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# How to increase the impact of disaster relief: a study of transportation rates, framework agreements and product distribution



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## Agenda

- 1 Motivation, approach & contribution**
- 2 Game-theoretic model**
- 3 Solution approach**
- 4 Selected results from numerical simulations**
- 5 Summary & outlook**

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# Motivation, approach and contribution

## Motivation

- Limited funds of humanitarian organizations (HOs): **allocation of relief items** in order to maximize impact of disaster relief
- Frequent **misallocations**
- Extremely high **transportation rates** -> strong impact on allocation decisions
- **Competition** among HOs / among carriers
- **Negotiation** of framework agreements and **selection** of carriers critical for success
- **Research questions:**
  - How are transportation rates negotiated in framework agreements?
  - How do framework agreements influence allocation and distribution decisions?
  - How can policy makers intervene to mitigate the imposed limitations?

## Approach

- Interaction of independent actors with divergent interests: **game-theoretic model** based on (Generalized) Nash Equilibrium
- Outcome of interactions from perspective of policy makers: analysis of **equilibrium values** through numerical simulations

## Contribution

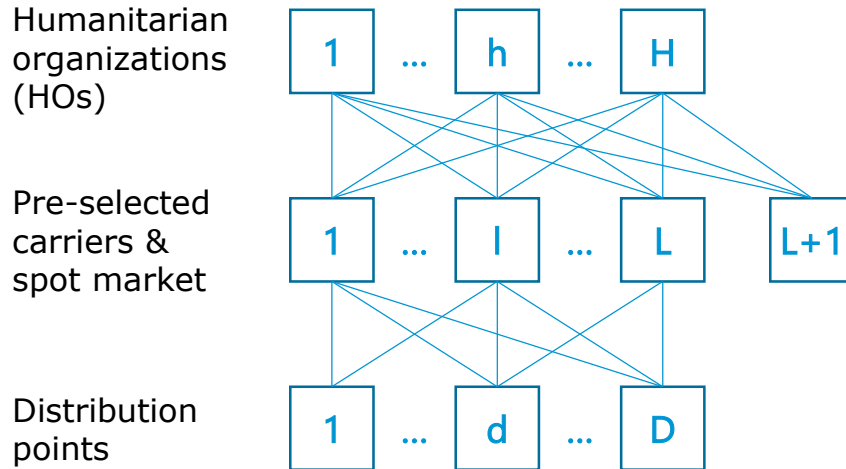
- Provides first comprehensive model of **transportation markets** in long-term relief operations (on level of individual actors)
- Addresses lack of quantitative models for humanitarian logistics taking into account **interdependencies** btw. independent actors
- Widens rare applications of **Generalized Nash Equilibrium** to supply chains

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## Underlying network



## Game-theoretic model(s)

### Sub-model 1

HOs sign **framework agreements** with preselected carriers

- Framework rates: fixed for all orders during the duration of the agreements
- Framework volumes: non-binding projections

### Sub-model 2

HOs decide on

- **volume** of relief items to be purchased
- **distribution points** to be supplied
- **carriers** to be used for transportation

# Sub-model 1

## Behavior of humanitarian organizations

### Optimization problem of one humanitarian organization

minimize  $X_h$   $C_h(X_h, P_h^*) + \omega_h^R \cdot R_h(X)$

subject to

$$\sum_{l=1}^L x_{hld} \geq M_{hd}, \quad d = 1, \dots, D$$

$$\sum_{i=1}^H \sum_{d=1}^D x_{ild} \leq G_l, \quad l = 1, \dots, L$$

$$x_{hld} \geq 0, \quad l = 1, \dots, L; d = 1, \dots, D.$$

Transportation cost

Dependency risk

Total volume of framework agreements must exceed target volume

Total volume projected for carrier must not exceed its sustainability limit

Non-negativity

### Decision variables

$x_{hld}$  Volume projected by  $h$  for transport with  $l$  to  $d$

$X_h \in \mathbb{R}_+^{L \cdot D}$  Vector of all  $x_{hld}$  for  $h$

$X \in \mathbb{R}_+^{H \cdot L \cdot D}$  Vector of all  $x_{hld}$

# Sub-model 1

## Behavior of carriers

### Optimization problem of one carrier

maximize  $P_l$   $E_l(P, X^*) + \omega_l^S \cdot S_l(P)$

subject to  $c_{hd}^t \leq p_{hld} \leq p_{hld}^r, \quad h = 1, \dots, H, d = 1, \dots, D.$

Expected profit

Customer satisfaction (with prices)

Transportation rates must exceed transportation unit costs and must not exceed customer reservation price

### Decision variables

$p_{hld}$	Rate for transportation from $h$ to $d$ with $l$
$P_l \in \mathbb{R}_+^{H \cdot D}$	Vector of all $p_{hld}$ for $l$
$P \in \mathbb{R}_+^{H \cdot L \cdot D}$	Vector of all $p_{hld}$



# Sub-model 2

## Behavior of humanitarian organizations

### Optimization problem of one humanitarian organization

maximize  $Y_h$   $I_h(Y) + \omega_h^A \cdot A_h(Y)$

- Impact (reduced suffering of victims)
- Activity signal (to donors)

subject to

$$\sum_{l=1}^{L+1} \sum_{d=1}^D (c_h^p + p_{hld}^*) \cdot y_{hld} \leq B_h$$

- Expenses for purchasing and transportation must not exceed budget

$$\sum_{i=1}^H y_{ild} \leq K_{ld}, \quad l = 1, \dots, L+1, d = 1, \dots, D$$

- Volume assigned to carrier must not exceed its available capacity

$$0 \leq y_{hld} \leq x_{hld}^*, \quad l = 1, \dots, L, d = 1, \dots, D$$

- Framework volumes (from Sub-model 1) must not be exceeded

$$0 \leq y_{h(L+1)d}, \quad d = 1, \dots, D$$

- Non-negativity

### Decision variables

$y_{hld}$	Volume transported by $l$ to $d$ on behalf of $h$
$Y_h \in \mathbb{R}_+^{(L+1) \cdot D}$	Vector of all $y_{hld}$ for $h$
$Y \in \mathbb{R}_+^{H \cdot (L+1) \cdot D}$	Vector of all $y_{hld}$

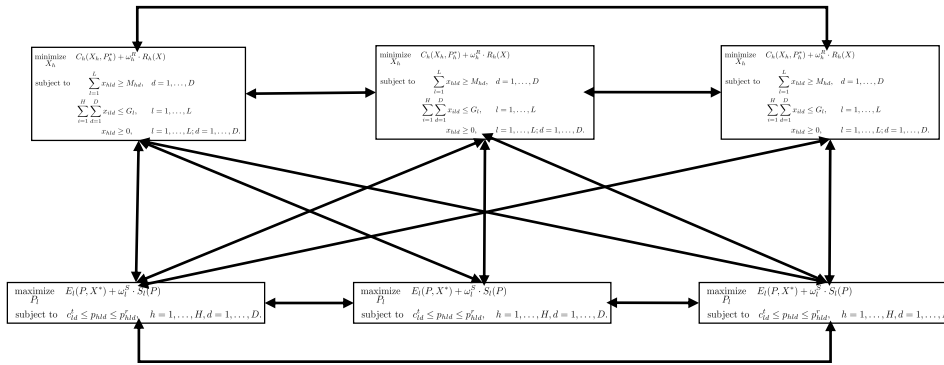
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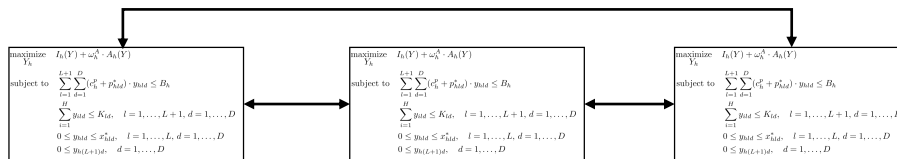
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# Model overview and solution approach

## Sub-model 1 (with 3 HOs and 3 carriers)



## Sub-model 2 (with 3 HOs)



## Solution approach

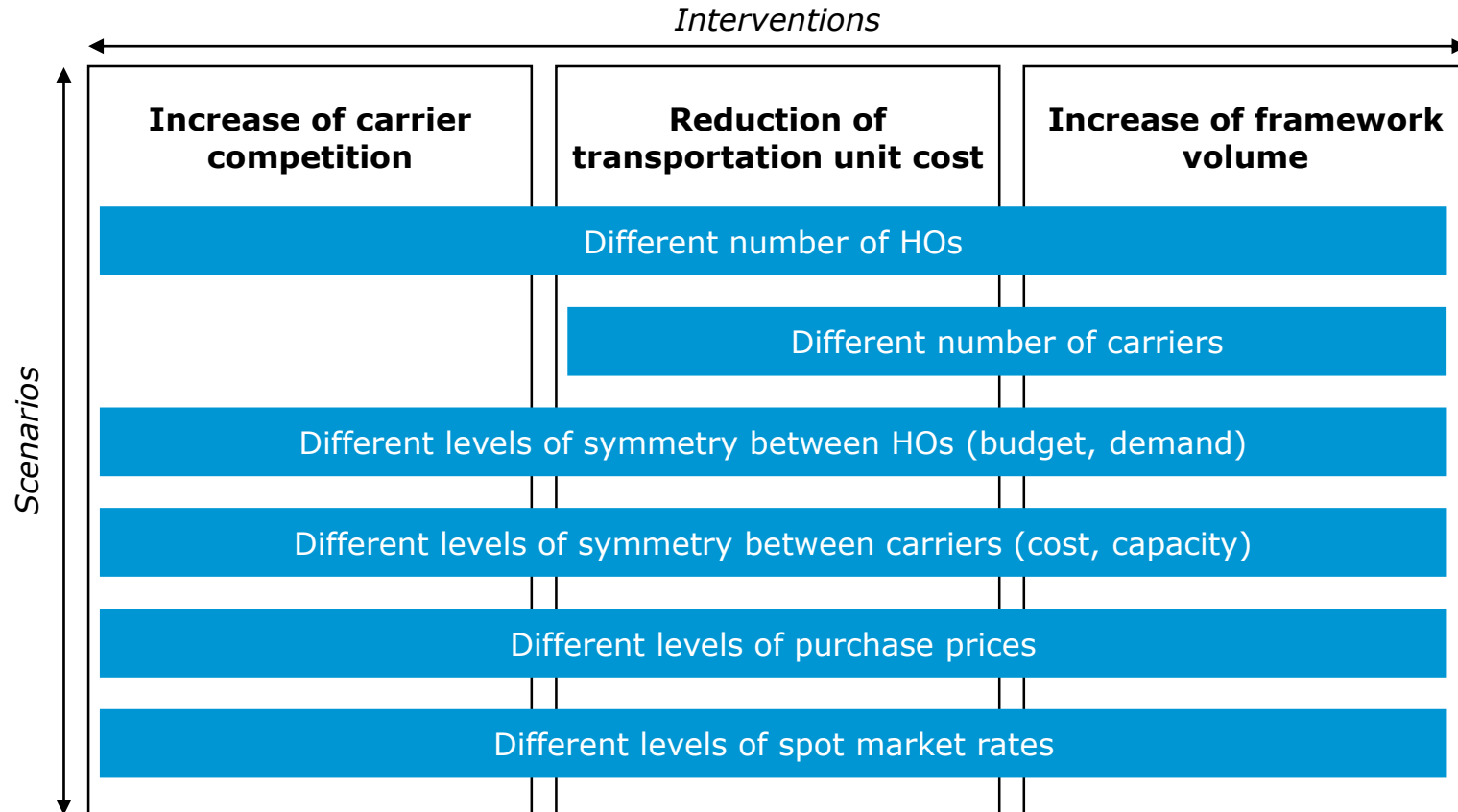
- 1 **Generalized Nash Equilibrium (Nash, 1950; Dafermos, 1954)**
- 2 **Variational Equilibrium (Kulkarni & Mohan, 2002; Nagurney, et al., 1999)**
- 3
- 4 **Existence and uniqueness of solution (Kinderlehrer & Stampacchia, 1980; Nagurney, 1999)**
- 5 **Iterative Projection Method (Solodov & Tseng, 1996)**

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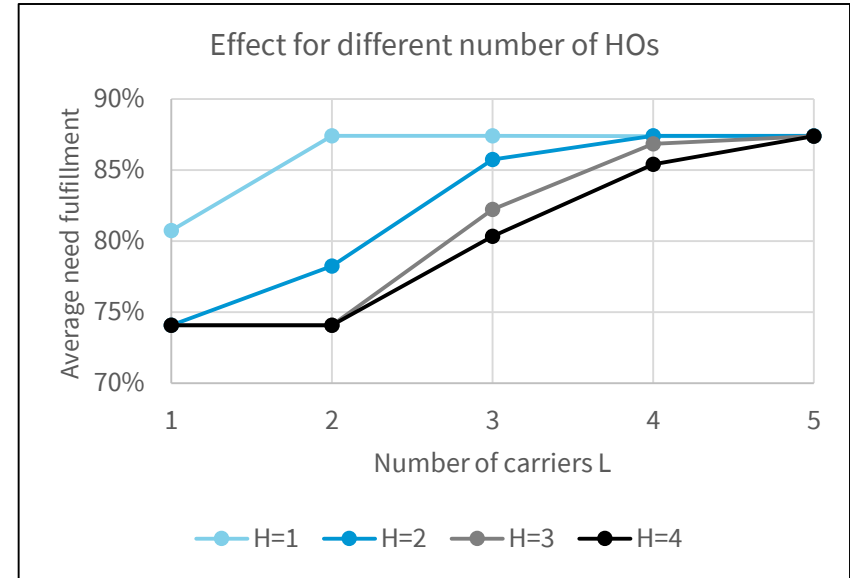
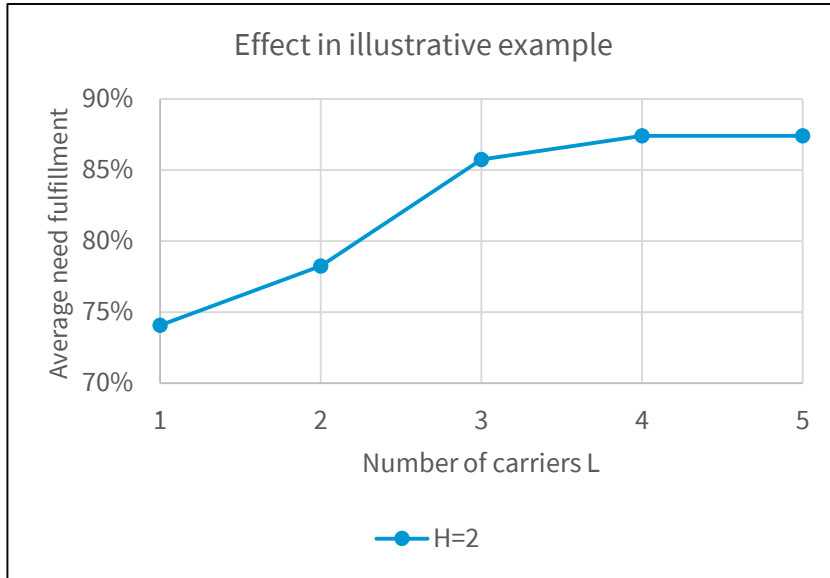
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# Numerical simulations



# Selected results

## Intervention “Increase of carrier competition”

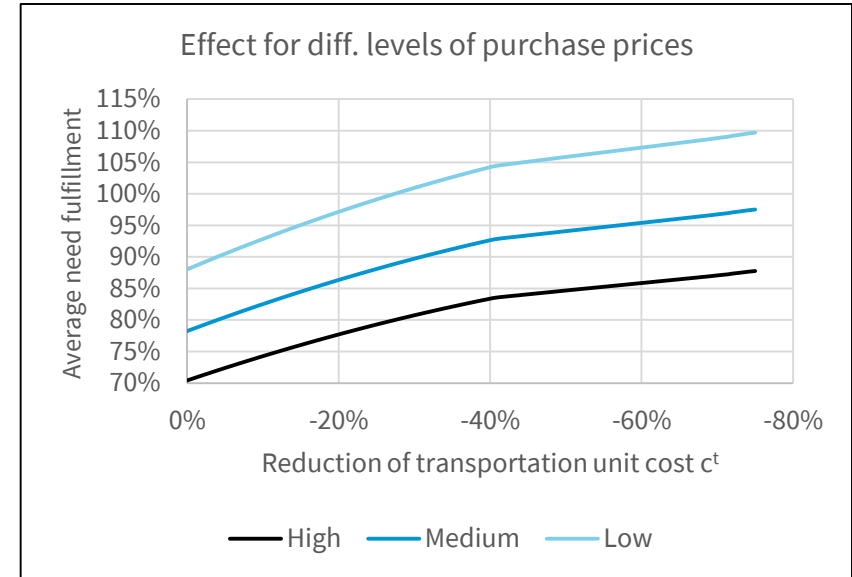
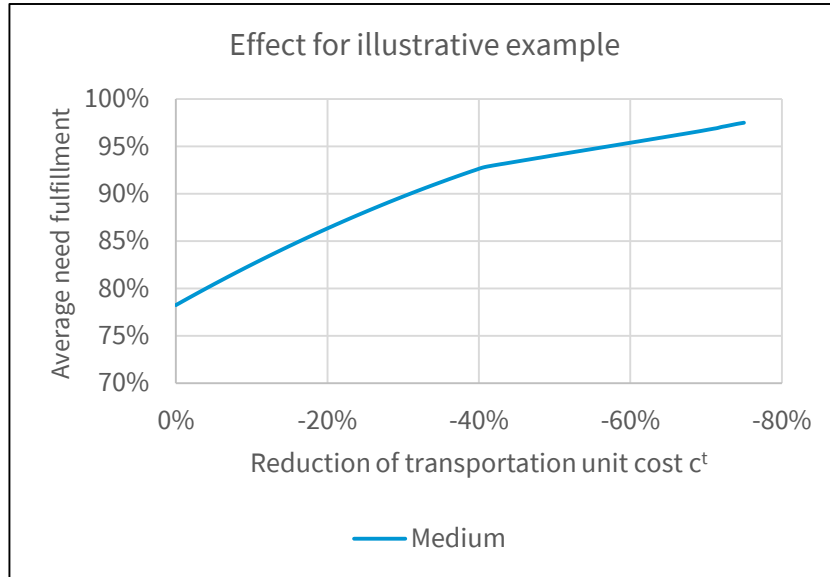


Considerable (S-shaped) improvements if number of pre-selected carriers is increased

The less HOs exist in the market, the lower number of carriers is required

# Selected results

## Intervention “Reduction of transp. unit cost”



Consistently positive effect, but with decreasing marginal benefit

Qualitatively independent of purchase prices; interventions can cause inefficiencies (“waste”)

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## Summary

- **Game-theoretic model** to
  - investigate influence of transportation rates & framework agreements on relief distribution
  - evaluate measures for increasing impact of disaster relief
- **Approach:** Analyze equilibrium states of model under different cond. (using Generalized Nash Equilibrium, Variational Equilibrium & Variational Inequalities)
- **Selected results:**
  - S-shaped improvements by increasing number of pre-selected carriers (with upper limit)
  - Improvements with decreasing marginal benefits by reducing transportation costs (w/o upper limit)

## Outlook

- Model with **coordination**
- **Humanitarian** service providers
- **Interdependencies** between both sub-models
- Effects of conflicting **HO priorities**, asymmetric beneficiary **needs** and **media** attention
- Other **pricing** models

# Thank you for your attention



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# BACKUP

# (1) Generalized Nash Equilibrium

## (2) Variational Equilibrium

### (3) Variational Inequality Formulation of GNE

**Definition 1 (Generalized Nash Equilibrium).** A vector of all transportation volumes projected by HOs,  $X^* \in \mathbb{K}^1 \cap \mathcal{S}^1$ , constitutes a Generalized Nash Equilibrium if for each HO  $h$ ;  $h = 1, \dots, H$ :

$$U_h(X_h^*, \hat{X}_h^*) \geq U_h(X_h, \hat{X}_h^*), \quad \forall X_h \in \mathbb{K}_h^1 \cap \mathcal{S}^1, \quad (4)$$

where  $\hat{X}_h^* \equiv (X_1^*, \dots, X_{h-1}^*, X_{h+1}^*, \dots, X_H^*)$  and  $U_h(X) = -[C_h(X_h, P_h^*) + \omega_h^R \cdot R_h(X)]$ ;  $h = 1, \dots, H$ .

**Definition 2 (Variational Equilibrium).** A strategy vector  $X^*$  is said to be a variational equilibrium of the above Generalized Nash Equilibrium game if  $X^* \in \mathbb{K}^1 \cap \mathcal{S}^1$  is a solution of the variational inequality:

$$-\sum_{h=1}^H \langle \nabla_{X_h} U_h(X^*), X_h - X_h^* \rangle \geq 0, \quad \forall X \in \mathbb{K}^1 \cap \mathcal{S}^1. \quad (6)$$

**Theorem 1 (VI Formulation of the GNE in Sub-model 1).** Specifically, we have that (6) is equivalent to the variational inequality: determine  $X^* \in \mathbb{K}^1 \cap \mathcal{S}^1$ , such that

$$\sum_{h=1}^H \sum_{l=1}^L \sum_{d=1}^D \left[ \frac{\partial C_h(X_h^*, P_h^*)}{\partial x_{hld}} + \omega_h^R \cdot \frac{\partial R_h(X^*)}{\partial x_{hld}} \right] \times [x_{hld} - x_{hld}^*] \geq 0, \quad \forall X \in \mathbb{K}^1 \cap \mathcal{S}^1. \quad (7)$$

Proof of the above follows through the use of the definition and the expansion of the gradient terms.

# (1) Existence and uniqueness of solution

## (2) Extended VI Formulation HOs Sub-model 1

**Remark 1 (Existence and Uniqueness of Solution).** *A solution to (7) is guaranteed to exist from the classical theory of variational inequalities (cf. Kinderlehrer & Stampacchia (1980) and Nagurney (1999)) since the function that enters the variational inequality is continuous and the feasible set is compact. Furthermore, since the function entering (7) is strictly monotone, the solution to the variational inequality (7) is unique.*

**Remark 2 (Alternative Variational Inequality to (7)).** *We now utilize the Lagrange multipliers associated with the constraints as defined in Table 1. Then, an equivalent variational inequality to that of (7), which we will use to construct the variational inequality for the complete supply chain network (see, e.g., Nagurney (In press)), is the following one:*

$$\begin{aligned}
 & \text{Find } (X^*, \lambda^{M^*}, \lambda^{G^*}) \in \mathbb{R}_+^{H \cdot L \cdot D + H \cdot D + L} : \\
 & \sum_{h=1}^H \sum_{l=1}^L \sum_{d=1}^D \left[ \frac{\partial C_h(X_h^*, P_h^*)}{\partial x_{hld}} + \omega_h^R \cdot \frac{\partial R_h(X^*)}{\partial x_{hld}} - \lambda_{hd}^{M^*} + \lambda_l^{G^*} \right] \times [x_{hld} - x_{hld}^*] \\
 & + \sum_{h=1}^H \sum_{d=1}^D \left[ -M_{hd} + \sum_{l=1}^L x_{hld}^* \right] \times [\lambda_{hd}^M - \lambda_{hd}^{M^*}] \\
 & + \sum_{l=1}^L \left[ G_l - \sum_{i=1}^H \sum_{d=1}^D x_{ild}^* \right] \times [\lambda_l^G - \lambda_l^{G^*}] \geq 0, \\
 & \forall (X, \lambda^M, \lambda^G) \in \mathbb{R}_+^{H \cdot L \cdot D + H \cdot D + L}.
 \end{aligned} \tag{8}$$

# (1) Nash Equilibrium Carriers Sub-model 1

## (2) Sub-model 1 Network Equilibrium

**Theorem 2 (VI Formulation of NE in Sub-model 1).** *A price vector  $P^*$  is a Nash Equilibrium if and only if  $P^* \in \mathbb{K}^2$  is a solution of the variational inequality:*

$$-\sum_{l=1}^L \sum_{h=1}^H \sum_{d=1}^D \left[ \frac{\partial E_l(P^*, X^*)}{\partial p_{hld}} + \omega_l^S \cdot \frac{\partial S_l(P^*)}{\partial p_{hld}} \right] \times [p_{hld} - p_{hld}^*] \geq 0, \quad \forall P \in \mathbb{K}^2. \quad (12)$$

**Theorem 3 (VI Formulation of SC Network Equilibrium in Sub-model 1).** *A pattern of volume projections, transportation rates and Lagrange multipliers is a supply chain network equilibrium according to the above definition if and only if it satisfies the following variational inequality:*

$$\begin{aligned} & \text{Find } (X^*, \lambda^{M^*}, \lambda^{G^*}, P^*) \in \mathbb{R}_+^{H \cdot L \cdot D + H \cdot D + L} \times \mathbb{K}^2 : \\ & \sum_{h=1}^H \sum_{l=1}^L \sum_{d=1}^D \left[ \frac{\partial C_h(X_h^*, P_h^*)}{\partial x_{hld}} + \omega_h^R \cdot \frac{\partial R_h(X^*)}{\partial x_{hld}} - \lambda_{hd}^{M^*} + \lambda_l^{G^*} \right] \times [x_{hld} - x_{hld}^*] \\ & + \sum_{h=1}^H \sum_{d=1}^D \left[ -M_{hd} + \sum_{l=1}^L x_{hld}^* \right] \times [\lambda_{hd}^M - \lambda_{hd}^{M^*}] \\ & + \sum_{l=1}^L \left[ G_l - \sum_{i=1}^H \sum_{d=1}^D x_{ild}^* \right] \times [\lambda_l^G - \lambda_l^{G^*}] \\ & - \sum_{l=1}^L \sum_{h=1}^H \sum_{d=1}^D \left[ \frac{\partial E_l(P^*, X^*)}{\partial p_{hld}} + \omega_l^S \cdot \frac{\partial S_l(P^*)}{\partial p_{hld}} \right] \times [p_{hld} - p_{hld}^*] \geq 0, \\ & \forall (X, \lambda^M, \lambda^G, P) \in \mathbb{R}_+^{H \cdot L \cdot D + H \cdot D + L} \times \mathbb{K}^2. \end{aligned} \quad (13)$$

# (1) VI Formulation Sub-model 2

## (2) Extended VI Formulation Sub-model 2

**Theorem 4 (VI Formulation of Sub-model 2).** *A strategy vector  $Y^*$  is said to be a variational equilibrium of the above Generalized Nash Equilibrium game if  $Y^* \in \mathbb{K}^3 \cap \mathcal{S}^2$  is a solution of the variational inequality:*

$$\sum_{h=1}^H \sum_{l=1}^{L+1} \sum_{d=1}^D \left[ -\frac{\partial I_h(Y^*)}{\partial y_{hld}} - \omega_h^A \cdot \frac{\partial A_h(Y^*)}{\partial y_{hld}} \right] \times [y_{hld} - y_{hld}^*] \geq 0, \quad \forall Y \in \mathbb{K}^3 \cap \mathcal{S}^2. \quad (18)$$

**Remark 5 (Alternative Variational Inequality to (18)).** *Recall the Lagrange multipliers associated with the constraints as defined in Table 1. Then, an equivalent variational formulation of problem (15a) under constraints (15b) - (15e) is the following one:*

$$\begin{aligned} & \text{Find } (Y^*, \lambda^{B^*}, \lambda^{K^*}) \in \mathbb{R}_+^{H \cdot (L+1) \cdot D + H + (L+1) \cdot D} : \\ & \sum_{h=1}^H \sum_{l=1}^{L+1} \sum_{d=1}^D \left[ -\frac{\partial I_h(Y^*)}{\partial y_{hld}} - \omega_h^A \cdot \frac{\partial A_h(Y^*)}{\partial y_{hld}} + (c_h^p + p_{hld}^*) \cdot \lambda_h^{B^*} + \lambda_{ld}^{K^*} \right] \times [y_{hld} - y_{hld}^*] \\ & + \sum_{h=1}^H \left[ B_h - \sum_{l=1}^{L+1} \sum_{d=1}^D (c_h^p + p_{hld}^*) \cdot y_{hld}^* \right] \times [\lambda_h^B - \lambda_h^{B^*}] \\ & + \sum_{l=1}^{L+1} \sum_{d=1}^D \left[ K_{ld} - \sum_{i=1}^H y_{ild}^* \right] \times [\lambda_{ld}^K - \lambda_{ld}^{K^*}] \geq 0, \\ & \forall (Y, \lambda^B, \lambda^K) \in \mathbb{R}_+^{H \cdot (L+1) \cdot D + H + (L+1) \cdot D}. \end{aligned} \quad (19)$$

# Functional forms for numerical simulations

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## Sub-model 1

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Transportation costs of  $h$   $C_h(X_h, P_h^*) = \sum_{l=1}^L \sum_{d=1}^D p_{hld}^* \cdot x_{hld}$

Dependency risk of  $h$   $R_h(X) = \sum_{l=1}^L \sum_{d=1}^D r_{hl} \cdot x_{hld}^2$

Expected profit of  $l$   $E_l(P, X^*) = \sum_{h=1}^H \sum_{d=1}^D (p_{hld} - c_{ld}^t) \cdot x_{hld}^*$

Satisfaction with  $l$   $S_l(P) = \sum_{h=1}^H \sum_{d=1}^D M_{hd} \cdot \left(1 - \frac{p_{hld}^2}{p_{hld}^r}\right)$

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## Sub-model 2

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Impact of  $h$   $I_h(Y) = \sum_{d=1}^D u_d \cdot \left( \sum_{l=1}^{L+1} y_{hld} - \frac{1}{2 \cdot n_d} \cdot \sum_{l=1}^{L+1} y_{hld} \cdot \left( 2 \cdot \sum_{i=1}^H \sum_{l=1}^{L+1} y_{ild} - \sum_{l=1}^{L+1} y_{hld} \right) \right)$

Activity signal of  $h$   $A_h(Y) = \sum_{d=1}^D \left( i_{hd} \sum_{l=1}^{L+1} y_{hld} \right)$

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# Parameter values for numerical simulations

Notation	Description	Indices	Example	Scenarios
$B_h$	Budget of HO $h$	$(h = 1, \dots, H)$	5.000	2.500, ..., 7.500
$c_{ld}^t$	Unit cost of $l$ for transport to $d$	$(l = 1, \dots, L)$ $(d = 1, \dots, D)$	0.300	0.075, ..., 0.300
$c_h^p$	Purchase price for $h$	$(h = 1, \dots, H)$	0.750	0.600, 0.750, 0.900
$D$	Number of distribution points	-	2	2
$G_l$	Volume limit for carrier $l$	$(l = 1, \dots, L)$	3.000	4.500
$H$	Number of HOs	-	2	1, ..., 4
$i_{hd}$	Relative importance of $d$ for $h$	$(h = 1, \dots, H)$ $(d = 1, \dots, D)$	1.000	1.000
$K_{ld}$	Capacity of carrier $l$ for transport to $d$	$(l = 1, \dots, L)$ $(d = 1, \dots, D)$	2.500	3.750
$K_{(L+1)d}$	Capacity of spot market for transport to $d$	$(d = 1, \dots, D)$	$\infty$	$\infty$
$L$	Number of carriers	-	2	1, ..., 5
$M_{hd}$	Target volume of $h$ for $d$	$(h = 1, \dots, H)$ $(d = 1, \dots, D)$	1.500	1.500, ..., 2.498
$n_d$	Needs at $d$	$(d = 1, \dots, D)$	5.000	5.000
$p_{h(L+1)d}$	Spot market rates for transport by $h$ to $d$	$(h = 1, \dots, H)$ $(d = 1, \dots, D)$	0.600	0.450, 0.600, 0.750
$r_{hl}$	Relative risk $h$ associates with $l$	$(h = 1, \dots, H)$ $(l = 1, \dots, L)$	1.000	1.000
$s_h$	Surcharge accepted by $h$	$(h = 1, \dots, H)$	1.000	1.000
$u_d$	Relative urgency of $d$ for $h$	$(d = 1, \dots, D)$	1.000	1.000
$\omega_h^A$	Weight of signaling for $h$	$(h = 1, \dots, H)$	0.200	0.200
$\omega_h^R$	Weight of risk for $h$	$(h = 1, \dots, H)$	0.200	0.200
$\omega_l^S$	Weight of satisfaction for $l$	$(l = 1, \dots, L)$	0.400	0.400

The Solodov & Tseng (1996) method is an iterative projection-contraction method, where the second projection is a more general operator. The solution vector  $z_m^\tau$  of sub-model  $m \in \{1, 2\}$  in iteration  $\tau$  of the algorithm is the result of the second projection and calculated as:

$$z_m^\tau = z_m^{\tau-1} - \gamma M^{-1}(T_{\alpha_\tau}(z_m^{\tau-1}) - T_{\alpha_\tau}(Pr_{\mathcal{K}}(z_m^{\tau*}))),$$

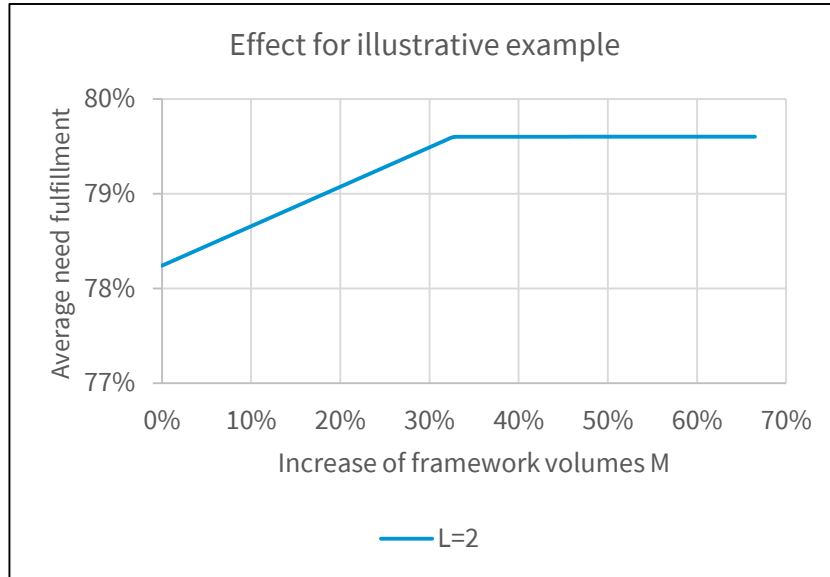
with  $\gamma \in \mathbb{R}^+$ . The scaling matrix  $M$  must be a symmetric positive matrix and is used to accelerate the convergence. Furthermore,  $T_{\alpha_\tau} = I - \alpha_\tau F_m$ , where  $I$  is the identity function,  $\alpha_\tau$  is chosen dynamically such that  $T_{\alpha_\tau}$  is strongly monotone, and  $F_m$  is the function entering the variational inequalities (13) and (19) when they are formulated in standard form. Finally,  $z_m^{\tau*}$  is the first projection in each iteration and is calculated as:

$$z_m^{\tau*} = Pr_{\mathcal{K}}(z_m^{\tau-1} - \alpha_\tau F_m(z_m^{\tau-1})).$$

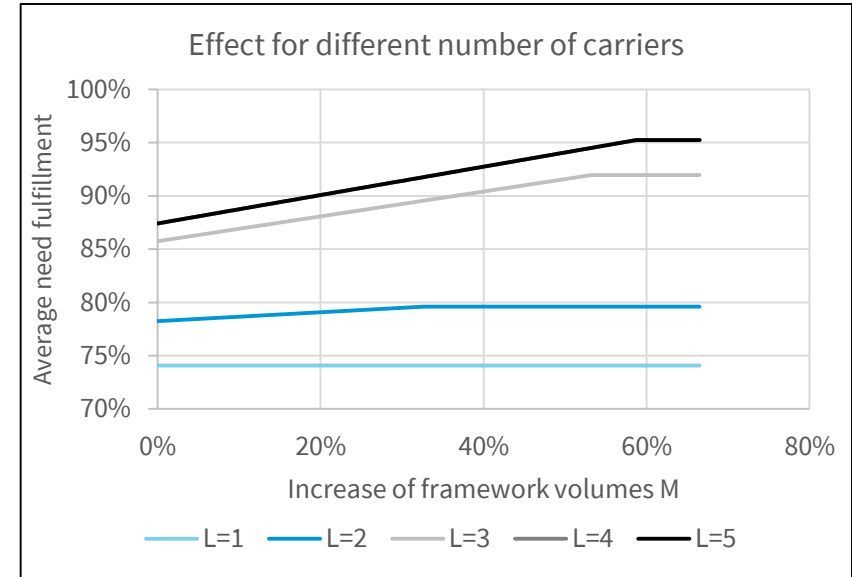
The Solodov & Tseng (1996) algorithm has less restrictive conditions for convergence than many variational inequality algorithms, and requires only monotonicity of the function  $F_m$ , with the rate of convergence also established in Solodov (2003) for this and related algorithms. We implemented the algorithm in MATLAB R2016a setting  $\alpha_\tau = 0.3^{\tau-1}$ ,  $\gamma = 1.0$  and  $M = I$ . We solved, in total, 4626 different instances on an Intel(R) Core(TM) i5 CPU with 2.60GHz and 8.00GB RAM. Let  $d_m^\tau = z_m^\tau - z_m^{\tau-1}$  be the vector of differences between the solutions of two consecutive iterations for sub-model  $m$ . We stopped the algorithm when the Euclidean norm of  $d_m^\tau$  fell below  $\epsilon = 1 \cdot 10^{-5}$ . Initializing all variables as zero, on average 390 iterations were required to solve Sub-model 1 and 433 iterations were required to solve Sub-model 2. On average, an iteration took 0.005 seconds.

# Selected results

## Intervention “Increase of framework volumes”



Linear improvement up to the limit imposed by the budget



Relevant improvements only if number of pre-selected carriers is sufficiently high