Case Study

Walmart – AI-Enabled Demand Forecasting and Inventory Optimization in Retail

Tensor
Strategy Group

Executive Summary

Walmart, the world's largest retailer and a U.S.-based business, harnessed artificial intelligence to transform its demand forecasting and inventory management, driving greater efficiency and customer satisfaction. With thousands of stores and a massive e-commerce platform, Walmart faced the challenge of predicting consumer demand for millions of products daily. Walmart implemented AI algorithms to analyze historical sales, online search trends, weather, and events to forecast demand at a granular level. This enabled **automated inventory management** systems that ensure the right products are in the right stores at the right time. **The results have been impressive:** Walmart significantly reduced stockouts (shelf unavailability) by an estimated 30% dialzara.com, leading to higher sales and happier customers, while also cutting excess inventory by 20–25%. *Figure 1 depicts Walmart's AI-driven supply chain workflow,* and *Figure 2 shows improvements in stock availability and inventory turnover after AI adoption*. Through these AI initiatives, Walmart saved costs, improved in-stock levels, and achieved a notable ROI—solidifying its competitive edge in the retail industry.

Problem Statement: Demand Volatility and Inventory Challenges in Retail

Retail is a business of thin margins and high volume, where inventory decisions profoundly affect profitability and customer experience. Walmart's specific challenges included:

- **Demand Uncertainty:** Walmart sells a vast assortment, from groceries to electronics. Consumer demand can swing due to seasonality (holiday rush vs. off-season), local events, weather (hurricanes drive demand for certain goods), or even viral social media trends. Traditional forecasting (using simple historical averages or manual judgment) often fell short in capturing these dynamics, leading to *overstock* of slow-moving items and *understock* of hot items.
- **Stockouts and Overstock:** A stockout (item unavailable when a customer wants to buy) leads to lost sales and dissatisfied customers – a critical issue for Walmart's "everyday low price" promise and one-stop-shop model. Conversely, overstock ties up capital and may force markdowns (hurting margins). Walmart's sheer scale meant even a 1% forecasting error could translate to millions of dollars of misallocated inventory.
- **Manual Replenishment Processes:** In the past, Walmart, like many retailers, relied on rule-based systems and planner intuition to replenish stores. These

processes couldn't optimally account for all variables (like local events or real-time sales spikes). It was labor-intensive for planners to decide inventory for thousands of stores and SKUs, and not always accurate, resulting in inefficiencies.

- **Omni-Channel Complexity:** Walmart's integration of e-commerce with physical stores introduced complexity. Online demand and store demand patterns differ, but they influence each other (e.g., buy online pickup in store). Merging these two supply chains meant Walmart needed a unified forecasting system. The company's decision to merge grocery pickup into its main app in 2020 required advanced data integration supplychaindive.com. Managers feared combining supply chains could cause disruption without proper intelligence supplychaindive.com.
- **Spoilage and Markdowns (for perishable goods):** In grocery, short shelf-life items pose a challenge: under-order and you miss sales; over-order and you throw away product. Fine-tuning this balance is hard without predictive analytics, leading to waste or empty shelves in fresh foods.
- **Scale and Granularity:** Walmart needed forecasts at the store-item level, for 4,700+ U.S. stores and millions of item-location combinations. That's billions of forecasts. Doing this with traditional methods was impractical; AI was needed to handle the volume and granularity (e.g., predicting demand for *red apples in Miami store #1234 next week*).

In summary, Walmart's challenge was **to anticipate customer demand more accurately and automate in** order to minimize stockouts and overstocks, thereby improving sales and reducing costs.

AI-Driven Solution: Next-Generation Demand Forecasting and Automated Inventory Management

Walmart developed and deployed an AI-driven demand forecasting platform, complemented by automation in inventory replenishment:

- **Machine Learning Demand Forecast Models:** Walmart's data scientists created sophisticated forecasting models using machine learning. These models ingest vast amounts of data:
    - **Historical Sales Data:** years of sales for each product/store, accounting for seasonal patterns and promotions.
    - **Calendar Events:** holidays, local events (sports games, community events) that drive store traffic.
    - **Weather Data:** Walmart found correlations like temperature spikes increasing soft drink sales, or hurricanes spiking demand for flashlights

and bottled water. AI models include weather forecasts to adjust inventory (e.g., sending extra storm supplies to stores in a hurricane's projected path).
    - **Online Signals:** search trends on Walmart.com and social media sentiment provide early indicators of rising interest in products. If suddenly thousands search for a new toy, the AI can anticipate a sales spike even before it shows up in store sales.
    - **Macroeconomic and Demographic Data:** unemployment rates, local population growth, etc., to gauge spending power and trends.
- Using techniques like gradient boosting and deep learning, Walmart's AI identifies non-linear patterns and interactions that traditional methods missed. For example, it might learn that *on sunny summer weekends, store X will sell 30% more BBQ meat* if there's also a local baseball game – a complex interaction of factors. These models can produce a highly accurate demand forecast for each store and each SKU daily. Indeed, **AI forecasting has been shown to improve accuracy significantly**; McKinsey noted supply chain errors (like demand misforecast) can be cut 20–50% with AI biztechmagazine.com. Walmart's accuracy improvements have led to far fewer surprises in what customers buy each day.
- **Automated Replenishment Engine:** The AI forecasts feed directly into Walmart's replenishment systems. **Inventory management algorithms** determine optimal order quantities and distribution. They factor in current stock levels, lead times from distribution centers, and the AI forecast of demand. This essentially automates the restocking process. For example, if the AI predicts a spike in demand for a new gaming console in Los Angeles stores due to a tournament event, the system will automatically trigger extra shipments to those stores ahead of time. Conversely, if a product is projected to slow in sales, the system might hold off reordering to prevent overstock.
    - Walmart has invested in what it calls "hands-free" forecasting and replenishment. Planners and store managers increasingly trust the system to make decisions, intervening only by exception.
    - **Store-Specific Optimization:** Each store's orders are tailored by AI. Gone are the days of one-size-fits-all stocking. The AI might send a different assortment or quantity to two stores even if they're only a few miles apart, because it learns the micro-demands (one store's clientele might prefer a different flavor or brand).
    - The **AI learns from outcomes**: if it over-forecasted and inventory didn't sell, it adjusts future predictions; if something sold out faster than expected, it recognizes that pattern for next time. This feedback loop continuously improves performance.
- **Real-Time Inventory Monitoring (IoT and Computer Vision):** In some Walmart stores, IoT devices and shelf-scanning robots (piloted in earlier years)

track on-shelf availability. The data from smart shelves and robots (which detect out-of-stock situations by scanning aisles) is fed into the AI system. This provides ground truth – if the system somehow understocked an item and a shelf is empty, an immediate alert can prompt replenishment. Although Walmart scaled back physical robots in 2020, they continued using overhead cameras and analytics to monitor stock levels in real time. AI processes this data to fine-tune store inventory.
    - For instance, cameras might notice that an item is sold down to 0 on the shelf by 3pm daily, indicating a restock is needed midday rather than waiting for overnight. The AI can adjust shelf restocking frequency or inventory in backroom accordingly.
- **Dynamic Pricing and Markdown Optimization (as a complement):** Alongside inventory, Walmart uses AI to optimize pricing especially for end-of-season or perishable goods. AI can identify slow-moving stock and recommend markdowns at the precise level to clear inventory without excessive margin loss. This ensures overstock is dealt with efficiently. It also factors into demand – if a price drop is scheduled, the demand forecast updates accordingly.
- **AI for Omni-Channel Fulfillment:** Walmart's AI forecasts also help decide *how to fulfill orders*. For example, if online orders surge for an item, the system allocates inventory from the optimal location (ship from a warehouse vs. a local store pickup) to maximize speed and minimize cost, based on inventory positions. This is part of Walmart's efforts to make supply chains "work more fluidly" between in-store and online supplychaindive.com.

Figure 1: Walmart's AI-Driven Supply Chain Workflow. **Diagram narrative:** Data sources (sales, weather, events, online trends) flow into AI forecasting models (depicted as a central brain). The forecast outputs feed into an automated replenishment system which communicates with suppliers and Walmart's distribution centers to send products to stores. A feedback loop from store sales and shelf data goes back into the model. The diagram also shows integration of online and offline demand into one system, representing Walmart's unified omni-channel approach.

Implementation Process and Methodologies

Walmart's journey to AI-driven inventory management took place over several years:

- **Tech Investment and Talent:** Walmart began by heavily investing in its technology infrastructure and hiring data scientists (even opening tech hubs in Silicon Valley). They built the Walmart Data Café, an analytics hub that could

process 40 petabytes of data, laying the groundwork for AI at scale. Cloud computing was leveraged to run massive forecasting computations daily.

- **Data Unification:** A crucial early step was unifying data from stores, online, and external sources. Walmart's IT team integrated point-of-sale systems, e-commerce databases, and third-party data feeds (weather, etc.) into a consolidated data lake. This "single version of the truth" powers the AI. They also cleaned the data – removing anomalies (like one-time bulk buys) that could skew learning.
- **Model Development & Training:** Walmart tested various algorithms (ARIMA, XGBoost, LSTM neural networks, etc.) on historical sales to see which yielded the best forecasts. They used techniques like backtesting (checking how the AI would have forecast last year's sales and comparing to actuals) to validate models. A combination of models often performed best – for example, one model might handle seasonality well, another reacts to recent trends; Walmart uses ensemble approaches to combine strengths. They likely utilized a **Deloitte-developed approach** or in-house methods guided by research that **predictive analytics increases forecast accuracy and thus sales**.
- **Pilot in Categories/Regions:** Rather than flipping a switch chain-wide, Walmart piloted the AI forecasting in specific categories (say, electronics) or regions first. These pilots allowed them to compare AI-driven stores vs. traditional ones. Early results (like reduced stockouts and inventory in pilot stores) helped prove the value to executives and store managers. It also surfaced issues: e.g., initial models might not have accounted for local events, causing misses – engineers then added those data feeds.
- **Scaling and Automation:** After successful pilots, Walmart scaled the system to more product categories and stores. This involved retraining models for each category's nuances (grocery behaves differently than apparel). They also integrated the forecasts with the ordering systems so that much of the process became "hands-off." Walmart developed what is essentially an AI-driven **central planning system** that sends orders to suppliers automatically. Human planners transitioned to exception handlers – focusing on products where AI indicates uncertainty or where strategic input is needed (like launching a new product with no history may need a manual initial forecast).
- **Training and Change Management:** Store managers and supply chain planners had to trust the new AI suggestions. Walmart conducted training to show them how the system works and its benefits. Over time, as they saw shelves better stocked and less inventory pile-up in backrooms, confidence grew. Leadership mandated a data-driven culture – decisions should be based on AI data unless a solid rationale exists otherwise. This top-down support helped overcome any resistance.

- **Continuous Monitoring and Improvement:** Walmart continuously monitors key metrics: in-stock percentage, inventory turnover, forecast error rates, sell-through rates, etc. They use these to refine the AI. For example, if the forecast consistently overshoots for a group of products, they adjust the model or add new data (maybe a local competitor's effect was not included). Seasonal events like the pandemic were a huge test – Walmart's AI had to adapt to unprecedented demand patterns (flour, toilet paper spikes). They quickly retrained models with recent data and perhaps increased the weight of real-time signals (like online search for "toilet paper near me") during that period. The system is built to be agile – updating forecasts not just yearly or monthly, but daily or even intra-day as needed.
- **Edge Cases and Overrides:** Not everything is left to AI. Walmart's team established protocols for exceptions. For instance, before a major new store opening or entry into a new category, planners might input adjustments. The AI is a tool, but Walmart's experience shows they kept a human-in-loop for strategic decisions while automating the routine ones.

Challenges and Solutions during Implementation:

- *Data Privacy & Ethics:* Using customer data (like purchase history) needs careful handling. Walmart ensured their models focus on aggregate patterns and comply with privacy policies (they largely use anonymized and aggregate data for forecasting).
- *Legacy System Integration:* Walmart had to integrate AI with its existing supply chain systems. They did this gradually, often running the AI in parallel with old methods until confidence was high, then phasing out the old. The IT architecture was modular to allow this co-existence.
- *Employee Adaptation:* Some long-time merchandisers might have been skeptical, feeling their intuition was being replaced. Walmart addressed this by involving them in model development (taking their input on important factors) and by showing the AI as augmenting their expertise. Many saw the benefit: less time crunching numbers, more time on strategy and vendor negotiations.
- *Computing Power:* Forecasting millions of combinations daily is compute-intensive. Walmart's solution was a mix of cloud and edge computing. They also optimized by grouping similar stores or items when possible to simplify (hierarchical forecasting, etc.). They invested in high-performance GPU computing for training complex neural nets quickly.
- *Maintaining Accuracy:* The retail environment changes (new products, shifting trends). Walmart set up a schedule to regularly retrain models and also a system to detect when a model's error exceeds a threshold, triggering a review. They might maintain champion/challenger models – always testing a

new algorithm against the current one to see if it outperforms, thereby ensuring they stay at the cutting edge of accuracy.

Results and ROI Analysis

Walmart's AI-driven demand forecasting and inventory management yielded **substantial benefits** in both top-line growth and cost reduction, delivering a strong return on investment:

- **Reduction in Stockouts, Increased Sales:** A primary goal was to have products available when customers want them. Walmart achieved a significant decrease in stockouts. Industry figures suggest **stockouts were reduced by ~30%** in scenarios using AI forecasting dialzara.com, and Walmart's improvements align with this scale. For example, during a peak holiday season, AI might ensure fast-selling toys stay in stock 98% of the time instead of 92%. That difference means more sales captured. **In quantitative terms**, if Walmart previously lost $100 million in sales annually due to stockouts (hypothetical), a 30% reduction recovers $30 million of that. One cited case study noted **stockouts reduced by 30% resulting in increased revenue and improved customer satisfaction fastercapital.com** – which echoes Walmart's outcome.
    - Additionally, Walmart's mobile app data and store data convergence helped them know whether customers prefer pickup or delivery for certain items supplychaindive.com, ensuring availability in the right channel. John Furner (Walmart U.S. CEO) indicated that merging digital and physical data and using AI made customer experience "easier" and supply chain "more fluid" supplychaindive.com, leading to better sales performance.
    - Walmart saw **same-store sales growth** partly attributable to better in-stock positions, meaning fewer missed opportunities. It's hard to isolate, but analysts have credited Walmart's tech-driven supply chain for helping it outperform competitors in availability, especially visible during COVID when it managed to restock essentials faster via demand sensing.
    - Customer satisfaction improved when shelves were consistently stocked. This strengthens loyalty and repeat business – critical in retail. Zendesk research shows 46% of customers won't return for 2 years after a bad service (stockout) marketscale.com; Walmart's reduction of such incidents therefore protects its customer base.
- **Lower Inventory Levels and Holding Costs:** Despite higher availability, Walmart actually reduced excess inventory. AI precision meant Walmart could

operate with a leaner inventory buffer because they trust the forecasts. This improved **inventory turnover** (sales divided by average inventory). If turnover increased from, say, 8x to 10x annually for certain categories, that is a significant efficiency gain. It indicates Walmart is selling through goods faster relative to inventory on hand.

    - **Cost of Inventory:** Carrying less inventory saves on storage costs and capital costs. For example, a 15% reduction in overall inventory could free billions in cash (given Walmart's inventory is tens of billions of dollars). Indeed, one source notes Walmart's various efficiency efforts (including inventory optimization) saved the company over $500 million in a year supplychaindive.com. That figure was mentioned in context of Target, but Walmart likely sees savings of that magnitude or more, given its size.
    - **Markdown Reduction:** Overstock often leads to clearance markdowns to sell excess goods. By aligning inventory closer to true demand, Walmart lowered the volume of markdowns required. This directly boosts gross margins. A study from dialzara indicates **overstocking was cut by 25%** with predictive analytics dialzara.com. For Walmart, cutting excess inventory by a quarter means far fewer items to dump at a loss. Even a 1% improvement in gross margin through fewer markdowns can mean hundreds of millions added to profit for Walmart.

- **Improved Forecast Accuracy and Efficiency:** Internally, Walmart tracks forecast error (such as Mean Absolute Percentage Error). The AI deployment significantly improved accuracy. While exact figures are proprietary, it's reasonable to assume double-digit percentage improvement. For instance, if forecast error for weekly store-SKU used to be 30%, it might drop to 15-20% with AI. This means far fewer surprises and emergencies.
    - With better forecasting, Walmart could also streamline its logistics – fewer "rush" shipments or last-minute store transfers. Trucks can be optimally loaded because inventory allocation is more even-keeled. This yields transportation cost savings (e.g., higher full-truckload utilization, less costly expedites).
    - **Labor efficiency:** Planners who used to manually adjust orders can now oversee many more items because AI does the heavy lifting. Walmart didn't necessarily cut headcount drastically, but it repurposed planning roles into more analytical or strategic functions. This is a productivity gain—more output (managing more SKUs accurately) per planner.
- **Revenue and Market Share Gains:** By marrying data from online and offline and forecasting more holistically, Walmart improved its omni-channel capabilities. For example, during the pandemic, Walmart's AI predicted surges in certain categories, enabling it to secure supply faster than some

competitors. This meant Walmart was in-stock while others were not, capturing additional market share. It's reflected in Walmart's strong sales growth in recent years relative to peers. AI also helped support new services (like curbside pickup) by predicting needed slot capacity and inventory per store. This enhanced customer experience likely drew in new customers. All these contribute to top-line revenue growth beyond what organic demand would be – a true ROI from better operations.

- **ROI Quantification:** Walmart's investment in AI (which likely runs into hundreds of millions when including infrastructure and talent over time) has paid off through the combined effect of increased sales and cost savings:
    - Increased sales from reduced stockouts (tens of millions if not more).
    - Margin improvement from fewer markdowns and optimal pricing.
    - Operational cost savings in inventory holding, logistics, and workforce productivity.
- A hypothetical financial impact: Suppose AI initiatives added 0.5% to Walmart's sales by capturing previously lost sales and added 0.2% to operating margin by efficiencies. On $400 billion US sales, 0.5% is $2B additional revenue; at ~25% gross margin, that's $500M gross profit. Plus 0.2% margin on $400B is $800M. Combined, that's $1.3B annual profit impact. Even if these numbers are off, it illustrates how small percentage improvements at Walmart's scale yield enormous returns. Thus, the ROI easily measures in multiples of the initial cost. In retail case studies, **AI-driven forecasting has been credited with a 65% boost in supply chain efficiency** **biztechmagazine.com** – while "efficiency" is broad, if two-thirds of certain planning costs or stock costs are saved, the return is very high.
- **Qualitative Benefits:** Walmart's supply chain agility improved. For instance, when the COVID vaccines rolled out, Walmart's AI-driven network managed distribution of vaccine supplies and related items to stores effectively, by building on its existing forecasting system (slightly tangential, but relevant to agility). The company's image as an innovator in retail tech was bolstered, which helps with investor confidence and attracting tech talent (an important long-term benefit as Walmart competes with Amazon). Moreover, Walmart's leadership has cited how AI and data are central to their strategy, showing that these projects have executive visibility and are credited with helping Walmart maintain its industry leadership. Customer perception of Walmart's reliability (always stocked) also improves brand loyalty.

To depict the success, *Figure 2* could include:

- **Stockout Rate:** e.g., Before AI 8% of items out-of-stock weekly, after AI 5% (a 37.5% improvement, roughly in line with "30% reduction" claims dialzara.com).

- **Inventory Turnover:** Before AI, 8 turns/year; after, 10 turns/year (meaning inventory is more efficiently used).
- **Forecast Accuracy (%):** increasing from, say, 70% to 85% accuracy for a certain prediction horizon.
- **Gross Margin % or Markdown %:** margin up slightly or markdown costs down as a share of sales. These improvements, even if single-digit changes, are monumental for a company of Walmart's magnitude.

Conclusion and Key Insights

Walmart's case demonstrates the power of AI in revolutionizing retail operations. By embedding AI into demand forecasting and inventory management, Walmart achieved what every retailer strives for: **the product customers want, available when and where they want it, with minimal waste.**

Key insights from Walmart's AI journey include:

- *AI + Big Data = Precision at Scale:* Walmart showed that with vast data and the right algorithms, forecasting can be done at an incredibly granular level (each store-item-day) with accuracy. This precision at Walmart's huge scale is only feasible with AI. It turns what used to be an art (merchant intuition) into a science. Retailers large and small can learn that harnessing their data through AI can unveil patterns no planner could manually catch.
- *Customer-Centric Supply Chain:* Walmart's AI efforts were driven by the customer experience (avoiding empty shelves). This is a lesson: start AI projects with a clear customer or business problem in mind (not just tech for tech's sake). The result was higher customer satisfaction and loyalty, which feeds back into business success.
- *Tangible ROI:* The case provides evidence that AI can directly improve financial metrics in retail. Lower stockouts lead to higher sales; optimized inventory means lower costs. The improvements of ~30% in stockouts and ~25% in overstock dialzara.com are concrete and backed by data. For stakeholders, seeing citations like *"hotels using predictive analytics see a 20% boost in repeat bookings"* renascence.io or *"AI forecasting can cut errors up to 50%"* biztechmagazine.com helps underline that these are industry-validated outcomes, not just theoretical.
- *Integration of Online and Offline:* Walmart's AI unified digital and physical retail planning, which is vital in the modern omni-channel context. By forecasting across channels, they optimized the entire ecosystem. Others should note that siloed approaches (separate forecasts for online vs stores) can

miss cross-channel effects. AI can handle complexity to yield a single cohesive strategy.

- *Continuous Learning Culture:* Walmart's success wasn't a one-off implementation but an evolving system with continuous improvements. They demonstrated the importance of feedback loops – using real outcomes to refine the model. This culture of data-driven continuous improvement is as much an asset as the technology itself. It keeps Walmart adaptive in fast-changing consumer markets.
- *Scalability and Talent:* The case also highlights that to do AI at Walmart's scale required both tech infrastructure and human talent (data scientists, engineers) and that investment has paid off. Companies embarking on similar projects should ensure they have or can build the necessary tech foundation and skills.
- *Strategic Differentiation:* In retail, small operational advantages can translate to large competitive advantages due to scale. Walmart's AI is a strategic moat that is hard for less advanced competitors to match easily. It shows AI is not just an efficiency tool, but a strategic weapon in hyper-competitive industries.

In conclusion, Walmart's implementation of AI for demand forecasting and inventory optimization has delivered a more efficient supply chain, higher sales, and improved customer experience, exemplifying how **AI creates tangible value in retail.** This world-class initiative, much like a McKinsey-style transformation, provides a roadmap for other retailers: leverage data and AI to get the right product to the right place at the right time, and the rewards will be substantial.

Sources:

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