GLDQN: Explicitly Parameterized Quantile Reinforcement Learning for Waste Reduction

Sami Jullien  
AI for Retail Lab  
University of Amsterdam  
Amsterdam, The Netherlands  
s.jullien@uva.nl

Mozhdeh Ariannezhad  
AI for Retail Lab  
University of Amsterdam  
Amsterdam, The Netherlands  
m.ariannezhad@uva.nl

Paul Groth  
University of Amsterdam  
Amsterdam, The Netherlands  
p.groth@uva.nl

Maarten de Rijke  
University of Amsterdam  
Amsterdam, The Netherlands  
derijke@uva.nl

Abstract

We study the problem of restocking a grocery store’s inventory with perishable items over time, from a distributional point of view. The objective is to maximize sales while minimizing waste, with uncertainty about the actual consumption by costumers. This problem is of a high relevance today, given the growing demand for food and the impact of food waste on the environment, the economy, and purchasing power. We frame inventory restocking as a new reinforcement learning task that exhibits stochastic behavior conditioned on the agent’s actions, making the environment partially observable. We introduce a new reinforcement learning environment based on real grocery store data and expert knowledge. This environment is highly stochastic, and presents a unique challenge for reinforcement learning practitioners. We show that uncertainty about the future behavior of the environment is not handled well by classical supply chain algorithms, and that distributional approaches are a good way to account for the uncertainty. We also present GLDQN, a new distributional reinforcement learning algorithm that learns a generalized lambda distribution over the reward space. We show that GLDQN outperforms other distributional reinforcement learning approaches in our partially observable environments, in both overall reward and generated waste.

1 Introduction

Grocery stores need to manage their inventory in order to meet customer demand. To do so, they pass orders to warehouses. When restocking an inventory, an order is made to receive $n$ units of a product at a later time. Often, stocks are provisioned in order to ensure customers always have access to an item [Horoš and Ruppenthal 2021]. This means that, in the case of perishable items, they might waste items that have been staying in stock for too long. Conversely, if items are under-stocked, it might lead to customers not finding the products they want. This results in a balancing problem where orders have to account for uncertainty in the demand, both to minimize waste and meet customer demand. This process is of course repeated over several periods – a grocery store is usually opened from 6 to 7 days a week. This makes inventory replenishment a sequential decision making problem, where actions have potentially delayed outcomes. Currently, there is no available framework that allows us to properly simulate a grocery store that takes waste into account for different items. To evaluate the performance of different agents for the inventory restocking (or inventory replenishment)
problem, we introduce a grocery store environment that takes waste and stochastic customer demand into account.

The stochasticity of customer consumption makes the inventory replenishment problem partially observable: the demand being different from its forecast, two identical situations at first sight can result in different outcomes. This creates a problem: if an action, for a given observation, can result in various rewards, how do we ensure that we properly learn the dynamics of the environment?

To do so, one possibility is to consider non-deterministic action-value functions, where we can ascribe the randomness in the environment to its reward distribution. We propose to make use of distributional reinforcement learning (DRL). In DRL, the agent aims to estimate the distribution of the state-action value function $Q$ rather than its expectation [Bellemare et al., 2017]. In this paper, we adopt a new direction to estimate the distribution. Non-parametric estimations of summary statistics of the probability distribution are preferred for unconventional data distributions, but are often prone to overfitting and require more samples [Pados and Papantoni-Kazakos, 1994; Sarle, 1995]. To circumvent this limitation, we estimate parameters of a flexible distribution, in order to facilitate learning. Actual reinforcement-learning based approaches to waste reduction in the inventory problem do not look at the item-level [Kara and Dogan, 2018]. Moreover, there is no DRL algorithm based on quantile regression that has a reliable estimate of the mean of a distribution. We aim to fill this gap in perishable item replenishment by making use of distributional reinforcement learning.

We introduce GLDQN, a reinforcement learning algorithm that estimates parameters of a well-defined parametric distribution. Currently, distributional approaches rely mostly on non-parametric estimation of quantiles. We find that distributional algorithms with a reliable mean estimate outperform non-distributional approaches, with GLDQN outperforming expectile-based approaches. While we focus on the task of inventory replenishment, GLDQN does not make any assumption on the task we present here.

Overall, then, we aim to answer the following research questions:

(RQ1) Given a forecast for the consumption of a perishable item, can we find an optimal strategy to restock it while maximizing overall profits?

(RQ2) Can we ensure that such a policy does not lead to increased waste?

(RQ3) Which distributional method is the most efficient to solve the problem?

To answer those questions, we compare various discrete-action based DRL methods, including the newly proposed GLDQN, as well as classic inventory replenishment heuristics.

In summary, our contributions are as follows:

- We propose GLDQN, a new distributional reinforcement learning algorithm for the evaluation of state-action values;
- We show that GLDQN outperforms the current state-of-the-art in a highly stochastic environment, while still reducing wastage of products;
- We provide a new, complete simulation environment for reinforcement learning and other replenishment policies based on realistic data.

## 2 Problem Setting

In inventory replenishment, a manager passes item orders to a warehouse to restock a store. At every step, items in the store are consumed by customers. Let us consider a single item $i$ and its observation $o(i)$ with a shelf life $s_i$. We study restocking and consumption of this item over a total of $T$ time periods, each composed of $\tau \in \mathbb{N}$ sub-periods that we call time steps. During each time period $t \in \{1, \ldots, T\}$, the manager can perform $\tau$ orders of up to $n$ instances of the item $i$. Each of those orders is then added $L$ time steps later to the inventory – termed the lead-time.

In the meantime, $\tau$ consumptions of up to $n$ items are realized by customers. Each of those purchases then results in a profit. Assuming that not enough instances of $i$ are present in the stock to meet customer demand, it then results in a missed opportunity for the manager, resulting in a loss. At the end of the period $t$, all instances of $i$ currently present in the store have their shelf life decreased by
one, down to a minimum of zero. Once an instance of $i$ reaches a shelf life of zero, it is then discarded from the inventory, and creates a loss of $i$’s costs for the manager. Furthermore, the restocking and consumption of $i$ are made in a LIFO way, as customers tend to prefer items that expire furthest from their purchase date [Li et al., 2017; Cohen and Pekelman, 1978].

To fulfill their task, the manager has access to a forecast of the customer demand for $i$ in the next $w$ time steps, contained in $o(i)$. While we could argue that the agent should be able to act without forecast, this does not hold in real-world applications. In most retail organizations, forecasts are owned by a team and used downstream by multiple teams, including the planning ones that take decisions from it. This means that the forecast is “free-to-use” information for our agent. Moreover, this means that adapting to the forecast will prove more reliable in the case of macroeconomic tail-events (lockdowns, canal blockades...) as those can be taken into account by the forecast. Obviously, this forecast is only an estimation of the actual realization of $i$’s consumption, and is less accurate the further it is from the current time step $t$.

Items are considered independent, meaning that we do not take exchangeability into account. Using this information about all individual items in the store, our goal is to learn an ordering policy to the warehouse that generalizes to all items. An ordering policy simply refers to how many units we need to order at every time step, given the context information we have about the state. The goal of our policy is to maximize overall profit, instead of simply sales. This means that waste, and missed sales are also taken into account. Moreover, while our policies have access to information about the consumption forecast of the items, this forecast is not deterministic. This means that reinforcement learning agents evolve in a partially observable Markov decision process (POMDP), where an observation and an action correspond to a reward and state distribution, and not a scalar.

Formally, we can write the problem as finding a policy $\pi^* : O \rightarrow \mathbb{N}$ such that:

$$\pi^* = \arg \max_\pi \sum_{i \in I} \sum_{t \in T} \sum_{\tau \in t} R_\pi (o_{\tau}(i)),$$

where $o_{\tau}(i)$ is the observation of item $i$ at the time-step $\tau$ and $R_\pi$ the reward function parameterized by the policy $\pi$. In the following sections, we detail how we model the items, the consumption process as well as the Markov Decision Process we study.

### 2.1 Item representation

Using actual data of items being currently sold is impossible, as this data contains confidential information (the cost obtained from the supplier). This is why we fit a copula on our data to be able to generate what we call pseudo-items on-the-fly. Pseudo-items are simply tuples that follow the same distribution as our actual item set. Having pseudo-items also allows us to generate new, unseen item sets for any experiment. This proves useful for many reinforcement learning endeavors [Tobin et al., 2017].

When an instance of our experimental environment is created, it generates an associated set of pseudo-items with their characteristics: cost, price, popularity and shelf life. These characteristics are enough to describe an item in our setting: we do not recommend products, we want to compute waste and profit. We provide the item generation model along with our experiments. This way, practitioners can sample sets of pseudo-items on-the-fly.

### 2.2 Consumption Modeling

We model the consumption as the realization of a so-called $n, p$ process, as this way of separating the number of customers and purchasing probability is common in retail forecasting [Juster, 1966]. We consider that a day is composed of several time steps, each representing the arrival of a given number of customers in the store.

### 2.3 POMDP formalization

Customer consumption depends on aleatoric uncertainty, and forecast inaccuracy derives from epistemic uncertainty. Yet, there is no difference for our agent, as both of them affect the reward and transitions in the environment. This means the environment is partially observable to our agent.

---

1 We make the assumption that the price does not depend on the remaining shelf life of the item.
Formally, we can write a Partially Observable Markov decision process as a tuple \( \langle O, A, R, P \rangle \), where \( O \) is the observation we have of our environment, \( A \) the action space, \( R \) the reward we receive for taking that action, and \( P \) the transition probability matrix. Here, they correspond to:

\( O \) The full inventory position of the given item (all its instances and their remaining shelf lives), its shelf life at order, its consumption forecast, its cost, its price and the current position within the day;

\( A \) How many instances of the item we need to order; and

\( R \) The profit, to which we subtract profit of missed sales and cost of waste.

3 Related Work

3.1 Partially Observable Markov Decision processes

Randomness in environments is common in reinforcement learning [Monahan, 1982, Ragi and Chong 2013, Goindani and Neville 2020]. We can distinguish two approaches to this stochasticity, that are not necessarily disjoint. The first is to consider robust Markov decision processes. They make the assumption that a policy should be robust to changes in the data generating process over time, in order to have a better estimation of the transition matrix [Xu et al., 2021, Derman et al., 2020]. The other approach is to consider the reward as a non-deterministic random variable whose distribution is conditioned on the environment’s observation and on the agent’s action. This usually means that the agent acts under partial information about the environment’s state. While one can make the argument that this is only due to the lack of information about the environment [Doshi-Velez, 2009], this is not a setting that generalizes well to unseen situations. In this paper, we consider that our agent can see the current state of the stock for a given item, but is unable to predict the exact responses of the environment when an action is taken.

3.2 Distributional Reinforcement Learning

Learning the expectation of the \( Q \)-value is the most straightforward way to develop a \( Q \)-learning algorithm, but is most likely to be inefficient, as noted by Bellemare et al. [2017]. Bellemare et al. introduce the C51 algorithm, where they divide the possible \( Q \)-value interval in 51 sub-intervals, and perform classification on those. This allows one to achieve a gain in performance, compared to using only the expectation; this paper launched the idea of distributional deep reinforcement learning. Later, Bellemare et al. [2017] introduced a more generalizable version of their algorithm, the quantile-regression DQN [Dabney et al., 2018]. Instead of performing classification on sub-intervals, Dabney et al. directly learn the quantiles of the \( Q \)-value distribution through the use of a pinball loss. While this method proved efficient, its main drawback is that it does not prevent crossing quantiles – meaning that it is possible in theory to obtain \( q_1 > q_9 \). To fix this, different approaches have been tried to approximate the quantiles of the \( Q \)-value distribution [Yang et al., 2019, Zhou et al., 2020], through the use of distribution distances rather than quantile loss.

The work listed above takes a non-parametric approach. While non-parametric methods are known for their flexibility, they sometimes exhibit a high variance, depending on their smoothing parameters. This has been explored earlier on in Bayesian reinforcement learning [Strens, 2000], that estimates Gaussian distributions. Moreover, non-parametric estimations of quantiles prevents aggregation of agents and their results, as one cannot simply sum quantiles. More recently, research has been led on robust Bayesian reinforcement learning [Derman et al., 2020] to adapt to environment changes. In this paper, authors develop a model geared towards handling distributional shifts, but not towards handling the overall distributional outcomes of the \( Q \)-value.

In our paper, we consider a very flexible distribution that is parameterized by its quantiles, and from which we can both sample and extract summary characteristics [Chalabi et al., 2012].

3.3 The Inventory Restocking Problem

The literature on ordering policies is extensive. Most work is based on the classic \((s, S)\) policy introduced by Arrow et al. [1951]. Yet, their inventory model does not factor in waste. Inventory policies for fresh products as a field was kick-started to optimize blood bag management [Jennings, 2012].
Since then, there is increased attention in classic supply chain literature to limit waste \cite{vanDonselaar2006, Broekmeulen2009, Minner2010, Chen2014}. Recently, various reinforcement learning-based policies have been developed for supply chains; see \cite[][2009, Sui2010, Gijsbrechts2019]. More specifically, \cite{Kara2018} pioneered the use of reinforcement learning for waste reduction in the inventory restocking problem by using a DQN to solve the problem at hand. Their approach can be improved upon, as they aggregate the total shelf lives of the items at hand – thus, their agents only have access to the average shelf life of the inventory. Moreover, this makes it impossible to account for all items independently, to remove expired items from the stock, and to penalize the agent for the generated waste. Indeed, waste can be considered a tail event as it happens suddenly once an item has reached its maximum consumption date. Item-level waste is currently not considered in the literature. We think it is not enough to limit the agent’s knowledge by only looking at the mean. Indeed, a distribution has more summary statistics than it first moment, especially to characterize its tail. We should make use of those, and we believe that this is required for a proper evaluation of waste. With distributional reinforcement learning, the agent can learn its own summary characteristics, which will be more suited to the task at hand.

In our paper, we aim to fill the gap in perishable item replenishment. To do so, we propose a method that bridges the gap between Bayesian reinforcement learning and distributional reinforcement learning, by proposing to learn a distribution that is parameterized by its quantiles.

\section{Methodology}

In this section, we present the environment we created, as well as its components and mechanisms. Next, we present our distributional algorithm to tackle the challenge of waste reduction in a grocery store.

\subsection{Environment Modeling}

We aim to model a realistic grocery store that evolves on a daily basis through customer purchases and inventory replenishment. To do so, we rely on expert knowledge from a major grocery retailer in Europe. Our environment relies on four core components:

- Item generation,
- Demand generation,
- Forecast generation, and
- Stock update and reward computation.

\subsubsection{Item Generation}

We define an item $i$ as a tuple containing characteristics common to all items in an item set: shelf life, popularity, retail price, and cost: $i = \langle s, b, v, c \rangle$. As data sourced from the retailer contains sensitive information, we want to be able to generate items \textit{on-the-fly}. On top of helping with anonymity, being able to learn in a different but similar environment has proved to help with the generalization of policies \cite{Tobin2017}. To do so, we fitted a Clayton copula \cite{Yan2007} on the marginal laws (gamma and log-normal) of our tuple. The parameterized model is available with the code. Given the parameterized copula, we can generate an unlimited number of tuples that follow the same multivariate distribution as the items available in the data sourced from the retailer.

\subsubsection{Demand Generation}

To represent a variety of demand scenarios, we based the demand on the popularity of the items given by the past purchases in the real data. We then modeled a dual-seasonality, weekly and yearly.
Overall, given a customer visiting the store, we can write the purchase probability at time $t$, $p_i(t)$ for a pseudo-item $i$ as:

$$p_i(t) = b_i \cdot \cos(\omega_w t + \phi_{1,i}) \cdot \cos(\omega_y t + \phi_{2,i}),$$  

(2)

where $b_i$ is the popularity (or base demand) for item $i$, $\phi_{1,i}$ its phases, and $\omega_w, \omega_y$ are the weekly and yearly pulsations of the demand signal, respectively.

Together with the purchase probability, we also determine the number of customers who will visit the store on a given time-step. To do so, we model a multivariate Gaussian over the day sub-periods, with negatively correlated marginal laws (if a customer comes in the morning, they will not come in the evening). Having the purchase probability and the number of customers $n(t)$, we can then simply sample from a binomial law $B(n(t), p_i(t))$ to obtain the number of units $u_i$ of item $i$ sold at the time-step $t$.

### 4.1.3 Forecast Generation

The parameters $(n(t), p_i(t))$ of the aforementioned binomial law (Section 4.1.2) are not known to the manager that orders items. Instead, the manager has access to a forecast – an estimator of the parameters. We simply use a mean estimator for $n(t)$, as seasonality is mostly taken into account via our construction of $p_i(t)$.

As for the purchase probability estimator, we assume that the manager has access to a week-ahead forecast. We write the estimator as such:

$$\hat{p}_i(t + \delta_t) = p_i(t + \delta_t) + \delta_t \epsilon_i,$$

(3)

where $\delta_t \in \{1, \ldots, 7\}$ and $\epsilon_i \sim \mathcal{N}(0, \sigma)$. The noise $\epsilon_i$ represents the forecast inaccuracy for the item $i$, and the uncertainty about the customer behavior the manager and the store will face in the future. We assume a single $\sigma$ for all items and a mean of 0, as most single point forecasts are trained to have a symmetric, equally-weighted error. $\delta_t$ is used to show the growing uncertainty we have the further we look in the future.

### 4.1.4 Stock Update

To step in the environment, the agent needs to make an order of $n$ units $u_i$ of the item $i$. We consider that a time period $t$ is a succession of several time-steps. At the beginning of a time period, items that were ordered $L$ time-steps before are added to the stock, where $L$ is the lead time. The generated demand is then matched to the stock. Items are removed from the stock in a LIFO manner, as is the case in most of the literature [Li et al., 2017, Cohen and Pekelman, 1978]. Items that are removed see their profit added to the reward. If the demand is higher than the current stock, the lacking items see their profits removed from the reward (missed sales). Finally, if the step is at the end of the day, all items in store receive a penalty of one day on their remaining shelf lives. Items that reach a shelf life of 0 are then removed from the inventory, and their cost is then removed from the reward: these items are the waste.

### 4.2 Generalized Lambda DQN

In this section, we introduce our model, generalized lambda deep Q-network (GLDQN).

We assume that the $Q$-value follows a generalized lambda distribution. The generalized lambda distribution can be expressed with its quantile function $\alpha$ as follows:

$$\alpha_{\lambda}(u) = \lambda_1 + \frac{1}{\lambda_2} \left[ u^{\lambda_3} - (1 - u)^{\lambda_4} \right],$$

(4)

where $\Lambda = (\lambda_1, \lambda_2, \lambda_3, \lambda_4)$ is the tuple of four parameters that define our distribution. The use of four parameters allows for a very high flexibility of shapes for this distribution family [Chalabi et al., 2012]: unimodal, s-shaped, monotone and even u-shaped. Those parameters can then be used to compute the distribution’s four first moments (mean, variance, kurtosis and skewness), if they are defined.

---

4 Usually, a time period would be a day, meaning a store can be replenished several times on the course of a day.
Algorithm 1: Generalized Lambda Distribution Q-Learning

Require: quantiles \( \{q_1, \ldots, q_N\} \), parameter \( \delta \)
Input: \( o, a, r, o', \gamma \in [0, 1] \)

1. # Compute distribution parameters;
2. \( \Lambda(o', a'), \forall a' \in A \);
3. # Compute optimal action (Equation 7);
4. \( \Lambda^* \leftarrow \arg \max_{a} \hat{\mu}(\Lambda(o', a')) \); # Update projection via Equation 4
5. \( T q_i \leftarrow r + \gamma \alpha_{\Lambda^*}(q_i), \forall i; \)
6. # Optimize via loss function (Equation 6);

Output: \( \sum_{j=1}^{N} E_i[L_{\delta}^{q_j}(T q_i, \alpha_{\Lambda(o,a)}(q_j))] \)

Thus, we build our Q-network not to predict the expected Q-value nor its quantiles, but to predict the parameters \( \lambda_1, \lambda_2, \lambda_3, \lambda_4 \) of a generalized lambda distribution. This allows us to obtain both guarantees on the behavior of the distribution’s tail, and non-crossing quantiles. Still, we perform our Bellman updates by estimating the quantiles derived from the values of the distribution’s parameters.

Working with the quantiles guarantees us that the Bellman operator we use is a contraction, when using a smoothed pinball loss [Yang et al., 2019]. While written differently in most of the literature, the classic pinball loss can be written as follows:

\[
P_{\mu}^{\text{p}}(y, \hat{y}) = (y - \hat{y}) \cdot u + \max(0, \hat{y}(u) - y),
\]

where \( u \) is a quantile, \( y \) the realized value, and \( \hat{y}(u) \) the predicted value of quantile \( u \). Its \( \delta \)-smoothed version is obtained by plugging this loss estimator instead of the square error in a Huber Loss [Huber, 1992]. This gives us the following loss function:

\[
L_{\delta}^{u}(y, \hat{y}_{\Lambda}(u)) = \begin{cases} 
\frac{1}{2} |y - \hat{y}_{\Lambda}(u)|^2 \Delta, & \text{for } |y - \hat{y}_{\Lambda}(u)| \leq \delta \\
\frac{1}{\delta} (|y - \hat{y}_{\Lambda}(u)| - \delta/2) \Delta, & \text{otherwise,}
\end{cases}
\]

with \( \Delta = P_{\mu}^{\text{p}}(y, \hat{y}_{\Lambda}(u)) \), where \( \delta \) is a smoothing parameter and \( u \) the considered quantile for the loss. Algorithm 1 shows the way we update the parameters of our network through temporal difference learning adapted to a quantile setting.

Unlike C51 [Bellemare et al., 2017] and QR-DQN [Dabney et al., 2018], we do not select the optimal action (line 4 of Algorithm 1) via an average of the quantile statistics, but via a mean estimator obtained via our GLD distribution’s parameters [Fournier et al., 2007]:

\[
\hat{\mu}(\Lambda) = \lambda_1 + \frac{1}{\lambda_2} - \frac{1}{\lambda_2} \lambda_4.
\]

This approach is closer to the implementation of ER-DQN [Rowland et al., 2019], where only the expectile 0.5 is used, rather than QR-DQN, where the quantiles are averaged to obtain an estimation of the mean [Dabney et al., 2018].

5 Experiments

In this section, we compare the performance in inventory replenishment simulation of GLDQN against a number of baselines (RQ3), for a variety of scenarios. We want to see whether we can improve overall sales (RQ1), and, if so, if it comes at the cost of generating more waste (RQ2).

5.1 Baselines

In this section, we present the baselines we use.

\((s, Q)\) Ordering Policy: The \((s, Q)\) ordering policy [Nahmias and Demmy, 1981] consists in ordering \( Q \) units of stock when the inventory position goes below a certain threshold \( s \). While very simple, it has been in use (along with some of its derived cousins) for decades in supply chain settings.
DQN: The first reinforcement learning baseline we use is Deep-Q-Networks [Mnih et al., 2015]. While this model is not SOTA anymore, it is often a reliable approach to a problem. The idea behind DQN is to predict the Q-value of all possible actions that can be taken by the agent for a specific input. By using those values, we are able to use the corresponding policy to evolve in the environment.

C51: Categorical DQN [Bellemare et al., 2017] can be seen as a multinomial DQN with 51 categories and is a distributional version of DQN. Instead of predicting the Q value, the model divides the possible reward interval in 51 (can be more or less) intervals. Then, the network assigns a probability to each interval, and trained like a multinomial classifier. This approach has proven quite effective in improving learning of the environment.

Quantile Regression DQN (QR-DQN): DQN using quantile regression [Dabney et al., 2018] is not necessarily more performant than C51. Instead of a multinomial classifier, this algorithm performs a regression on the quantiles of the distribution function. This approach has the benefit of being non-parametric, but does not guarantee that the quantiles will not cross each other: we can obtain Q10 < Q90, which would be impossible in theory.

Expectile Regression DQN: Expectile Regression DQN (ER-DQN) [Rowland et al., 2019] takes the idea behind QR-DQN and replaces quantiles with expectiles. It is possible to interpret an expectile as the “value that would be the mean if values above it were more likely to occur than they actually are” [Philipps, 2021].

5.2 Experimental Setup

We train our DQN-family policies (baselines and GLDQN) on a total of 6,000 pseudo-items, for transitions of 5,000 steps. We do so in order to expose our agents to a variety of possible scenarios and items.

We evaluate the performance of our agents on a total of 30 generations of 100 unseen pseudo-items, for 2,000 steps. We repeat this for 3 different scenarios of randomness, indicating how observable the environment is. We name them $H = 1$, $H = 2$, $H = 3$. In $H = 0$, the environment’s mechanics are not random. In this scenario, there is little need for adaptability as the inter-day variations in customer behavior are close to non-existent. In $H = 1$, the environment’s mechanics are slightly random and overall exhibit little variation. In this scenario, the agent needs to learn how to interpret the week-ahead forecast and leverage it to increase sales. In $H = 2$, the environment is highly noisy and becomes much harder to predict. Here, the agent needs to learn not to trust longer-term forecast, while still minimizing product waste. These scenarios allow us to verify whether an agent has learned a decent policy and is able to generalize to unseen data.

Real grocery stores with a “good” forecast are more likely to be represented by the $H = 2$ scenario [Ramanathan, 2012]. We perform two experiments, where we look at overall profit performance and waste reduction relative to a baseline, respectively.

5.2.1 Experiment 1: Impact of forecast inaccuracy

In this experiment, we measure the overall performance of the various agents, for the different levels of environment randomness (RQ1). This experiment allows us to measure the impact of randomness and unpredictability of consumption behavior on our agents, and to see whether they are an improvement over a deterministic heuristic.

5.2.2 Experiment 2: Impact of unstable order behavior on waste

In this experiment, we show how the orders translate into generated waste. This way, we can see whether the improvement in the previous section comes at the cost of more waste or not (RQ2).

5.2.3 Implementation and computational details

Our code was implemented in PyTorch [Paszke et al., 2019] and is available on GitHub. We ran our experiments on a RTX A6000 GPU, 16 CPU cores and 128GB RAM. All models use the same underlying neural network architecture.

[https://github.com/samijullien/gldqn]
Figure 1: Improvement of GLDQN over \((s, Q)\)-policy, for the \(H = 3\) scenario, for 30 generations of 100 items.

5.3 Results

In this section, we detail the performance of the various baselines as well as GLDQN, introduced in Section 4.2 for both resistance to uncertainty and waste reduction. We averaged the results of the different algorithms over a total of 6,000 pseudo-items. QR-DQN, ER-DQN and GLDQN were trained with the same 5 quantiles and expectiles values to ensure fairness in the learning process.

5.4 Overall performance

We report the performance in Table 1 as the improvement relative to a simple \((s, Q)\) policy, as this kind of policy is still prominent in supply chain.

Looking closer at the results, we can see that improvements relative to the baselines are strictly one sided for most models in high entropy scenarios (Figure 1). This means that using GLDQN results in a consistent improvement in sales performance.

5.5 Waste reduction

In Table 2, we visualize the waste generated relative to our simple \((s, Q)\) policy baseline. In the full information (non partially observable) scenario, we see that all methods reduce waste relative to the baseline. Still, this comes at the cost of highly reduced profits, meaning that our agents are probably all risk-averse and under-ordering compared to the baseline.

|                | \(H = 0\) | \(H = 1\) | \(H = 2\) |
|----------------|-----------|-----------|-----------|
| DQN            | -72%      | 80%       | 55%       |
| C51            | -73%      | 86%       | 60%       |
| QR-DQN         | -72%      | 109%      | 69%       |
| ER-DQN         | -74%      | 92%       | 88%       |
| GLDQN (ours)   | -72%      | 101%      | 97%       |

Table 1: Score improvement over \((s, Q)\) baseline on transitions of length 2,000, averaged over 6,000 items, for 3 different consumption volatility scenarios (bold indicates best performance; higher is better).
|        | $H = 0$ | $H = 1$ | $H = 2$ |
|--------|---------|---------|---------|
| DQN    | 3.6%    | 21%     | 16%     |
| C51    | 73%     | 86%     | 60%     |
| QR-DQN | 2.6%    | 106%    | 69%     |
| ER-DQN | 26%     | 13%     | 16%     |
| GLDQN (ours) | 11% | 15% | 15% |

Table 2: Waste relative to $(s, Q)$ baseline on transitions of length 2,000, averaged over 6,000 items, for 3 different consumption volatility scenarios (bold indicates best performance; lower is better).

In the $H = 1$ and $H = 2$ scenarios, where the environment is partially observable, we see that most agents waste less than the baseline, reducing waste up to 13 and 15% over the baseline. We see that DQN, ER-DQN and GLDQN are all close in performance and are far stronger than C51 and QR-DQN. This means that they managed to improve the overall score (Table 1), without increasing waste: they ordered more than the baseline, and wasted less products. Given the significant improvement over the baseline in a partially observable environment brought by ER-DQN and mostly GLDQN, we conclude that they were able to adapt to the environment’s dynamics and its randomness, while still taking the potential waste into account.

### 6 Conclusion

In this paper, we introduced a new reinforcement learning environment for both supply chain and reinforcement learning practitioners and researchers. This environment is based on expert knowledge and uses real-world data to generate realistic scenarios. By taking waste at the item-level into account, and by being able to tune the forecast accuracy as well as the customer’s behavior, we can act on the environment’s noisiness; this results in a partially observable MDP, with tunable stochasticity, which is lacking for most RL tasks. Additionally, we propose GLDQN, a new algorithm based on DQN that outperforms other methods from the same family in most cases for this task. GLDQN does so by using a quantile loss to optimize a well-defined distribution’s parameters and selecting optimal actions using a mean estimator. GLDQN does not require any assumption specific to the simulation environment we provide. We found that GLDQN can offer significant and constant improvement over our classic supply chain baseline, as well as over other distributional approaches, outperforming ER-DQN in highly unpredictable environments. Moreover, GLDQN does this without generating more waste through its replenishment policies, hinting that it learnt the environment’s dynamics better than the baselines. Our results point towards distributional reinforcement learning as a way to solve POMDPs.

A limitation of our work is that we only considered discrete action spaces, whereas our environment would more be adapted to infinite-countable ones. Moreover, we consider marginal demand between items to be independent, which is unlikely to be the case in real life. Finally, we plan to extend GLDQN for multi-agent reinforcement learning, as our estimation of parameters gives us access to cumulants, that can be used to sum rewards of various agents and policies.

**Broader impact statement**  The simulation environment we provide with the paper rewards weighting the risks of wasting an instance of an item and the profit from selling it. This might favor resupply of stores in more wealthy geographical areas where the average profit per item is higher. Thus, any deployment of such an automated policy should be evaluated on different sub-clusters of items, to ensure it does not discriminate on the purchasing power of customers.

**Acknowledgments**

This research was supported by Ahold Delhaize and the Hybrid Intelligence Center, a 10-year program funded by the Dutch Ministry of Education, Culture and Science through the Netherlands Organisation for Scientific Research, [https://hybrid-intelligence-centre.nl](https://hybrid-intelligence-centre.nl] All content represents the opinion of the authors, which is not necessarily shared or endorsed by their respective employers and/or sponsors.
References

K. J. Arrow, T. Harris, and J. Marshak. Optimal inventory policy. *Economic Information, Decision, and Prediction*, 19(3):5–28, 1951.

M. G. Bellemare, W. Dabney, and R. Munos. A distributional perspective on reinforcement learning. In *ICML*, 2017.

E. Brodheim, C. Derman, and G. Prastacos. On the evaluation of a class of inventory policies for perishable products such as blood. *Management Science*, 21(11):1320–1325, 1975.

R.A.C.M. Broekmeulen and K.H. van Donselaar. A heuristic to manage perishable inventory with batch ordering, positive lead-times, and time-varying demand. *Computers and Operations Research*, 36(11):3013–3018, 2009.

Y. Chalabi, D. J. Scott, and D. Wuertz. Flexible distribution modeling with the generalized lambda distribution. *MPRA*, 43333, 2012.

X. Chen, Z. Pang, and L. Pan. Coordinating inventory control and pricing strategies for perishable products. *Operations Research*, 62(2):284–300, 2014.

Morris A. Cohen and Dov Pekelman. Lifo inventory systems. *Management Science*, 24(11):1150–1162, 1978.

W. Dabney, M. Rowland, M. G. Bellemare, and R. Munos. Distributional reinforcement learning with quantile regression. In *AAAI*, 2018.

E. Derman, D. Mankowitz, T. Mann, and S. Mannor. A bayesian approach to robust reinforcement learning. In *Uncertainty in Artificial Intelligence*, pages 648–658. PMLR, 2020.

F. Doshi-Velez. The infinitely partially observable markov decision process. *Advances in neural information processing systems*, 22, 2009.

B. Fournier, N. Rupin, M. Bigerelle, D. Najjar, A. Iost, and R. Wilcox. Estimating the parameters of a generalized lambda distribution. *Computational Statistics & Data Analysis*, 51(6):2813–2835, 2007.

J. Gijsbrechts, R.N. Boute, J.A. Van Mieghem, and D. Zhang. Can Deep Reinforcement Learning Improve Inventory Management? Performance and Implementation of Dual Sourcing-Mode Problems. *SSRN 3302881*, 2019.

M. Goindani and J. Neville. Social reinforcement learning to combat fake news spread. In *Uncertainty in Artificial Intelligence*, pages 1006–1016. PMLR, 2020.

I. K. Horoš and T. Ruppenthal. Avoidance of food waste from a grocery retail store owner’s perspective. *Sustainability*, 13(2):550, 2021.

P. J. Huber. Robust estimation of a location parameter. In *Breakthroughs in statistics*, pages 492–518. Springer, 1992.

J. B. Jennings. An analysis of hospital blood bank whole blood inventory control policies. *Transfusion*, 8(6):335–342, 1968.

F. T. Juster. Consumer buying intentions and purchase probability: An experiment in survey design. *Journal of the American Statistical Association*, 61(315):658–696, 1966.

A. Kara and I. Dogan. Reinforcement learning approaches for specifying ordering policies of perishable inventory systems. *Expert Systems with Applications*, 91:150–158, January 2018.

C. O. Kim, J. Jun, J. K. Baek, R. L. Smith, and Y. D. Kim. Adaptive inventory control models for supply chain management. *International Journal of Advanced Manufacturing Technology*, 26(9-10):1184–1192, October 2005.

Qing Li, Peiwen Yu, and Xiaoli Wu. Shelf life extending packaging, inventory control and grocery retailing. *Production and Operations Management*, 26(7):1369–1382, 2017.

S. Minner and S. Transchel. Periodic review inventory-control for perishable products under service-level constraints. *OR Spectrum*, 32(4):979–996, 2010.

V. Mnih, K. Kavukcuoglu, D. Silver, A. A. Rusu, J. Veness, M. G. Bellemare, A. Graves, M. Riedmiller, A. K. Fidjeland, G. Ostrovski, S. Petersen, C. Beattie, A. Sadik, I. Antonoglou, H. King, D. Kumaran, D. W., S. Legg, and D. Hassabis. Human-level control through deep reinforcement learning. *Nature*, 518(7540):529–533, 2015. doi: 10.1038/nature14236.
G. E. Monahan. State of the art—a survey of partially observable markov decision processes: Theory, models, and algorithms. *Management science*, 28(1):1–16, 1982.

S. Nahmias and W. S. Demmy. Operating characteristics of an inventory system with rationing. *Management Science*, 27(11):1236–1245, 1981.

D. A. Pados and P. Papantoni-Kazakos. A note on the estimation of the generalization error and the prevention of overfitting [machine learning]. In *Proceedings of 1994 IEEE International Conference on Neural Networks (ICNN’94)*, volume 1, pages 321–326 vol.1, 1994. doi: 10.1109/ICNN.1994.374183.

A. Paszke, S. Gross, F. Massa, A. Lerer, J. Bradbury, G. Chanan, T. Killeen, Z. Lin, N. Gimelshein, L. Antiga, A. Desmaison, A. Kopf, E. Yang, Z. DeVito, M. Raison, A. Tejani, S. Chilamkurthy, B. Steiner, L. Fang, J. Bai, and S. Chintala. Pytorch: An imperative style, high-performance deep learning library. In *Advances in Neural Information Processing Systems 32*, pages 8024–8035. Curran Associates, Inc., 2019.

C. Philipps. Interpreting expectiles. *ERN: Value-at-Risk (Topic)*, 2021.

S. Ragi and E. K. P. Chong. Uav path planning in a dynamic environment via partially observable markov decision process. *IEEE Transactions on Aerospace and Electronic Systems*, 49(4):2397–2412, 2013.

U. Ramanathan. Supply chain collaboration for improved forecast accuracy of promotional sales. *International Journal of Operations & Production Management*, 2012.

M. Rowland, R. Dadashi, S. Kumar, R. Munos, M. G. Bellemare, and W. Dabney. Statistics and samples in distributional reinforcement learning. In *International Conference on Machine Learning*, pages 5528–5536. PMLR, 2019.

W. S. Sarle. Stopped training and other remedies for overfitting. In *Proceedings of the 27th Symposium on the Interface of Computing Science and Statistics*, pages 352–360, 1995.

M. Strens. A bayesian framework for reinforcement learning. In *ICML*, volume 2000, pages 943–950, 2000.

Z. Sui, A. Gosavi, and L. Lin. A reinforcement learning approach for inventory replenishment in vendor-managed inventory systems with consignment inventory. *Engineering Management Journal*, 22(4):44–53, 2010.

J. Tobin, R. Fong, A. Ray, J. Schneider, W. Zaremba, and P. Abbeel. Domain randomization for transferring deep neural networks from simulation to the real world. In *2017 IEEE/RSJ International Conference on Intelligent Robots and Systems (IROS)*, pages 23–30, 2017. doi: 10.1109/IROS.2017.8202133.

A. Valluri, M. J. North, and C. M. Macal. Reinforcement learning in supply chains. *International journal of neural systems*, 19(05):331–344, 2009.

K. van Donselaar, T. van Woensel, R. Broekmeulen, and J. Fransoo. Inventory control of perishables in supermarkets. *International Journal of Production Economics*, 104(2):462–472, 2006.

L. Xu, A. Perrault, F. Fang, H. Chen, and M. Tambe. Robust reinforcement learning under minimax regret for green security. In *Proc. 37th Conference on Uncertainty in Artificial Intelligence (UAI-21)*, 2021.

J. Yan. Enjoy the joy of copulas: with a package copula. *Journal of Statistical Software*, 21:1–21, 2007.

D. Yang, L. Zhao, Z. Lin, T. Qin, J. Bian, and T. Liu. Fully parameterized quantile function for distributional reinforcement learning. In *Advances in Neural Information Processing Systems*, volume 32. Curran Associates, Inc., 2019.

F. Zhou, J. Wang, and X. Feng. Non-crossing quantile regression for distributional reinforcement learning. In *Advances in Neural Information Processing Systems*, volume 33, pages 15909–15919. Curran Associates, Inc., 2020.