex predictive modelling tools can be made available for single entrepreneur and small business owner level players. This has implications beyond direct sales and potentially contribute to the design analytics tool for other types of small business sectors. In addition, the research helps advance knowledge in sales forecasting and predictive modelling, related to the efficiency of various forecast methods in the largely unstable, relationship-driven business context.