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AI-Powered Demand Forecasting for Enhancing JIT Inventory Models

Tunde Ogunyankinnu [1], Akintunde Akinyele Osunkanmibi [2], Erumusele Francis Onotole [3], Chioma Emmanuela Ukatu [4], Oluwasegun Ayodeji Ajayi [5], Yetunde Adeoye [6*]
[1] University of Surrey, Guildford, UK
[2] Sheffield Hallam University, Howard Street, Sheffield, S1 1WB, UK
[3] Duquesne University, 600 Forbes Avenue, Pittsburgh, PA, 15282, USA
[4] University of East Anglia, Norwich, UK
[5-6] Ladoke Akintola University of Technology, Ogbomosho, Nigeria

* Corresponding Author: **Yetunde Adeoye**

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Abstract
AI-Powered Demand Forecasting for Enhancing Just-In-Time (JIT) Inventory Models explores how artificial intelligence (AI) can significantly improve the accuracy and efficiency of demand forecasting within JIT inventory systems. JIT inventory management relies on precise demand predictions to minimize stock levels and reduce holding costs, but traditional forecasting methods often struggle with volatility and unforeseen market fluctuations. AI, through machine learning (ML) algorithms, predictive analytics, and big data, offers a powerful solution to these challenges. By leveraging vast amounts of real-time and historical data, AI can provide more accurate, dynamic, and responsive demand forecasts that allow businesses to fine-tune their inventory levels, optimize reorder points, and reduce stockouts or excess inventory. AI techniques such as deep learning, reinforcement learning, and time series forecasting (e.g., ARIMA, LSTM) enable the identification of complex demand patterns, seasonality, and even external factors like market trends, weather, and social media influence. These AI models can adapt to rapidly changing conditions, making them highly effective in volatile supply chains. The integration of AI in JIT systems allows for continuous learning, where the model refines its forecasts over time based on new data, improving the overall agility and responsiveness of the supply chain. The application of AI-powered demand forecasting in JIT systems leads to improved inventory control, reduced operational costs, better supplier relationships, and enhanced customer satisfaction. However, challenges such as data quality, high initial investments, and AI model transparency remain. Despite these obstacles, AI represents a transformative technology capable of significantly enhancing JIT inventory models, providing businesses with the tools to manage inventory more efficiently in a dynamic and competitive environment.

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1. Introduction

Just-In-Time (JIT) inventory management is a production and inventory control system that aims to minimize inventory levels by ensuring that materials or products are only delivered or produced as they are needed (Mankazana and Mukwakungu, 2018; Ufua *et al*., 2022). The primary goal of JIT is to reduce waste, increase efficiency, and improve overall productivity by aligning production schedules with actual demand.

In a JIT system, companies aim to receive goods only when they are required in the production process, which reduces the need for extensive storage and inventory handling. The JIT approach is rooted in several key principles, including demand-driven production, waste minimization, continuous improvement (kaizen), and a strong supplier relationship (Olutade *et al*., 2023). By focusing on these principles, JIT systems seek to streamline production processes, reduce the costs associated with overproduction, and ultimately enhance the responsiveness of organizations to market fluctuations. The benefits of JIT inventory management are widely recognized (Stojkanović *et al*., 2021). For one, it significantly reduces inventory carrying costs, as businesses are able to maintain lower levels of stock, thereby freeing up capital. JIT also helps reduce storage space requirements, minimize waste through better resource utilization, and improve cash flow (Melo *et al*., 2022). Additionally, JIT enables businesses to respond more quickly to customer demand, thereby increasing the efficiency of the supply chain and enhancing customer satisfaction. However, JIT inventory models are not without challenges. One of the primary drawbacks is the vulnerability to supply chain disruptions. Since JIT relies on the timely delivery of components or products, any delays, whether caused by transportation issues, supplier problems, or unforeseen demand spikes, can result in production delays or stockouts (Raj *et al*., 2022; Shamsuddoha and Nasir, 2023). Furthermore, JIT requires a high degree of coordination and communication between suppliers, manufacturers, and distributors, making it susceptible to risks stemming from poor supplier relationships or inaccurate demand forecasts.

Accurate demand forecasting is crucial for the efficient operation of JIT inventory management. The entire JIT system hinges on the idea that products will be available precisely when needed, without excess or shortage (Andrijasevic, 2021). Effective demand forecasting allows businesses to align their production and supply schedules with actual consumer demand, ensuring that resources are optimized and waste is minimized. When forecasts are accurate, companies can maintain optimal inventory levels, preventing both overstocking and stockouts, which can significantly disrupt operations. On the flip side, inaccurate demand forecasts can lead to a cascade of inefficiencies. If demand is overestimated, businesses may overproduce or order excess stock, resulting in higher inventory costs and increased waste. Conversely, if demand is underestimated, companies may face stockouts, leading to delayed orders, missed sales, and customer dissatisfaction (Pritchard *et al*., 2023). Thus, the accuracy of demand forecasting is integral to the success of JIT systems, as it directly affects the balance between supply and demand. Traditional demand forecasting methods, often based on historical sales data or simple statistical models, can be inadequate in the context of JIT inventory management. These methods may struggle to account for the complexities of real-time market fluctuations, seasonal demand variations, or unexpected disruptions in the supply chain. In particular, traditional models tend to be reactive, using past data to predict future demand, which may not always reflect changes in customer preferences, market conditions, or external factors like economic shifts or natural disasters. Furthermore, traditional demand forecasting methods typically fail to incorporate external data sources that could provide valuable insights, such as social media trends, customer feedback, or economic indicators. As a result, these approaches can be overly simplistic, leading to inaccurate forecasts and disruptions in the supply chain. The limitations of traditional forecasting methods highlight the need for more advanced techniques that can better capture the complexities of modern supply chains (Gudavalli and Ayyagari, 2022).

Artificial Intelligence (AI) is revolutionizing supply chain management, particularly in demand forecasting. AI techniques, including machine learning (ML), deep learning (DL), and natural language processing (NLP), can process vast amounts of data from various sources, identify complex patterns, and generate more accurate predictions (Khosravi *et al*., 2022; Khan *et al*., 2023). These advanced techniques allow AI to dynamically adjust to changing market conditions, account for both historical data and real-time events, and generate insights that go beyond what traditional forecasting methods can provide. AI models can also incorporate data from multiple sources, including inventory levels, production schedules, and supplier performance, to generate more precise and timely demand forecasts. Additionally, AI can continuously learn from new data, improving the accuracy of its predictions over time. AI has the potential to significantly enhance JIT inventory models by improving the accuracy of demand forecasting and enabling real-time adjustments. By leveraging AI-powered forecasting tools, companies can make better-informed decisions about production schedules, inventory replenishment, and supply chain management (Sharma and Vaid, 2022). With more accurate demand predictions, businesses can ensure that they receive the right quantities of materials and products at the right time, reducing the risk of stockouts or excess inventory. Moreover, AI can help businesses better anticipate supply chain disruptions, such as transportation delays or production issues, by analyzing external factors like weather patterns, political events, or supplier performance. This allows companies to proactively adjust their JIT strategies to minimize the impact of potential disruptions. AI can also improve supplier collaboration by providing shared visibility into demand forecasts, enabling more efficient coordination and reducing the likelihood of delays or misunderstandings (Rane, 2023). AI has the potential to revolutionize demand forecasting in JIT inventory models, offering more accurate, dynamic, and adaptive predictions. By embracing AI, businesses can not only improve the efficiency of their supply chains but also enhance their ability to respond to changing market conditions and customer demand (Modgil *et al*., 2022). As AI technologies continue to evolve, their integration into JIT inventory management will play a critical role in shaping the future of supply chain optimization.

2. Methodology

The PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) methodology was employed to systematically review the literature on AI-powered demand forecasting for enhancing Just-In-Time (JIT) inventory models. A comprehensive search was conducted across multiple academic databases, including Google Scholar, Scopus, IEEE Xplore, SpringerLink, and Web of Science. The search included keywords such as "AI in supply chain," "demand forecasting," "JIT inventory," "machine learning for forecasting," and "predictive analytics in JIT." Inclusion criteria were applied to focus on peer-reviewed articles published in English that discussed AI applications in demand forecasting within JIT systems, especially concerning inventory management and forecasting improvements. Studies not directly related to AI-powered forecasting or JIT inventory systems were excluded.

The search results were initially screened by reviewing the titles and abstracts of identified articles to filter out irrelevant studies. The remaining studies were assessed through full-text review to determine their eligibility, ensuring they specifically addressed AI techniques, such as machine learning or predictive analytics, and their impact on demand forecasting and JIT inventory management.

Data extraction focused on the AI methods used (e.g., machine learning models, deep learning, time series forecasting), the outcomes related to demand forecasting accuracy, and improvements in JIT inventory control. The studies were synthesized both qualitatively and quantitatively, with attention to key themes such as AI-enhanced demand prediction, the integration of big data, and the application of AI for improving inventory optimization in JIT systems.

The findings highlighted significant improvements in demand forecasting accuracy and inventory management through the application of AI models, such as deep learning and time series algorithms. Despite these benefits, challenges such as data quality issues, high initial investment, and difficulties in model interpretability were identified. The review concluded that AI-powered demand forecasting has the potential to significantly enhance JIT inventory systems, offering improvements in forecasting precision, inventory control, and supply chain efficiency. The PRISMA flow diagram was included to illustrate the process of identifying, screening, and selecting the relevant studies for review.

2.1 Key components of JIT inventory management

Just-In-Time (JIT) inventory management is a widely recognized system in manufacturing and logistics aimed at reducing waste, improving efficiency, and ensuring that inventory is only ordered and produced when it is needed (Balkhi *et al*., 2022; Iwasokun *et al*., 2023). JIT systems focus on minimizing inventory levels to reduce holding costs while meeting customer demand efficiently. This explores the key components of JIT inventory management, including the relationship between suppliers, manufacturers, and distributors, the role of inventory control, the challenges associated with traditional demand forecasting approaches, and the risks of relying on JIT without accurate forecasting.

At its core, the JIT inventory system seeks to optimize the supply chain by ensuring that goods are delivered to manufacturers and distributors at the precise time they are needed for production or sale. This approach reduces excess inventory, minimizes warehousing costs, and enhances overall operational efficiency. The effectiveness of a JIT system relies on strong, collaborative relationships between suppliers, manufacturers, and distributors. Suppliers are tasked with providing raw materials or components just in time for production, ensuring that manufacturers do not have to hold large amounts of inventory (Fitriani and Rizki, 2022). In turn, manufacturers produce goods based on immediate demand rather than forecasting future needs. The role of distributors is also pivotal: they must ensure that products are available for customers without overstocking. The JIT system relies heavily on the ability of all parties to communicate and collaborate in real-time to ensure that production runs smoothly and that customer orders are fulfilled without delays. To achieve this, companies often establish long-term, dependable relationships with a small number of key suppliers who are capable of delivering materials on time and in the required quantities. By minimizing the number of suppliers, companies can streamline their operations and reduce variability in their supply chains, which is crucial for maintaining the just-in-time principles (Ye *et al*., 2022).

Inventory control in JIT systems plays a central role in ensuring that the right amount of inventory is available at the right time. Unlike traditional inventory systems that maintain large stock levels to buffer against demand fluctuations, JIT focuses on controlling inventory through constant monitoring, tracking, and real-time decision-making (Aslekar, 2022; Ogbuagu *et al*., 2023). This involves sophisticated systems for replenishment and inventory tracking, such as electronic data interchange (EDI) and radio frequency identification (RFID), which allow for continuous monitoring of stock levels across the supply chain. Effective inventory control ensures that production lines operate without interruption due to inventory shortages, while also minimizing overstock, which would incur unnecessary storage costs. Moreover, JIT systems typically use pull-based demand signals, meaning that production is triggered by actual customer orders rather than forecasts, making inventory control an integral part of JIT operations (Tošanović and Štefanić, 2021).

Accurate demand forecasting is critical in JIT systems to ensure that the right amount of inventory is ordered, without excess or deficiency (Pal, 2023). Traditional forecasting models have long been used to predict demand and determine inventory levels in many industries, and they continue to influence JIT practices. Two common statistical models used for demand forecasting in JIT are moving averages and exponential smoothing. The moving average model averages historical data over a fixed period, such as the last 12 months, to predict future demand. This method works well for stable, predictable demand patterns. Exponential smoothing, on the other hand, places greater weight on more recent data points, which makes it useful for forecasting demand in situations where trends may change over time (Flández *et al*., 2023). Both of these models are valuable for smoothing out short-term fluctuations in demand and providing a relatively simple and effective way to estimate future needs. These statistical techniques are particularly effective in environments where demand is relatively stable and historical data can serve as a good indicator of future sales.

However, in volatile or dynamic markets, traditional forecasting methods face significant limitations. Moving averages and exponential smoothing are reactive models, based on historical data, and may fail to capture sudden shifts in customer preferences, supply chain disruptions, or broader economic changes (Gilkey, 2021). In volatile markets, external factors such as competitor actions, changes in consumer behavior, or unexpected economic conditions can have a more significant impact on demand than historical patterns suggest. Consequently, relying solely on traditional forecasting methods can lead to mismatches between supply and demand, creating inefficiencies in the supply chain.

While JIT systems can offer significant benefits, the lack of accurate demand forecasting introduces several risks and challenges that can undermine the effectiveness of the system. Without accurate forecasting, JIT systems are vulnerable to stockouts, where materials or products are unavailable when needed. Since JIT relies on having minimal inventory, a sudden increase in demand or an unforeseen disruption in the supply chain (such as delays from suppliers or transportation issues) can lead to stockouts that halt production lines or result in missed customer orders (Ovezmyradov, 2022; Coslett, 2022). This not only affects the immediate operations but can also harm customer satisfaction, reputation, and future sales. Moreover, JIT systems may be highly susceptible to supply chain disruptions caused by external factors like natural disasters, labor strikes, or geopolitical events. Without a buffer of safety stock, even minor disruptions in the supply chain can create significant production delays, making businesses less resilient to unpredictable events (Dohmen *et al.*, 2023).

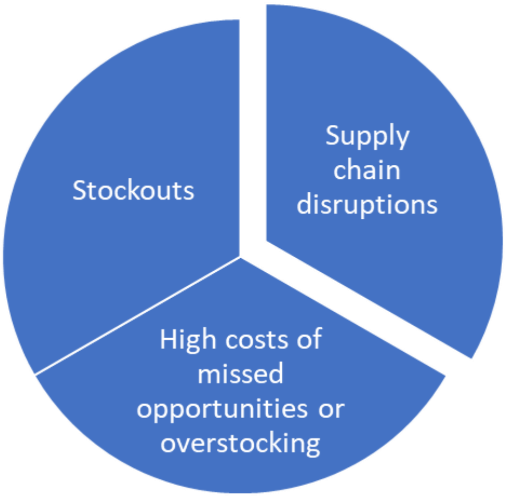

Fig 1: Risks and challenges of JIT without accurate forecasting

On the flip side, inaccurate forecasting may also lead to overstocking, especially if demand is overestimated. Overstocking incurs high storage and holding costs, which can erode profit margins. Additionally, overstocking can result in obsolete inventory, particularly in industries like fashion or technology, where product lifecycles are short (Ghadge *et al.*, 2021). Alternatively, inaccurate forecasting may cause businesses to miss sales opportunities. In highly competitive markets, these missed opportunities can be detrimental to a company's market share and profitability. The key components of JIT inventory management revolve around maintaining close coordination between suppliers, manufacturers, and distributors, as well as implementing efficient inventory control systems (Ghasemi *et al.*, 2023). While traditional demand forecasting methods like moving averages and exponential smoothing offer valuable insights, they are often inadequate in volatile markets. Without accurate forecasting, JIT systems face significant risks, such as stockouts, supply chain disruptions, overstocking, and missed sales opportunities as shown in figure 1 above. As businesses continue to evolve their inventory management strategies, it will be essential to adopt more dynamic and accurate forecasting techniques to ensure the resilience and efficiency of JIT operations.

2.2 The Role of AI in demand forecasting

AI, particularly machine learning (ML), plays a crucial role in enhancing demand forecasting accuracy. ML algorithms use historical data to identify patterns, relationships, and trends, making them powerful tools for predictive analytics. Among the most commonly used ML techniques in demand forecasting are regression models, decision trees, and neural networks (Zohdi *et al.*, 2022).

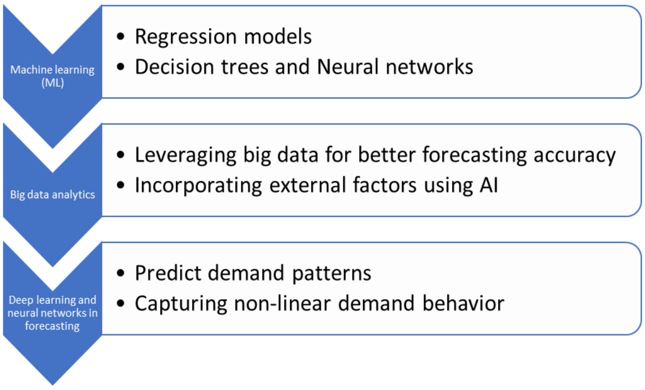

Fig 2: The role of AI in demand forecasting

Regression analysis is often employed to predict future demand based on historical data by establishing a relationship between independent variables (such as time, seasonality, or pricing) and the dependent variable (future demand). This technique is highly effective when demand has a linear relationship with the influencing factors. However, when demand patterns are more complex or exhibit nonlinear characteristics, more advanced methods such as neural networks and ensemble models may be used to improve predictive performance (Wazirali *et al.*, 2023). Neural networks, particularly deep learning models, are increasingly popular for demand forecasting due to their ability to capture intricate and non-linear relationships in large datasets. These models learn from data and automatically improve their predictive accuracy by adjusting the weights of interconnected neurons in the network. Neural networks excel at handling high-dimensional data, and their ability to identify complex patterns makes them invaluable for forecasting in dynamic environments.

Supervised learning and unsupervised learning are two common paradigms in ML for demand forecasting. Supervised learning models, such as regression and neural networks, are trained on labeled data, meaning that the input data includes both historical demand patterns and known future outcomes. These models are used to make predictions about future demand based on past observations. The primary advantage of supervised learning is its ability to generate accurate predictions when sufficient labeled data is available. On the other hand, unsupervised learning models do not rely on labeled data and instead identify underlying structures or patterns within the dataset itself. Techniques like clustering and anomaly detection are commonly used in unsupervised learning to segment customer behavior, detect outliers, or discover hidden demand patterns (Usmani *et al.*, 2022). While unsupervised learning models are not typically used to generate direct forecasts, they can provide valuable insights that improve the overall accuracy of demand forecasting by identifying factors that may not have been previously considered.

The integration of big data analytics into demand forecasting has significantly improved the accuracy of predictions. Big data encompasses vast and diverse datasets, including sales data, customer behavior, supply chain information, and external data sources such as weather patterns or social media trends (Pramanik and Bandyopadhyay, 2023). The sheer volume, variety, and velocity of big data provide AI systems with more comprehensive insights into consumer behavior, making forecasts more precise and adaptable. AI models can process and analyze big data in real-time, offering more accurate predictions by considering a broader array of variables. Traditional demand forecasting methods often rely on limited historical data, which can result in inaccurate predictions when market conditions shift or when external variables are at play. AI systems can overcome this limitation by ingesting and processing real-time data streams, allowing businesses to respond swiftly to changes in demand. For example, a retailer might be able to adjust stock levels in response to an unexpected surge in online orders, driven by a sudden trend in consumer preferences or a seasonal promotion.

One of the strengths of AI in demand forecasting is its ability to incorporate external factors that significantly affect demand. Traditional forecasting methods typically consider only historical sales data and known seasonal trends. However, AI can also account for market trends, weather patterns, social media activity, and economic indicators, which can have a direct impact on consumer purchasing behavior. AI-powered forecasting models can integrate real-time weather data into their predictions, allowing businesses to adjust their inventory levels accordingly (Muthukalyani, 2023). Social media trends, on the other hand, can provide valuable insights into changing consumer preferences and behaviors. By analyzing the volume and sentiment of social media posts, AI models can predict shifts in demand driven by viral trends or customer feedback, providing businesses with a competitive advantage in responding to market dynamics.

Moreover, AI models can adapt to these external factors in real-time, constantly adjusting forecasts based on new data inputs. This flexibility is crucial in highly dynamic industries where demand can be influenced by rapidly changing conditions, such as in fashion retail, technology, or food services. Deep learning, a subset of machine learning, is one of the most powerful AI techniques for demand forecasting (Janiesch *et al*., 2021). Deep learning models, particularly neural networks, can capture complex, non-linear relationships within large datasets. These models consist of multiple layers of interconnected nodes (neurons), each of which processes input data and passes it to the next layer. By learning from vast amounts of data, deep learning models are capable of recognizing intricate patterns that traditional models might miss. For demand forecasting, deep learning techniques such as recurrent neural networks (RNNs) and long short-term memory networks (LSTMs) are particularly effective. These models are designed to handle sequential data, such as time series data that is commonly found in demand forecasting. LSTMs, for example, excel at capturing long-term dependencies in time-series data, allowing them to predict future demand based on both recent and historical data. By identifying seasonal trends, cyclical patterns, and sudden shifts in demand, deep learning models can generate more accurate and reliable forecasts.

One of the key advantages of neural networks in demand forecasting is their ability to capture non-linear demand behavior. Traditional linear models often struggle with complex demand patterns that do not follow a straightforward relationship with influencing factors (Zhou *et al*., 2023). Neural networks, on the other hand, are inherently capable of modeling non-linear relationships due to their multiple layers of abstraction and ability to learn complex patterns from data. This makes neural networks particularly effective for forecasting in industries where demand is influenced by a wide variety of factors that may interact in unpredictable ways. By leveraging neural networks, businesses can improve the accuracy of their demand forecasts, even in the face of volatile or non-linear demand behavior. AI and machine learning techniques have transformed demand forecasting by providing more accurate, adaptive, and data-driven models. Through the use of big data, deep learning, and neural networks, businesses can enhance their ability to predict demand patterns and respond to market changes in real-time. As AI continues to evolve, its integration into demand forecasting will further improve efficiency, reduce costs, and enable more responsive and adaptive supply chain management as shown in figure 2.

2.3 Benefits of AI-powered demand forecasting for JIT

Just-In-Time (JIT) inventory management has long been praised for its ability to reduce waste, lower holding costs, and improve operational efficiency. However, JIT systems are highly sensitive to demand fluctuations, and inaccurate forecasts can result in stockouts or overstocking. AI-powered demand forecasting offers transformative benefits for JIT systems by increasing forecast accuracy, improving inventory control, reducing costs, and enhancing supply chain agility (Patil *et al*., 2023; Oteri *et al*., 2023). This explores the key benefits of AI-powered demand forecasting for JIT inventory management, including increased accuracy in demand predictions, improved inventory control, cost reduction, and agility in responding to market changes.

AI-powered demand forecasting systems significantly enhance the precision of forecasts, especially in volatile environments where traditional statistical methods like moving averages or exponential smoothing may fall short. AI can process vast amounts of data from diverse sources, including historical sales data, market trends, customer behavior, and external factors like weather conditions or economic indicators. Machine learning algorithms, such as neural networks and decision trees, analyze these datasets to uncover patterns and predict future demand with higher accuracy than traditional models. In volatile markets, where demand can fluctuate unpredictably, AI can adapt to these changes faster and more effectively (Barlette and Baillette, 2022). This ability to integrate external and real-time data helps AI systems predict demand more accurately, even under uncertain conditions, ensuring that the right amount of inventory is available without overstocking or stockouts.

Several case studies have demonstrated the positive impact of AI on demand forecasting in JIT systems. For instance, in the retail industry, companies like Walmart and Target have implemented AI-based forecasting systems that analyze both historical sales data and external factors (e.g., local events, weather patterns) to predict demand. Walmart, in particular, uses machine learning algorithms to adjust its forecasts in real time, achieving higher forecast accuracy and reducing stockouts. In one case, the implementation of AI-based forecasting resulted in a 15% improvement in demand prediction accuracy compared to traditional forecasting methods. Additionally, in the automotive industry, companies such as Toyota and Ford have leveraged AI-powered forecasting to improve production planning and inventory control. By incorporating AI into their JIT systems, these companies have minimized the risks of stockouts and excess inventory, improving overall supply chain efficiency and reducing costs.

AI-powered demand forecasting plays a crucial role in reducing the risk of stockouts in JIT systems, where inventory levels are kept to a minimum. Stockouts can disrupt production lines, result in lost sales, and damage customer relationships. AI systems can predict demand fluctuations with greater accuracy and help businesses plan their inventory needs in advance (Niaz, 2022). By incorporating external variables such as supplier lead times, transportation delays, and production capacities into their forecasts, AI-driven systems can predict when a stockout is likely to occur and provide early warnings. These predictions allow companies to take proactive steps, such as adjusting their supply chain or expediting orders to avoid stockouts, ensuring that they can meet customer demand without excess inventory. AI also improves reorder points and reorder quantities in JIT systems. With traditional systems, reorder points are typically set based on fixed intervals or average demand, which may not be accurate in fluctuating markets. AI-driven systems, however, continuously update reorder points based on real-time demand and supply data, adjusting them dynamically to optimize inventory levels. By accurately predicting when products will run out and calculating the optimal reorder quantity, AI systems minimize the chances of stockouts while reducing the costs associated with overordering.

One of the major benefits of AI-powered demand forecasting in JIT systems is its ability to minimize excess inventory, which leads to a significant reduction in holding costs. In traditional systems, businesses often maintain safety stock as a buffer against demand uncertainty, which ties up capital in unsold goods (Ivanov *et al*., 2021). With AI, businesses can more accurately predict demand and optimize inventory levels, reducing the need for excessive safety stock. In industries such as electronics or fashion, where products may become obsolete or out of season quickly, AI-powered forecasting can help businesses manage their inventory more efficiently by minimizing unsold goods. By maintaining leaner inventories, businesses can free up resources and reduce the capital tied to excess inventory, resulting in substantial cost savings. AI-powered demand forecasting also streamlines the supply chain by enabling more precise and data-driven decision-making. With AI, businesses can optimize their supply chain operations by synchronizing production schedules, order fulfillment, and inventory management in real time. AI systems can automate decision-making processes, ensuring that supply chain actions, such as production or procurement, are aligned with actual demand rather than forecasts based on historical data alone (Jahani *et al*., 2021). This level of efficiency improves the overall supply chain performance, reducing delays, bottlenecks, and waste. Companies can operate with greater speed and flexibility, ensuring that products are delivered to customers quickly and efficiently, with minimal excess inventory.

AI-powered demand forecasting provides businesses with the agility to respond to market changes in real time. Traditional forecasting methods, which rely on periodic updates and historical data, may not be quick enough to adjust to sudden changes in customer behavior, competitor actions, or external events. AI, on the other hand, can process incoming data continuously and update forecasts as new information becomes available. This responsiveness ensures that businesses can react promptly to changes and avoid disruptions in the supply chain. AI enhances the flexibility of JIT systems by allowing businesses to adjust to fluctuating demand conditions. In industries with unpredictable demand patterns, such as consumer electronics or fashion, AI enables businesses to handle both expected peaks in demand (e.g., during holidays or sales events) and unexpected fluctuations. By continuously learning from real-time data, AI-powered systems can anticipate and accommodate demand changes, ensuring that businesses are always prepared to meet customer expectations (Attah *et al*., 2023). This flexibility is essential for maintaining a competitive edge in today's fast-paced markets. Companies that can quickly adjust their production and inventory strategies based on real-time demand predictions are better positioned to capture market opportunities and respond to disruptions more effectively.

AI-powered demand forecasting offers significant benefits for JIT inventory management by improving forecast accuracy, reducing stockouts, minimizing costs, and enhancing the responsiveness of supply chains. Through advanced machine learning algorithms and real-time data processing, AI systems can predict demand more precisely, optimize reorder points, and reduce the risks associated with fluctuating demand (Nazeer, 2021; Thakur *et al*., 2023). The integration of AI into JIT systems allows businesses to operate more efficiently, reduce waste, and remain agile in a constantly changing market, making it a powerful tool for modern supply chain management.

2.4 AI models and algorithms for JIT demand forecasting

Time series forecasting is crucial in Just-In-Time (JIT) demand forecasting as it predicts future demand based on past data. AutoRegressive Integrated Moving Average (ARIMA) and its seasonal variant, Seasonal ARIMA (SARIMA), have long been used to model time-dependent patterns in demand. These models are based on historical data, where past values and trends are utilized to forecast future demand. Incorporating AI techniques into ARIMA and SARIMA models can significantly improve their forecasting accuracy as shown in figure 3. One approach is combining traditional time series models with machine learning algorithms to refine the parameter estimation process. For instance, the integration of AI can be used to optimize the parameters in ARIMA or SARIMA models, such as the autoregressive (AR) and moving average (MA) terms, enhancing their predictive power. Machine learning algorithms like gradient boosting, support vector machines, or neural networks can be used to model the residuals or errors in the ARIMA/SARIMA predictions, further improving forecast accuracy (Twumasi, 2022; Kontopoulou *et al*., 2023). This hybridization allows businesses to better capture complex demand patterns while still utilizing the well-understood foundation of ARIMA and SARIMA models.

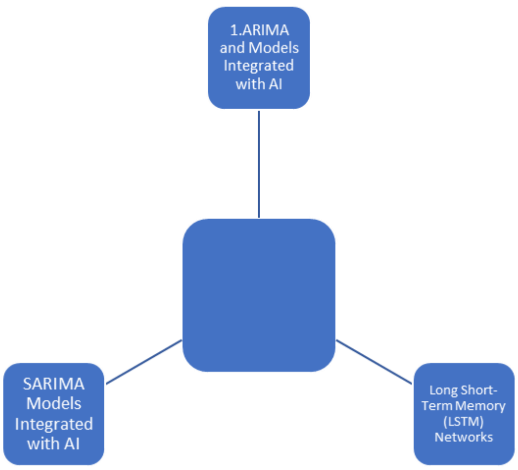

Fig 3: AI models and algorithms for JIT demand forecasting

Additionally, the AI-based adjustments to ARIMA and SARIMA models can help account for factors like sudden market changes or supply chain disruptions that traditional models might miss. This ability to quickly adapt to new data makes the integration of AI a promising method for enhancing time series forecasting in dynamic environments like JIT inventory management.

Long Short-Term Memory (LSTM) networks, a type of recurrent neural network (RNN), have become an essential tool for time series forecasting due to their capability to capture long-term dependencies in sequential data (Huang *et al*., 2022). Unlike traditional time series models like ARIMA, which assume linear relationships in data, LSTMs can model complex, non-linear patterns in demand that are often present in dynamic environments. LSTMs maintain memory cells, which store information over extended periods and can selectively forget or update information, making them particularly suited for predicting demand based on historical trends and sequences.

LSTMs are effective in capturing seasonality, cyclical patterns, and sudden shifts in demand that are typical in JIT systems. The ability of LSTMs to capture these complex relationships allows businesses to forecast demand more accurately, thereby optimizing inventory levels and reducing waste. Moreover, LSTM models continuously improve their predictions as new data becomes available, making them highly adaptable to the unpredictable nature of demand in JIT systems.

Reinforcement Learning (RL) is an AI technique in which an agent learns to make decisions by interacting with an environment. In the context of JIT demand forecasting, RL can be applied to continuously improve inventory management and demand predictions by optimizing the interaction between inventory levels, order quantities, and demand fluctuations. RL algorithms are designed to explore and exploit decision-making strategies that maximize cumulative rewards over time, making them highly suitable for inventory optimization (Rolf *et al*., 2023; Wu *et al*., 2023). In JIT systems, RL can be used to optimize demand forecasting by adjusting parameters such as order frequency, reorder points, and inventory thresholds based on real-time demand signals. The RL agent receives feedback on the outcomes of its decisions (e.g., stockouts, overstocking, or satisfied customer orders) and adjusts its strategies accordingly to minimize costs, improve customer satisfaction, and ensure efficient use of resources. Over time, the RL model refines its forecasting capabilities by learning from its mistakes, enabling it to predict demand more accurately and optimize inventory levels dynamically. By continuously learning from the outcomes of its actions, reinforcement learning enhances the JIT system's responsiveness to changing demand patterns, which is essential in maintaining the delicate balance between supply and demand without excessive stock.

Reinforcement learning algorithms can facilitate dynamic adjustments to JIT strategies by continuously integrating new data and feedback into decision-making. In traditional JIT models, businesses follow rigid forecasting protocols that may not account for sudden shifts in demand or disruptions in supply. RL algorithms, however, can adapt to these changes by adjusting key parameters such as production schedules, stock levels, and supplier relationships in real-time (Esteso *et al*., 2023). If demand unexpectedly spikes due to an unforeseen event like a promotional campaign, the RL model will adapt the JIT strategy by increasing order quantities and reducing lead times to meet the demand surge. Similarly, in case of a disruption, such as a delay in raw materials, the RL agent can automatically re-optimize the supply chain to minimize stockouts and inventory holding costs. The dynamic nature of RL makes it an ideal tool for JIT systems, which require continuous monitoring and adjustment to stay responsive and efficient in a fluctuating market environment.

Hybrid models combine the strengths of traditional forecasting techniques with AI-based methods to improve demand forecasting accuracy in JIT systems. By integrating conventional models like ARIMA with machine learning algorithms, businesses can leverage the historical context provided by traditional methods while benefiting from the flexibility and predictive power of AI models (Nasseri *et al*., 2023). This combined approach allows for a more nuanced demand forecast that incorporates both the established patterns of historical demand and the dynamic influences that might affect future sales. By combining multiple techniques, hybrid models can help improve forecasting accuracy and provide better guidance for JIT inventory management. Businesses can account for both traditional seasonal trends and emerging demand patterns, minimizing errors and optimizing inventory decisions.

Ensemble methods, which combine the predictions of multiple models to produce a final forecast, are another powerful tool for improving demand forecasting in JIT systems. Popular ensemble methods include bagging, boosting, and stacking, which combine the outputs of different machine learning algorithms or traditional forecasting models to achieve more accurate results. In a JIT context, ensemble models can integrate forecasts from various AI-based models, such as LSTM networks and random forests, along with traditional methods like ARIMA or SARIMA (Krishnan *et al*., 2022). This approach helps smooth out individual model errors, leading to more stable and reliable demand forecasts. Ensemble methods are particularly valuable in situations where demand is highly variable, as they reduce the risk of overfitting to a single model and ensure that the final forecast captures the complexities of the underlying data.

2.5 Real-world applications of AI in JIT inventory systems

Just-In-Time (JIT) inventory systems have revolutionized supply chain management by minimizing inventory levels, reducing costs, and improving operational efficiency (Choi *et al*., 2023). However, the effectiveness of JIT is highly dependent on accurate demand forecasting and inventory control. In recent years, artificial intelligence (AI) has emerged as a powerful tool in optimizing JIT systems, offering improvements in forecasting accuracy, inventory management, and overall supply chain agility. This examines real-world applications of AI in JIT inventory systems, with case studies in retail, manufacturing, and distribution/logistics.

In retail, AI-powered demand forecasting has significantly transformed how companies manage inventory within JIT systems. Retailers face the challenge of fluctuating consumer preferences, seasonal trends, and external events such as holidays or promotions, which make accurate forecasting a complex task. Traditional demand forecasting methods, often based on historical data, cannot fully account for sudden changes in consumer behavior. AI, particularly machine learning algorithms, allows retailers to analyze vast amounts of data, including past sales, online shopping behavior, social media trends, and even weather patterns, to create more accurate demand predictions (Gkikas and Theodoridis, 2021; Biswas and Patra, 2023). By learning from this data, AI systems can generate real-time, dynamic forecasts that improve inventory control and help companies order the right amount of stock at the right time. AI systems can factor in variables such as geographic location, local events, and customer demographics, tailoring forecasts to individual stores and product categories (Formánek and Sokol, 2022). This enhanced forecasting ability enables retailers to optimize stock levels, reduce the risk of stockouts, and prevent overstocking, thus maintaining leaner, more efficient inventory.

The integration of AI into JIT systems has yielded significant outcomes for retailers. One of the most notable benefits is improved forecast accuracy. The ability to forecast demand with greater precision has directly translated into cost savings by minimizing inventory holding costs and reducing the need for markdowns on unsold products. Moreover, AI adoption has led to better customer satisfaction, as retailers are more likely to have the right products available when customers need them (Guha *et al*., 2021). Additionally, the automation of inventory management processes has freed up employees to focus on more value-added activities, further enhancing operational efficiency.

In manufacturing, JIT systems rely on precise demand forecasting to synchronize production schedules with material flows. AI has had a transformative impact on this process by enabling more accurate predictions of when raw materials and components will be needed on the production line. Manufacturers like Toyota and General Electric have implemented AI-powered demand forecasting to optimize their JIT operations and streamline material flows. AI-driven systems collect data from various sources, such as production schedules, market trends, and even supplier performance, to forecast future demand for raw materials and components (Javaid *et al*., 2022). These systems can dynamically adjust to production delays, supply chain disruptions, or changes in customer orders, ensuring that materials arrive just in time for production without excessive inventory buildup. AI models predict the exact timing and quantity of materials needed for production, reducing the risks of delays due to shortages while maintaining minimal stock levels.

The implementation of AI in manufacturing JIT systems has led to substantial benefits, including reduced lead times and increased production efficiency. Toyota, for example, has reported significant improvements in production flow and inventory management after adopting AI-based systems. AI's predictive capabilities enable Toyota to adjust its production schedules in real time, ensuring that manufacturing is aligned with demand while reducing the time spent on inventory management and minimizing costly stockouts. Furthermore, AI has improved the supplier relationship management in manufacturing JIT systems. AI systems track supplier performance and predict potential delays, allowing manufacturers to mitigate risks before they impact the production schedule (Aljohani, 2023). This proactive approach to supply chain management helps maintain continuity in production, preventing the kinds of costly disruptions that can occur with traditional, non-dynamic forecasting methods.

In distribution and logistics, the role of AI in managing JIT inventory is critical to ensuring that products are delivered to retailers and customers in a timely manner, without the need for large stockpiles of inventory. AI enhances decision-making in various aspects of logistics, including demand forecasting, route optimization, and warehouse management. AI-based systems can predict demand at a granular level, allowing distributors and logistics providers to align their supply chains with real-time customer needs. AI helps predict when certain products will be in high demand, enabling Amazon to optimize stock levels at individual fulfillment centers, reduce storage costs, and ensure that products are readily available when customers place orders. Additionally, AI plays a vital role in optimizing delivery routes, reducing transportation costs, and improving overall delivery times. AI algorithms analyze traffic patterns, weather conditions, and order data to determine the most efficient routes for delivery trucks, ensuring that products are delivered on time and minimizing transportation delays (Iyer, 2021; Sorooshian *et al*., 2022).

Key insights from AI adoption in logistics and distribution highlight several benefits. First, real-time responsiveness is one of the most important advantages of AI. AI-driven systems allow distributors to adjust inventory levels, delivery schedules, and routes based on current market conditions and demand fluctuations, making the supply chain more flexible and adaptable to changes. Second, collaboration between AI systems and human operators has proven crucial in achieving optimal results. While AI handles data analysis and decision-making, human oversight is still necessary to ensure that strategic decisions align with business goals (Machireddy *et al*., 2021). Finally, AI systems have demonstrated a clear ability to reduce costs in distribution and logistics. By optimizing inventory and transportation, AI minimizes the costs associated with stockholding, excess inventory, and delivery delays. Moreover, AI enhances customer satisfaction by improving product availability and reducing lead times, making the supply chain more responsive to consumer demand.

2.6 Challenges and limitations of AI in JIT demand forecasting

AI-based demand forecasting systems heavily rely on the quality and accuracy of the input data to generate reliable predictions. Poor-quality or incomplete data can lead to inaccurate forecasts, which in turn can result in inventory shortages, overstocking, or inefficient resource allocation (Mweshi, 2022). In Just-In-Time (JIT) inventory systems, where the goal is to minimize inventory levels while ensuring timely product availability, data accuracy is critical for maintaining a balance between supply and demand. Challenges related to data accuracy in JIT systems include inconsistent or missing historical data, errors in data collection, and data that is not representative of current market conditions. For example, data from legacy systems may not be as granular or updated as real-time data, leading to imprecise forecasts. Moreover, human error, poor data entry practices, and outdated systems can all contribute to data inaccuracies, undermining the effectiveness of AI models. Ensuring a high level of data cleanliness, consistency, and relevance is essential to improving the reliability of AI-driven demand forecasting and ensuring the success of JIT models.

Many businesses still rely on legacy systems for inventory management and demand forecasting. These older systems may not be equipped to handle the data complexity or processing power required for AI-based models. Integrating AI into these systems presents several challenges, including data silos, incompatibility between old and new technologies, and the need for significant system overhauls or updates. Data integration is one of the key hurdles in combining AI with legacy systems. AI models need access to vast amounts of data from various sources sales history, real-time consumer data, market trends, and external factors to improve forecasting accuracy. Legacy systems may not be designed to integrate such diverse data, resulting in inefficiencies or delays. Additionally, employees must be retrained to use new AI-based tools, and existing workflows may need to be redesigned to accommodate these systems (Morandini *et al*., 2023). Overcoming these technical challenges requires a careful planning process and considerable investment in both time and resources.

One of the major barriers to the widespread adoption of AI in JIT demand forecasting is the high initial investment required for AI infrastructure. Developing, implementing, and maintaining AI systems can be costly, particularly for small- and medium-sized enterprises (SMEs) that may have limited resources (Schönberger, 2023). The costs involved include purchasing advanced hardware, software, and hiring or training data scientists and AI specialists to build and manage the models. Additionally, businesses need to invest in cloud storage, data processing capabilities, and secure networks for storing and transmitting sensitive data. For smaller companies that already operate on tight budgets, these upfront costs may outweigh the perceived benefits of AI-driven forecasting. While larger businesses may have the financial resources to absorb these costs, smaller firms may struggle to justify such large expenditures. As a result, many SMEs are either hesitant or unable to adopt AI-based demand forecasting systems, which limits the overall impact of AI on improving JIT inventory models across industries.

Beyond financial considerations, businesses often face challenges related to organizational readiness and expertise when adopting AI technologies. Smaller businesses may lack the technical infrastructure or the in-house expertise required to implement AI solutions effectively. Even when the technology is affordable, the knowledge and skillsets needed to understand, implement, and maintain AI models may be absent in smaller firms. Moreover, many small businesses may have limited exposure to AI and may find it difficult to assess its long-term benefits. To overcome these barriers, AI adoption can be supported by government initiatives, partnerships with technology providers, or the availability of more affordable AI-as-a-service models that require less upfront investment (Kuguoglu *et al*., 2021; Sipola *et al*., 2023). Nonetheless, these options still require awareness and support at both the organizational and governmental levels to facilitate broader adoption.

AI models for demand forecasting excel at identifying patterns from historical data and predicting future trends based on this information. However, these models can struggle to adapt to unforeseen events, such as sudden market disruptions, demand shocks, or extreme external factors. Events like natural disasters, pandemics, or geopolitical crises can radically alter consumer behavior, making past data less relevant for future predictions. AI models trained on historical data struggled to account for such unprecedented events, leading to inaccurate forecasts (Andersson *et al*., 2021; Munn, 2023). While AI models can adapt over time as they process more data, their ability to handle demand shocks in real time without human intervention remains a significant challenge. Businesses relying solely on AI forecasts without incorporating human oversight or adaptive mechanisms may face inventory shortages or overstocking in such scenarios.

AI models, particularly those based on machine learning, rely on stable patterns within the data. In cases of extreme market volatility or scarcity, AI systems may not be able to extrapolate future demand accurately. When demand behavior is highly unpredictable or when there is insufficient data due to product shortages or supply chain disruptions, AI forecasts may fail to capture the true demand dynamics (Naz *et al*., 2022; Zamani *et al*., 2023). As a result, businesses might be unable to replenish stock in time to meet consumer demand. While AI models can be designed to incorporate some degree of uncertainty, they still struggle to manage extreme volatility without human intervention, leading to potential risks in JIT systems.

One of the most critical challenges in implementing AI for demand forecasting in JIT systems is ensuring transparency and explainability in AI models (Norgren *et al*., 2023). AI models, especially those involving deep learning, are often seen as "black boxes" that provide predictions without offering insight into how they arrived at those conclusions. This lack of interpretability can create challenges for decision-makers who need to trust AI-generated forecasts. In high-stakes industries, such as retail or healthcare, decision-makers must be able to understand and justify the decisions made by AI systems. Without clear explanations of how forecasts are generated, stakeholders may be hesitant to rely on AI predictions, particularly in the context of JIT inventory management, where inaccurate forecasts can lead to significant financial losses. Developing explainable AI models that provide transparent, understandable, and justifiable predictions is essential for building trust and ensuring the successful integration of AI into JIT systems.

Building trust in AI models is critical for their successful adoption in demand forecasting. Many businesses and stakeholders may be hesitant to trust AI-driven predictions, especially when faced with uncertainty or high risks. Trust can be built by ensuring that AI models are thoroughly validated, and their predictions are compared with historical performance to verify their accuracy (Liang *et al*., 2022). Additionally, incorporating human oversight and allowing for feedback loops that enable continuous improvement of AI systems can increase confidence in AI-driven decisions. Furthermore, developing standardized frameworks and best practices for using AI in demand forecasting can help ensure consistency and reliability across various industries. Establishing clear guidelines for model transparency, validation, and interpretation can further promote the acceptance of AI systems and increase their adoption in JIT inventory management.

2.7 Future Directions

The role of artificial intelligence (AI) in Just-In-Time (JIT) inventory management has already been transformative, enhancing demand forecasting, inventory control, and overall supply chain efficiency. However, as AI technology continues to evolve, new opportunities arise for its integration with emerging technologies, enabling even more advanced JIT systems (Thumburu, 2023). This explores the future directions of AI in JIT inventory optimization, including the role of AI in autonomous supply chains, the integration of AI with emerging technologies, sustainability considerations, and the potential for collaboration between AI and human experts in decision-making.

As AI technology advances, the future of JIT inventory management increasingly points toward autonomous supply chains. AI's ability to analyze large datasets and make real-time decisions is paving the way for supply chains that can operate with minimal human intervention. AI-powered systems can predict demand fluctuations, adjust production schedules, and even reorder inventory autonomously based on real-time data from suppliers, production lines, and distribution centers. This capability allows businesses to optimize their supply chains, reducing human error and enabling more efficient responses to market changes. In an autonomous supply chain, AI systems could seamlessly interact with various elements of the supply chain ranging from suppliers and warehouses to logistics and retail points (Ishfaq *et al*., 2022). This will allow for dynamic adjustments to inventory levels, production schedules, and delivery routes in response to fluctuating demand, changing market conditions, or supply disruptions. The continued development of machine learning algorithms and neural networks will make these systems more precise, adaptive, and capable of learning from previous supply chain events, resulting in a more resilient and efficient JIT system.

The integration of AI with emerging technologies such as the Internet of Things (IoT), blockchain, and 5G will further enhance the capabilities of JIT systems. The IoT allows for real-time data collection from sensors embedded in products, equipment, and vehicles, providing continuous insights into inventory levels, shipment conditions, and production statuses (Sallam *et al*., 2023). AI can process this data and make dynamic adjustments to the supply chain, improving real-time decision-making and responsiveness. Blockchain can bring transparency and security to supply chains by ensuring that data shared between suppliers, manufacturers, and distributors is accurate and immutable. AI can leverage this secure data to improve forecasting and inventory management, ensuring that all participants in the supply chain have access to the most current information. Finally, the advent of 5G networks will significantly improve the speed and efficiency of data transmission, enabling faster communication between AI systems and IoT devices. With 5G, AI-powered JIT systems can respond even more quickly to changes in demand, reducing delays and improving the overall efficiency of supply chain operations.

As sustainability becomes an increasingly important focus for businesses and consumers alike, AI has the potential to contribute significantly to sustainable inventory practices within JIT systems. By optimizing inventory levels and minimizing waste, AI can help companies reduce overproduction and unnecessary stockpiling, both of which contribute to excess resource usage and environmental impact. AI can also enable more efficient resource allocation by predicting demand more accurately and adjusting production schedules and supply orders accordingly (Helo and Hao, 2022). By ensuring that only the required amount of inventory is produced or ordered, businesses can reduce the carbon footprint associated with transportation, storage, and packaging. Moreover, AI can optimize the routing of delivery vehicles, minimizing fuel consumption and emissions while maximizing delivery efficiency.

AI-driven JIT systems can optimize the use of resources in several ways. For instance, AI can analyze energy usage patterns in manufacturing plants and recommend operational adjustments to reduce energy consumption during periods of low demand. Similarly, AI can optimize raw material usage, reducing waste and ensuring that production processes are as efficient as possible. In supply chain logistics, AI can enable better packaging solutions by recommending packaging designs that minimize material usage without compromising product safety or integrity (Sadeghi *et al*., 2022). By optimizing resource usage across the supply chain, AI can help businesses achieve their sustainability goals while maintaining the operational efficiencies that JIT systems are known for.

While AI has made significant strides in automating inventory management and forecasting, the future of JIT systems will likely involve increased collaboration between AI and human experts. While AI can process vast amounts of data and identify patterns that humans may overlook, human experts bring contextual understanding and intuition to the decision-making process. In the future, AI systems will work alongside human managers, providing data-driven insights and recommendations, while humans make final decisions based on business strategy, market knowledge, and ethical considerations (Rajagopal *et al*., 2022; Varma *et al*., 2023). This collaboration will be particularly valuable in complex or uncertain situations, where human expertise is required to interpret AI recommendations and adapt to unique business contexts.

The next step in AI-powered demand forecasting for JIT systems is the development of hybrid forecasting systems that combine the strengths of both AI and human forecasting methods. These systems would integrate AI's ability to process and analyze large datasets with the nuanced understanding that human experts bring to market trends, customer behavior, and supply chain dynamics (Muthuswamy and Ali, 2023). In a hybrid system, AI might generate initial demand forecasts based on historical data and real-time inputs from IoT devices, while human experts could adjust these forecasts based on external factors like competitor actions, economic shifts, or market sentiment. This combination would result in more accurate and responsive forecasting, enabling JIT systems to better manage inventory levels and respond to changes in demand.

3. Conclusion

AI has proven to be a transformative force in the optimization of Just-In-Time (JIT) inventory management, offering significant improvements in demand forecasting accuracy and inventory optimization. By leveraging machine learning algorithms, AI can analyze vast amounts of historical data and detect complex patterns in demand that traditional methods struggle to identify. This capability allows businesses to better predict future demand, reduce excess inventory, minimize stockouts, and streamline their supply chains, all while maintaining the core principle of JIT: reducing inventory levels without compromising product availability.

The integration of AI-powered demand forecasting holds considerable potential to address several challenges faced by JIT inventory systems. Traditional demand forecasting models are often limited in their ability to account for unpredictable market fluctuations, sudden demand spikes, or supply chain disruptions. AI models, particularly machine learning and deep learning techniques, offer more dynamic and responsive solutions that can adapt to changing conditions, making them invaluable in today's volatile market environments. Furthermore, AI's ability to incorporate a wide array of data sources such as real-time consumer behavior, market trends, and external factors enhances forecasting accuracy, which is crucial for maintaining the delicate balance that JIT systems require.

Looking ahead, the future of AI in transforming inventory management is promising. As AI technologies continue to evolve, they will likely become more integrated and accessible, even for smaller businesses, democratizing access to sophisticated forecasting tools. The continuous development of explainable AI (XAI) and improved interpretability in AI models will also foster greater trust among stakeholders, ensuring more widespread adoption. Ultimately, AI's role in transforming inventory management is set to become increasingly pivotal, enabling more agile, efficient, and resilient JIT systems that are capable of navigating the complexities of modern supply chains.

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