

Supply Chain Networks: Challenges and Opportunities from Analysis to Design

Anna Nagurney

Isenberg School of Management
University of Massachusetts
Amherst, Massachusetts 01003

Boston INFORMS Chapter
November 23, 2010



Acknowledgments

I would like to thank Dr. Les Servi of MITRE and Dr. Olga Raskina of Emptoris and the Boston INFORMS Chapter for the invitation to speak in your Speaker Series.

Special acknowledgments and thanks to my students and collaborators who have made research and teaching always stimulating and rewarding.

Outline

- ▶ Background and Motivation
- ▶ Why User Behavior Must be Captured in Network Design
- ▶ Methodology for Formulation, Analysis, and Computations and an Empirical Application to Electric Power Supply Chains
- ▶ Network Design Through Mergers and Acquisitions
- ▶ A Challenging Network Design Problem and Model for Critical Needs with Outsourcing
- ▶ Applications to Vaccine Production and Emergencies
- ▶ Extensions to Perishable Products and Blood Supply Chains for the Red Cross
- ▶ What About Sustainability and Supply Chain Network Design?
- ▶ Summary, Conclusions, and Suggestions for Future Research

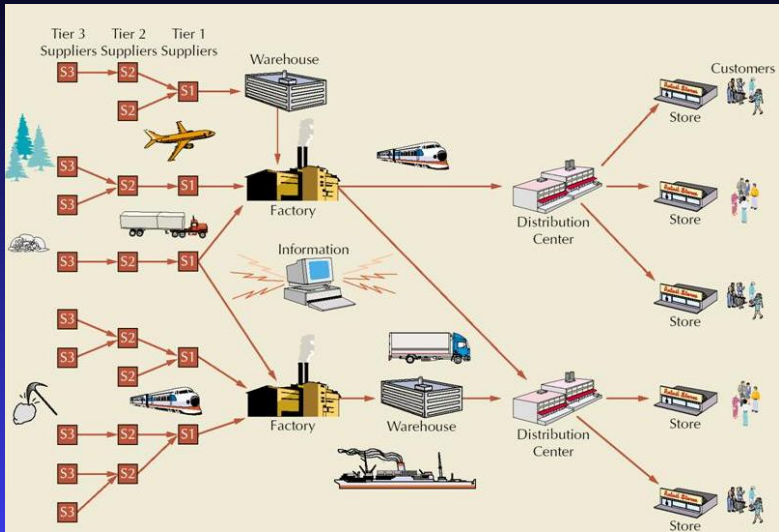
Background and Motivation

Supply chains are the *critical infrastructure and backbones* for the production, distribution, and consumption of goods as well as services in our globalized *Network Economy*.

Supply chains, in their most fundamental realization, *consist of manufacturers and suppliers, distributors, retailers, and consumers at the demand markets*.

Today, supply chains may span thousands of miles across the globe, involve numerous suppliers, retailers, and consumers, and be underpinned by multimodal transportation and telecommunication networks.

A General Supply Chain



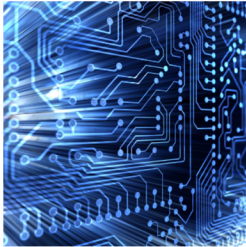
Examples of Supply Chains

- ▶ food and food products
- ▶ high tech products
- ▶ automotive
- ▶ energy (oil, electric power, etc.)
- ▶ clothing and toys
- ▶ humanitarian relief
- ▶ healthcare supply chains.

Food Supply Chains



High Tech Products



Automotive Supply Chains



Energy Supply Chains



Clothing and Toys



Healthcare Supply Chains



Humanitarian Relief



Supply chains may be characterized by *decentralized decision-making* associated with the different economic agents or by *centralized* decision-making.

Supply chains are, in fact, *Complex Network Systems*.

Hence, *any formalism that seeks to model supply chains and to provide quantifiable insights and measures must be a system-wide one and network-based.*

Indeed, such crucial issues as the stability and resiliency of supply chains, as well as their adaptability and responsiveness to events in *a global environment of increasing risk and uncertainty* can only be rigorously examined from the view of supply chains as network systems.

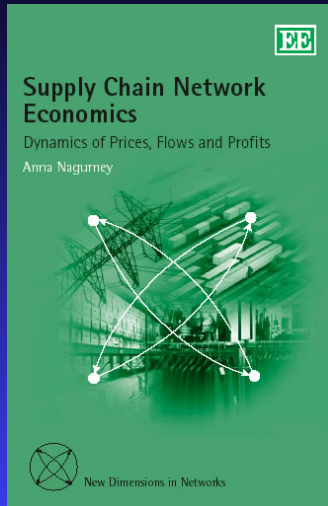
Characteristics of Supply Chains and Networks Today

- ▶ *large-scale nature* and complexity of network topology;
- ▶ *congestion*, which leads to nonlinearities;
- ▶ *alternative behavior of users of the networks*, which may lead to paradoxical phenomena;
- ▶ *possibly conflicting criteria associated with optimization*;
- ▶ *interactions among the underlying networks themselves*, such as the Internet with electric power networks, financial networks, and transportation and logistical networks;
- ▶ recognition of *their fragility and vulnerability*;
- ▶ policies surrounding networks today may have major impacts not only economically, but also *socially, politically, and security-wise*.

Changes in the availability of supplies, price shocks, as well as disruptions to transportation modes or telecommunications may have negative effects and consequences that propagate throughout the supply chain.

On the other hand, *increases in demand for a product, entirely new demand markets, decreases in transaction costs, new suppliers, and even new modes of transaction, may provide new opportunities* for profit maximization for manufacturers, distributors, as well as retailers, and new linkages that were not previously possible.

Our Approach to Supply Chain Network Analysis and Design



Why User Behavior Must be Captured in Network Design

Supply Chain Network Design Must Capture the Behavior of Users

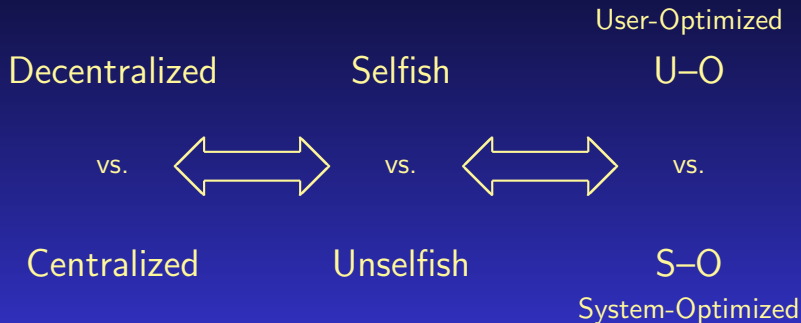


The importance of behavior will now be illustrated through a famous example known as the Braess paradox which demonstrates what can happen under *U-O* as opposed to *S-O* behavior.

Although the paradox was presented in the context of transportation networks, it is relevant to other network systems in which decision-makers act in a noncooperative (competitive) manner.

Behavior on Congested Networks

Decision-makers select their cost-minimizing routes.



Flows are routed so as to minimize the total cost to society.

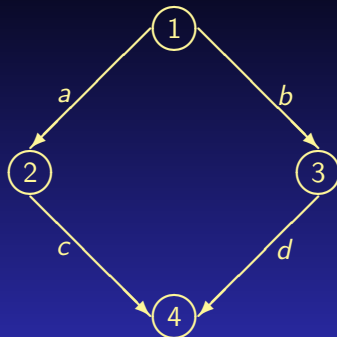
The Braess (1968) Paradox

Assume a network with a single O/D pair (1,4). There are 2 paths available to travelers: $p_1 = (a, c)$ and $p_2 = (b, d)$.

For a travel demand of **6**, the equilibrium path flows are $x_{p_1}^* = x_{p_2}^* = 3$ and

The equilibrium path travel cost is

$$C_{p_1} = C_{p_2} = 83.$$



$$c_a(f_a) = 10f_a, \quad c_b(f_b) = f_b + 50,$$

$$c_c(f_c) = f_c + 50, \quad c_d(f_d) = 10f_d.$$

Adding a Link Increases Travel Cost for All!

Adding a new link creates a new path $p_3 = (a, e, d)$.

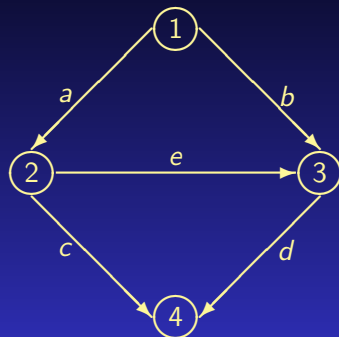
The original flow distribution pattern is no longer an equilibrium pattern, since at this level of flow the cost on path p_3 , $C_{p_3} = 70$.

The new equilibrium flow pattern network is

$$x_{p_1}^* = x_{p_2}^* = x_{p_3}^* = 2.$$

The equilibrium path travel cost:

$$C_{p_1} = C_{p_2} = C_{p_3} = 92.$$



$$c_e(f_e) = f_e + 10$$

"On a Paradox of Traffic Planning,"

D. Braess, A. Nagurney, and T. Wakolbinger (2005)
Transportation Science **39**, 446-450.

Supply Chain Networks

The Braess Paradox Around the World

1969 - Stuttgart, Germany - The traffic worsened until a newly built road was closed.



1990 - Earth Day - New York City - 42nd Street was closed and traffic flow improved.



2002 - Seoul, Korea - A 6 lane road built over the Cheonggyecheon River that carried 160,000 cars per day and was perpetually jammed was torn down to improve traffic flow.



Braess

on

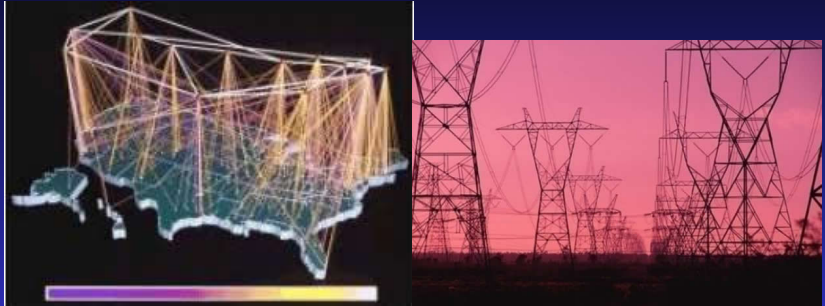
BROADWAY



Under S-O behavior, the total cost in the network is minimized, and the new route p_3 , under the same demand, would not be used.

The Braess paradox never occurs in S-O networks.

Other Networks that Behave like Traffic Networks



The Internet and electric power networks

Methodology for Formulation, Analysis, and Computations and an Empirical Application to Electric Power Supply Chains

The Variational Inequality Problem

We utilize the theory of variational inequalities for the formulation, analysis, and solution of both centralized and decentralized supply chain network problems.

Definition: The Variational Inequality Problem

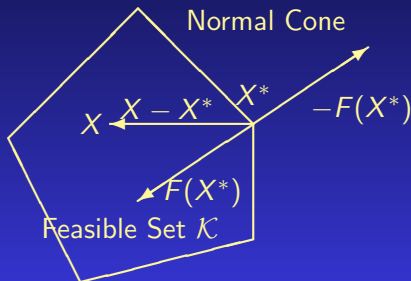
The finite-dimensional variational inequality problem, $VI(F, \mathcal{K})$, is to determine a vector $X^ \in \mathcal{K}$, such that:*

$$\langle F(X^*), X - X^* \rangle \geq 0, \quad \forall X \in \mathcal{K},$$

where F is a given continuous function from \mathcal{K} to R^N , \mathcal{K} is a given closed convex set, and $\langle \cdot, \cdot \rangle$ denotes the inner product in R^N .

Geometric Interpretation of $\text{VI}(F, \mathcal{K})$

In particular, $F(X^*)$ is “orthogonal” to the feasible set \mathcal{K} at the point X^* .



The variational inequality problem contains, as special cases, such mathematical programming problems as:

- systems of equations,
- optimization problems,
- complementarity problems,
- and is related to the fixed point problem.

Hence, it is a natural methodology for a spectrum of supply chain network problems from centralized to decentralized ones as well as to design problems.

Electric Power Supply Chains

We have developed *an empirical, large-scale electric supply chain network equilibrium model*, formulated it as a VI problem, and were able to solve it by *exploiting the connection between electric power supply chain networks and transportation networks* using our proof of a hypothesis posed in the classic book, *Studies in the Economics of Transportation*, by Beckmann, McGuire, and Winsten (1956).

The paper, “An Integrated Electric Power Supply Chain and Fuel Market Network Framework: Theoretical Modeling with Empirical Analysis for New England,” by Z. Liu and A. Nagurney was published in *Naval Research Logistics* (2009), **56**, 600-624.

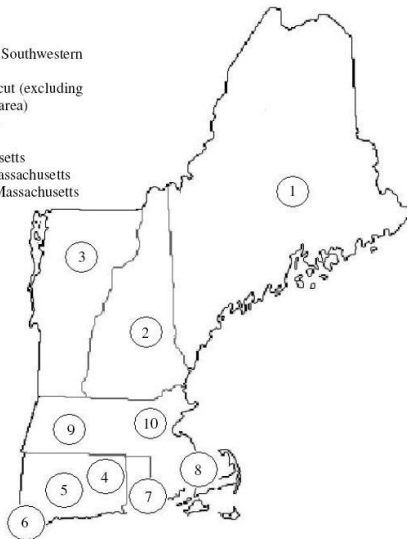
An Empirical Example of an Electric Power Supply Chain for New England

There are 82 generating companies who own and operate 573 generating units. We considered 5 types of fuels: natural gas, residual fuel oil, distillate fuel oil, jet fuel, and coal. The whole area was divided into 10 regions:

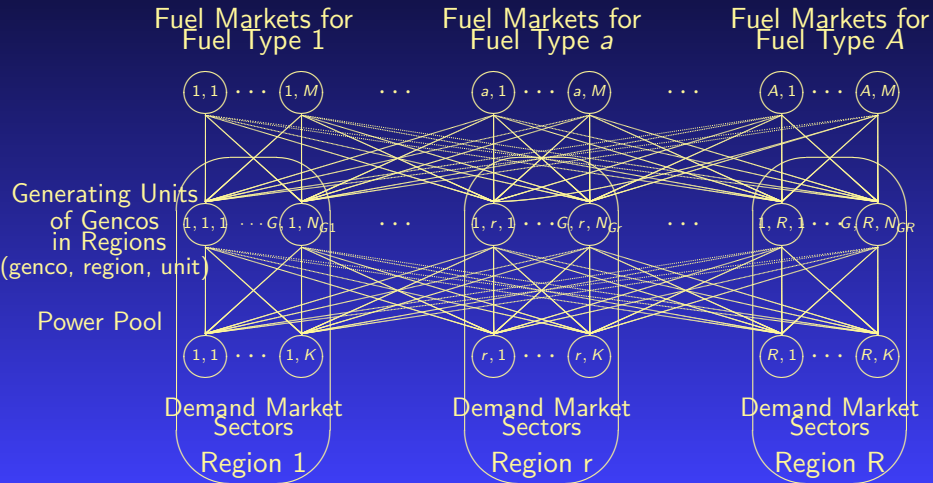
1. Maine,
2. New Hampshire,
3. Vermont,
4. Connecticut (excluding Southwest Connecticut),
5. Southwestern Connecticut (excluding the Norwalk-Stamford area),
6. Norwalk-Stamford area,
7. Rhode Island,
8. Southeastern Massachusetts,
9. Western and Central Massachusetts,
10. Boston/Northeast Massachusetts.

Graphic of New England

1. Maine
2. New Hampshire
3. Vermont
4. Connecticut (excluding Southwestern Connecticut)
5. Southwestern Connecticut (excluding the Norwalk-Stamford area)
6. Norwalk-Stamford area
7. Rhode Island
8. Southeastern Massachusetts
9. Western and Central Massachusetts
10. Boston/Northeastern Massachusetts



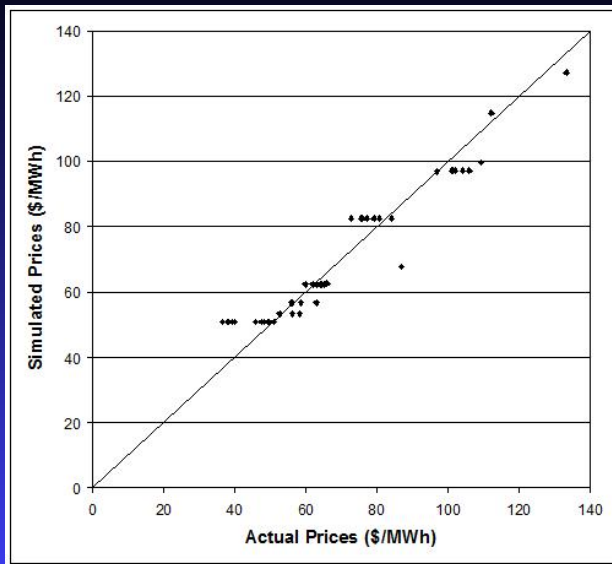
The Electric Power Supply Chain Network with Fuel Supply Markets



We tested the model on the data of July 2006 which included $24 \times 31 = 744$ hourly demand/price scenarios. We sorted the scenarios based on the total hourly demand, and constructed the load duration curve. We divided the duration curve into 6 blocks ($L_1 = 94$ hours, and $L_w = 130$ hours; $w = 2, \dots, 6$) and calculated the average regional demands and the average weighted regional prices for each block.

The empirical model had on the order of 20,000 variables.

Actual Prices Vs. Simulated Prices (\$/Mwh)



Supply Chain Network Design Through Mergers and Acquisitions

Supply chain network design (and redesign) can be accomplished through link and node additions (as well as their removals).

It can be accomplished by modifying the link capacities (expanding certain ones and, if applicable, reducing or selling off others).

It can also be accomplished through the integration of networks as in mergers and acquisitions

and, as we will show later, through the design of the network from scratch.

Current Merger & Acquisition Activity

M&As totaled over \$2 trillion in 2009, down 32% from full-year 2008 and down 53% from the record high in 2007, according to data from Thomson Reuters.

Mergers announced in October 2010 include Bain Capital / Gymboree, at \$1.789 billion and Dynamex / Greenbriar Equity Group (\$207 million).

Some of the most visible recent mergers have occurred in the airline industry with Delta and Northwest completing their merger in October 2008 and United and Continental closing on the formation of United Continental Holdings Oct. 1, 2010.

Global 2010 M&A activity is estimated to rise as much as 35% from 2009 figures (Sanford C. Bernstein research firm).

Successful mergers can add tremendous value; however, the failure rate is estimated to be between 74% and 83% (Devero (2004)).

It is worthwhile to develop tools to better predict the associated strategic gains, which include, among others, cost savings (Eccles, Lanes, and Wilson (1999)).

Mergers and Acquisitions and Network Synergies

A successful merger depends on the ability to measure the anticipated synergy of the proposed merger (cf. Chang (1988)) .

- ◇ A. Nagurney (2009) "A System-Optimization Perspective for Supply Chain Network Integration: The Horizontal Merger Case," *Transportation Research E* **45**, 1-15.

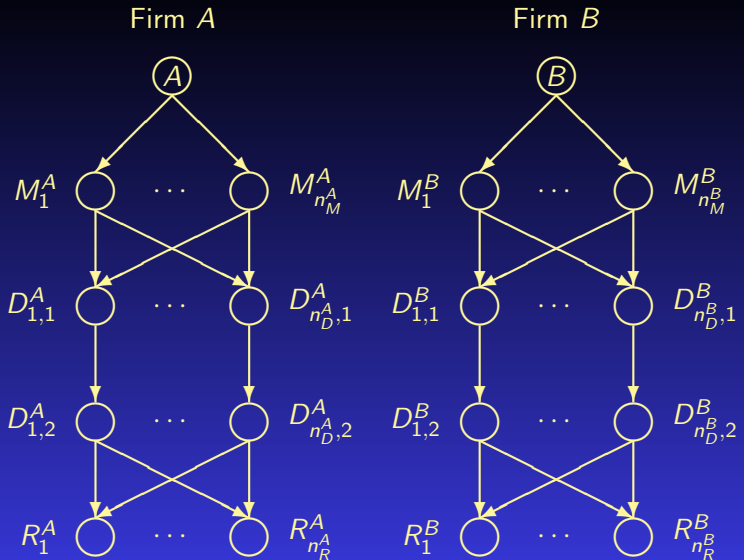


Figure 1: Case 0: Firms A and B Prior to Horizontal Merger

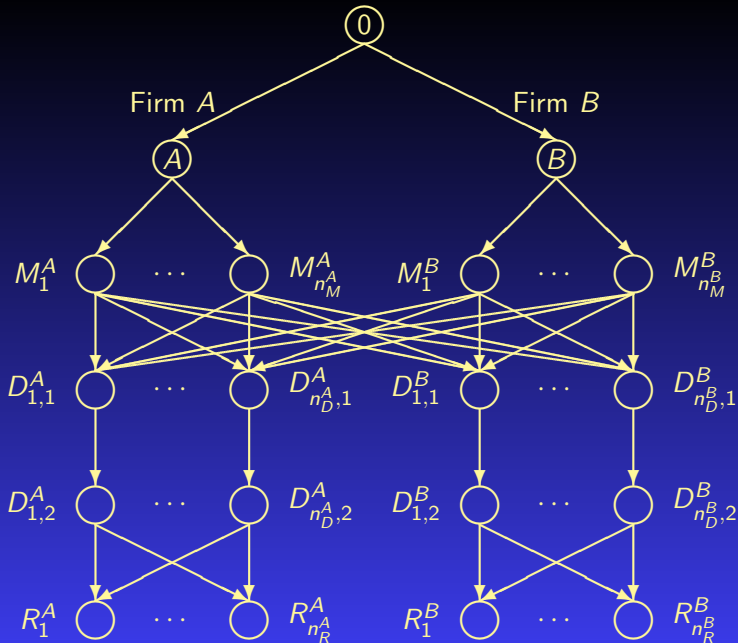


Figure 2: Case 1: Firms A and B Merge

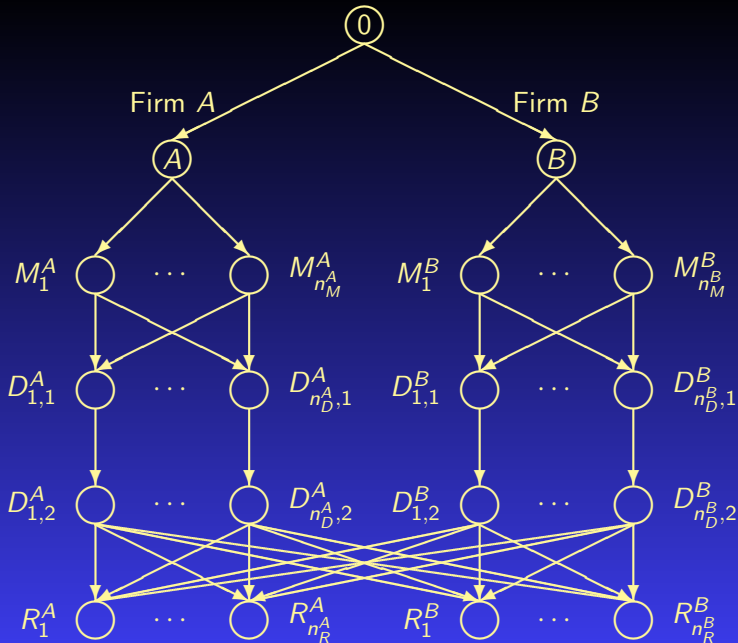


Figure 3: Case 2: Firms A and B Merge

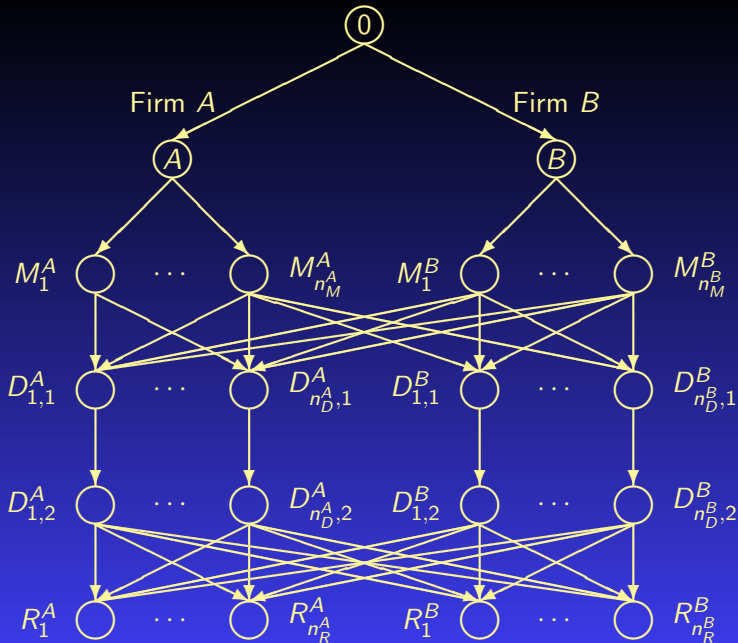


Figure 4: Case 3: Firms A and B Merge

Synergy Measure

The measure that we utilized in Nagurney (2009) to capture the gains, if any, associated with a horizontal merger Case i ; $i = 1, 2, 3$ is as follows:

$$\mathcal{S}^i = \left[\frac{TC^0 - TC^i}{TC^0} \right] \times 100\%,$$

where TC^i is the total cost associated with the value of the objective function $\sum_{a \in L^i} \hat{c}_a(f_a)$ for $i = 0, 1, 2, 3$ evaluated at the optimal solution for Case i . Note that \mathcal{S}^i ; $i = 1, 2, 3$ may also be interpreted as *synergy*.

This model can also be applied to the teaming of organizations in the case of humanitarian operations.

Bellagio Conference on Humanitarian Logistics

Humanitarian Logistics: Networks for Africa



Rockefeller Foundation Bellagio Center Conference, Bellagio, Lake Como, Italy

May 5-9, 2008

**Conference Organizer: Anna Nagurney, John F. Smith Memorial Professor
University of Massachusetts at Amherst**

See: <http://hlogistics.som.umass.edu/>

Some Examples of Oligopolies

- ▶ airlines
- ▶ freight carriers
- ▶ automobile manufacturers
- ▶ oil companies
- ▶ beer / beverage companies
- ▶ wireless communications
- ▶ certain financial institutions.

The Supply Chain Network Oligopoly Model

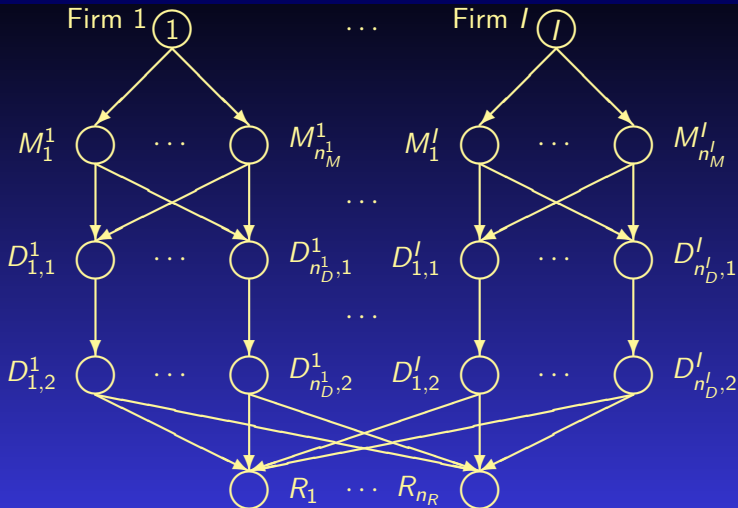


Figure 5: Supply Chain Network Structure of the Oligopoly

Nagurney *Computational Management Science* (2010) **7**, 377-401.

Mergers Through Coalition Formation

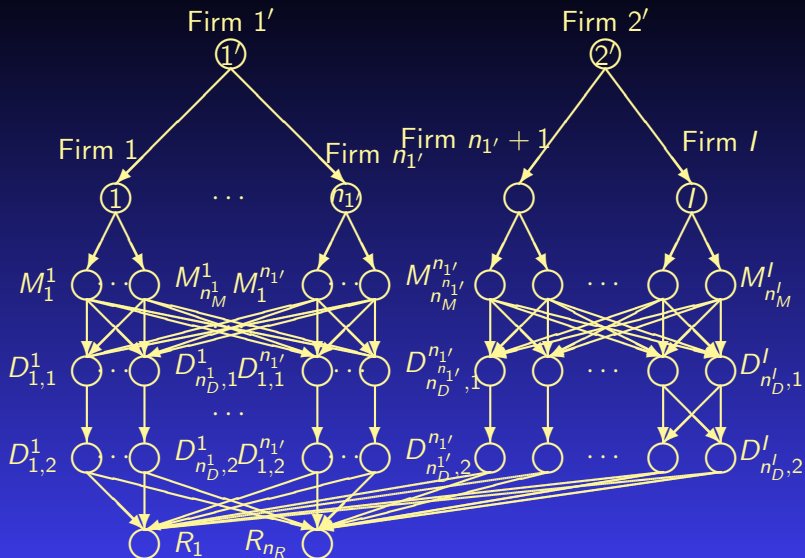


Figure 6: Mergers of the First $n_{1'}$ Firms and the Next $n_{2'}$ Firms

In addition, supply chain network design can be accomplished through the evolution and integration of disparate network systems, including social networks.

Two References:

A. Nagurney, T. Wakolbinger, and L. Zhao (2006) "The Evolution and Emergence of Integrated Social and Financial Networks with Electronic Transactions: A Dynamic Supernetwork Theory for the Modeling, Analysis, and Computation of Financial Flows and Relationship Levels," *Computational Economics* **27**, 353-393.

J. M. Cruz, A. Nagurney, and T. Wakolbinger (2006) "Financial Engineering of the Integration of Global Supply Chain Networks and Social Networks with Risk Management," *Naval Research Logistics* **53**, 674-696.

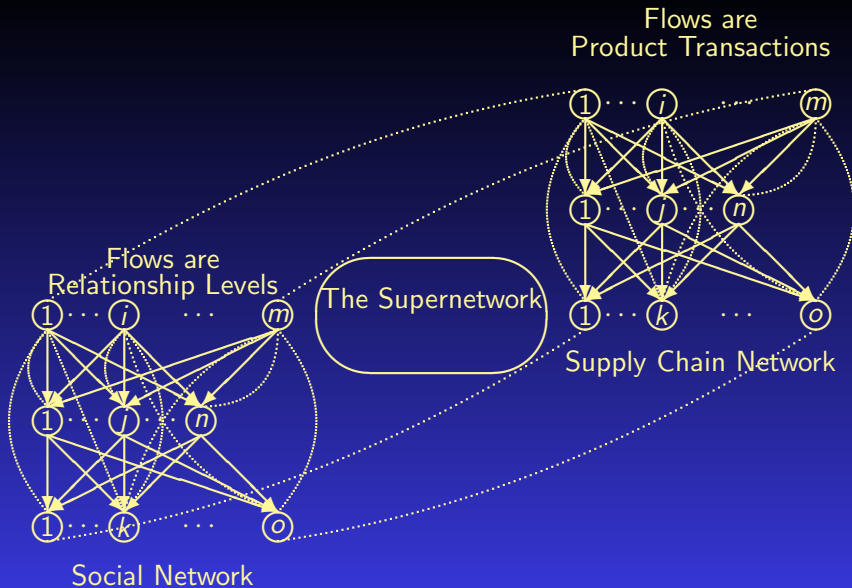


Figure 7: The Multilevel Supernetwork Structure of the Integrated Supply Chain / Social Network System

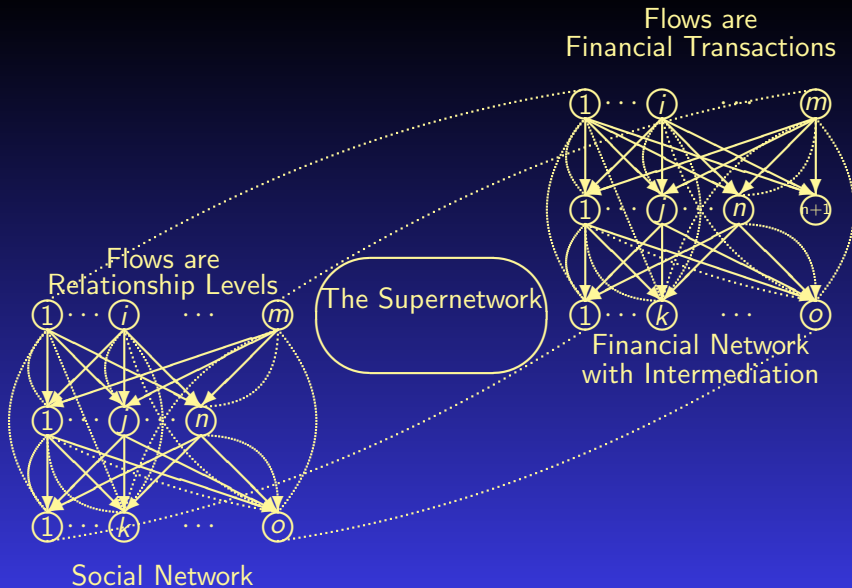


Figure 8: The Multilevel Supernetwork Structure of the Integrated Financial Network / Social Network System

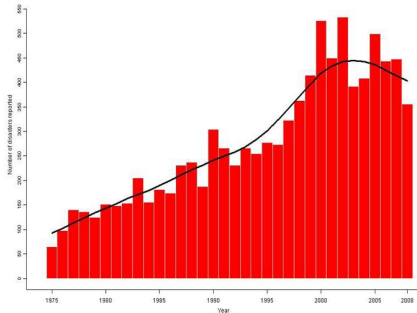
A Challenging Network Design Problem and Model for Critical Needs with Outsourcing

The number of disasters is increasing globally, as is the number of people affected by disasters. At the same time, with the advent of increasing globalization, viruses are spreading more quickly and creating new challenges for medical and health professionals, researchers, and government officials.

Between 2000 and 2004, the average annual number of disasters was 55% higher than in the period 1994 through 1999, with 33% more humans affected in the former period than in the latter (cf. Balcik and Beamon (2008) and Nagurney and Qiang (2009)).

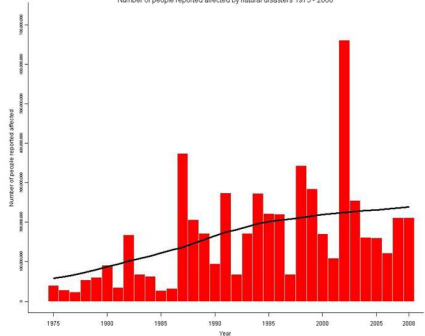
Natural Disasters (1975–2008)

Natural disasters reported 1975–2008



EM-DAT: The OFH/UNEP International Disaster Database - www.emdat.be/ - University of Liege, Belgium - Belgium

Number of people reported affected by natural disasters 1975–2008



EM-DAT: The OFH/UNEP International Disaster Database - www.emdat.be/ - University of Liege, Belgium - Belgium

However, although the average number of disasters has been increasing annually over the past decade the average percentage of needs met by different sectors in the period 2000 through 2005 identifies significant shortfalls.

According to Development Initiatives (2006), based on data in the Financial Tracking System of the Office for the Coordination of Humanitarian Affairs, from 2000-2005, the average needs met by different sectors in the case of disasters were:

- ▶ 79% by the food sector;
- ▶ 37% of the health needs;
- ▶ 35% of the water and sanitation needs;
- ▶ 28% of the shelter and non-food items, and
- ▶ 24% of the economic recovery and infrastructure needs.

Hurricane Katrina in 2005



Hurricane Katrina has been called an “American tragedy,” in which essential services failed completely (Guidotti (2006)).

Haiti Earthquake in 2010



Delivering the humanitarian relief supplies (water, food, medicines, etc.) to the victims was a major logistical challenge.

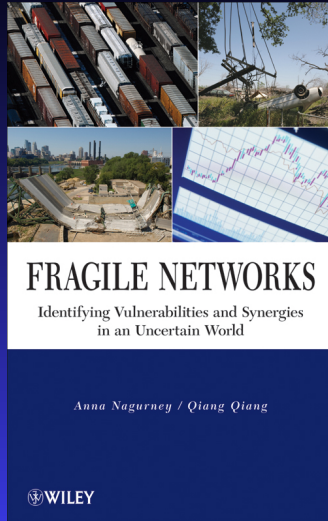
H1N1 (Swine) Flu

As of May 2, 2010, worldwide, more than 214 countries and overseas territories or communities have reported laboratory confirmed cases of pandemic influenza H1N1 2009, including over 18,001 deaths (www.who.int).

Parts of the globe experienced serious flu vaccine shortages, both seasonal and H1N1 (swine) ones, in late 2009.



Fragile Networks



We are living in a world of *Fragile Networks*.

Background and Motivation

Underlying the delivery of goods and services in times of crises, such as in the case of disasters, pandemics, and life-threatening major disruptions, are **supply chains**, without which essential products do not get delivered in a timely manner, with possible increased disease, injuries, and casualties.

It is clear that better-designed supply chain networks would have facilitated and enhanced various emergency preparedness and relief efforts and would have resulted in less suffering and lives lost.

Supply chain networks provide the logistical backbones for the provision of products as well as services both in corporate as well as in emergency and humanitarian operations.

Here we focus on supply chains in the case of

Critical Needs Products.

Critical Needs Products

Critical needs products are those that are **essential to the survival of the population**, and can include, for example, vaccines, medicine, food, water, etc., depending upon the particular application.

The demand for the product should be met as nearly as possible since otherwise there may be additional loss of life.

In times of crises, a **system-optimization** approach is mandated since the demands for critical supplies should be met (as nearly as possible) at minimal total cost.

An Overview of Some of the Relevant Literature

- ▶ M. J. Beckmann, C. B. McGuire, and C. B. Winsten (1956) *Studies in the Economics of Transportation*, Yale University Press, New Haven, Connecticut.
- ▶ S. C. Dafermos and F. T. Sparrow (1969) "The Traffic Assignment Problem for a General Network," *Journal of Research of the National Bureau of Standards* **73B**, 91-118.
- ▶ D. E. Boyce, H. S. Mahmassani, and A. Nagurney (2005) "A Retrospective on Beckmann, McGuire, and Winsten's *Studies in the Economics of Transportation*," *Papers in Regional Science* **84**, 85-103.
- ▶ A. Nagurney (2009) "A System-Optimization Perspective for Supply Chain Network Integration: The Horizontal Merger Case," *Transportation Research E* **45**, 1-15.

- ▶ A. Nagurney, T. Woolley, and Q. Qiang (2010) “Multiproduct Supply Chain Horizontal Network Integration: Models, Theory, and Computational Results,” *International Journal of Operational Research* **17**, 333-349.
- ▶ A. Nagurney (2010) “Formulation and Analysis of Horizontal Mergers Among Oligopolistic Firms with Insights into the Merger Paradox: A Supply Chain Network Perspective,” *Computational Management Science* **7**, 377-401.
- ▶ A. Nagurney (2010) “Supply Chain Network Design Under Profit Maximization and Oligopolistic Competition,” *Transportation Research E* **46**, 281-294.

This part of the presentation is based on the paper:

“Supply Chain Network Design for Critical Needs with Outsourcing,”

A. Nagurney, M. Yu, and Q. Qiang, *Papers in Regional Science*, in press,

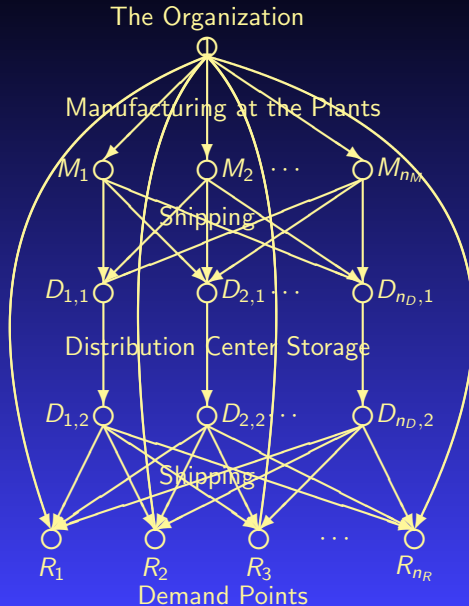
where additional background as well as references can be found.

We assume that the organization (government, humanitarian one, socially responsible firm, etc.) is considering n_M manufacturing facilities/plants; n_D distribution centers, but must serve the n_R demand points.

The supply chain network is modeled as a network $G = [N, L]$, consisting of the set of nodes N and the set of links L . Let L^1 and L^2 denote the links associated with “in house” supply chain activities and the outsourcing activities, respectively. The paths joining the origin node to the destination nodes represent sequences of supply chain network activities that ensure that the product is produced and, ultimately, delivered to those in need at the demand points.

The optimization model can handle both design (from scratch) and redesign scenarios.

Supply Chain Network Topology with Outsourcing



The Links

The possible manufacturing links from the top-tiered node 1 are connected to the possible manufacturing nodes of the organization, which are denoted, respectively, by: M_1, \dots, M_{n_M} .

The possible shipment links from the manufacturing nodes, are connected to the possible distribution center nodes of the organization, denoted by $D_{1,1}, \dots, D_{n_D,1}$.

The links joining nodes $D_{1,1}, \dots, D_{n_D,1}$ with nodes $D_{1,2}, \dots, D_{n_D,2}$ correspond to the possible storage links.

There are possible shipment links joining the nodes $D_{1,2}, \dots, D_{n_D,2}$ with the demand nodes: R_1, \dots, R_{n_R} .

There are also outsourcing links, which may join the top node to each bottom node (or the relevant nodes for which the outsourcing activity is feasible, as in production, storage, or distribution, or a combination thereof). The organization does not control the capacities on these links since they have been established by the particular firm that corresponds to the outsource link.

The ability to outsource supply chain network activities for critical needs products provides alternative pathways for the production and delivery of products during times of crises such as disasters.

Demands, Path Flows, and Link Flows

Let d_k denote the demand at demand point k ; $k = 1, \dots, n_R$, which is a random variable with probability density function given by $\mathcal{F}_k(t)$. Let x_p represent the nonnegative flow of the product on path p ; f_a denote the flow of the product on link a .

Conservation of Flow Between Path Flows and Link Flows

$$f_a = \sum_{p \in P} x_p \delta_{ap}, \quad \forall a \in L, \quad (1)$$

that is, the total amount of a product on a link is equal to the sum of the flows of the product on all paths that utilize that link. $\delta_{ap} = 1$ if link a is contained in path p , and $\delta_{ap} = 0$, otherwise.

Supply Shortage and Surplus

Let

$$v_k \equiv \sum_{p \in P_{w_k}} x_p, \quad k = 1, \dots, n_R, \quad (2)$$

where v_k can be interpreted as the *projected demand* at demand market k ; $k = 1, \dots, n_R$. Then,

$$\Delta_k^- \equiv \max\{0, d_k - v_k\}, \quad k = 1, \dots, n_R, \quad (3)$$

$$\Delta_k^+ \equiv \max\{0, v_k - d_k\}, \quad k = 1, \dots, n_R, \quad (4)$$

where Δ_k^- and Δ_k^+ represent the supply shortage and surplus at demand point k , respectively. The expected values of Δ_k^- and Δ_k^+ are given by:

$$E(\Delta_k^-) = \int_{v_k}^{\infty} (t - v_k) \mathcal{F}_k(t) d(t), \quad k = 1, \dots, n_R, \quad (5)$$

$$E(\Delta_k^+) = \int_0^{v_k} (v_k - t) \mathcal{F}_k(t) d(t), \quad k = 1, \dots, n_R. \quad (6)$$

The Operation Costs, Investment Costs and Penalty Costs

The total cost on a link is assumed to be a function of the flow of the product on the link. We have, thus, that

$$\hat{c}_a = \hat{c}_a(f_a), \quad \forall a \in L. \quad (7)$$

We denote the nonnegative existing capacity on a link a by \bar{u}_a , $\forall a \in L$. Note that the organization can add capacity to the “in house” link a ; $\forall a \in L^1$. We assume that

$$\hat{\pi}_a = \hat{\pi}_a(u_a), \quad \forall a \in L^1. \quad (8)$$

The expected total penalty at demand point k ; $k = 1, \dots, n_R$, is,

$$E(\lambda_k^- \Delta_k^- + \lambda_k^+ \Delta_k^+) = \lambda_k^- E(\Delta_k^-) + \lambda_k^+ E(\Delta_k^+), \quad (9)$$

where λ_k^- is the unit penalty of supply shortage at demand point k and λ_k^+ is that of supply surplus. Note that $\lambda_k^- E(\Delta_k^-) + \lambda_k^+ E(\Delta_k^+)$ is a function of the path flow vector x .

The Supply Chain Network Design Optimization Problem

The organization seeks to determine the optimal levels of product processed on each supply chain network link (including the outsourcing links) coupled with the optimal levels of capacity investments in its supply chain network activities subject to the minimization of the total cost.

The total cost includes the total cost of operating the various links, the total cost of capacity investments, and the expected total supply shortage/surplus penalty.

The Supply Chain Network Design Optimization Problem

$$\text{Minimize} \quad \sum_{a \in L} \hat{c}_a(f_a) + \sum_{a \in L^1} \hat{\pi}_a(u_a) + \sum_{k=1}^{n_R} (\lambda_k^- E(\Delta_k^-) + \lambda_k^+ E(\Delta_k^+)) \quad (10)$$

subject to: constraints (1), (2) and

$$f_a \leq \bar{u}_a + u_a, \quad \forall a \in L^1, \quad (11)$$

$$f_a \leq \bar{u}_a, \quad \forall a \in L^2, \quad (12)$$

$$u_a \geq 0, \quad \forall a \in L^1, \quad (13)$$

$$x_p \geq 0, \quad \forall p \in P. \quad (14)$$

The Feasible Set

We associate the Lagrange multiplier ω_a with constraint (11) for link $a \in L^1$ and we denote the associated optimal Lagrange multiplier by ω_a^* . Similarly, Lagrange multiplier γ_a is associated with constraint (12) for link $a \in L^2$ with the optimal multiplier denoted by γ_a^* . These two terms may also be interpreted as the price or value of an additional unit of capacity on link a . We group these Lagrange multipliers into the vectors ω and γ , respectively. Let K denote the feasible set such that

$$K \equiv \{(x, u, \omega, \gamma) | x \in R_+^{n_P}, u \in R_+^{n_{L^1}}, \omega \in R_+^{n_{L^1}}, \text{ and } \gamma \in R_+^{n_{L^2}}\}.$$

Theorem

The optimization problem is equivalent to the variational inequality problem: determine the vector of optimal path flows, the vector of optimal link capacity enhancements, and the vectors of optimal Lagrange multipliers $(x^, u^*, \omega^*, \gamma^*) \in K$, such that:*

$$\begin{aligned} & \sum_{k=1}^{n_R} \sum_{p \in P_{w_k}} \left[\frac{\partial \hat{C}_p(x^*)}{\partial x_p} + \sum_{a \in L^1} \omega_a^* \delta_{ap} + \sum_{a \in L^2} \gamma_a^* \delta_{ap} + \lambda_k^+ P_k \left(\sum_{p \in P_{w_k}} x_p^* \right) \right. \\ & \quad \left. - \lambda_k^- \left(1 - P_k \left(\sum_{p \in P_{w_k}} x_p^* \right) \right) \right] \times [x_p - x_p^*] \\ & + \sum_{a \in L^1} \left[\frac{\partial \hat{\pi}_a(u_a^*)}{\partial u_a} - \omega_a^* \right] \times [u_a - u_a^*] + \sum_{a \in L^1} [\bar{u}_a + u_a^* - \sum_{p \in P} x_p^* \delta_{ap}] \times [\omega_a - \omega_a^*] \\ & + \sum_{a \in L^2} [\bar{u}_a - \sum_{p \in P} x_p^* \delta_{ap}] \times [\gamma_a - \gamma_a^*] \geq 0, \quad \forall (x, u, \omega, \gamma) \in K. \quad (15) \end{aligned}$$

Theorem (cont'd.)

In addition, (15) can be reexpressed in terms of links flows as: determine the vector of optimal link flows, the vectors of optimal projected demands and link capacity enhancements, and the vectors of optimal Lagrange multipliers $(f^, v^*, u^*, \omega^*, \gamma^*) \in K^1$, such that:*

$$\begin{aligned}
 & \sum_{a \in L^1} \left[\frac{\partial \hat{c}_a(f_a^*)}{\partial f_a} + \omega_a^* \right] \times [f_a - f_a^*] + \sum_{a \in L^2} \left[\frac{\partial \hat{c}_a(f_a^*)}{\partial f_a} + \gamma_a^* \right] \times [f_a - f_a^*] \\
 & \quad + \sum_{a \in L^1} \left[\frac{\partial \hat{\pi}_a(u_a^*)}{\partial u_a} - \omega_a^* \right] \times [u_a - u_a^*] \\
 & + \sum_{k=1}^{n_R} [\lambda_k^+ P_k(v_k^*) - \lambda_k^- (1 - P_k(v_k^*))] \times [v_k - v_k^*] + \sum_{a \in L^1} [\bar{u}_a + u_a^* - f_a^*] \times [\omega_a - \omega_a^*] \\
 & \quad + \sum_{a \in L^2} [\bar{u}_a - f_a^*] \times [\gamma_a - \gamma_a^*] \geq 0, \quad \forall (f, v, u, \omega, \gamma) \in K^1, \quad (16)
 \end{aligned}$$

where $K^1 \equiv \{(f, v, u, \omega, \gamma) | \exists x \geq 0, \text{ and } (1), (2), (13), \text{ and } (14) \text{ hold, and } \omega \geq 0, \gamma \geq 0\}$.

Applications to Vaccine Production and Emergencies

Applications to Vaccine Production

By applying the general theoretical model to the company's data, the firm can determine whether it needs to expand its facilities (or not), how much of the vaccine to produce where, how much to store where, and how much to have shipped to the various demand points. Also, it can determine whether it should outsource any of its vaccine production and at what level.

The firm by solving the model with its company-relevant data can then ensure *that the price that it receives for its vaccine production and delivery is appropriate* and that it recovers its incurred costs and obtains, if negotiated correctly, an equitable profit.

Applications to Emergencies

A company can, using the model, prepare and plan for an emergency such as a natural disaster in the form of a hurricane and identify where to store a necessary product (such as food packets, for example) so that the items can be delivered to the demand points in a timely manner and at minimal total cost.

The Algorithm, Explicit Formulae, and Numerical Examples

The Algorithm

At an iteration τ of the Euler method (see Dupuis and Nagurney (1993) and Nagurney and Zhang (1996)) one computes:

$$X^{\tau+1} = P_{\mathcal{K}}(X^{\tau} - a_{\tau}F(X^{\tau})), \quad (17)$$

where $P_{\mathcal{K}}$ is the projection on the feasible set \mathcal{K} and F is the function that enters the variational inequality problem: determine $X^* \in \mathcal{K}$ such that

$$\langle F(X^*)^T, X - X^* \rangle \geq 0, \quad \forall X \in \mathcal{K}, \quad (18)$$

where $\langle \cdot, \cdot \rangle$ is the inner product in n -dimensional Euclidean space, $X \in R^n$, and $F(X)$ is an n -dimensional function from \mathcal{K} to R^n , with $F(X)$ being continuous.

The sequence $\{a_{\tau}\}$ must satisfy: $\sum_{\tau=0}^{\infty} a_{\tau} = \infty$, $a_{\tau} > 0$, $a_{\tau} \rightarrow 0$, as $\tau \rightarrow \infty$.

Explicit Formulae for (17) to the Supply Chain Network Design Variational Inequality (15)

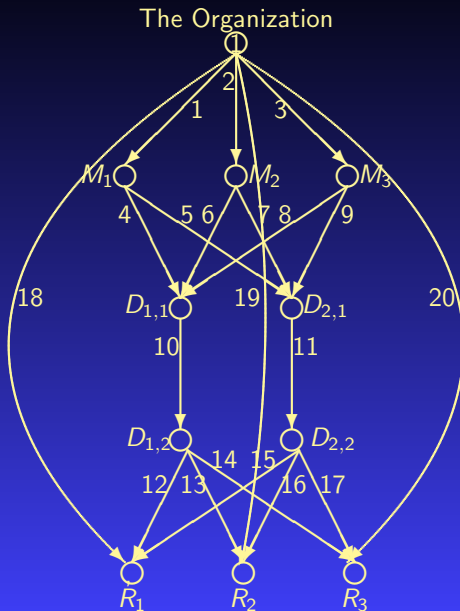
$$x_p^{\tau+1} = \max\{0, x_p^\tau + a_\tau(\lambda_k^-(1 - P_k(\sum_{p \in P_{w_k}} x_p^\tau)) - \lambda_k^+ P_k(\sum_{p \in P_{w_k}} x_p^\tau) - \frac{\partial \hat{C}_p(x^\tau)}{\partial x_p} - \sum_{a \in L^1} \omega_a^\tau \delta_{ap} - \sum_{a \in L^2} \gamma_a^\tau \delta_{ap})\}, \quad \forall p \in P; \quad (19)$$

$$u_a^{\tau+1} = \max\{0, u_a^\tau + a_\tau(\omega_a^\tau - \frac{\partial \hat{\pi}_a(u_a^\tau)}{\partial u_a})\}, \quad \forall a \in L^1; \quad (20)$$

$$\omega_a^{\tau+1} = \max\{0, \omega_a^\tau + a_\tau(\sum_{p \in P} x_p^\tau \delta_{ap} - \bar{u}_a - u_a^\tau)\}, \quad \forall a \in L^1; \quad (21)$$

$$\gamma_a^{\tau+1} = \max\{0, \gamma_a^\tau + a_\tau(\sum_{p \in P} x_p^\tau \delta_{ap} - \bar{u}_a)\}, \quad \forall a \in L^2. \quad (22)$$

Numerical Examples



Example 1

The demands at the three demand points followed a uniform probability distribution on the intervals $[0, 10]$, $[0, 20]$, and $[0, 30]$, respectively:

$$P_1\left(\sum_{p \in P_{w_1}} x_p\right) = \frac{\sum_{p \in P_{w_1}} x_p}{10}, \quad P_2\left(\sum_{p \in P_{w_2}} x_p\right) = \frac{\sum_{p \in P_{w_2}} x_p}{20},$$

$$P_3\left(\sum_{p \in P_{w_3}} x_p\right) = \frac{\sum_{p \in P_{w_3}} x_p}{30},$$

where $w_1 = (1, R_1)$, $w_2 = (1, R_2)$, and $w_3 = (1, R_3)$.

The penalties were:

$$\lambda_1^- = 50, \quad \lambda_1^+ = 0; \quad \lambda_2^- = 50, \quad \lambda_2^+ = 0; \quad \lambda_3^- = 50, \quad \lambda_3^+ = 0.$$

The capacities associated with the three outsourcing links were:

$$\bar{u}_{18} = 5, \quad \bar{u}_{19} = 10, \quad \bar{u}_{20} = 5.$$

We set $\bar{u}_a = 0$ for all links $a \in L^1$.

Table 1: Total Cost Functions and Solution for Example 1

Link a	$\hat{c}_a(f_a)$	$\hat{\pi}_a(u_a)$	f_a^*	u_a^*	ω_a^*	γ_a^*
1	$f_1^2 + 2f_1$	$.5u_1^2 + u_1$	1.34	1.34	2.34	—
2	$.5f_2^2 + f_2$	$.5u_2^2 + u_2$	2.47	2.47	3.47	—
3	$.5f_3^2 + f_3$	$.5u_3^2 + u_3$	2.05	2.05	3.05	—
4	$1.5f_4^2 + 2f_4$	$.5u_4^2 + u_4$	0.61	0.61	1.61	—
5	$f_5^2 + 3f_5$	$.5u_5^2 + u_5$	0.73	0.73	1.73	—
6	$f_6^2 + 2f_6$	$.5u_6^2 + u_6$	0.83	0.83	1.83	—
7	$.5f_7^2 + 2f_7$	$.5u_7^2 + u_7$	1.64	1.64	2.64	—
8	$.5f_8^2 + 2f_8$	$.5u_8^2 + u_8$	1.67	1.67	2.67	—
9	$f_9^2 + 5f_9$	$.5u_9^2 + u_9$	0.37	0.37	1.37	—
10	$.5f_{10}^2 + 2f_{10}$	$.5u_{10}^2 + u_{10}$	3.11	3.11	4.11	—
11	$f_{11}^2 + f_{11}$	$.5u_{11}^2 + u_{11}$	2.75	2.75	3.75	—
12	$.5f_{12}^2 + 2f_{12}$	$.5u_{12}^2 + u_{12}$	0.04	0.04	1.04	—
13	$.5f_{13}^2 + 5f_{13}$	$.5u_{13}^2 + u_{13}$	0.00	0.00	0.45	—

Table 2: Total Cost Functions and Solution for Example 1 (continued)

Link a	$\hat{c}_a(f_a)$	$\hat{\pi}_a(u_a)$	f_a^*	u_a^*	ω_a^*	γ_a^*
14	f_{14}^2	$.5u_{14}^2 + u_{14}$	3.07	3.07	4.07	—
15	$f_{15}^2 + 2f_{15}$	$.5u_{15}^2 + u_{15}$	0.00	0.00	0.45	—
16	$.5f_{16}^2 + 3f_{16}$	$.5u_{16}^2 + u_{16}$	0.00	0.00	0.45	—
17	$.5f_{17}^2 + 2f_{17}$	$.5u_{17}^2 + u_{17}$	2.75	2.75	3.75	—
18	$10f_{18}$	—	5.00	—	—	14.77
19	$12f_{19}$	—	10.00	—	—	13.00
20	$15f_{20}$	—	5.00	—	—	16.96

Note that the optimal supply chain network design for Example 1 is, hence, as the initial topology but with links 13, 15, and 16 removed since those links have zero capacities and associated flows. Note that the organization took advantage of outsourcing to the full capacity available.

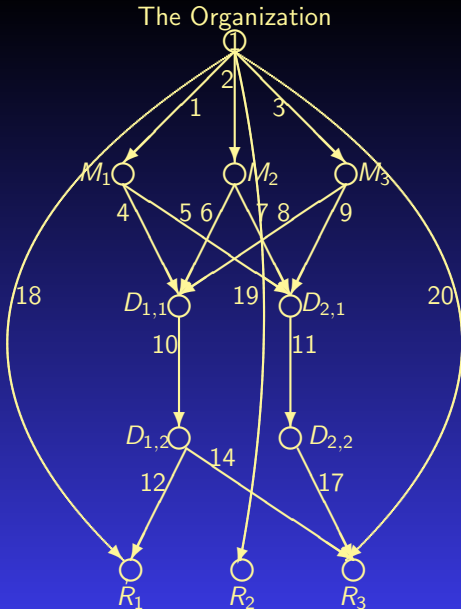


Figure 9: The Optimal Supply Chain Network Design for Example 1

Example 2

Example 2 had the identical data to that in Example 1 except that we now assumed that the organization had capacities on its supply chain network activities where $\bar{u}_a = 10$, for all $a \in L^1$.

Table 3: Total Cost Functions and Solution for Example 2

Link a	$\hat{c}_a(f_a)$	$\hat{\pi}_a(u_a)$	f_a^*	u_a^*	ω_a^*	γ_a^*
1	$f_1^2 + 2f_1$	$.5u_1^2 + u_1$	1.84	0.00	0.00	—
2	$.5f_2^2 + f_2$	$.5u_2^2 + u_2$	4.51	0.00	0.00	—
3	$.5f_3^2 + f_3$	$.5u_3^2 + u_3$	3.85	0.00	0.00	—
4	$1.5f_4^2 + 2f_4$	$.5u_4^2 + u_4$	0.88	0.00	0.00	—
5	$f_5^2 + 3f_5$	$.5u_5^2 + u_5$	0.97	0.00	0.00	—
6	$f_6^2 + 2f_6$	$.5u_6^2 + u_6$	1.40	0.00	0.00	—
7	$.5f_7^2 + 2f_7$	$.5u_7^2 + u_7$	3.11	0.00	0.00	—
8	$.5f_8^2 + 2f_8$	$.5u_8^2 + u_8$	3.47	0.00	0.00	—
9	$f_9^2 + 5f_9$	$.5u_9^2 + u_9$	0.38	0.00	0.00	—

Table 4: Total Cost Functions and Solution for Example 2 (continued)

Link a	$\hat{c}_a(f_a)$	$\hat{\pi}_a(u_a)$	f_a^*	u_a^*	ω_a^*	γ_a^*
10	$.5f_{10}^2 + 2f_{10}$	$.5u_{10}^2 + u_{10}$	5.75	0.00	0.00	—
11	$f_{11}^2 + f_{11}$	$.5u_{11}^2 + u_{11}$	4.46	0.00	0.00	—
12	$.5f_{12}^2 + 2f_{12}$	$.5u_{12}^2 + u_{12}$	0.82	0.00	0.00	—
13	$.5f_{13}^2 + 5f_{13}$	$.5u_{13}^2 + u_{13}$	0.52	0.00	0.00	—
14	f_{14}^2	$.5u_{14}^2 + u_{14}$	4.41	0.00	0.00	—
15	$f_{15}^2 + 2f_{15}$	$.5u_{15}^2 + u_{15}$	0.00	0.00	0.00	—
16	$.5f_{16}^2 + 3f_{16}$	$.5u_{16}^2 + u_{16}$	0.05	0.00	0.00	—
17	$.5f_{17}^2 + 2f_{17}$	$.5u_{17}^2 + u_{17}$	4.41	0.00	0.00	—
18	$10f_{18}$	—	5.00	—	—	10.89
19	$12f_{19}$	—	10.00	—	—	11.59
20	$15f_{20}$	—	5.00	—	—	11.96

Note that links 13 and 16 now have positive associated flows although at very low levels.

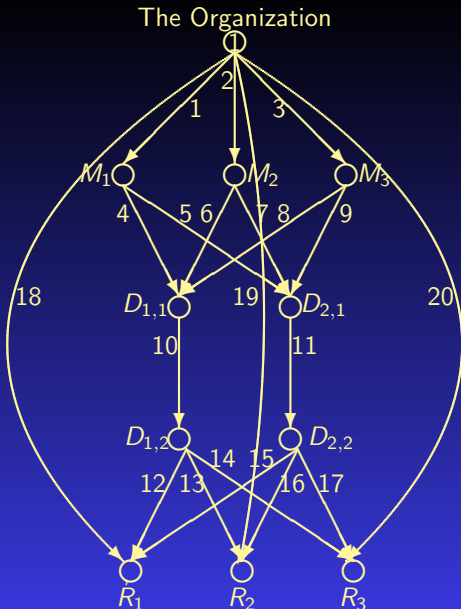


Figure 10: The Optimal Supply Chain Network Design for Example 2

Example 3

Example 3 had the same data as Example 2 except that we changed the probability distributions so that we now had:

$$P_1\left(\sum_{p \in P_{w_1}} x_p\right) = \frac{\sum_{p \in P_{w_1}} x_p}{110},$$

$$P_2\left(\sum_{p \in P_{w_2}} x_p\right) = \frac{\sum_{p \in P_{w_2}} x_p}{120},$$

$$P_3\left(\sum_{p \in P_{w_3}} x_p\right) = \frac{\sum_{p \in P_{w_3}} x_p}{130}.$$

Table 5: Total Cost Functions and Solution for Example 3

Link a	$\hat{c}_a(f_a)$	$\hat{\pi}_a(u_a)$	f_a^*	u_a^*	ω_a^*	γ_a^*
1	$f_1^2 + 2f_1$	$.5u_1^2 + u_1$	4.23	0.00	0.00	—
2	$.5f_2^2 + f_2$	$.5u_2^2 + u_2$	9.06	0.00	0.00	—
3	$.5f_3^2 + f_3$	$.5u_3^2 + u_3$	8.61	0.00	0.00	—
4	$1.5f_4^2 + 2f_4$	$.5u_4^2 + u_4$	2.05	0.00	0.00	—
5	$f_5^2 + 3f_5$	$.5u_5^2 + u_5$	2.18	0.00	0.00	—
6	$f_6^2 + 2f_6$	$.5u_6^2 + u_6$	3.28	0.00	0.00	—
7	$.5f_7^2 + 2f_7$	$.5u_7^2 + u_7$	5.77	0.00	0.00	—
8	$.5f_8^2 + 2f_8$	$.5u_8^2 + u_8$	7.01	0.00	0.00	—
9	$f_9^2 + 5f_9$	$.5u_9^2 + u_9$	1.61	0.00	0.00	—
10	$.5f_{10}^2 + 2f_{10}$	$.5u_{10}^2 + u_{10}$	12.34	2.34	3.34	—
11	$f_{11}^2 + f_{11}$	$.5u_{11}^2 + u_{11}$	9.56	0.00	0.00	—
12	$.5f_{12}^2 + 2f_{12}$	$.5u_{12}^2 + u_{12}$	5.82	0.00	0.00	—
13	$.5f_{13}^2 + 5f_{13}$	$.5u_{13}^2 + u_{13}$	2.38	0.00	0.00	—

Table 6: Total Cost Functions and Solution for Example 3 (continued)

Link a	$\hat{c}_a(f_a)$	$\hat{\pi}_a(u_a)$	f_a^*	u_a^*	ω_a^*	γ_a^*
14	f_{14}^2	$.5u_{14}^2 + u_{14}$	4.14	0.00	0.00	—
15	$f_{15}^2 + 2f_{15}$	$.5u_{15}^2 + u_{15}$	2.09	0.00	0.00	—
16	$.5f_{16}^2 + 3f_{16}$	$.5u_{16}^2 + u_{16}$	2.75	0.00	0.00	—
17	$.5f_{17}^2 + 2f_{17}$	$.5u_{17}^2 + u_{17}$	4.72	0.00	0.00	—
18	$10f_{18}$	—	5.00	—	—	34.13
19	$12f_{19}$	—	10.00	—	—	31.70
20	$15f_{20}$	—	5.00	—	—	29.66

The optimal supply chain network design for Example 3 has the initial topology since there are now positive flows on all the links. It is also interesting to note that there is a significant increase in production volumes by the organization at its manufacturing plants.

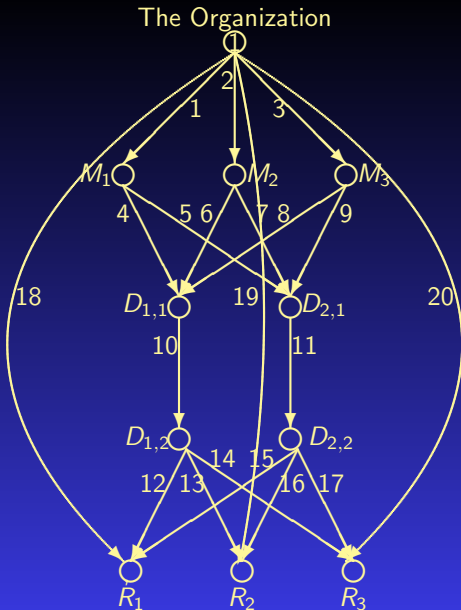


Figure 11: The Optimal Supply Chain Network Design for Example 3

Extensions to Perishable Products and Blood Supply Chains for the Red Cross

A. Nagurney, A. Masoumi, and M. Yu (2010) "Supply Chain Network Operations Management of a Blood Banking System with Cost and Risk Minimization."

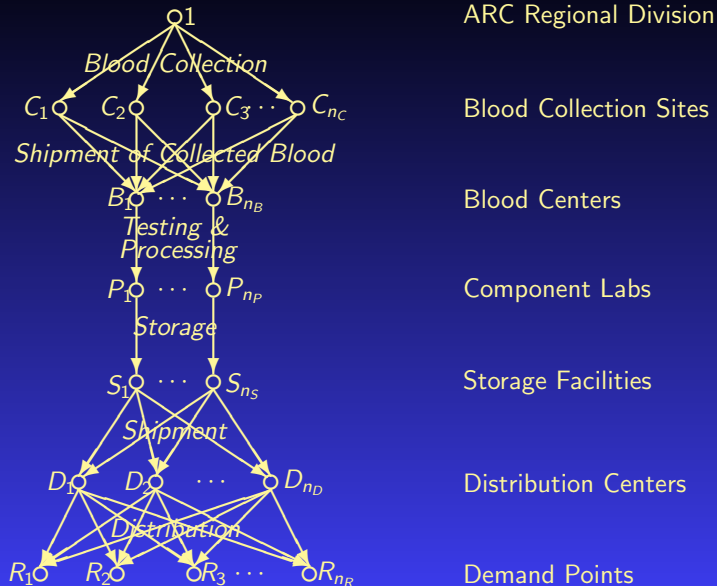


- ▶ Over 39,000 donations are needed everyday in the United States, and the blood supply is frequently reported to be just 2 days away from running out (American Red Cross (2010)).
- ▶ Hospitals with as many days of surgical delays due to blood shortage as 120 a year have been observed (Whitaker et al. (2007)).
- ▶ The national estimate for the number of units blood products outdated by blood centers and hospitals was 1,276,000 out of 15,688,000 units (Whitaker et al. (2007)).

The American Red Cross is the major supplier of blood products to hospitals and medical centers satisfying over 45% of the demand for blood components nationally (Walker (2010)).



Supply Chain Network Topology for a Regionalized Blood Bank



We developed a supply chain network optimization model for the management of the procurement, testing and processing, and distribution of a perishable product – that of human blood.

Novel features of the model include:

- ▶ It captures *perishability of this life-saving product* through the use of arc multipliers;
- ▶ It contains *discarding costs* associated with waste/disposal;
- ▶ It handles *uncertainty* associated with demand points;
- ▶ It assesses *costs associated with shortages/surpluses at the demand points*, and
- ▶ It quantifies the *supply-side risk* associated with procurement.

What About Sustainability and Supply Chain Network Design?

Sustainability of supply chains has also emerged as a major theme in both research and practice since the impacts of climate change have made both producers and consumers more cognizant of their decision-making and how their decisions affect the environment.





Photos of oil spill crisis in Gulf of Mexico, May 2010

Recent results in this dimension:

“Sustainable Supply Chain Network Design: A Multicriteria Perspective,”

A. Nagurney, and L. S. Nagurney, *International Journal of Sustainable Engineering* (2010) **3**, 189-197.



Summary, Conclusions, and Suggestions for Future Research

- ▶ We emphasized the *importance of capturing behavior* in supply chain modeling, analysis, and design.
- ▶ We discussed a *variety of network design approaches*: the addition of links; the integration of networks as in mergers and acquisitions; and the design from scratch (and redesign).
- ▶ We developed an *integrated framework for the design of supply chain networks for critical products* with outsourcing.
- ▶ The model utilizes cost minimization within a system-optimization perspective as the primary objective and captures rigorously the uncertainty associated with the demand for critical products at the various demand points.

- ▶ The supply chain network design model allows for the investment of enhanced link capacities and the investigation of whether the product should be outsourced or not.
- ▶ The framework *can be applied in numerous situations* in which the goal is to produce and deliver a critical product at minimal cost so as to satisfy the demand at various demand points, as closely as possible, given associated penalties for under- and over-supply.
- ▶ We noted the *importance of sustainable supply chain network design* but presented only highlights, due to time limitations.

- ▶ Our recent research in supply chain network design has also considered oligopolistic markets.
- ▶ In addition, we have been heavily involved in *constructing mathematical models that capture the impacts of foreign exchange risk and competition intensity* on supply chain companies who are involved in offshore outsourcing activities.
- ▶ Finally, our research in supply chains has also led us to other *time-sensitive products*, such as *fast fashion*.

- ▶ We expect that future research will include design for robustness and resiliency.
- ▶ Some recent research that we have begun in this direction: “Modeling of Supply Chain Risk Under Disruptions with Performance Measurement and Robustness Analysis,” Q. Qiang, A. Nagurney, and J. Dong (2009), in *Managing Supply Chain Risk and Vulnerability: Tools and Methods for Supply Chain Decision Makers*, T. Wu and J. Blackhurst, Editors, Springer, London, England, 91-111.

THANK YOU!



The Virtual Center for Supernetworks



Supernetworks for Optimal Decision-Making and Improving the Global Quality of Life

[Home](#)
[About](#)
[Background](#)
[Activities](#)
[Publications](#)
[Media](#)
[Links](#)
[What's New](#)
[Search](#)



ALIO - INFOORMS
Buenos Aires, Argentina
June 6-9, 2010

The Virtual Center for Supernetworks at the Isenberg School of Management, under the directorship of Anna Nagurney, the John F. Smith Memorial Professor, is an interdisciplinary center, and includes the Supernetworks Laboratory for Computation and Visualization.

Mission: The mission of the Virtual Center for Supernetworks is to foster the study and application of supernetworks and to serve as a resource to academia, industry, and government on networks ranging from transportation, supply chains, telecommunication, and electric power networks to economic, environmental, financial, knowledge and social networks.

The Applications of Supernetworks Include: multimodal transportation networks, critical infrastructure, energy and the environment, the Internet and electronic commerce, global supply chain management, international financial networks, web-based advertising, complex networks and decision-making, integrated social and economic networks, network games, and network metrics.

<p style="color: red; text-align: center;">Announcements and Notes from the Center Director</p> <p style="color: red; text-align: center;">Professor Anna Nagurney</p> <p style="text-align: center;">Updated: June 30, 2010</p>	<p style="color: red; text-align: center;">Professor Anna Nagurney's Blog</p> <p style="text-align: center;">RENeW</p> <p style="color: red; text-align: center;">Research, Education, Networks, and the World: A Female Professor Speaks</p>	<p style="color: red; text-align: center;">RFORMS Podcasts: Anna Nagurney on Supernetworks</p> <p style="font-size: small;">Why did closing New York's Times Square to cars improve traffic? How do energy and finance like large networks? Can insights learn from operations researchers? Anna Nagurney, Director of the Virtual Center for Supernetworks at UMass Amherst shares fascinating insights about networks in the latest RFORMS podcast. Tune in at: www.umasscenter.org/podcast</p>	<p style="color: red; text-align: center;">Secret Network Feature Film: 2009's Traffic: From Networks to Interlocks. Part 1 of 3</p> 
<p style="text-align: center;">New Book</p>  <p style="text-align: center;">Fragile Networks</p> <p style="text-align: center;">Available June 2009</p>	 <p style="text-align: center; color: red;">Spring 2010 Operations Research / Management Science Seminar Series</p>	 <p style="text-align: center; color: blue;">Photos of Center Activities</p>	<p style="color: red; text-align: center;">The Braess Paradox Translation</p>  <p style="text-align: center; color: blue;">Information Photos</p>
<p style="text-align: center;">You are visitor number</p> <p style="text-align: center; font-size: large;">64,160</p> <p style="text-align: center;">to the Virtual Center for Supernetworks.</p>	<p style="text-align: center;">The Supernetwork Sentinel</p> <p style="font-size: small;">The Newsletter of the Virtual Center for Supernetworks Summer 2009</p> 	 <p style="text-align: center; color: red;">Humanitarian Logistics: Networks for Africa</p>	



Google Search

For more information, see: <http://supernet.som.umass.edu>