Autoregressive Integrated Moving Average (ARIMA) Model of Forecast Demand in Distribution Centre

I Rizkya1, K Syahputri1, R M Sari1, I Siregar1 and J Utaminingrum1
1Departement of Industrial Engineering, Faculty of Engineering, Universitas Sumatera Utara

indahrizkya@usu.ac.id

Abstract. Demand forecasting is very important to be done in order to meet the demand for nail products that are available in every DC. This article tries to present the basic method of time series analysis and forecasting performance of Autoregressive Integrated Moving Average (ARIMA) Model. The study uses this ARIMA model because this model can include the variables used and the type of time series data. Calculation of forecasting errors to be used is Mean Square Error (MSE). From the results of data processing analysis, the best ARIMA model for DC Aceh demand forecasting is ARIMA (3,0,2) with 63,578 units of nails, DC Padang is ARIMA (3,0,3) with a forecasting result of 59,853 units of nails, DC Pekanbaru is ARIMA (1,0,2) with forecasting results of 53,043 units of nails, DC Palembang is ARIMA (3,0,1) with forecasting results of 57,682 units of nails, and DC Medan is ARIMA (2,0,1) with results forecasting 63,699 units of nails.

1. Introduction
Development of the industrial world, consumers demand high-quality products, and the company certainly do various ways to increase customer satisfaction. Consumers feel satisfied when sending product demands in an appropriate and right number. Demand forecasting is necessary to predict the possibility of a decrease or increase in sales in the next period by using accurate information and the companies prepare the strategic taken to face the real conditions [1]. Based on the statement, a forecasting system is needed to project how the sales coming. Forecasting is an important tool in effective and efficient production planning.

The time series approach to forecasting is one such approach which depends on the past data pattern in a time series to forecast the future data [2]. Time series approach are analyzed to understand behavior of the past data pattern and to forecast the future values, enable to analyze or decision makers to make a clear information to others [3]. An excellent review of time series methods in forecasting. There are exponential smoothing, moving average, etc, but one of the complex method that can be used in many data pattern form is Box and Jenkins or ARIMA. All the time series methods are used to predict future data and the autoregressive integrated moving average (ARIMA) model has been successfully implemented to solve forecasting problems e.g. consumer demand, econometrics, social sciences, and other problems [4].

Many time series forecasting methods, one of them is the ARIMA model. ARIMA Model has advantages compared to other time series methods, which is accept all types of data models [5]. Although the process must be stationary first. ARIMA models are both used to predict past data in a short period of time, has a rapid change and or have qualitative parameters. Forecasting is made by
looking at the past data to estimate future events to support their decision-making activities and tactical operations. ARIMA model also used on manufacturing industry [6]. ARIMA time series model able to forecast the trend of changes in qualitative parameters [7]. For example ARIMA can be used to forecast the London daily gold price [4][8] and primary energy demand on fossil fuel [9]. ARIMA Model has been implemented to assess seasonal variability macrobenthic assemblages [10]. The Autoregressive Integrated Moving Average (ARIMA) method is able to capture the information needed with change of quickly and able to handle of instability. This paper describes the ARIMA model of demand estimation at each Distribution Center (DC) and DC demand fulfilled on time. This paper uses the ARIMA Model in forecasting the demand of each Distribution Center because it is well used for short term and medium term forecasting and it is suitable for various data patterns form. Each DC request is carried out in the short term, therefore the ARIMA model is chosen. Until now there has been commonly found on the demand forecasting distribution center conducted using ARIMA model.

2. Methodology
This study was carried out on one of the industrial factories in Medan city that produces building materials. The object examined in this study is the demand for production from nail products. The process stages in overcoming the problem of unmet production demand begins with forecasting demand. Forecasting is done to estimate the number of nail requests from each distribution center in the next period. The forecasting calculation is used the time series method and consider the error estimation. The estimated demand for the future period will be carried out at each Distribution Center (DC), namely Aceh, Padang, Pekanbaru, Palembang, and Medan. The forecasting method commonly used is Autoregressive Integrated Moving Average (ARIMA) or Box-Jenkins. The model is written in the form of ARIMA (p, d, q), where p is the order of the auto regressive process, d is the order of the data stationary and q is the order of the moving average process [11].

The steps to adopt ARIMA method are [1]:

a. Model identification
The ARIMA model can only be used on stationary time series data. For this reason, the first step that must be done is to investigate whether the time series data is stationary or not. If the data is not stationary, it must be checked the difference and how much data will be stationary.

b. Identification of parameters (ACF and PACF)
To use the ARIMA model the value of d (stationery data) must be determined, the number of residual lag values (q) and the dependent lag value (p) used in the model. The main tools used to identify q and p are ACF and PACF (Partial Auto Correlation Function), and correlation which shows the plot of ACF and PACF values for lag. The partial auto correlation coefficient measures the degree of closeness of the relationship between Xt and Xtk, while the lab effect times 1, 2, 3, ..., k-1 are considered constant.

c. Selection of the best ARIMA model
From the results of stationary identification and identification of ACF and PACF, there will be several alternative models of ARIMA. Hereafter, estimate the auto regressive parameters.

d. Forecasting
After the best model is obtained, forecasting for the future period can be done. In various cases, forecasting with this method is more reliable than forecasting with other time series methods.

3. Result and Discussion
3.1. Historical Product Demand
Nail products manufactured by one of the building materials industry in Medan markets its products through five distribution centers namely the Medan DC, Padang DC, Palembang DC, Pekanbaru DC, and Aceh DC. Each distribution centre order directly to the company. Each distribution center orders separately each period based on market demand. To forecast nail product demand for12 months, can be done by looking at the historical data demand. The actual product demand of nail in a year from each distribution centre can be seen in Figure 1.
Based on Figure 1, it can be seen that the number of requests for nail products has small fluctuations. The fluctuations in demand for each Distribution Centre have a similar pattern, for example increasing in July 2017 except DC Medan.

3.2. ARIMA forecasting

After the data is obtained, then the ARIMA process is applied according to the steps in the application of the ARIMA process. The ARIMA process in this study using the Minitab 16 software. The forecasting steps carried out based on the ARIMA model are:

a. Setting a goal to forecast demand for nail product 12 months ahead on each DC namely Aceh, Medan, Pekanbaru, Padang, and Palembang.

b. Stationary testing of the data in variance is carried out. The result of stationary testing in each distribution centre can be seen in Table 1.

| Distribution Centre | Rounded Value | Confidence Level |
|---------------------|---------------|------------------|
| Aceh                | 0.04          | 95%              |
| Medan               | 0.16          | 95%              |
| Pekanbaru           | -0.92 with transformation | 95% |
| Padang              | 1.00 with transformation | 95% |
| Palembang           | 0.43          | 95%              |

Because the rounded value is smaller than 1 (≤1), it means the data is stationary.

c. Do the stationary testing of the data in the first means (Autocorrelation Function). The result of Autocorrelation Function testing in Aceh DC (as example) can be seen in Figure 2.
d. Do the stationary testing of data in the second means, PACF (Partial Autocorrelation Function). The result of Partial Autocorrelation Function testing in Aceh DC (as example) can be seen in Figure 3.

e. Forecasting is based on the ARIMA method. After that, each ARIMA model was tested to get the smallest model with MS (Mean Square). For example ARIMA model (1,0,0) means that autoregressive = 1, difference = 0, and moving average = 0. The result of mean square value in ARIMA model (1,0,0) from Aceh DC has mean square value equal to 6230139. Than forecast demand of nails products are repeated again with other ARIMA models (by trial and error) to get the smallest MS (Mean Square). With the same way in Aceh DC, the same calculation is done for each ARIMA model at the other distribution center. The results of repetition of the ARIMA model in each distribution centre (Aceh, Medan, Pekanbaru, Padang, and Palembang) can be presented in Table 2.

Testing was done based on all ARIMA models using the Minitab software. Based on Table 1, the smallest Mean Square in Aceh DC is the ARIMA Model (3,0,2) equal to 4222190. The smallest Mean Square in Medan DC is the ARIMA Model (2,0,1) equal to 13572762. In Pekanbaru DC, the smallest Mean Square is the ARIMA Model (1,0,2) equal to 15727607. In Padang DC, the smallest Mean Square is the ARIMA Model (3,0,3) equal to 13512774. In Palembang DC, the smallest Mean Square is the ARIMA Model (3,0,1) equal to 4153281.
Table 2 Result of forecast demand of nails product of Aceh DC

| Model         | Aceh | Medan         | Pekanbaru | Padang         | Palembang |
|---------------|------|---------------|-----------|---------------|-----------|
| ARIMA (1,0,0) | 6230140 | 15453343     | 15985373  | 21540388      | 11626234  |
| ARIMA (2,0,0) | 6534694 | 13881288     | 17350505  | 22300267      | 7083864   |
| ARIMA (3,0,0) | 7342997 | 13629340     | 16883172  | Not identified | Not identified |
| ARIMA (1,0,1) | 6717948 | 19498669     | 17230462  | 23311498      | 5452530   |
| ARIMA (2,0,1) | 7357481 | 13572762     | 19344040  | 24586523      | 5167757   |
| ARIMA (3,0,1) | 8512141 | 14670412     | 17561184  | Not identified | 4153281   |
| ARIMA (3,0,2) | 4222190 | 19467071     | Not identified | 19235245      | Not identified |
| ARIMA (3,0,3) | 6589172 | Not identified | 13512774  | Not identified | Not identified |

Based on the smallest Mean Square, forecast the nails product demand in Aceh DC using the ARIMA Model (3,0,2), Medan DC with ARIMA Model (2,0,1), Pekanbaru DC with ARIMA Model (1,0,2), Padang DC with ARIMA Model (3,0,3), and Palembang DC with ARIMA Model (3,0,1). Forecasting demand in each distribution centre for 12 months calculated based on ARIMA model with the smallest mean square value. Errors are obtained by comparing forecast data with actual demand data. The smallest Mean Square give results closer to actual demand forecasting with the smallest error. The forecasting result in each distribution centre with 95% level of confidence can be presented in Table 3.

Table 3 The result of forecasting nail product demand

| Period | Aceh | Medan | Pekanbaru | Padang | Palembang |
|--------|------|-------|-----------|--------|-----------|
|        | ARIMA (3,0,2) | ARIMA (2,0,1) | ARIMA (1,0,2) | ARIMA (3,0,3) | ARIMA (3,0,1) |
| 13     | 63.578 | 63.699 | 53.043 | 59.853 | 57.682 |
| 14     | 66.266 | 63.102 | 53.946 | 58.574 | 50.064 |
| 15     | 65.326 | 65.633 | 51.950 | 56.504 | 52.399 |
| 16     | 64.410 | 62.867 | 53.763 | 59.021 | 57.230 |
| 17     | 66.076 | 64.607 | 52.117 | 56.331 | 51.194 |
| 18     | 65.415 | 64.313 | 53.611 | 58.602 | 51.554 |
| 19     | 64.705 | 63.496 | 52.254 | 56.591 | 56.767 |
| 20     | 65.840 | 64.721 | 53.487 | 58.220 | 52.303 |
| 21     | 65.421 | 63.742 | 52.368 | 56.841 | 51.089 |
| 22     | 64.897 | 64.134 | 53.384 | 57.955 | 56.123 |
| 23     | 65.675 | 64.310 | 52.461 | 57.026 | 53.237 |
| 24     | 65.415 | 63.822 | 53.299 | 57.780 | 50.935 |

Table 3 shows the results of Nail Product demand forecasting for each distribution center. Forecasting is done in the next 12 periods based on the selected ARIMA model. The ARIMA model
selected for each DC has been verified to have the smallest error compared to other ARIMA models.
This paper does not compare the ARIMA model with other time series models, because the ARIMA
model can be used on all data models [5] and considered in capable of providing good forecast results.
This paper has been succeeded in applying the ARIMA model to predict the demand for each distribution
center that changes anytime.

4. Conclusion
Comparison of actual company demand with demand forecasting calculations using the ARIMA model.
Based on the results of research on forecasting using Auto Regressive Integrated Moving Average
(ARIMA), the best forecasting results are generated using the ARIMA Model (3,0,2) in Aceh DC,
ARIMA Model (2,0,1) in Medan DC, ARIMA Model (1,0,2) in Pekanbaru DC, ARIMA Model (3,0,3)
Padang DC, and ARIMA Model (3,0,1) in Palembang DC. The forecast demand in 13th period in Aceh
DC with ARIMA (3,0,2) equal to 63,578 units of nails, Padang DC with ARIMA (3,0,3) equal to 59,853
units of nails, Pekanbaru DC with ARIMA (1,0,2) equal to 53,043 units of nails, Palembang DC with
ARIMA (3,0,1) equal to 57,682 units of nails, and Medan DC with ARIMA (2,0,1) equal to 63,699 units
of nails. In the future a comparison between all forms of ARIMA models will be compared to other time
series methods. Besides that, the ARIMA model will be further developed in the service industry
because the service industry has more complex quality parameters.

Acknowledgement
Thank you to University of North Sumatra for their financial support so that this paper can be published
Authors also thanks to the other parties who helped in this research.

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