Hochschule für
Wirtschaft und Recht Berlin
Berlin School of Economics and Law

Supply Chain Simulation and Optimization with anyLogistix

design | optimize | experiment | innovate

Decision-oriented teaching notes for model-based management decision making

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About the Author

Dr. Dmitry Ivanov is professor of Supply Chain Management at Berlin School of Economics and Law (BSEL). For over 15 years, he has taught courses in operations management, production and supply management, supply chain management, logistics, management information systems, and strategic management at undergraduate, master's, PhD and executive MBA levels at universities in Germany, Russia, UK, US and China.

Before he became an academic, Dr. Ivanov was engaged in *industry and consulting,* especially on process optimization in manufacturing, logistics and ERP systems. His practical expertise includes many projects on application of operations research and process optimization methods for operations design, logistics, scheduling and supply chain optimization.

His research explores supply chain structure dynamics and control, with an emphasis on global supply chain design with disruption management consideration, distribution planning, and dynamic rescheduling. He is (co)-author of structure dynamics control method for supply chain management. He applies mathematical programming, simulation and control theoretic methods. Based on the triangle "process-model-technology", he investigates the dynamics of complex networks in production, logistics and supply chains. Most of his courses and research take place at the intersection of supply chain management, operations research, industrial engineering and information technology.

He is the author or coauthor of more than 260 *publications*, including a textbook, "Global Supply Chain and Operations Management" and a monograph, "Adaptive Supply Chain Management". Professor Ivanov's research has been published in a variety of academic journals, including the International Journal of Production Research, European Journal of Operational Research, Journal of Scheduling, Transportation Research, International Journal of Production Economics, Computers and Industrial Engineering, International Journal of Systems Science and Annual Reviews in Control.

He has been a guest editor different journals, including International Journal of Production Research and International Journal of Integrated Supply Management. He is an associate editor of International Journal of Systems Science and Editorial Board member of several international and national journals such as International Journal of Systems Science: Operations and Logistics. He is Chair of IFAC Technical Committee 5.2 "Manufacturing Modelling for Management and Control". He is General Conference Chair of 9th IFAC Conference MIM 2019 "Manufacturing Modelling, Management and Control".

He regularly presented his research results and has been co-chair and IPC member of many international conferences where he has organized numerous tracks and sessions (including INCOM, EURO, INFORMS, OR, MIM, MCPL, IFAC World Congress, PRO-VE and ICINCO).

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Foreword

anyLogistix is an easy-to-understand tool students and professionals can use to address a wide range of supply chain management (SCM) problems. This guide explains how to use anyLogistix to create supply chain models, conduct experiments and analyze the results. By reducing technical complexity to a minimum, anyLogistix allows students to focus on management decision analysis and use KPIs for operational, customer and financial performance measurement and decision-making.

This guide groups the content into three parts that correspond to three basic process structures — two-stage, three-stage and four-stage supply chains — as well supply chain-based risk management. It presents simulation and optimization examples by describing how to develop and build models and evaluate KPI. It also discusses how to use these models and their simulation and optimization results to improve management decision-making.

Because this guide is focused on management issues, it uses simple terms to describe model developments. If you want to import sample models and use them to perform experiments, you can point to anyLogistix's **File** menu and then click **Import**.

Please excuse any errors in the text and formatting. This guide is a work in progress and we welcome any comments and suggestions that may help us improve it.

This guide's author has also co-authored the textbook "Global Supply Chain and Operations Management" by Springer (http://www.springer.com/us/book/9783319242156) and its companion web site *http://global-supply-chain-management.de* where additional AnyLogic and AnyLogistix models can be found. In addition, he has also authored the e-book "Operations and Supply Chain Simulation with AnyLogic" (http://www.anylogic.com/books).

The author deeply thanks the AnyLogic Company for their valuable feedback and improvement suggestions.

An Overview of Supply Chain Management

A *supply chain* is a network of organizations and processes where enterprises (suppliers, manufacturers, distributors and retailers) cooperate and coordinate along the value chain to acquire raw materials, to convert these raw materials into products, and to deliver these products to customers (Ivanov et al. 2017).

Supply chain management (SCM) is a cross-department and cross-enterprise integration and coordination of material, information and financial flows to use the supply chain resources in the most rational way along the value chain, from raw material suppliers to customers (Ivanov et al. 2017).

Supply chain management integrates production and logistics processes at several levels. *Strategic* issues include decisions such as the size and location of manufacturing plants or distribution centers, the structure of service networks and designing the supply chain. *Tactical* issues include production, transportation and inventory planning. Finally, *operative* issues address production scheduling and control, inventory control and vehicle routing.

Decision making in supply chain management implies the use of qualitative and quantitative methods. Quantitative methods are typically based on optimization or simulation. To understand the application of quantitative methods to SCM in practice, SCM courses are often enhanced by decision-support software such as anyLogistix. Universities can use anyLogistix to support SCM, operations and logistics courses.

anyLogistix also makes it possible to develop real-life examples for many of the most important supply chain management domains, including:

- Facility Location Planning
  - Center-of-Gravity Method for Single and Multiple Locations
  - Network Optimization using Mixed-Linear Programming
- Capacity Planning of Distribution Centers
- Inventory Control Policies and Ordering Rules
- Sourcing Policies (Single and Multiple Sourcing)
- Transportation Policies (Full Truckload/FTL and Less-Than-Load/LTL)
- Batching in Transportation, Production, and Sales
- Bullwhip Effect and Ripple Effect Analysis in the supply chain

You can use KPI (key performance indicators) to assess the quality of your decisions in these areas as well as their impact on financial, operational and customer performance in the supply chain. The anyLogistix software can assess the impacts and interfaces of decisions and KPIs in all these domains to help you better answer the following questions:

- Where are the best locations for our warehouses, distribution centers and production sites?
- What are the best policies for replenishment, sourcing and transportation?
- How robust is our supply chain?
- What will happen if we change our inventory policy?
- What will happen if we increase a distribution center's capacity?
- What will happen if demand changes?
- What will happen if we add a new product?
- What does an out-of-stock event cost?

You can model the supply chain in two ways (Figure I-1):

- Analytical modeling that uses optimization models to investigate the supply chain
- Simulation modeling that uses a set of objects and rules that describe their dynamic behavior and their interaction to represent the supply chain

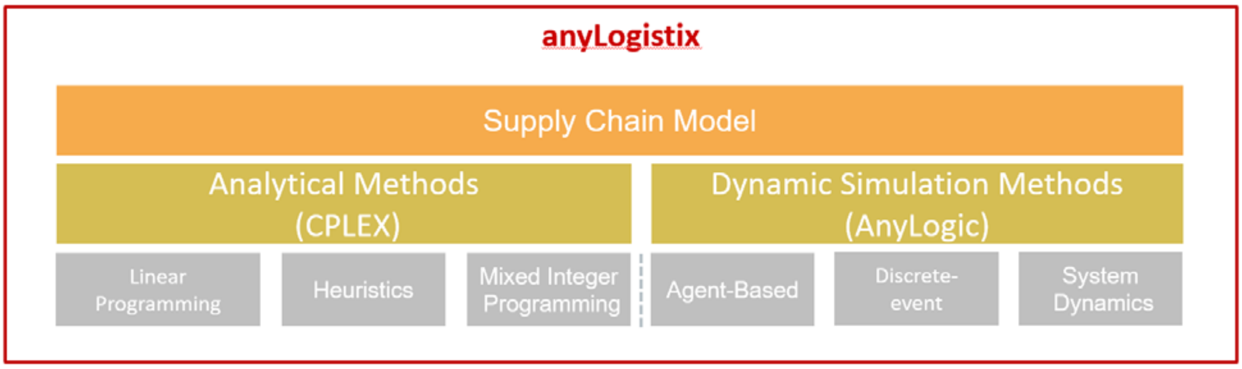


Figure I-1: Analytical and Simulation methods in anyLogistix.

Both methods have certain application areas, advantages and disadvantages. anyLogistix uses both and helps to understand differences and application issues. For example, you can optimize the supply chain's facility locations and then simulate their inventory control policies, transportation and sourcing rules.

You'll start at the strategic level by using a green field analysis (GFA), sometimes called a center-of-gravity analysis, to define your supply chain design. During the second stage, you'll use other parameters — such as transportation costs, real routes and feasible facility locations — and perform network optimizations. As your problem statements become more detailed, your simulations can include combinations of inventory control, sourcing, transportation and production policies (Figure I-2).

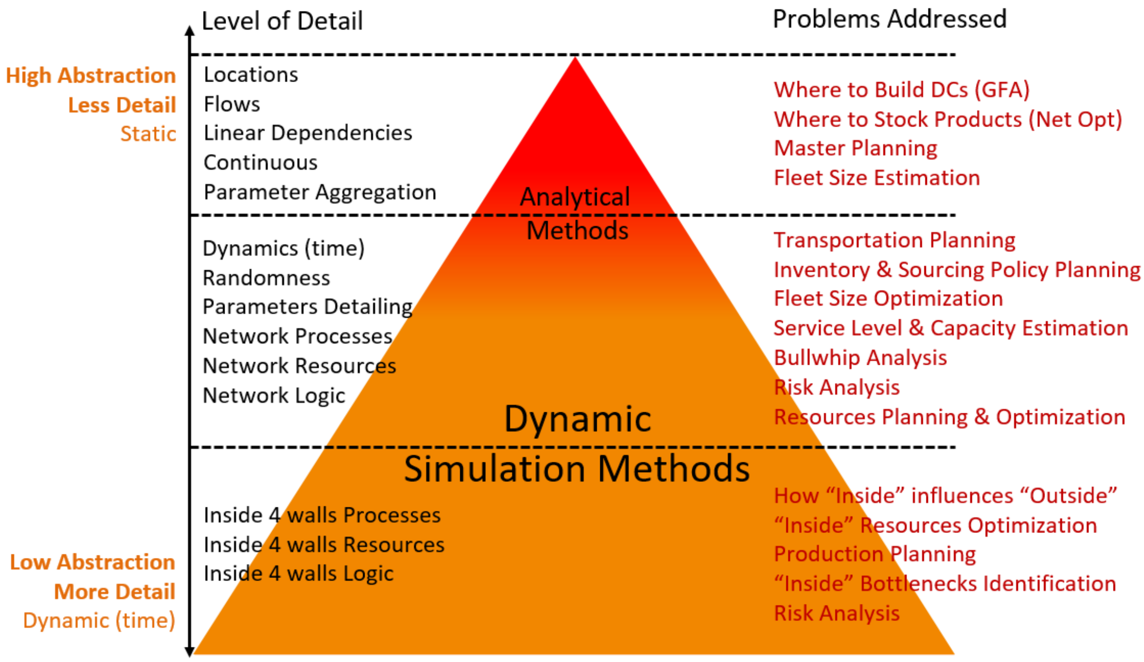


Figure I-2: A pyramid of supply chain design and analysis problems.

In addition to the standard functionality you'll find in anyLogistix, you can use AnyLogic to extend a policy or structural object (Figure I-3).

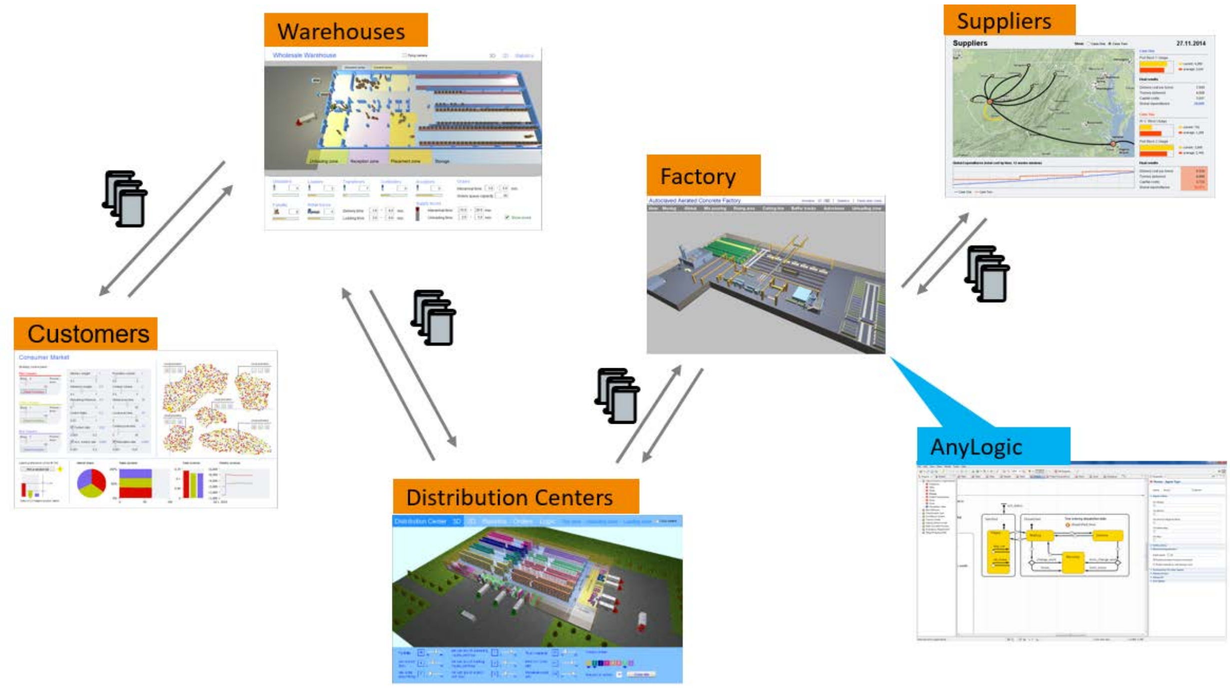


Figure I-3: An AnyLogic extension helps improve anyLogistix's supply chain modeling.

You can use AnyLogic's agent-based, discrete-event and system dynamics simulation models to customize inventory control, sourcing, transportation and production policies as well as distribution centers, customers and suppliers.

As an example, you might decide to not define a distribution center's processing time as a fixed time. Instead, you could embed a simulated distribution center you built in AnyLogic that uses details such as forklift capacities, real layouts and loading and unloading times.

You can also integrate anyLogistix with ERP or SCM systems (Figure I-4).

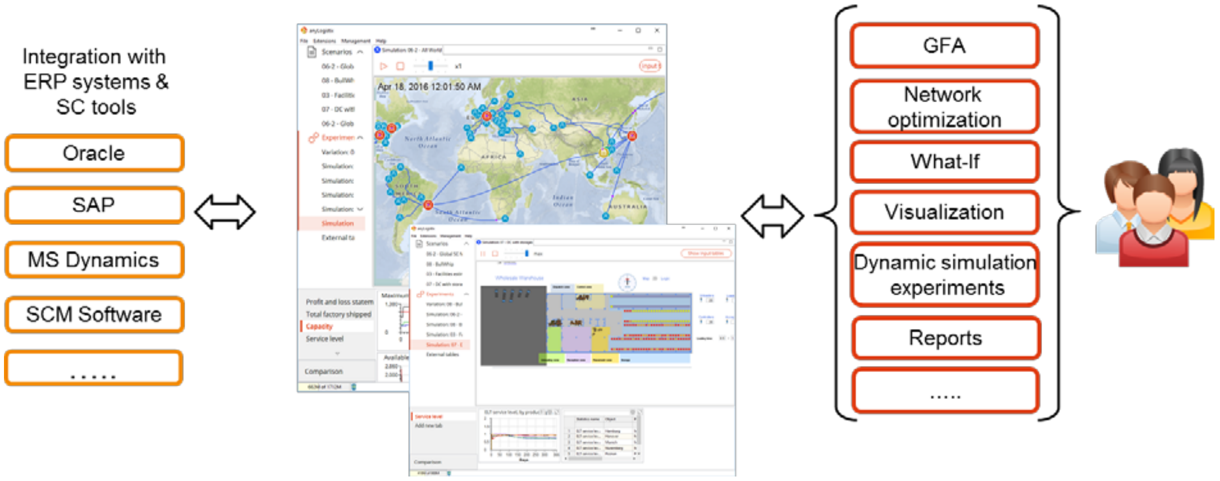


Figure I-4: anyLogistix's integration with ERP and SCM systems.

We think you will find working with anyLogistix to be intuitive, and you'll find helpful descriptions of the program's features throughout this book.

Enjoy your supply chain simulation and optimization with anyLogistix!

Introducing anyLogistix

Understanding Projects

The anyLogistix software uses projects to organize data and experiments. Each project can include any number of scenarios and experiments. When you create a project, anyLogistix creates a dedicated database to store your project information.

Note: You can only work on one anyLogistix project at a time.

Understanding Scenarios

Your simulation and optimization starts when you create a scenario or import one from a Microsoft Excel workbook. A scenario is made up of the supply chain's :

- Design structure
- Sourcing, transportation, inventory control and production policies
- Parameters of the structural elements and policies

After you've created or imported a scenario, you can perform the following experiments (Figure I-5):

- Supply Chain Optimization: Green Field Analysis (GFA) and Network Optimization
- Supply Chain Analysis: Optimization-based simulation, simulation, variation, and comparison

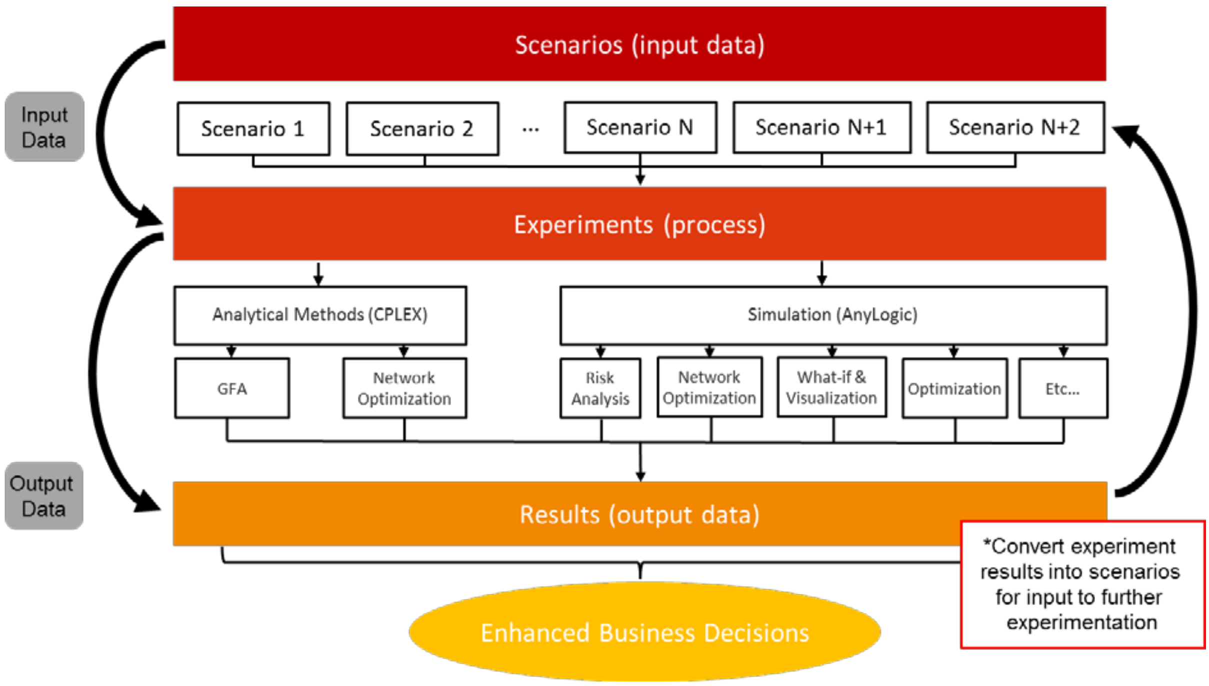


Figure I-5: An overview of the anyLogistix process that starts when you create a scenario and ends with your experiment's results.

The following illustrations introduce you to anyLogistix's user interface and show you how to create new project. If you're using the program for the first time, the **Projects** dialog box will open automatically. To open it at any other time, point to the **File** menu and click **Select Project**.

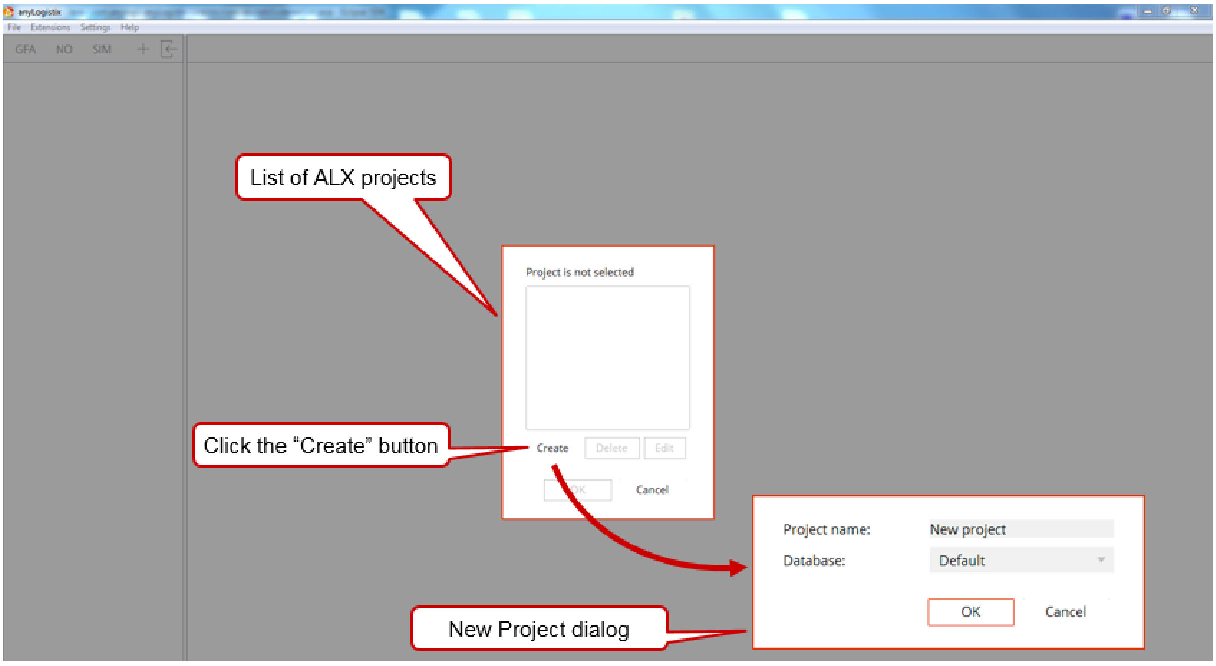


Figure I-6: Using anyLogistix's **Projects** Menu.

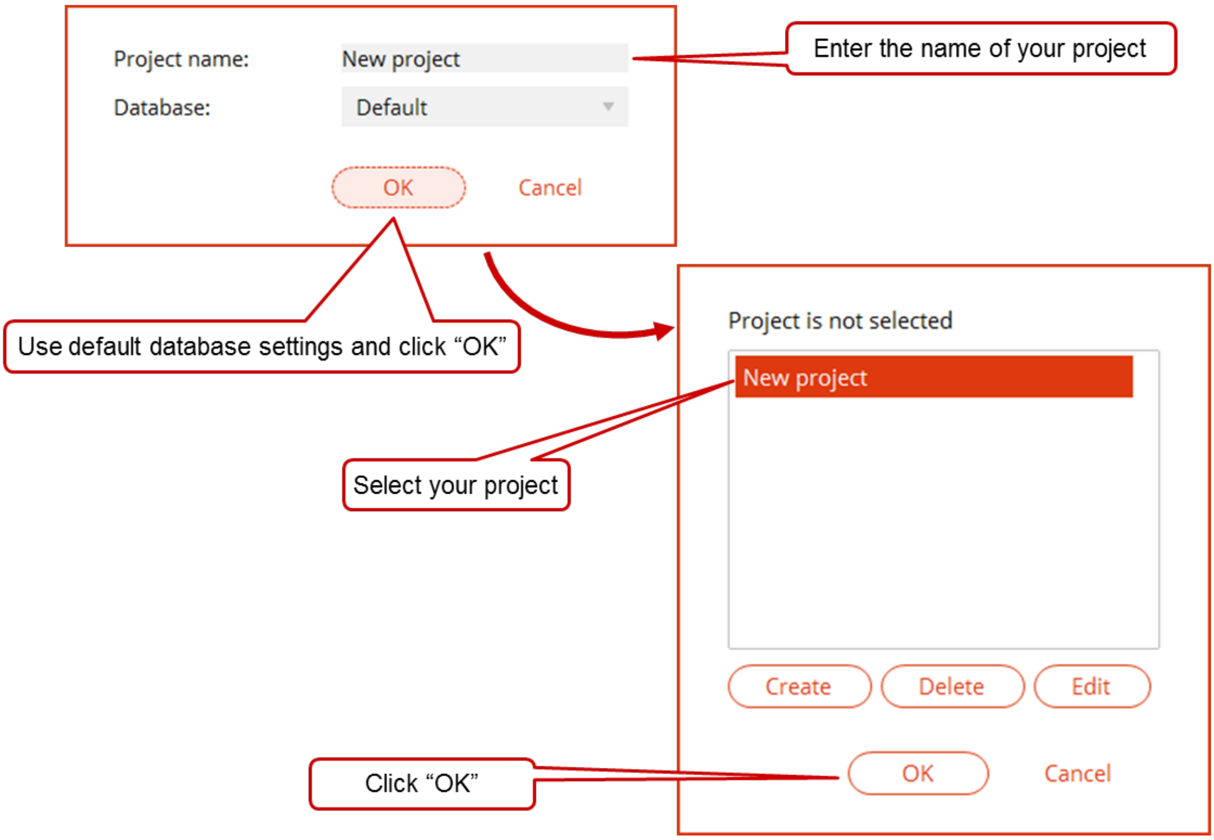


Figure I-7: Creating a project in anyLogistix.

Figure I-8 shows the basic steps you'll use to log on to anyLogistix's project database. If you haven't created a user account, the program will prompt you to set up a username and password.

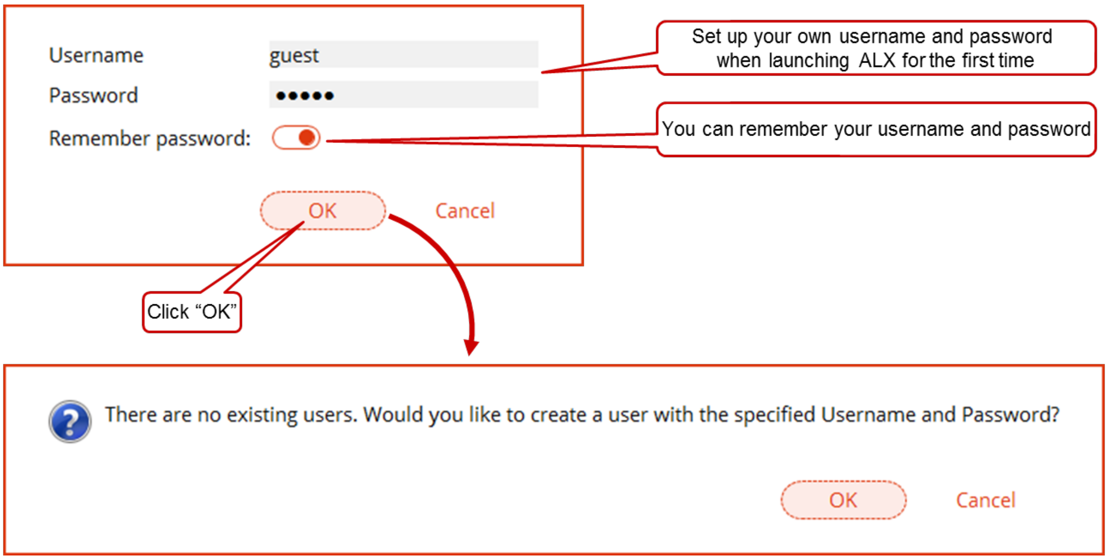


Figure I-8: Logging on to anyLogistix's project database.

As you've seen, your anyLogistix project contains scenarios that describe the supply chain. Figure I-9 shows the basic steps you'll need to perform to create a scenario.

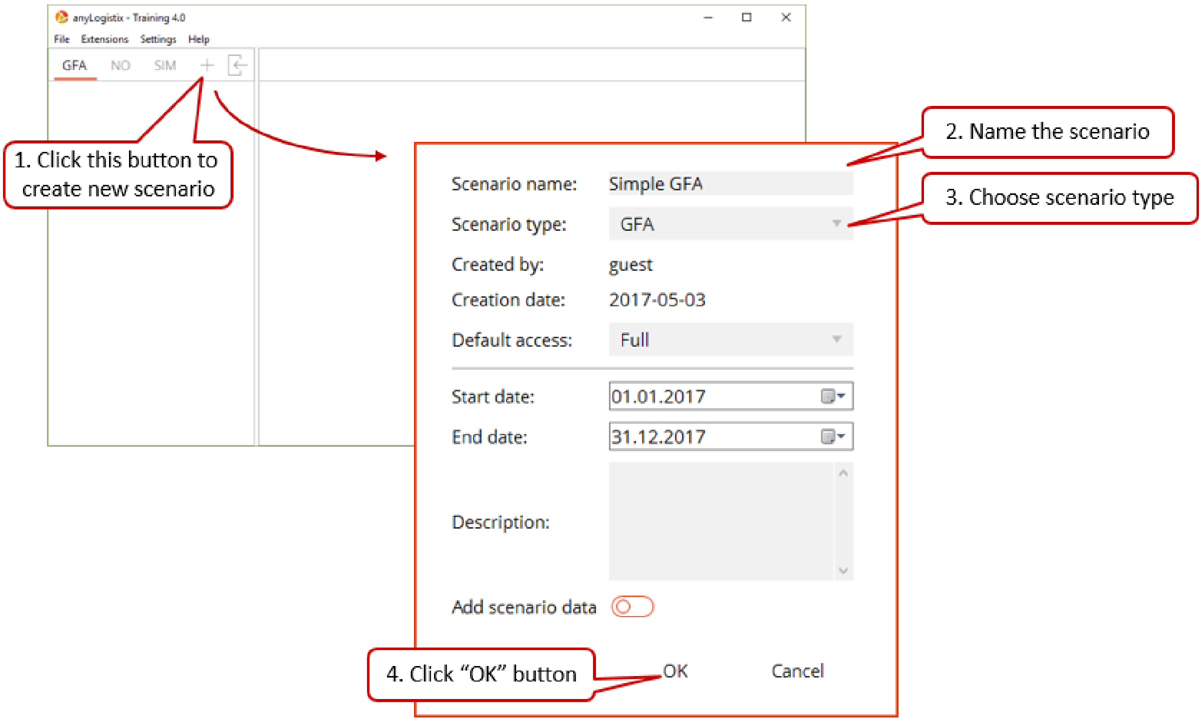


Figure I-9: Creating a scenario.

After you select a scenario from the list that displays on the left part of your screen (Figure I-10), you'll see a list of options for that scenario. For example, you may see options such as **Scenario Data** and **Experiment Settings**.

If you click **Data** for the selected scenario, a map with your supply chain objects will display in the right part of your screen. You can use the toolbar on top of the map to add objects to your supply chain, show or hide sourcing paths and show or hide object names. At the bottom of the screen, you'll see a list of tables you'll use to set up the supply chain.

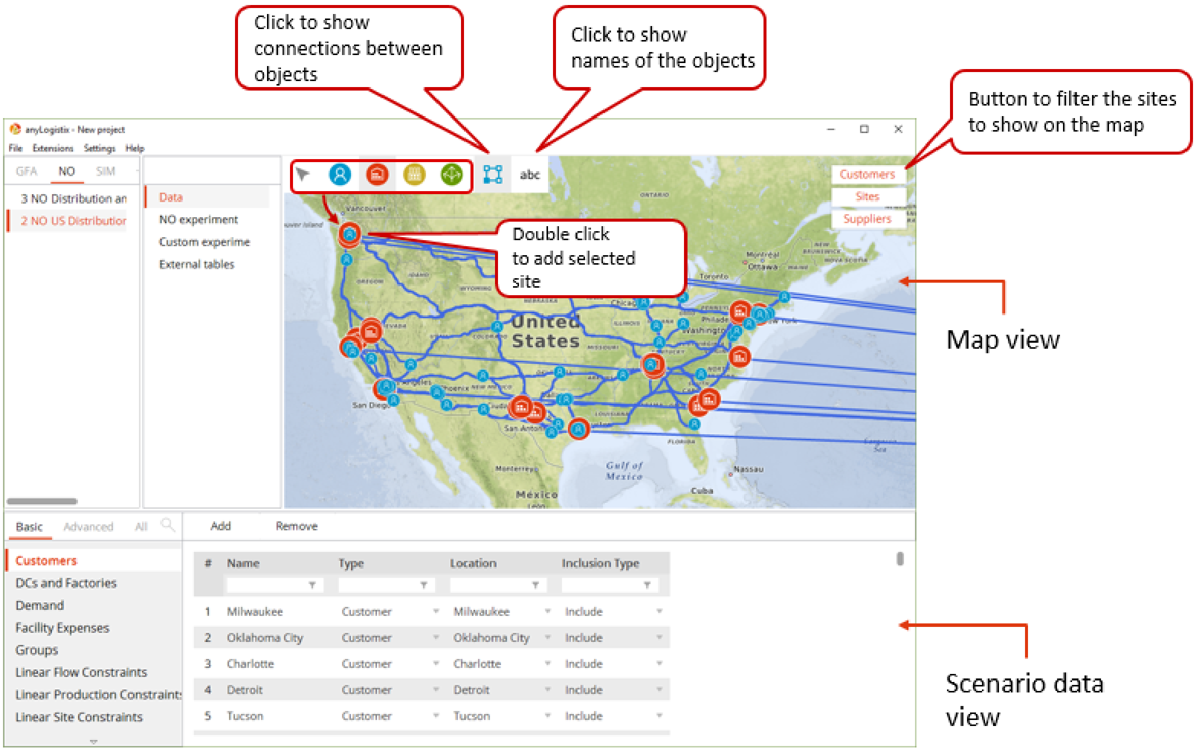


Figure I-10: A sample of anyLogistix's graphical user interface.

Figure I-11 shows how you can change scenario data.

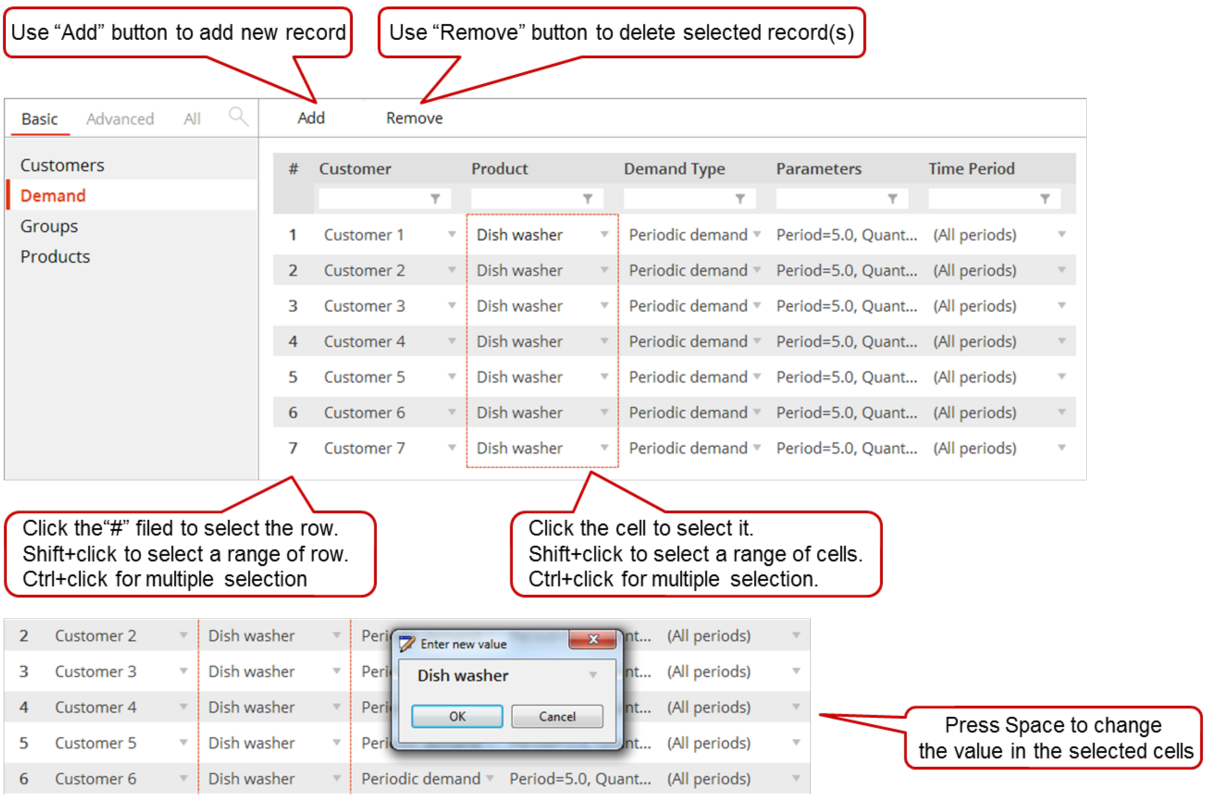


Figure I-11: A detailed look at anyLogistix's scenario data view.

Figure I-12 helps you understand anyLogistix's navigation menus.

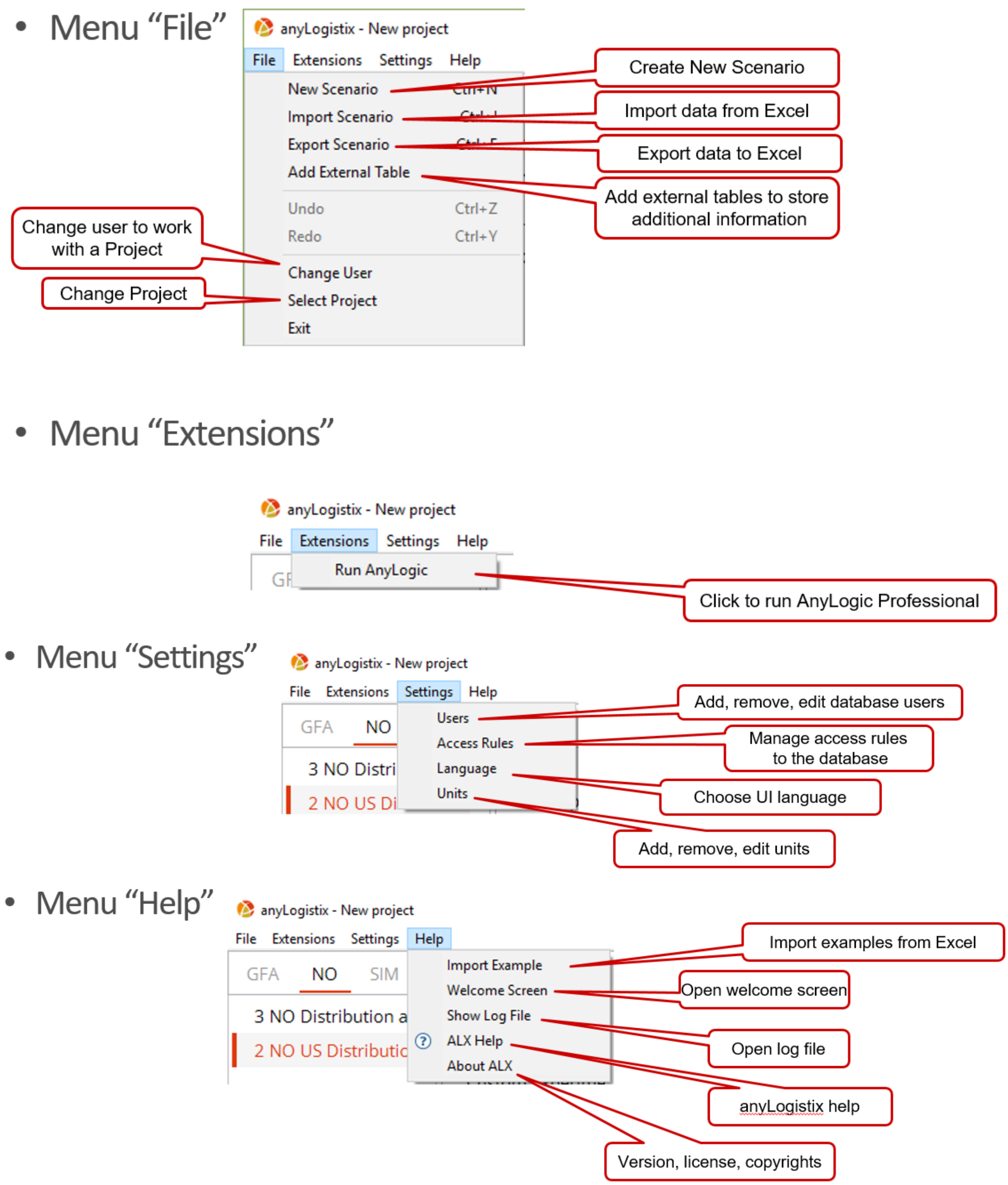


Figure I-12: An overview of anyLogistix's menus.

Option 1: Setting Up a Green Field Analysis Experiment

The image below (Figure I-13) shows you how to prepare a green field analysis (GFA) experiment. In anyLogistix's left pane, click the **GFA** heading, click **Simple GFA**, and then click **GFA experiment**. Afterward, you'll need to select your experiment's settings.

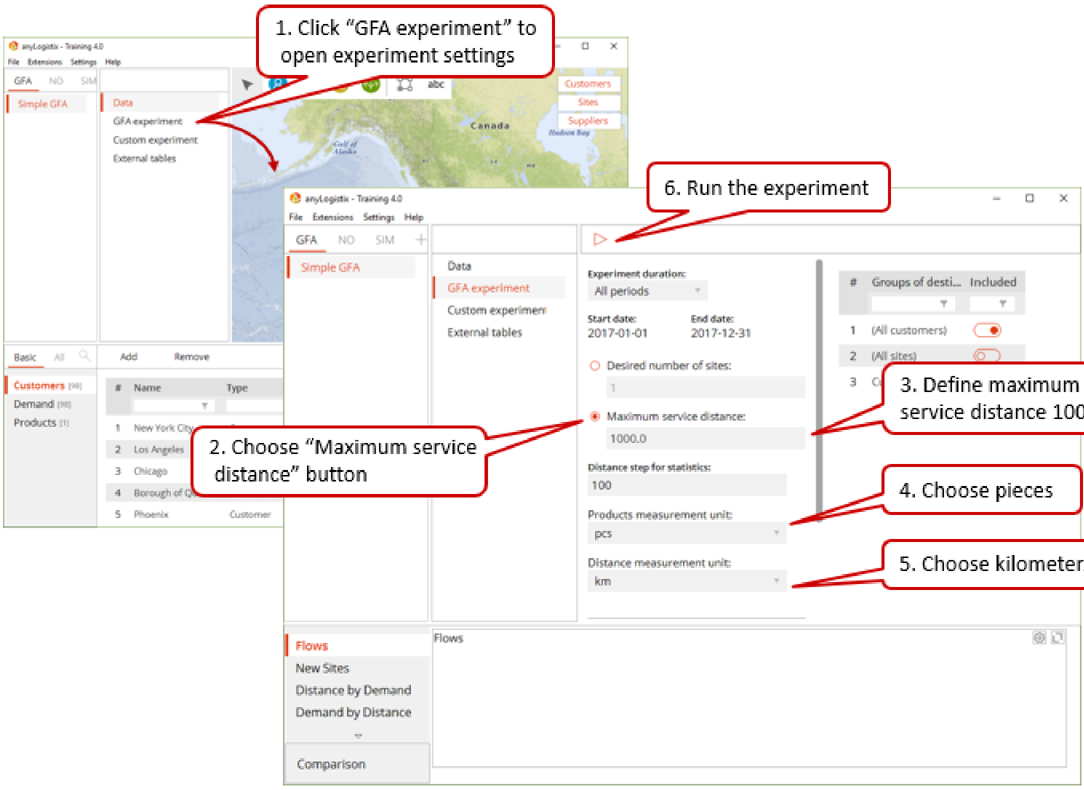


Figure I-13: A green field analysis (GFA) experiment's settings.

Option 2: Setting Up a Network Optimization Experiment

The following image (Figure I-14) shows you how to set up a network optimization experiment. In anyLogistix's left pane, click the **NO** heading, click **Simple NO** to select the network optimization scenario, and then click **NO experiment**.

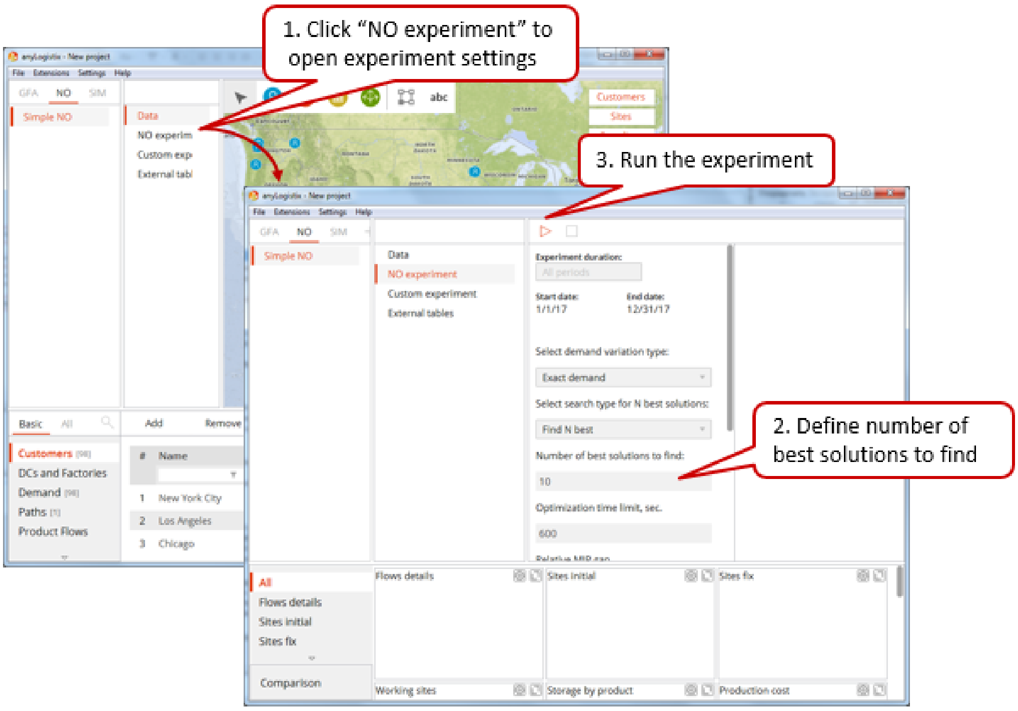


Figure I-14: Network optimization experiment settings.

Option 3: Setting Up a Simulation Experiment

The image below (Figure I-15) shows you how to set up a simulation experiment. In anyLogistix's left pane, click the **SIM** heading, click **Simulation Experiment** and then decide which statistics you want AnyLogistix to collect during the experiment.

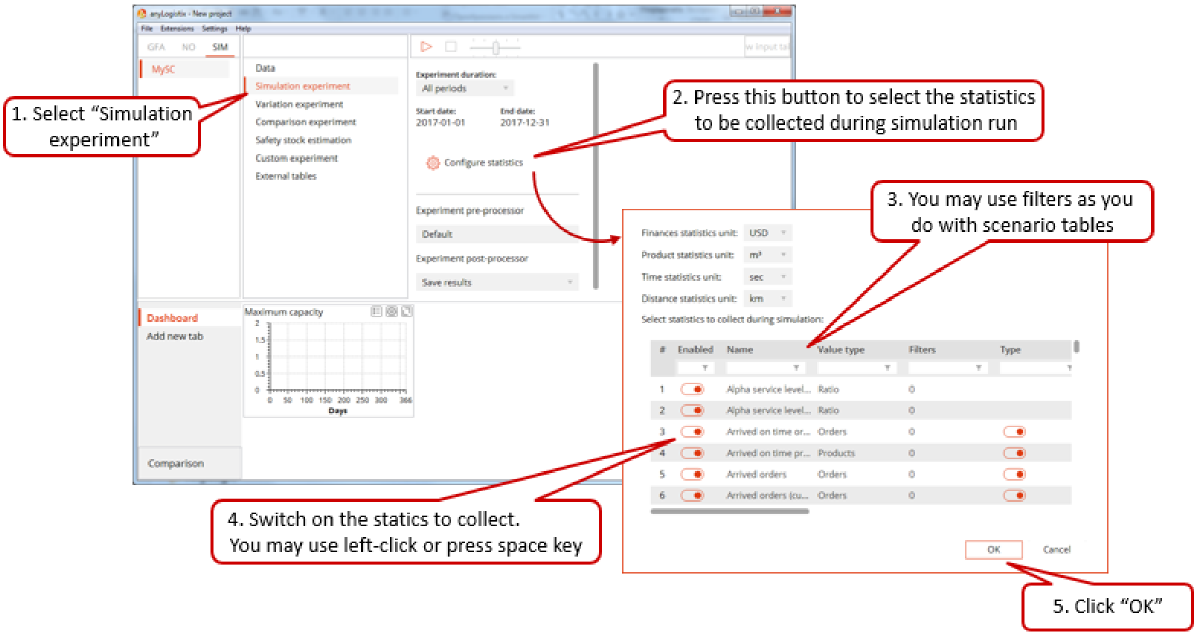


Figure I-15: Simulation experiment settings.

Figures I-16 and I-17 show you how to work with anyLogistix's dashboard. You'll use this dashboard—which may include one or many pages—to display the statistics the program collects during your experiment.

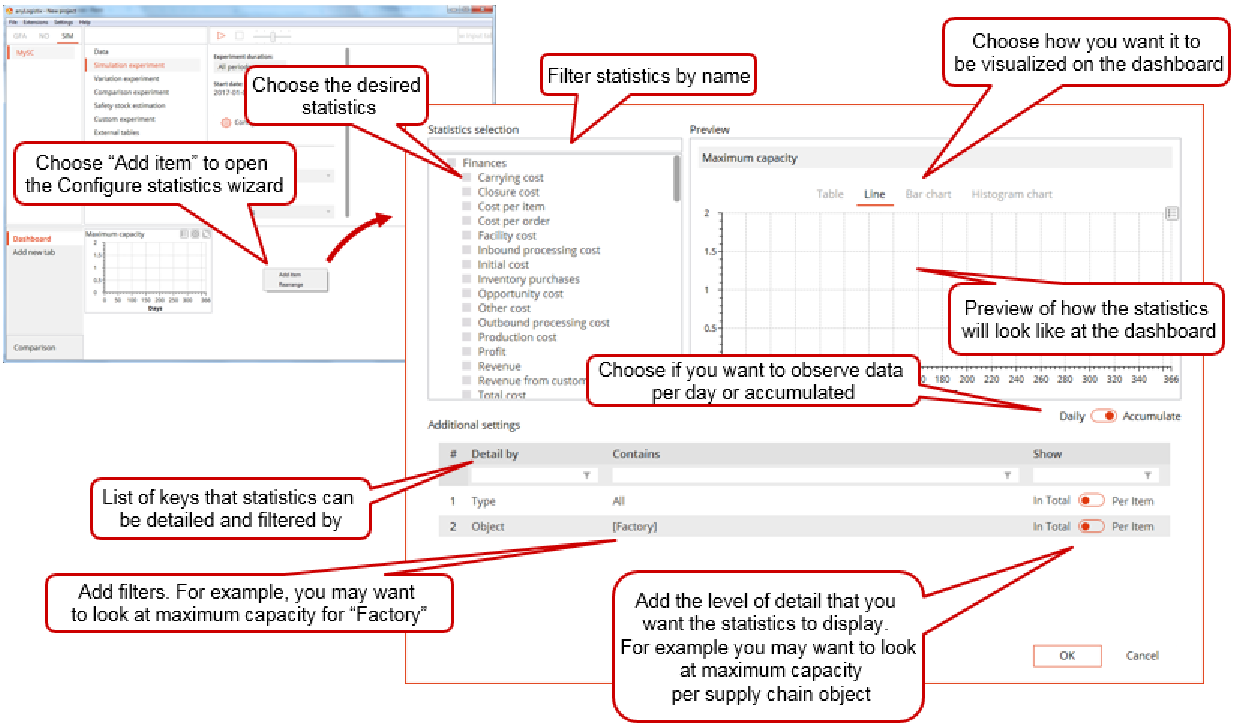


Figure I-16: Simulation experiment settings: dashboard (1 of 2).

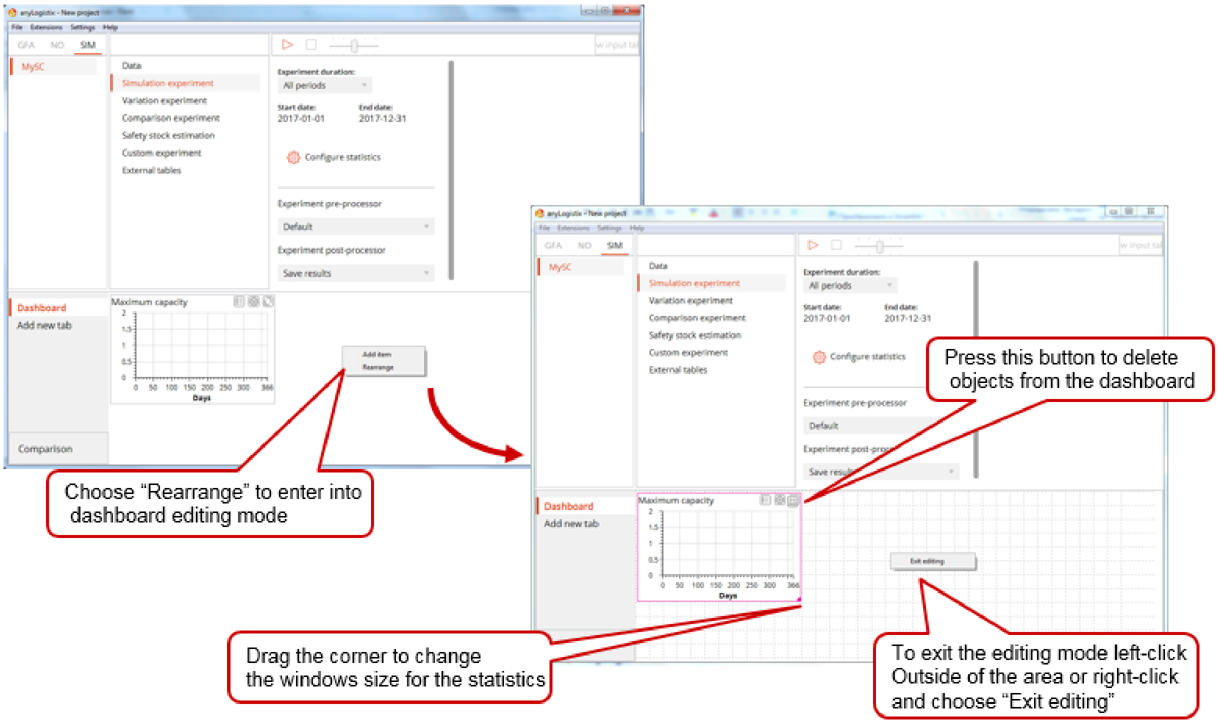


Figure I-17: Simulation experiment settings: dashboard (image 2 of 2).

Figure I-18 shows you the steps you need to complete to set up a variation experiment. You'll start by navigating to the right to the experiments tree and clicking **Variation experiment**. Afterward, you must select the scenario you want, define the variations and then select the statistics you want anyLogistix to collect.

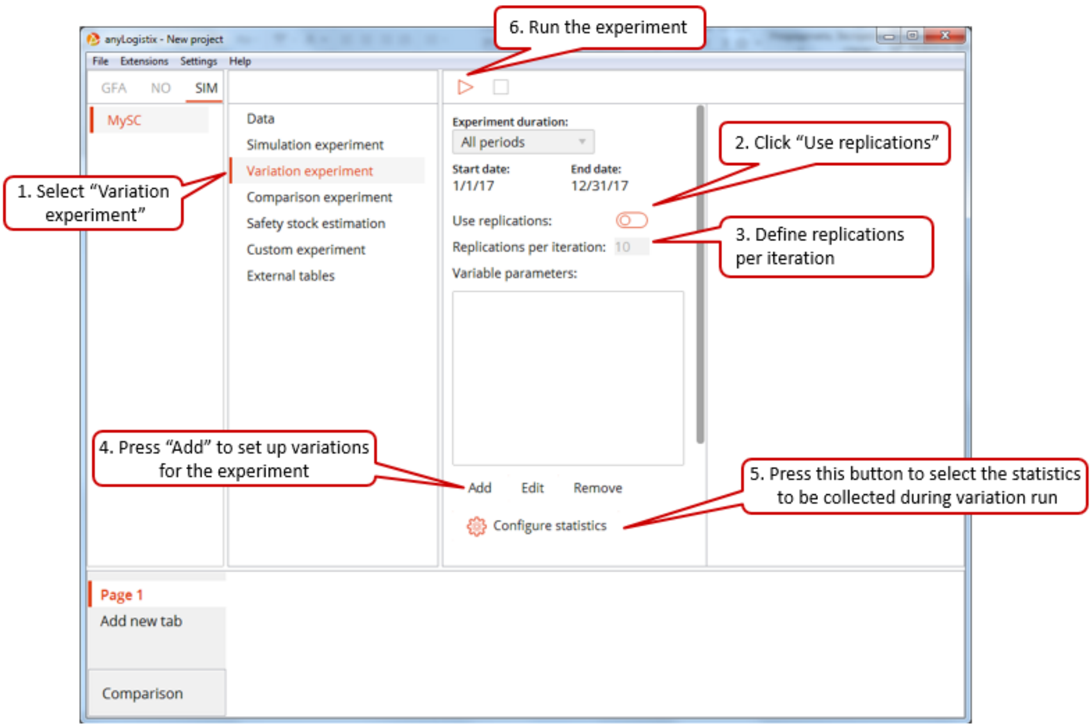


Figure I-18: Variation experiment settings.

If you want more information about anyLogistix's user interface, you can open the program's Help feature by pointing to the **Help** menu and clicking **anyLogistix Help**.

Chapter 1: Two-stage Supply Chain

Our Learning Objectives

1. Develop the analytical and management skills to use the center-of-gravity method and network optimization (uncapacitated facility location planning) to select the optimal locations for your company's facilities
2. Develop the technical skills you need to use anyLogistix to create two-stage supply chain models, perform experiments and measure performance
3. Understand the major trade-offs in facility location planning that affect the number of sites, lead time and demand uncertainty
4. Understand the areas of simulation and optimization

Performing a Green Field Analysis (GFA) for a New Facility

Our Green Field Analysis Case Study: Facility Location Planning

Suresh, a supply chain manager at a German-based retail network, needs to decide where his company should build their new distribution centers and how many centers they need to open to minimize supply chain costs. The data he needs for his analysis are the company's:

- Customers and their geographical locations
- Products and measurement units
- Customer demand
- Per-kilometer transportation costs
- Distances in the supply network

He began gathering the data by asking sales and marketing managers to estimate the annual demand from customers in different regions and then grouping those regions into ten major markets. Afterward, Suresh asked the transportation manager to estimate the company's shipment costs.

In this case study, we'll use anyLogistix to help Suresh improve the distribution center network. The following steps will show you how to:

1. Create a scenario and define the supply chain's structure and parameters
2. Define the supply chain's customer demand, transportation and sourcing policies
3. Parametrize the sites and policies
4. Perform the Green Field Analysis experiment to determine the best locations for one or many warehouses
5. Create a KPI dashboard and collect statistics on supply chain performance
6. Simulate the supply chain design with the new greenfield locations and determine their impact

Creating a Scenario

The first step in building a decision-support model for facility location planning is to create a new scenario. Figure 1, below, shows you the basic steps you need to complete to create a scenario and make it available in anyLogistix's central panel. Each scenario has a supply chain structure and parameters you can use during your simulation and optimization experiments.

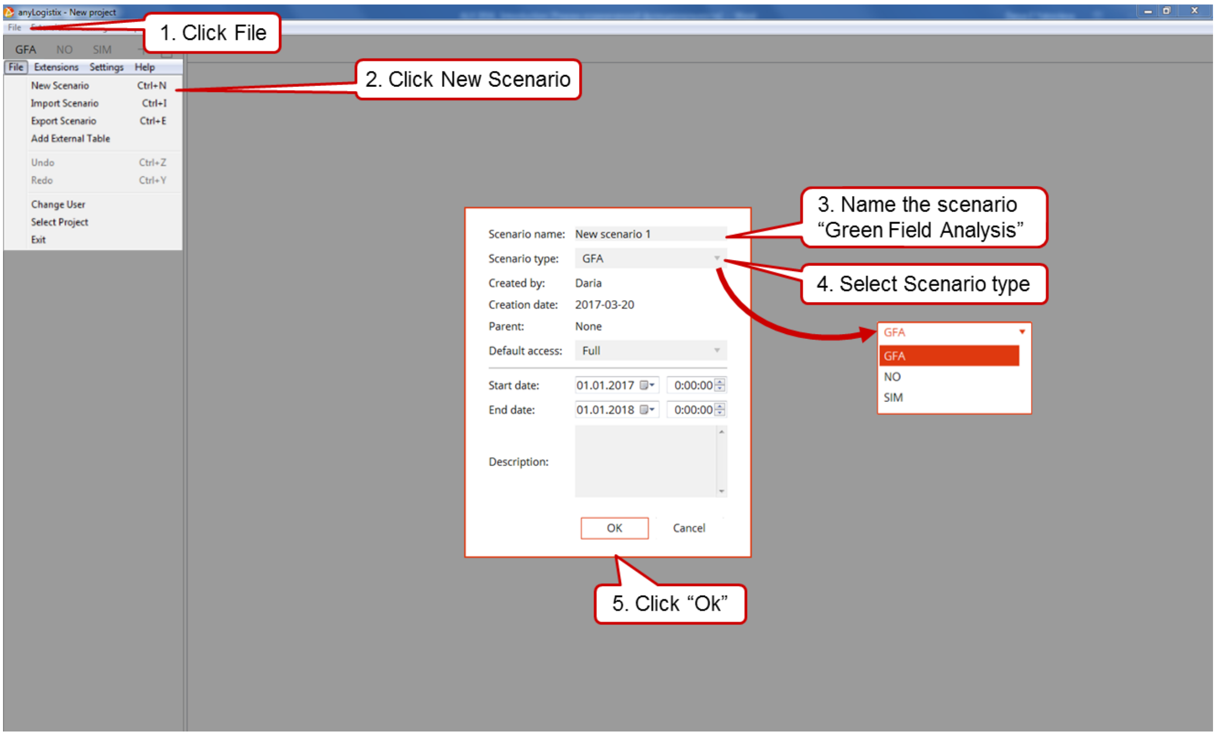


Figure 1: Creating a scenario.

You can modify a scenario's properties by right-clicking the scenario's name to open the context menu, and then clicking **Properties**. You can also import a scenario from a Microsoft Excel workbook and use it to perform an experiment.

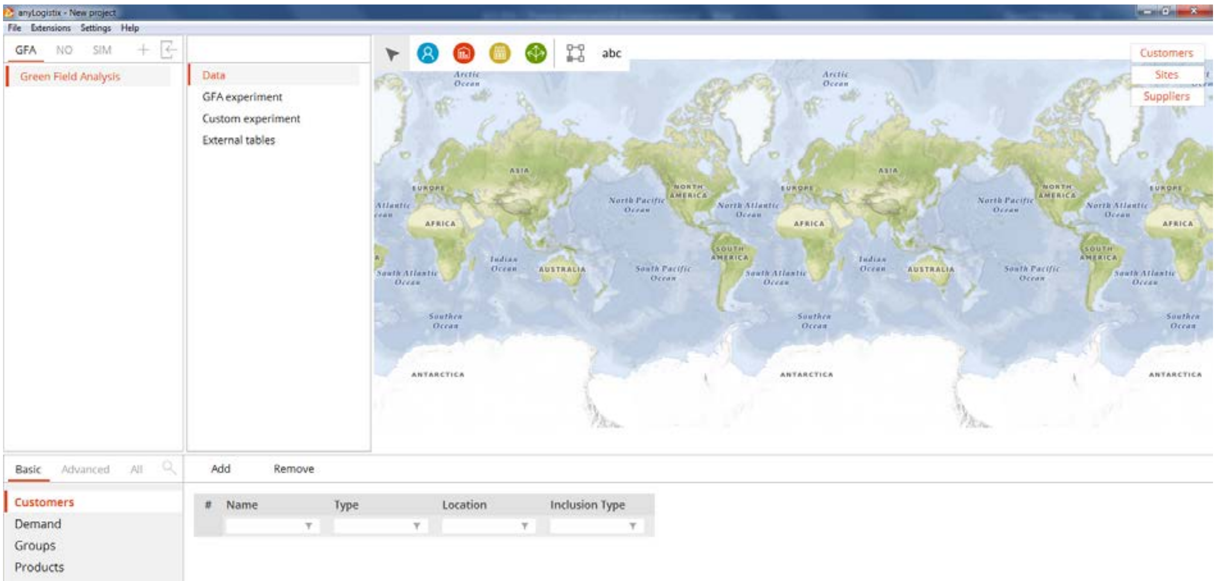


Figure 2: Using the Start window to prepare a new scenario.

We've named our new scenario **Green Field Analysis** (GFA), and it now displays in the program's list of scenarios. Our next step is to define the supply chain's structure and parameters.

Defining Supply Chain Structure and Parameters

Adding Customers and their Locations

Our first step in defining the supply chain's structure is to define our customer locations. To define a location, right-click on the map, click **Create Customer** and enter the required information (Figure 3). Afterward, anyLogistix adds the customer location and its latitude and longitude to the list of customers (Figure 4).

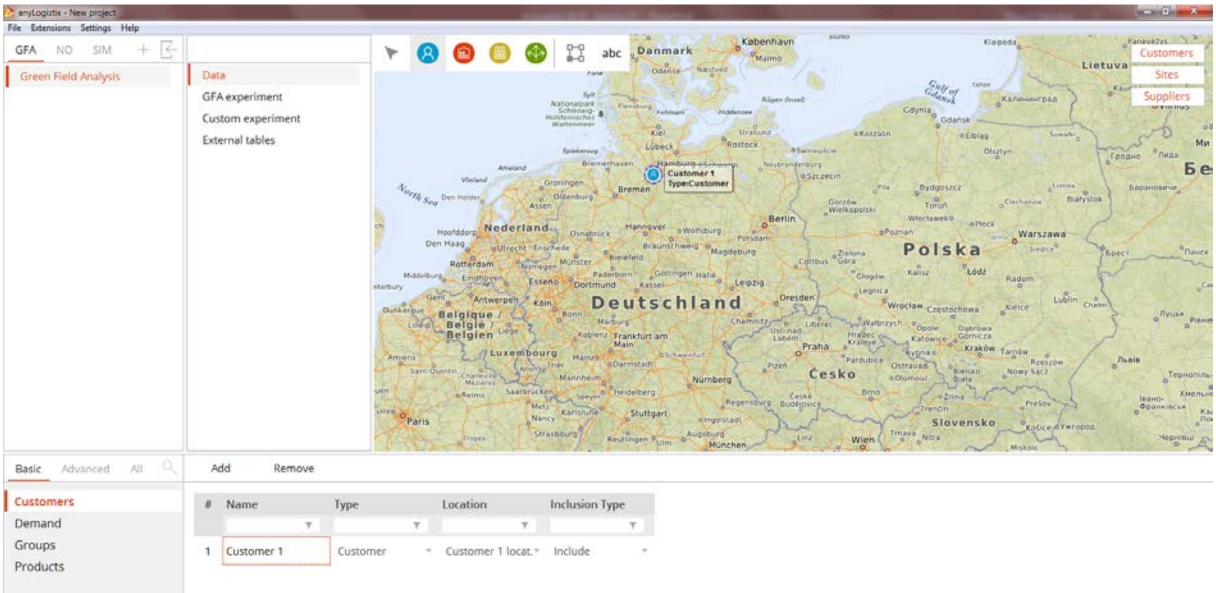


Figure 3: Defining a new customer.

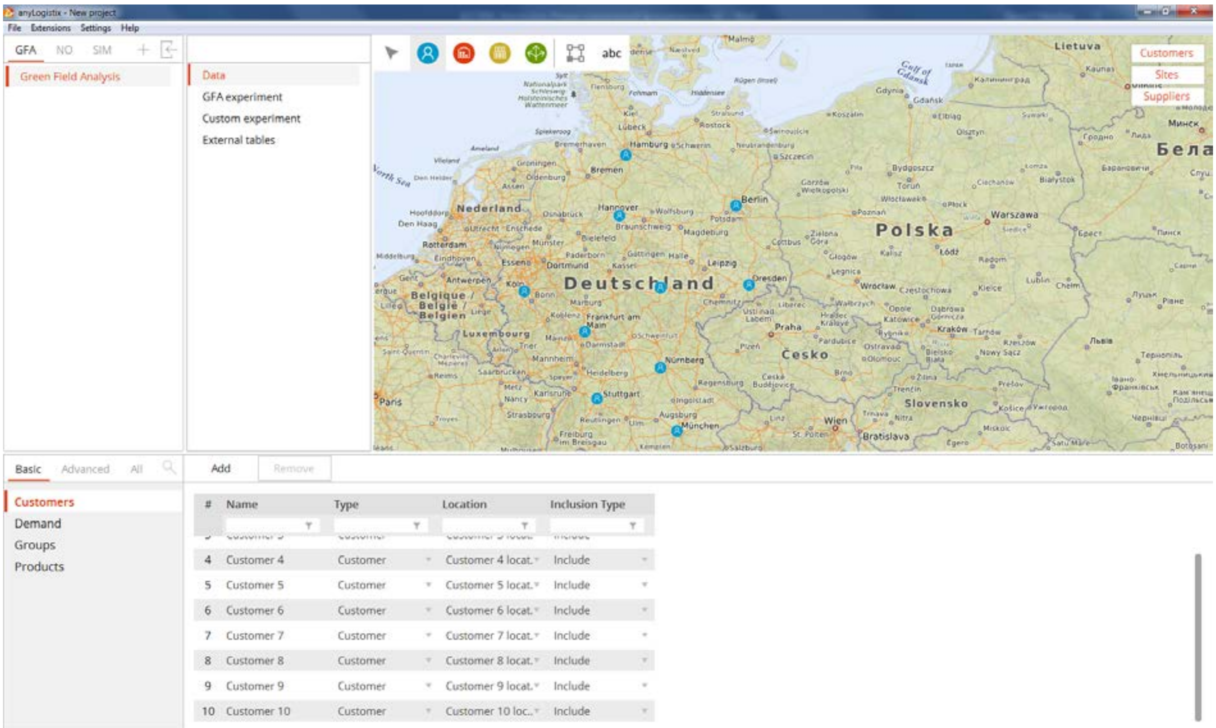


Figure 4: A view of anyLogistix's list of Customers.

Defining Products and Customer Demand

Before we define customer demand, we need to use the **Products** table to add and define the products we will ship to our customers. In our example, we'll define a new product (**Water**) by opening the **Products** table and clicking **Add** (Figure 5).

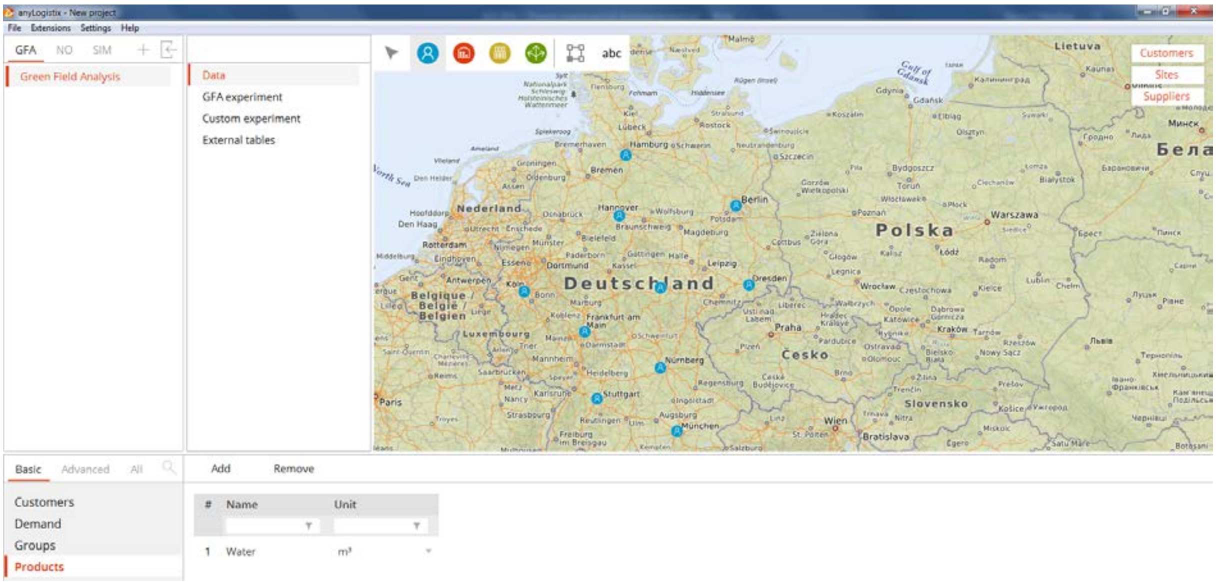


Figure 5: Adding and defining a product.

To set the product's demand parameters, click the **Demand** heading on the screen's left pane. The **Demand** table that opens lists our customers and allows us to select each customer's demand type and demand parameters. In time, anyLogistix will use these values to compute our service levels.

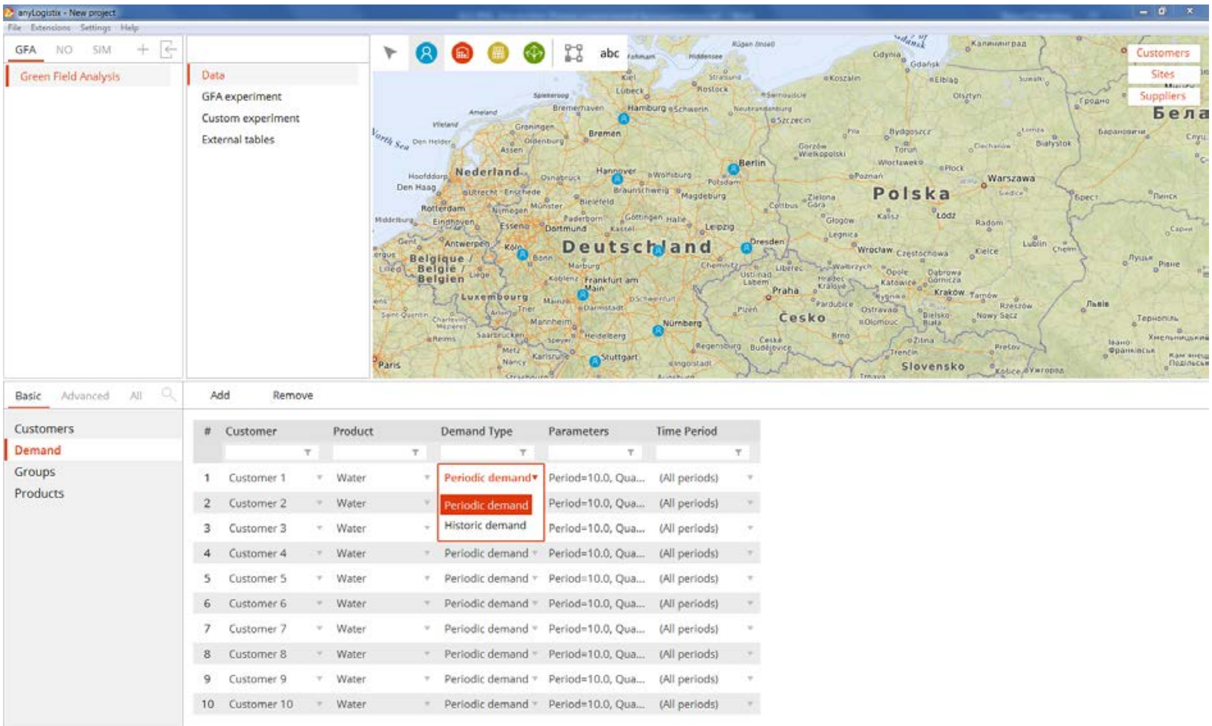


Figure 6: Selecting product demand data.

For now, we'll use two parameters—**Time Period** and **Quantity**—to define customer periodic demand. By setting the **Period** value to 10 days and the **Quantity** value to 5, we've ensured our simulated customers will send a new five-unit order to the distribution center every ten days.

You can set customer demand to be *deterministic* or *stochastic* by using the **Demand** table's **Demand Type** column to select **Periodic demand** or **Historic demand**.

You can use periodic demand if you know the sales quantity that takes place during a given period. In this example, we know we can expect to sell five water pallets within ten days. By contrast, historical demand assumes you use data about sales over a longer period such as the previous year. To define our historical data, we'll select the **Historic demand** option and click **Add** (Figure 7).

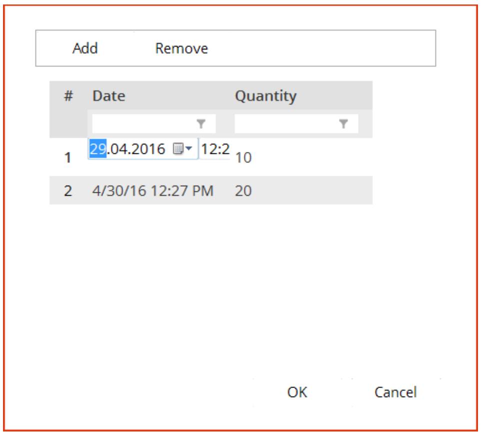


Figure 7: Setting up historical demand.

To define periodic demand data, we select the **Periodic demand** option and then define the customer's demand for a given period. For example, Figure 8 shows you how to set **Customer #1**'s demand for five water pallets over a ten-day period.

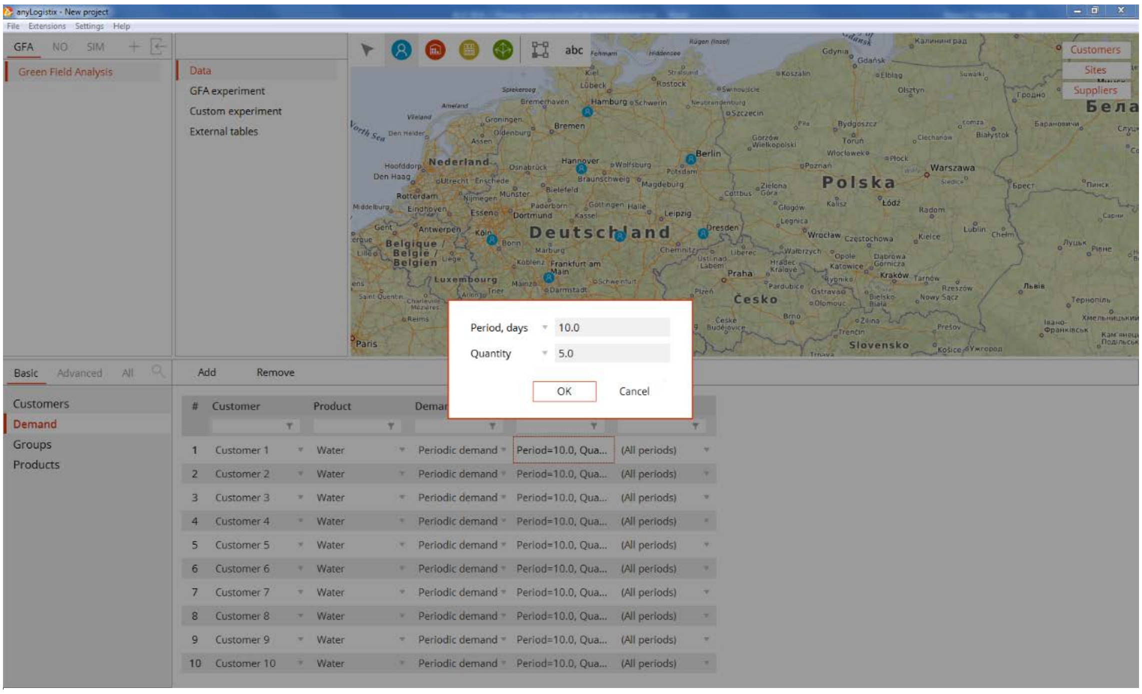


Figure 8: A Periodic demand setup.

To make our analysis more valuable, we'll change the default customer names—for example, **Customer 1** and **Customer 2**—to the names of the markets we serve such as Hamburg and Berlin. To do this, open the **Customer** table and change the **Name** values as needed.

Figure 9 below shows the results of our renaming process.

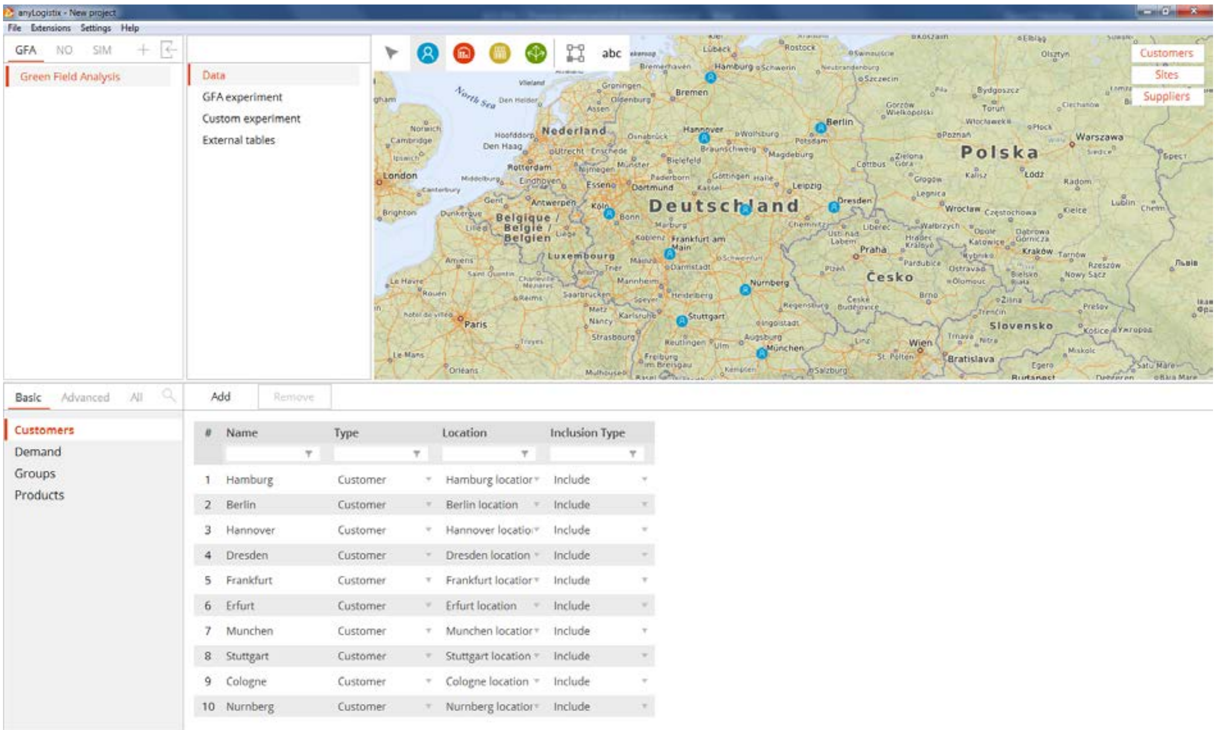


Figure 9: Renaming customers.

Now, we'll define the periodic demand for each customer (Figure 10).

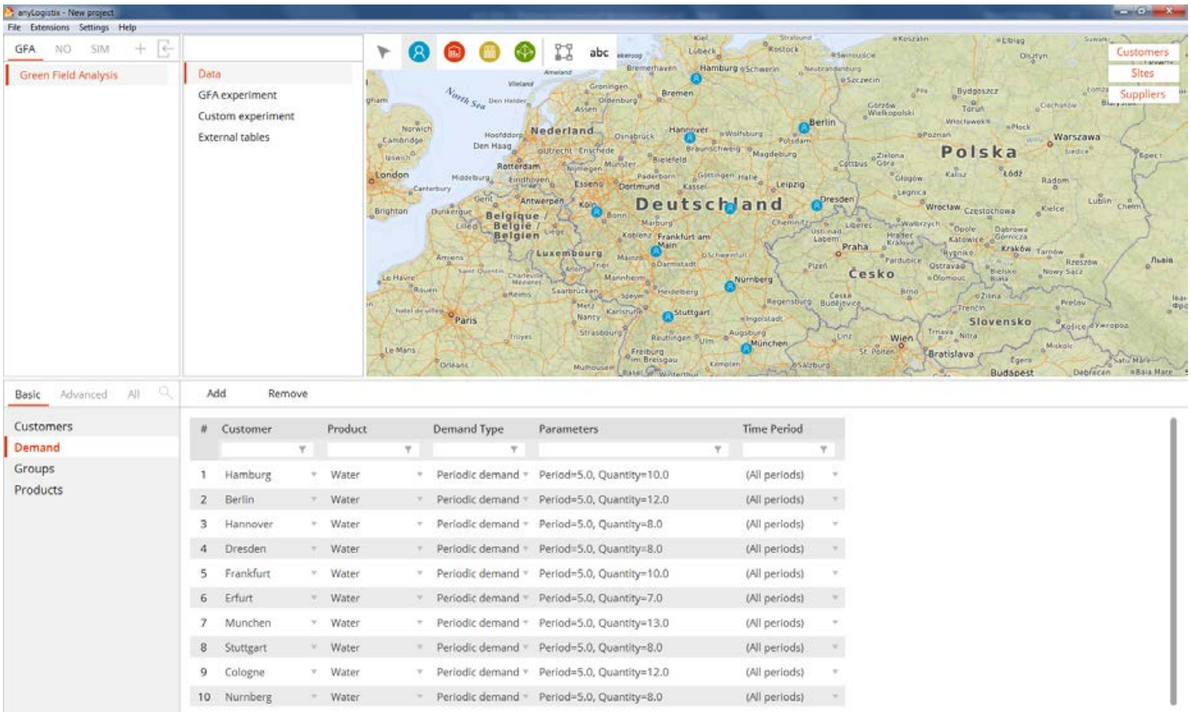


Figure 10: Setting the experiment's demand data.

Note: If you want a flexible approach to demand data, you can define **Time Periods** (for example, spring, summer, winter and fall) and use the **Demand Forecast** table to define demand coefficients (Figure 11).

→ You can define stochastic demand, we can select different types of distributions clicking the arrow in the respective parameter (that is, period or quantity):

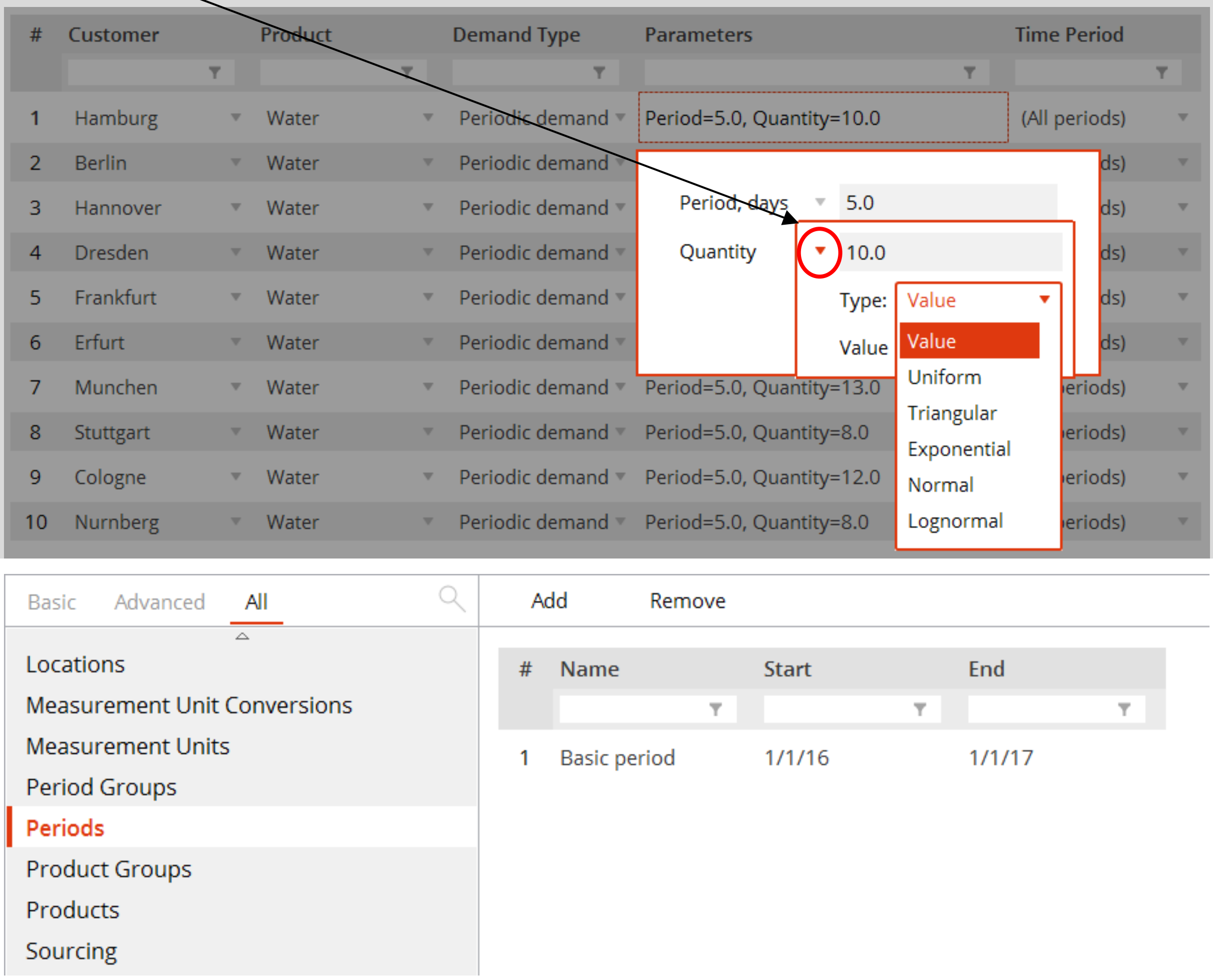


Figure 11: Defining Periods.

Importing Data from Microsoft Excel workbooks

If you have a long list of customers and products or you want to avoid manually entering demand data, you can import this data from a Microsoft Excel workbook. To do so, point to the **File** menu and then click **Import**.

You can import sample ALX scenarios and your own scenarios with experiments. You can also accelerate the scenario creation process by using a Microsoft Excel workbook to create a scenario. After your scenario is complete, you can import it into anyLogistix.

Creating Groups

The problem in this example is simple, but other problems can be complex. To simplify your simulation modelling and experiments, you might want to group similar objects, such as distribution centers, customers or suppliers. You'll do this in the **Groups** table (Figure 12).

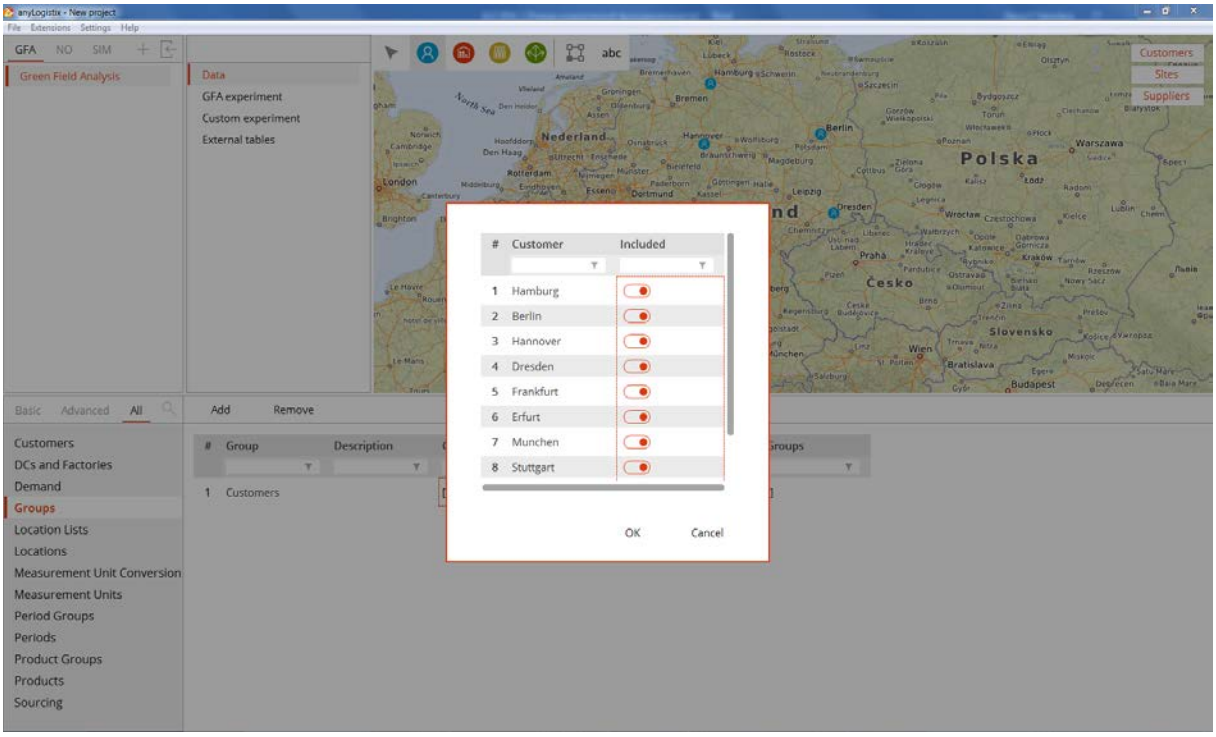


Figure 12: Creating a group.

To create a group, click **Add** and then enter the new group's name (for example, **Customers**). Second, we open the list of all customers in the new **Customers** table and activate those we need in the group. For distribution centers and factories, we activate objects in the **Sites** column. Supplier groups are created in the **Suppliers** column.

After you create your groups, you can use them in sourcing, transportation, inventory and production policy definitions instead of individual objects. In the **Product groups** table, you can group individual products in a similar way. This helps to *reduce modeling complexity*.

With our data set up, we are ready to perform our first experiment.

About Green Field Analysis

The objective of our first experiment is to determine the best location for our distribution center. We want to find the location that allows us to fulfill our customer demands at the lowest total transportation cost.

A green field analysis (GFA), also known as center-of-gravity analysis, is a common method for determining the optimal locations for new facilities (Ivanov et al. 2017). The issues we need to consider during a green field analysis are our customers' locations, the distances from our warehouse or warehouses to our customers and our customers' demands for our products.

In anyLogistix, an ordered pair of (x;y)-coordinates represents each customer location. You can't change these data; they are input data or problem *parameters*. By contrast, your new warehouse's (x;y)-coordinates (p_x;p_y) are variable. anyLogistix will determine them after it calculates the data you provide in a way that matches the parameters you set. As a result, we say p_x and p_y are this scenario's *decision variables*.

We also assume our transportation cost is linearly proportional to the distance and the transportation volume (that is, the demand). We can see the total transportation costs will depend on the coordinates (p_x;p_y) of our prospective warehouses and distances. We assume the transportation costs from the prospective warehouse (p_x;p_y) to a customer location (x_i;y_i) is more or less equal to the distance and demand.

With that in mind, we need to determine the distances d((p_x;p_y); (x_i;y_i)) between the *i*-customer location and the warehouse to calculate transportation costs. To minimize the payments to the forwarding company, you must vary p_x as well as p_y as long as Z(p_x;p_y) becomes minimal.

Creating a New Experiment

In **Experiments**, we select Green Field Analysis. We select our new **Green Field Analysis** scenario (Figure 13).

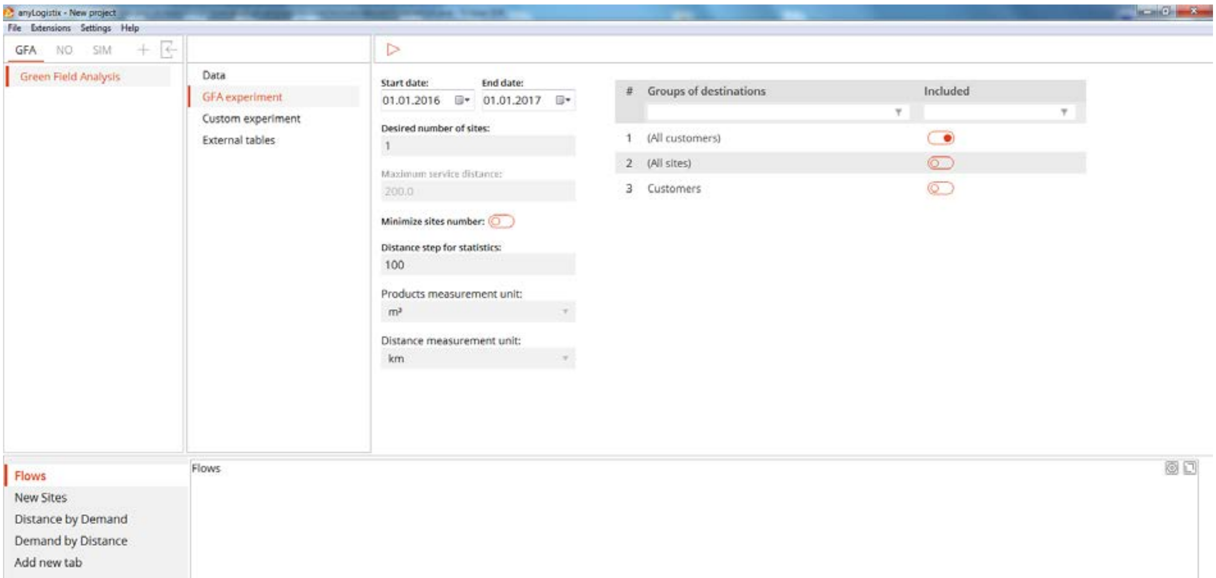


Figure 13: Setting data for a Green Field Analysis experiment.

We'll start by selecting the locations and customers we want to include in our analysis. In this example, we'll include all our customers. Second, we can perform the computation in two modes:

- Define optimal location for a single warehouse
- Define minimal number of warehouses and their locations subject to a maximum service distance.

Determining the Optimal Location for a Single Warehouse

In a Green Field Analysis experiment, the default value for the **Desired number of sites** parameter is **1**. While you can easily change the default value if you want to consider more than one location, we'll continue our work to determine the optimal location for a single warehouse (Figure 14).

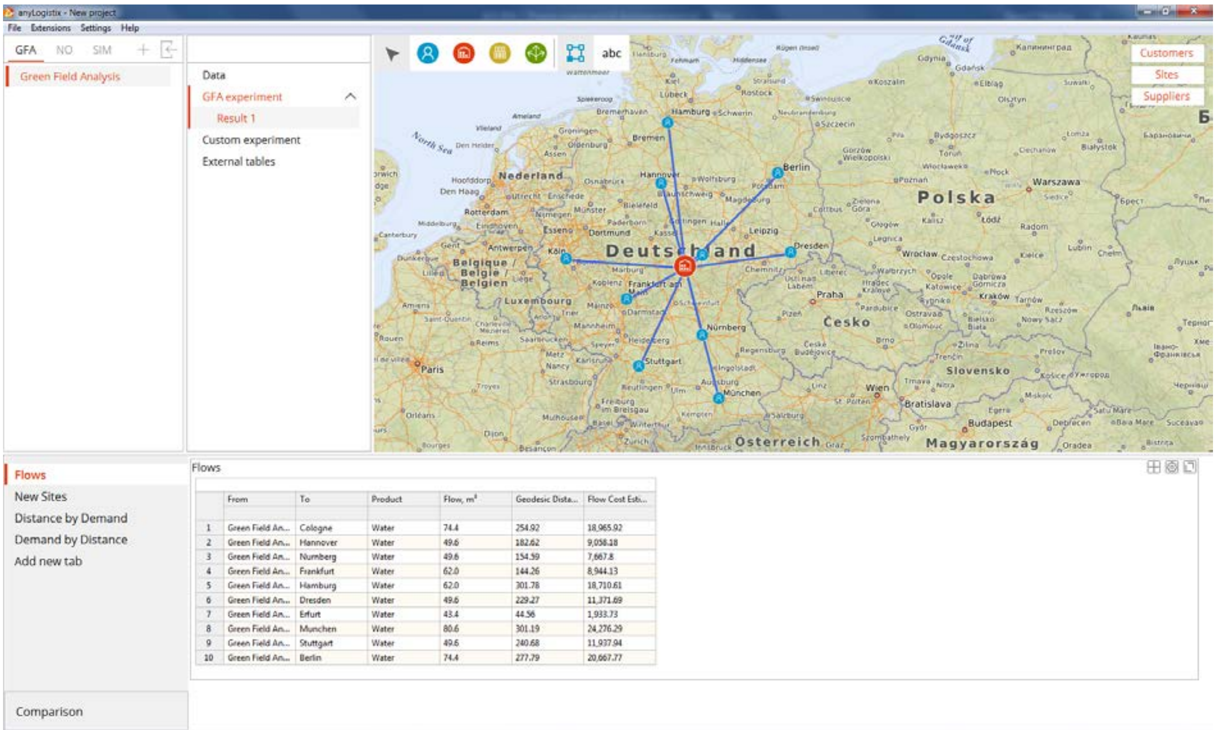


Figure 14: Computed optimal location for single warehouse.

Determining the Minimal Number of Warehouses and their Locations

In our experiment, we select the **Minimize sites number** option and enter a value in the **Maximum service distance** box. In this example (Figure 15), the maximum service distance is 300 kilometers.

> **Note:** anyLogistix's Personal Learning Edition (PLE) does not allow you to set a set a **Maximum service distance**.

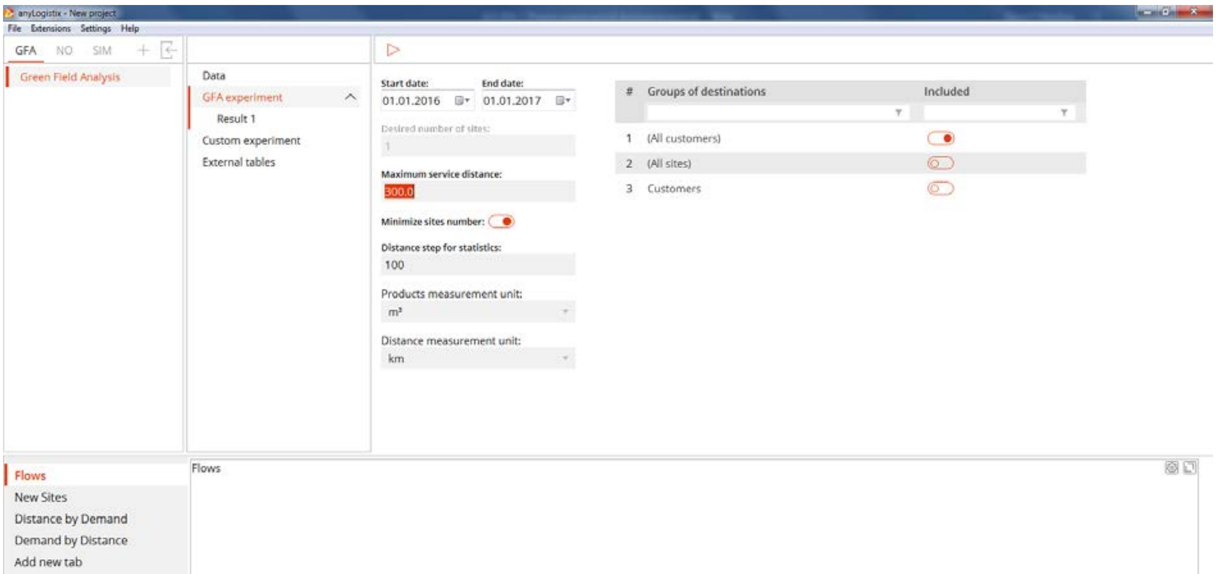


Figure 15: Settings to determine minimal number of warehouses and their locations based on the value we enter for the maximum service distance.

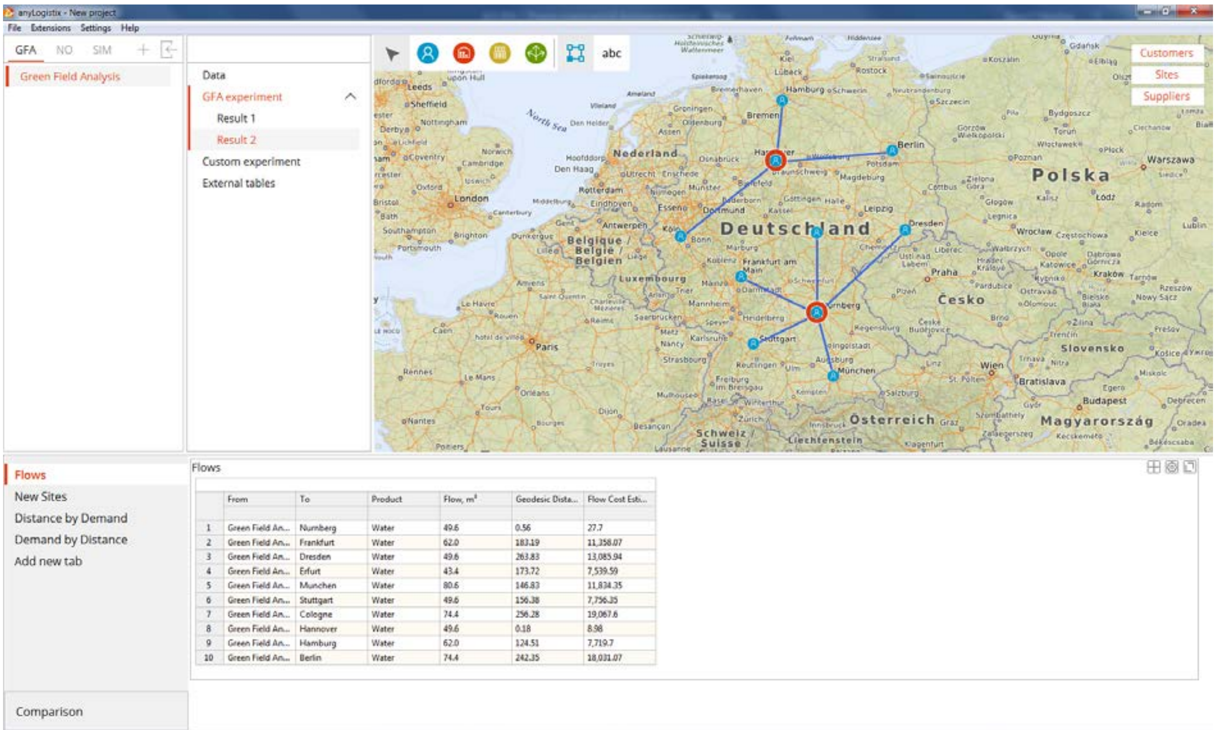


Figure 16: Computation result for the minimal number of warehouses and their locations that meets our need for a maximum service distance of 300 km.

The information in Figure 16 shows us the company needs to add two distribution centers if they want their maximum service distance to be 300 km. To determine their location, you'll need to perform another factor rating-based analysis.

Note: You can export the results of your green field analysis to a new scenario. Doing so will help you perform simulation experiments.

Discussion Questions

1. If we reduced the maximum service distance, would the number of distribution centers change? Try to compute the case with a maximum service distance of 150 km!
2. What other costs and factors should be part of your facility location planning?

New Simulation Experiment

Our simulation experiment is to observe supply chain behavior in dynamics. The *static* view on supply chain structure will be a *dynamic* form. In this example, we'll simulate the effect of those two new distribution centers. How well will they help us meet our goal of a maximum service distance of 300 km?

First, we need to convert the results of our green field analysis to a SIM scenario by right-clicking **Results 2** in **GFA 1** (Figure 17). Afterward, AnyLogistix displays **GFA 1: Results 2** in our list of scenarios.

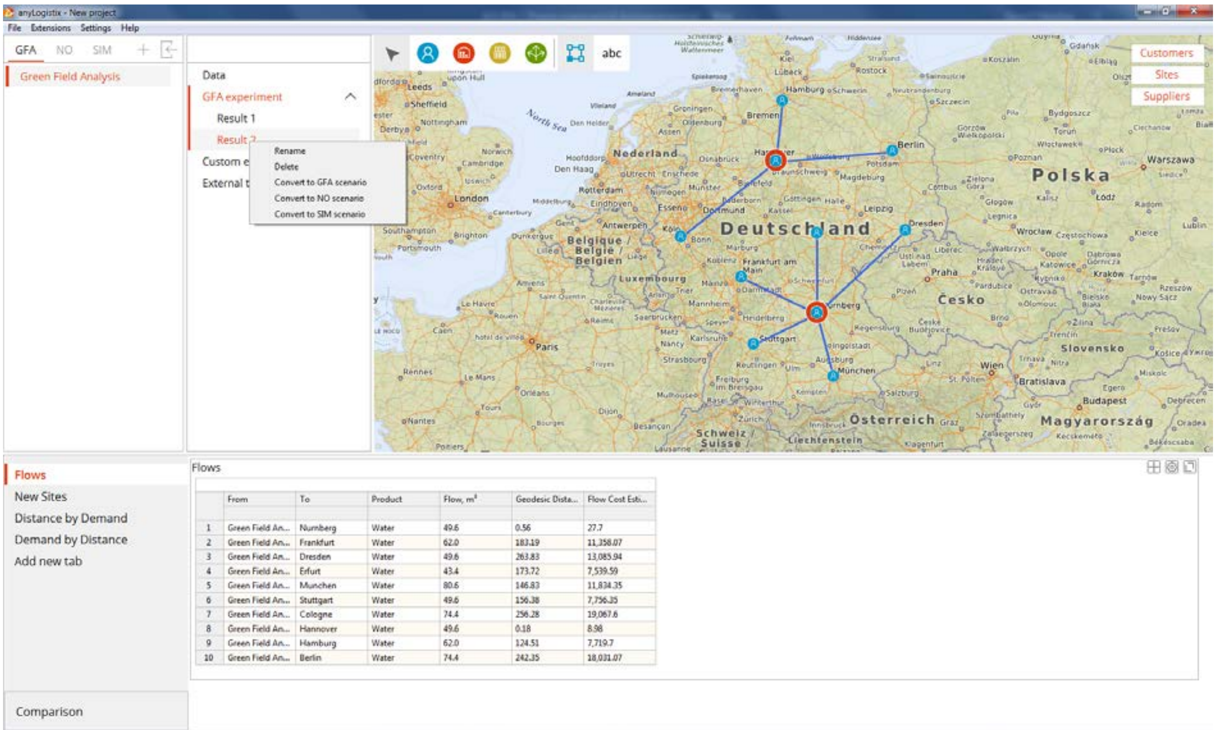


Figure 17: Our transformation of the green field analysis to a SIM scenario.

KPI Dashboard

We select **GFA1: Results 2** as the scenario for simulation experiment and click **Configure statistics** to create a KPI (key performance indicators) dashboard (Figure 18).

> **Note:** anyLogistix uses a general term (“statistics”) instead of KPI. However, this book uses KPI because it is more familiar to managers.

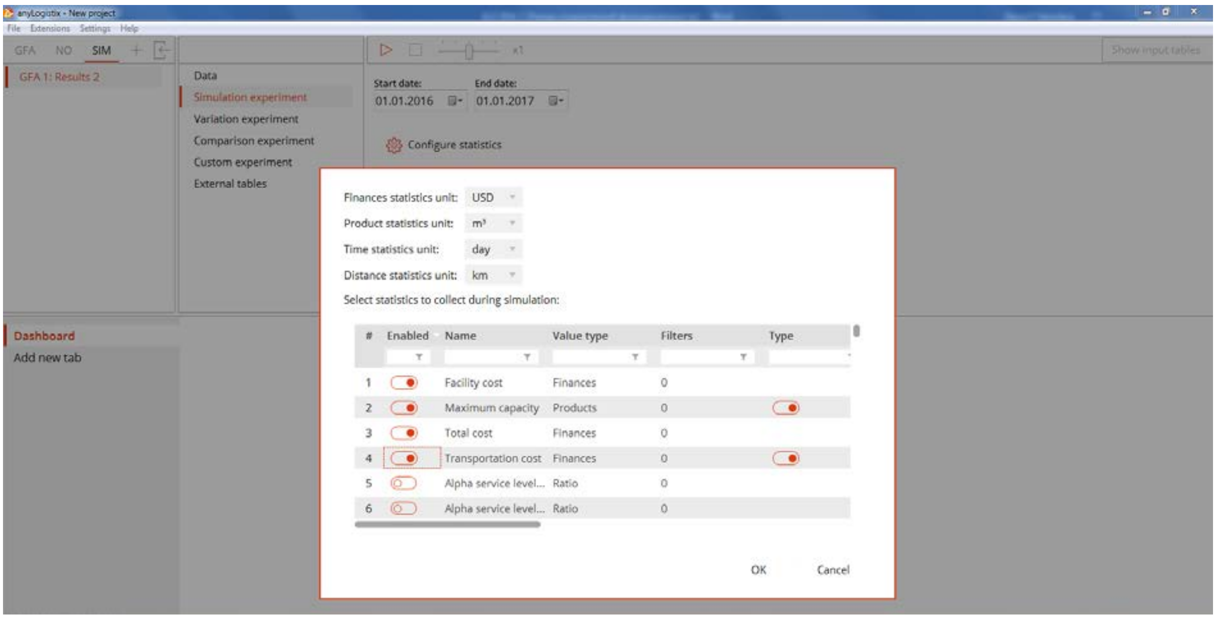


Figure 18: KPI list by default.

Note: If anyLogistix's configuration interface changes in upcoming releases, you may have to use another method to structure your KPIs. However, the underlying principles will not change.

To add KPI to the dashboard, right-click on the dashboard, select **Add item**, and then use the following screen to select the KPIs and the form (Figure 19) the KPIs will take.

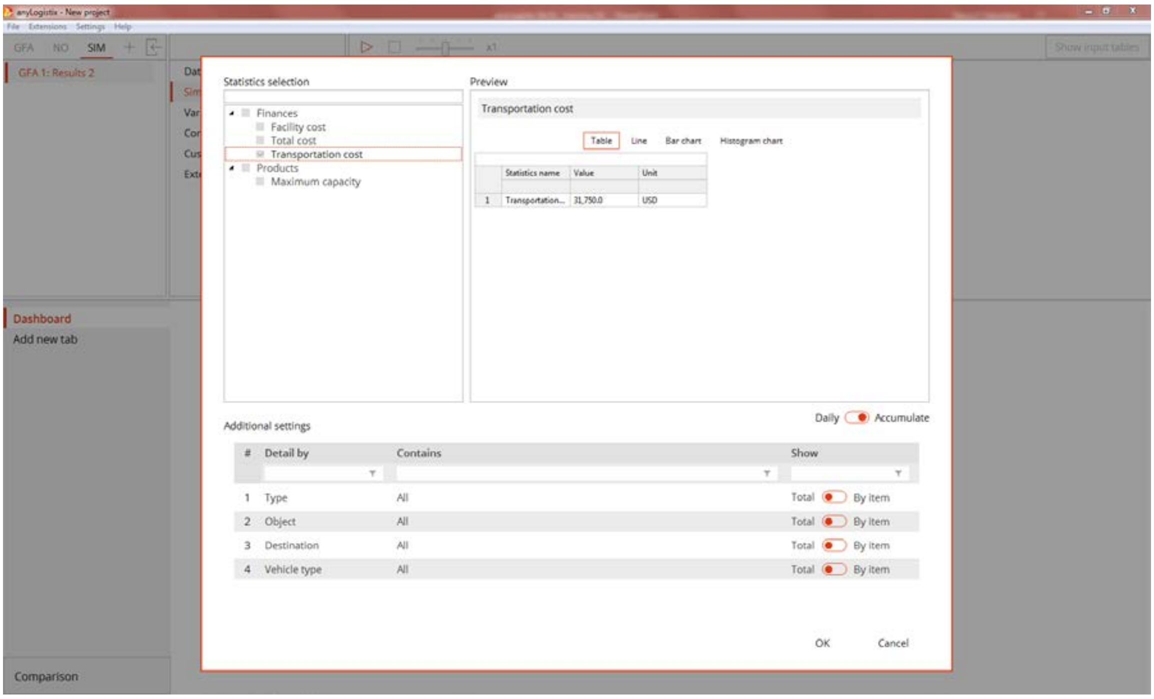


Figure 19: Starting to create a KPI dashboard.

KPI System

By default, anyLogistix classifies the 200 KPIs into six groups:

- KPIs for distribution centers
- KPIs for factories
- KPIs for distribution centers with storage
- KPIs for distribution centers with staff
- KPIs for customers
- KPIs for suppliers

Predefined KPIs can help us analyze financial, operational and customer performance. The KPIs in **Statistics collection** are organized in the following groups:

Table 1: KPI classifications.

Group	Provides
Finances	Detailed information on generated revenue and incurred expenses
Distance	Detailed information on the distance covered by the vehicles
Volume	Detailed information on the volume of products in stock

Group	Provides
Quality	Detailed information on the quantity of processed (as well as dropped/lost) orders and products.
Ratio	Detailed information on the quality of provided delivery services based on an analysis of the received or initially dropped orders and ordered products
Time	Detailed information on time spent processing tasks or idle time
Custom table	A table created by the user within the Anylogic environment
Preset	Grouped sets of regular statistics that allow users to better view and analyze data

In each group, we need to select the KPI and chart type (a table, line, bar chart or histogram chart). For a large model, we can filter or detail KPI by products, types and objects:

- Types: Distribution Center, Factory, Supplier and Customer,
- Objects: individual distribution centers, factories, suppliers and customers
- Products: individual products

Revenue, Costs, Service Level, Lead Time and On-time Delivery

We will create a KPI dashboard for our example. Since we're using a two-stage supply chain, we will take a closer look at the following KPIs for distribution centers and customers:

Financial performance:

- Transportation costs, fixed warehousing costs, total costs, total profit, total revenue

Customer performance:

- ELT service level*, customer revenue, OTD (on-time-delivered) orders, delayed orders, lead-time (that is, the time within which the product is expected to be received by the customer)

anyLogistix uses three types of service levels:

- The **Alpha service level** measures the probability all customer orders that arrive within a given time interval will be completely delivered from stock on hand. Said another way, a lack of stock will not delay the deliveries.
- The **Beta service level** is a quantity-oriented service level with backordering consideration.
- The **ELT service level** is the ratio of orders delivered within the "Expected lead time" (table demand) to total orders.

→ The **Alpha service level** does not allow a backlog. If a supply chain can't fulfil the order, the order is rejected. By comparison, the **ELT service level** includes account backlog and transportation time to the customer..

- Ratio
  - Alpha service level, by items q-ty
  - Alpha service level, by orders q-ty
  - Beta service level, by money
  - ELT service level, by items q-ty
  - ELT service level, by orders q-ty

Since we created distribution centers during our green field analysis, we haven't defined distribution center-based parameters. We need to define variable processing and fixed warehousing costs (**Other costs** in the Facility expenses table and **Outbound processing costs** in the **Processing costs** table) (Figure 20).

Facility Expenses
Fleet Size
Groups
Inventory
Loading and Unloading Gates

#	Facility	Expense Type	Value	Cost Unit	Time Unit	Product Unit	Time Period
1	Green Field Analysis GFA DC 0	otherCost	66	USD	day		(All periods)
2	Green Field Analysis GFA DC 1	otherCost	66	USD	day		(All periods)

Processing Cost
Processing Time
Product Groups
Production
Production Batch

#	Source	Product	Type	Units	Cost	Cost Unit	Time Period
1	Green Field Analysis GFA DC 0	Water	Outbound ship...	m³	10	USD	(All periods)
2	Green Field Analysis GFA DC 1	Water	Outbound ship...	m³	10	USD	(All periods)

Figure 20: Distribution center cost parameters

For both distribution centers, we define fixed warehousing costs per day at $66. Outbound processing costs are set at $10 per m^3. Fixed warehousing costs is defined as **Other Cost**. Inventory holding costs can be defined by **interest ratio** or by setting **carrying costs** for each unit per year. In addition, if we have inventory, we need to define **facility costs** per month per m^3.

Note: We'll discuss inventory management problems in the supply chain and their implementation in anyLogistix in Chapter 2.

We also need to define our product's cost and selling price:

#	Name	Unit	Selling Price	Cost	Cost Unit
1	Water	m³	100	50	USD

Figure 21: Product cost parameters

Transportation Distance and Costs

The final step in input data setting is defining transportation distances and costs. We'll start by using **Vehicle Types** to define a vehicle type as well as the vehicle's capacity and speed (Figure 22).

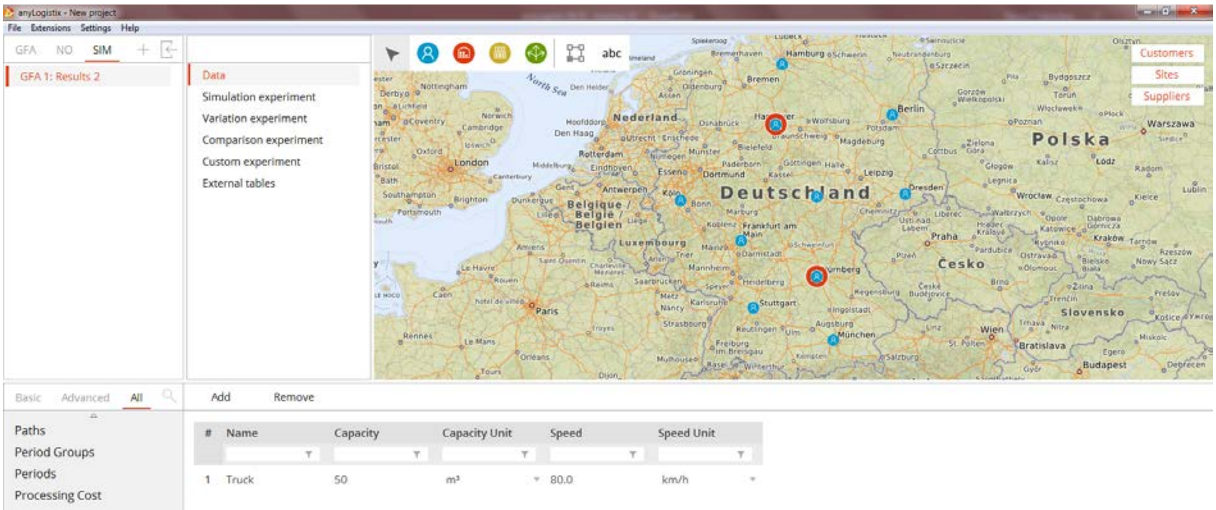


Figure 22: Vehicle type definition.

We now need to use the **Paths** option to define routes and shipment parameters (Figure 23).

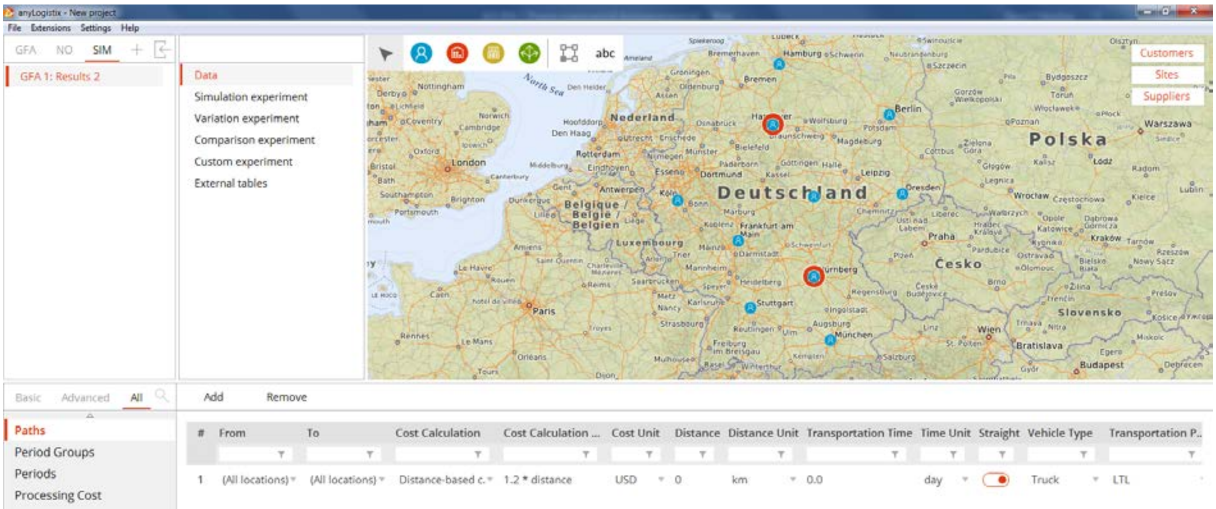
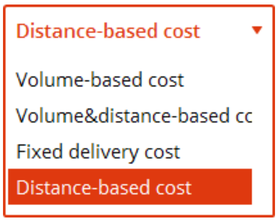


Figure 23: Routes and shipment parameter definition.

In **Paths**, the first step is to define the routes as **From-To**. In our example (Figure 23), we identify only one group of routes “From All locations To All locations”. If our model used different supply chain layers such as distribution centers, production factories and suppliers, we could add other paths to differentiate shipment parameters.

Second, we need to define a rule for calculating shipment costs. In our example, we select **Distance-based cost** and then set up a coefficient of 1.2 per kilometer. In simple terms, this means we will pay $1.20 for one kilometer.



Third, we can explicitly define the distance and transportation time or allow AnyLogistix to use truck speed and customer locations to compute them. In this example, we'll allow the program to calculate these values.

Fourth, we can decide which distance metrics to use: straight distances or real routes. For simplicity, we will use straight lines.

Fifth, you can select Full Truckload (**FTL**) or Less than Load (**LTL**) transportation options and define minimal load for FTL as well as the rules for order aggregation.

Vehicle Type	Transportation Policy	Min Lo...	Aggregate ...	Aggregation Period
Truck	FTL	0.6		10

Note: Use the **MinLoad** and **Aggregation Period** columns to define the rules for transportation batching. In this example, we allow shipments with a minimum load of 60% but limit the wait period to 10 days. In ten days, the truck will be dispatched for shipment even if the load is below 60%.

Sourcing Policy Definition

We need to use the **Sourcing** table to define our sourcing rules. The most general rule could be that all sites (that is, all distribution centers) can supply all customers.

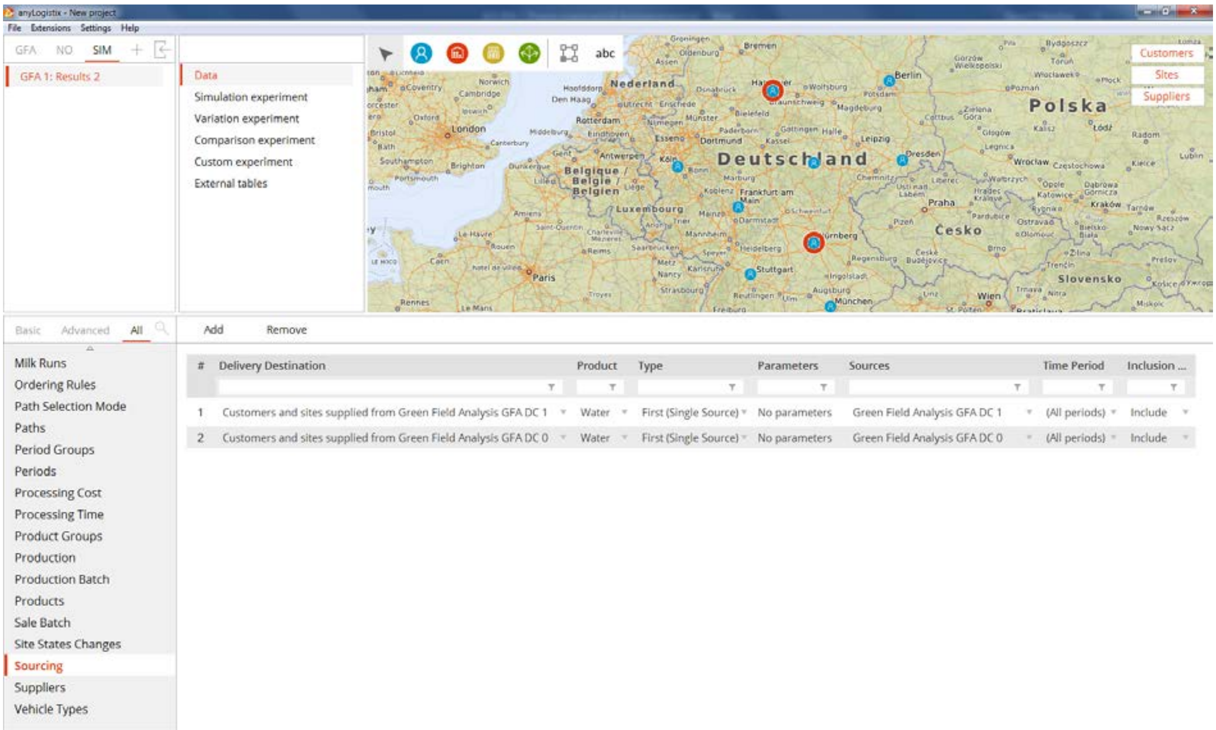
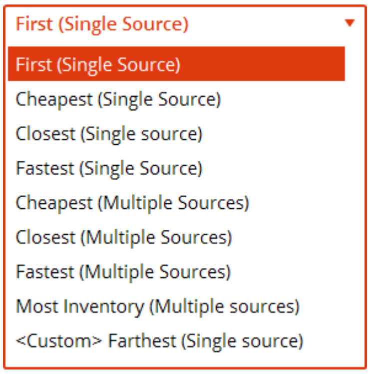


Figure 24: Sourcing rules.

In addition, we can select among different sourcing rules as follows:



Note: In multi-stage supply chains, you can make your simulation modeling flexible and convenient by setting up sourcing policies for each supply chain echelon. Even in a two-stage supply chain, you might need to set up different sourcing policies for different distribution centers, products and customers.

Figure 25 shows our new KPI dashboard.

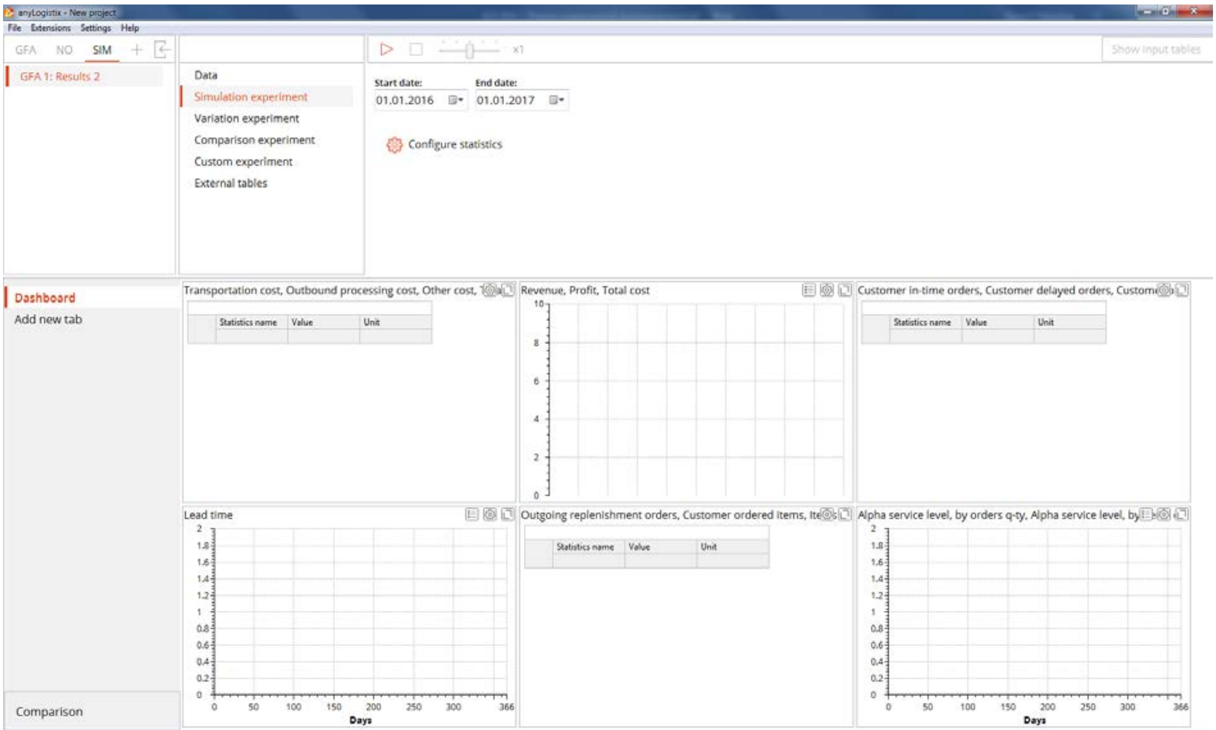


Figure 25: KPI dashboard

You can customize the manner anyLogistix presents each KPI by enlarging the KPI window and using a toolbar (Figure 26).

Figure 26: KPI presentation customization in the toolbar

Note: To make a diagram smaller or larger, right-click in the dashboard area, select **rear-range**, and then draw the diagram's lower-right corner. To delete a diagram, close it.

Experiments and Analyses

Simulation Experiments for Multiple Warehouses with Real Routes

We're ready to run a simulation experiment and analyze KPI (Figure 27).

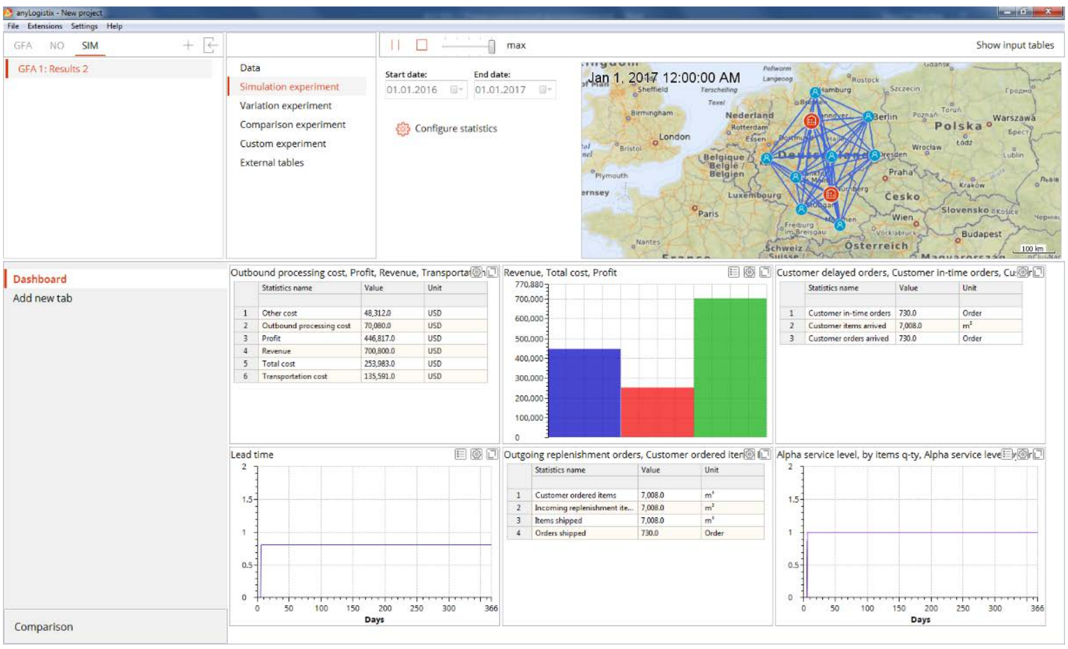


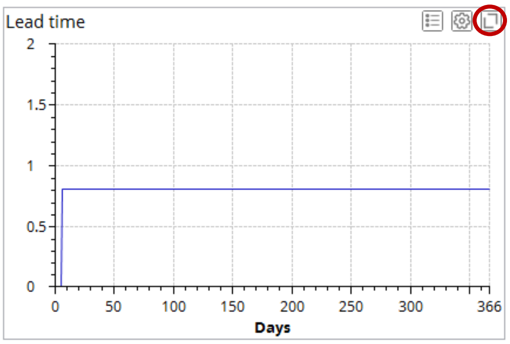
Figure 27: Experimental results.

We can see from the experiment's results how our supply chain would perform by analyzing the following KPIs (Table 2).

Table 2: KPIs for GFA analysis with two distribution centers.

KPI	Value
Financial DC performance:	
Other cost, $	48 312.0
Outbound processing cost, $	70 080.0
Profit, $	446 817.0
Revenue, $	700 800.0
Total cost, $	253 983.0
Transportation cost, $	135 591.0
Customer performance:	
Lead time, days	0.81*
Service level, %	100*
Customer delayed orders	0
Customer in-time orders	730.0
Customer items arrived	7 008.0
Customer orders arrived	730.0
Current backlog orders	0
Customer ordered items	7008.0
Incoming replenishment items	7008.0
Items shipped	7008.0
Orders shipped	730.0
Outgoing replenishment orders	0

These KPIs present total lead time and total service level for ten customers. You can change the presentation in the lead time and service level diagrams by detailizing for objects: (Additional setting → Detailization by → Add → Objects**). The presentation would show individual service levels (the ration would be 1) and lead times.*



Note: You can export KPIs to a Microsoft Excel worksheet by pointing to the **File** menu and then clicking **Export**.

To check the quality of the computed solution, copy the current scenario and move the distribution centers to other points (place your cursor on the map, click a site icon and then drag it to another point on the map) and simulate the supply chain with these new locations. Figures 28 and 29 and Table 3 display the results:

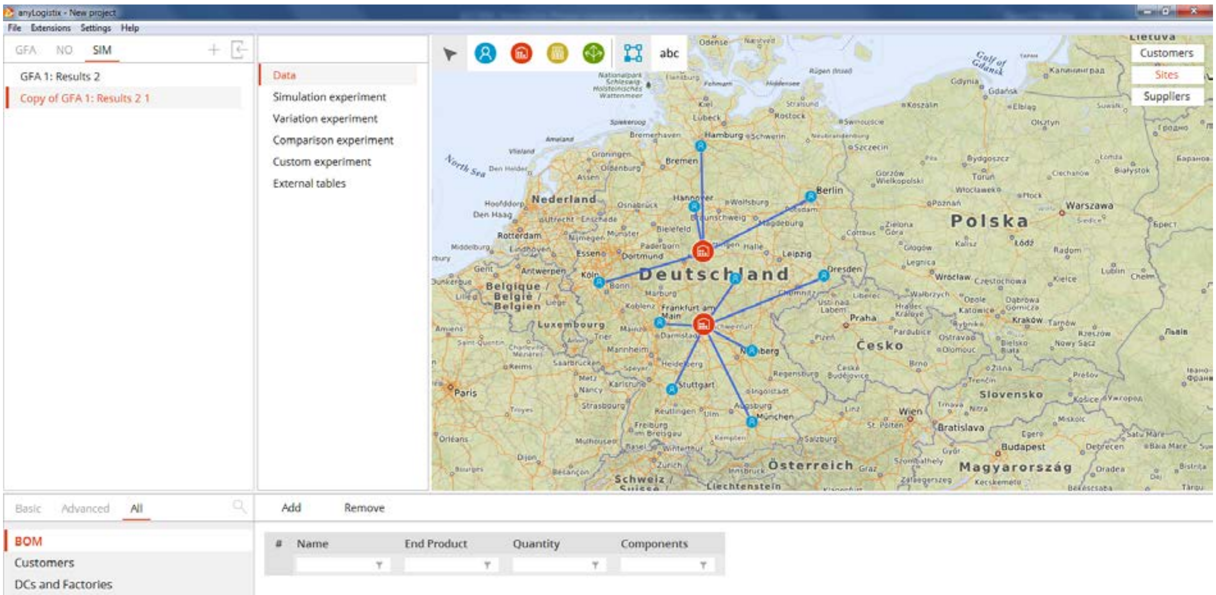


Figure 28: Updated distribution center locations.

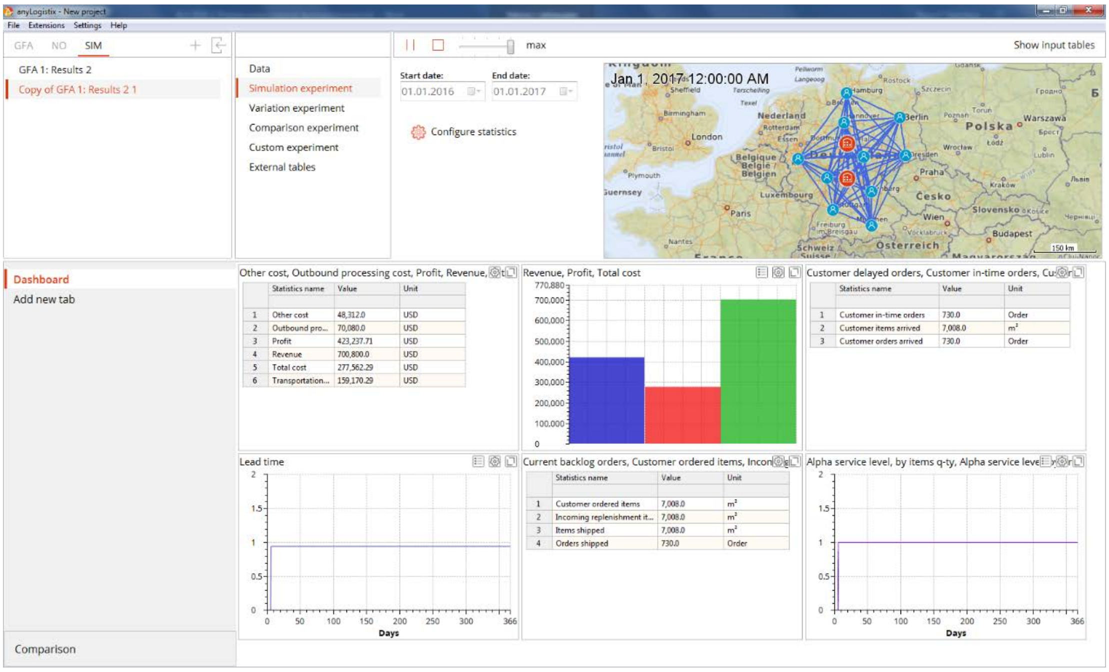


Figure 29: Experimental results with updated distribution center locations.

Table 3: KPI comparison for GFA and changed distribution center locations.

KPI	GFA locations	Changed locations
Financial DC performance:		
Other cost, $	48 312.0	48 312.0
Outbound processing cost, $	70 080.0	70 080.0
Profit, $	446 817.0	**423 238.71**
Revenue, $	700 800.0	700 800.0
Total cost, $	253 983.0	**277 562.29**
Transportation cost, $	135 591.0	**159 170.29**
Customer performance:		
Lead time, days	0.81	**0.95**
Service level, %	100	100
Customer delayed orders	0	0
Customer in-time orders	730.0	730.0
Customer items arrived	7 008.0	7 008.0
Customer orders arrived	730.0	730.0
Current backlog orders	0	0
Customer ordered items	7008.0	7008.0
Incoming replenishment items	7008.0	7008.0
Items shipped	7008.0	7008.0
Orders shipped	730.0	730.0
Outgoing replenishment orders	0	0

You can see in Table 3 that total costs have increased ($277 562.29 as compared to $253 983.0) due to increase in transportation costs. At the same time, the location changes have reduced profit ($423,238.71 compared to $446,817).

Simulation Experiments for Single Warehouses with Real Routes

We've learned the supply chain with two distribution centers is more flexible, more responsive and more expensive. Now, we'll run the simulation with a single distribution center: the location from our first green field analysis experiment.

We convert experimental result **GFA1: Results 1** into a new scenario. Figure 30 and Table 4 display our results:

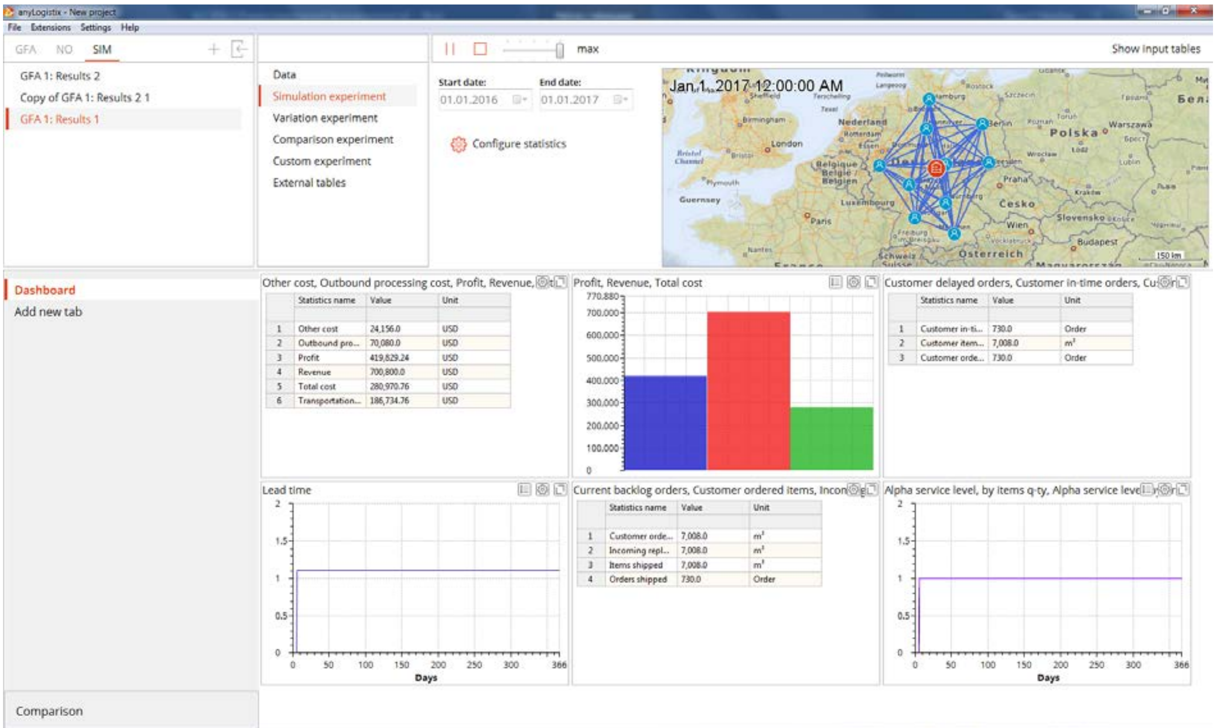


Figure 30: Simulation results for the supply chain with one distribution center.

Table 4: KPI comparison for two distribution centers (GFA and changed distribution center locations) and one distribution center.

KPI	**2 DCs: GFA locations**	**2 DCs: Changed locations**	**Single DC**
Financial DC performance:			
Other cost, $	48 312.0	48 312.0	**24 156.0**
Outbound processing cost, $	70 080.0	70 080.0	70 080.0
Profit, $	446 817.0	**423 238.71**	**419 829.24**
Revenue, $	700 800.0	700 800.0	700 800.0
Total cost, $	253 983.0	**277 562.29**	**280 970.76**
Transportation cost, $	135 591.0	**159 170.29**	**186 734.760**

KPI	**2 DCs: GFA locations**	**2 DCs: Changed locations**	**Single DC**
Customer performance:			
Lead time, days	0.81	**0.95**	1.11
Service level, %	100	100	100
Customer delayed orders	0	0	0
Customer in-time orders	730.0	730.0	730.0
Customer items arrived	7 008.0	7 008.0	7 008.0
Customer orders arrived	730.0	730.0	730.0
Current backlog orders	0	0	0
Customer ordered items	7008.0	7008.0	7008.0
Incoming replenishment items	7008.0	7008.0	7008.0
Items shipped	7008.0	7008.0	7008.0
Orders shipped	730.0	730.0	730.0
Outgoing replenishment orders	0	0	0

Table 4 shows us the one distribution center has lowered distribution center-related costs. However, transportation costs have increased significantly, which has led to higher total costs. In this example, we can easily see the effects of consolidation and centralization in the supply chain design (see Figure 31, adopted from Chopra and Meindl, 2015).

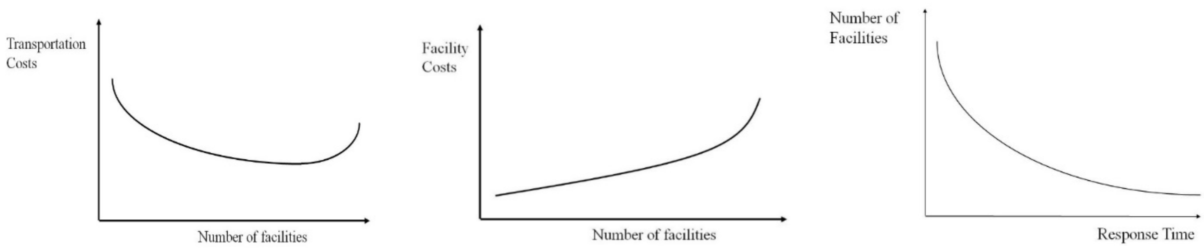


Figure 31: General relations in the supply chain design.

The major concepts we cover in this chapter are:

- Green field analysis helps us determine the optimal facility locations
- Input data: to conduct a green field analysis experiment, you must define:
  - ✓ Locations – the **Locations** table
  - ✓ Customers – the **Customers** table

- ✓ Products – the **Products** table
- ✓ Demand – the **Demand** table
- The following green field analysis algorithms are for computation:
  - ✓ K-means algorithm for clustering
  - ✓ Aykin and Babu algorithm for a facility location problem
  - ✓ Criteria: estimation of transportation cost based on volume
- The following tables present green field analysis results:
  - ✓ **Locations**
  - ✓ Distribution Centers/Factories – suggested facilities linked to **Locations** table
  - ✓ Sourcing – defines which product to buy and where to buy it
  - ✓ Locations for the facilities
  - ✓ Inventory – green field analysis creates simple inventory policies for simulation experiment

Because a green field analysis does not count roads, cities or means of transportation, it may suggest placing distribution centers in surprising locations such as on top of a mountain or in the middle of the ocean. A green field analysis considers all customers with coefficients equal to sum on all products of total demand multiplied by product volume.

Supply Chain Redesign

Our Case Study: Multi-Product Supply Chain Redesign

Alexander, a supply chain manager at a U.S.-based FMCG company, needs to reduce supply chain costs in a distribution network. The supply chain is made up of customers with the following periodic demands and lead time requirements (Table 5):

Table 5: Customer demand

Customer	Product	Parameters	Expected lead time
New York City 1	Lighting	Quantity=8.0;Period, days=5.0	5
Philadelphia 2	Gardening equipment	Quantity=20.0;Period, days=5.0	5
New York City 8	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Fort Worth	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Boston	Gardening equipment	Quantity=20.0;Period, days=5.0	5
New York City 2	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Portland	Furniture	Quantity=16.0;Period, days=5.0	5
Phoenix 3	Lighting	Quantity=8.0;Period, days=5.0	5
San Jose 2	Gardening equipment	Quantity=20.0;Period, days=5.0	5
San Francisco	Small appliances	Quantity=4.0;Period, days=5.0	5
Memphis	Large home appliances	Quantity=12.0;Period, days=5.0	5
New York City 14	Small appliances	Quantity=4.0;Period, days=5.0	5
Charlotte	Large home appliances	Quantity=12.0;Period, days=5.0	5
Oklahoma City	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Nashville	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Columbus	Furniture	Quantity=16.0;Period, days=5.0	5
Chicago 3	Lighting	Quantity=8.0;Period, days=5.0	5
Philadelphia 3	Furniture	Quantity=16.0;Period, days=5.0	5
New York City 12	Large home appliances	Quantity=12.0;Period, days=5.0	5
Los Angeles 3	Furniture	Quantity=16.0;Period, days=5.0	5
New York City 6	Lighting	Quantity=8.0;Period, days=5.0	5
San Jose 1	Small appliances	Quantity=4.0;Period, days=5.0	5
Tucson	Small appliances	Quantity=4.0;Period, days=5.0	5
Columbus	Large home appliances	Quantity=12.0;Period, days=5.0	5

Customer	Product	Parameters	Expected lead time
San Antonio 1	Large home appliances	Quantity=12.0;Period, days=5.0	5
Chicago 2	Gardening equipment	Quantity=20.0;Period, days=5.0	5
New York City 15	Lighting	Quantity=8.0;Period, days=5.0	5
Nashville	Large home appliances	Quantity=12.0;Period, days=5.0	5
Washington D.C.	Lighting	Quantity=8.0;Period, days=5.0	5
Houston 4	Furniture	Quantity=16.0;Period, days=5.0	5
Dallas 1	Large home appliances	Quantity=12.0;Period, days=5.0	5
Baltimore	Small appliances	Quantity=4.0;Period, days=5.0	5
Denver	Lighting	Quantity=8.0;Period, days=5.0	5
Austin	Small appliances	Quantity=4.0;Period, days=5.0	5
Houston 3	Small appliances	Quantity=4.0;Period, days=5.0	5
Indianapolis	Small appliances	Quantity=4.0;Period, days=5.0	5
New York City 11	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Louisville	Furniture	Quantity=16.0;Period, days=5.0	5
Memphis	Furniture	Quantity=16.0;Period, days=5.0	5
New York City 7	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Chicago 4	Large home appliances	Quantity=12.0;Period, days=5.0	5
Dallas 2	Small appliances	Quantity=4.0;Period, days=5.0	5
Phoenix 2	Small appliances	Quantity=4.0;Period, days=5.0	5
San Diego 1	Furniture	Quantity=16.0;Period, days=5.0	5
Los Angeles 2	Lighting	Quantity=8.0;Period, days=5.0	5
Boston	Large home appliances	Quantity=12.0;Period, days=5.0	5
Jacksonville	Furniture	Quantity=16.0;Period, days=5.0	5
Chicago 5	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Los Angeles 1	Large home appliances	Quantity=12.0;Period, days=5.0	5
Albuquerque	Furniture	Quantity=16.0;Period, days=5.0	5
Fresno	Furniture	Quantity=16.0;Period, days=5.0	5
Jacksonville	Lighting	Quantity=8.0;Period, days=5.0	5
New York City 16	Small appliances	Quantity=4.0;Period, days=5.0	5

Customer	Product	Parameters	Expected lead time
Houston 1	Furniture	Quantity=16.0;Period, days=5.0	5
El Paso	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Chicago 1	Lighting	Quantity=8.0;Period, days=5.0	5
Portland	Lighting	Quantity=8.0;Period, days=5.0	5
Los Angeles 7	Small appliances	Quantity=4.0;Period, days=5.0	5
Baltimore	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Albuquerque	Large home appliances	Quantity=12.0;Period, days=5.0	5
Milwaukee	Small appliances	Quantity=4.0;Period, days=5.0	5
Austin	Gardening equipment	Quantity=20.0;Period, days=5.0	5
New York City 5	Large home appliances	Quantity=12.0;Period, days=5.0	5
San Diego 2	Small appliances	Quantity=4.0;Period, days=5.0	5
Los Angeles 4	Small appliances	Quantity=4.0;Period, days=5.0	5
Houston 2	Furniture	Quantity=16.0;Period, days=5.0	5
Seattle	Furniture	Quantity=16.0;Period, days=5.0	5
El Paso	Large home appliances	Quantity=12.0;Period, days=5.0	5
New York City 10	Large home appliances	Quantity=12.0;Period, days=5.0	5
San Antonio 2	Lighting	Quantity=8.0;Period, days=5.0	5
Detroit	Large home appliances	Quantity=12.0;Period, days=5.0	5
Detroit	Furniture	Quantity=16.0;Period, days=5.0	5
San Francisco	Lighting	Quantity=8.0;Period, days=5.0	5
New York City 9	Small appliances	Quantity=4.0;Period, days=5.0	5
New York City 13	Furniture	Quantity=16.0;Period, days=5.0	5
Phoenix 1	Large home appliances	Quantity=12.0;Period, days=5.0	5
Los Angeles 6	Large home appliances	Quantity=12.0;Period, days=5.0	5
Milwaukee	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Fort Worth	Small appliances	Quantity=4.0;Period, days=5.0	5
Philadelphia 1	Gardening equipment	Quantity=20.0;Period, days=5.0	5
Los Angeles 5	Small appliances	Quantity=4.0;Period, days=5.0	5
New York City 4	Lighting	Quantity=8.0;Period, days=5.0	5

Customer	Product	Parameters	Expected lead time
New York City 3	Lighting	Quantity=8.0;Period, days=5.0	5
Las Vegas	Large home appliances	Quantity=12.0;Period, days=5.0	5

Note: This data is included in the sample Microsoft Excel workbook (**01 – Green-field Analysis**) you can find by pointing to the **Help** menu and clicking **Examples**.

The supply chain handles five products:

#	Name	Unit
1	Small appliances	pcs
2	Large home appliances	pcs
3	Lighting	pcs
4	Gardening equipment	pcs
5	Furniture	pcs

Figure 31: Product list.

The supply chain is made up of three distribution centers. Figure 32 shows all three distributon centers and their operating parameters.

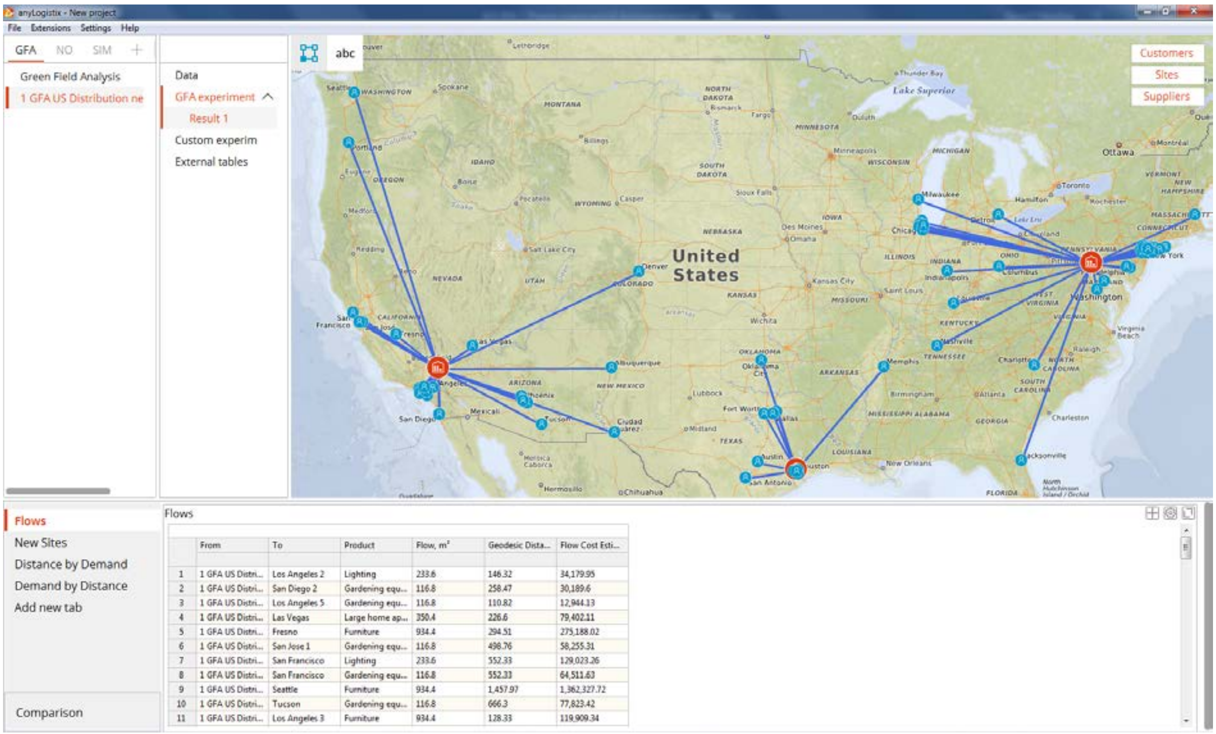


Figure 32: The supply chain's distribution centers.

Scenario Settings

During the executive meeting, Alexander suggests the company improve their supply chain's performance by locating their distribution centers no more than 1,000 km from their customers. A Green Field Analysis gives him the following results (Figure 33):

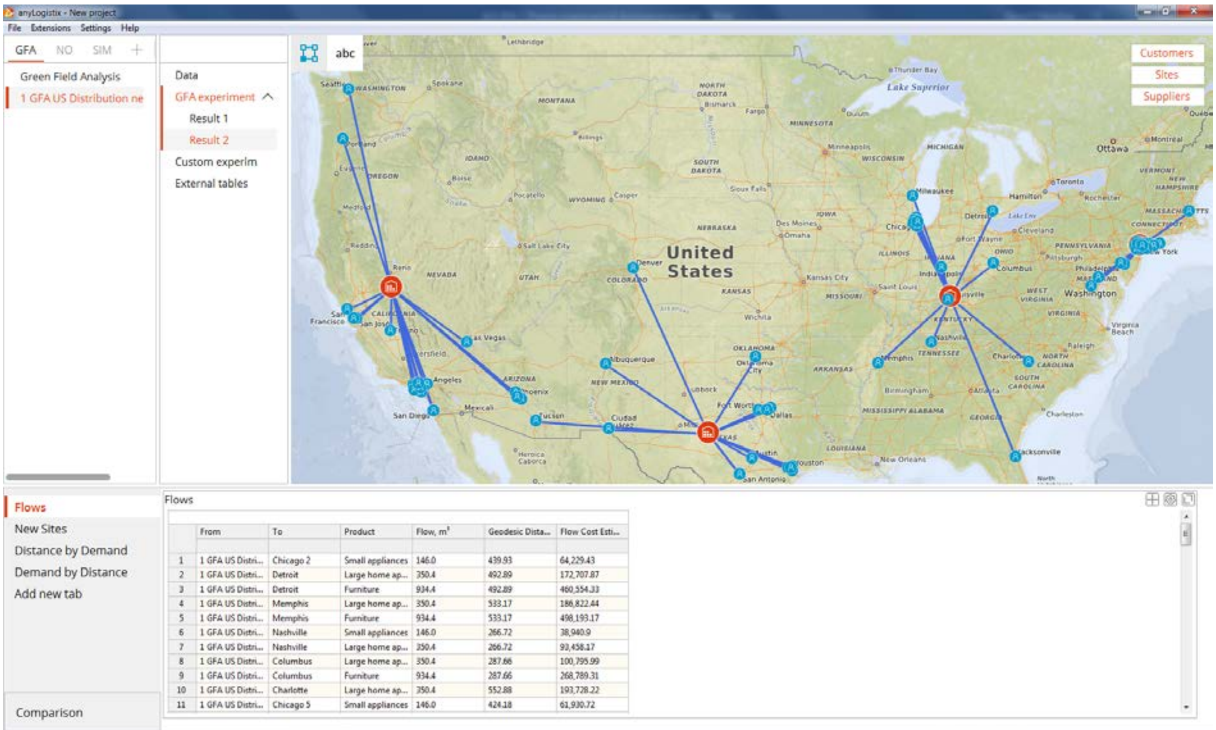


Figure 33: The optimal supply chain design for a maximum service distance of 1,000 km.

The green field analysis suggests the company needs to add a distribution center and place the other three distribution centers in new locations. In the next step, we'll build a KPI dashboard like the example you saw in Section 1.

Simulation Experiments

Before we compare simulation experiment results of our AS-IS and redesigned supply chain scenarios, we convert both green field analysis results to SIM scenarios. Then put the following data to related tables in both scenarios:

- New **DC** group (activate all objects in the **Sites** column);
- A **Truck** vehicle type with a capacity of 20 m3 and an average speed of 50 km/hour (to be defined in **Vehicle Types**);
- Transportation costs computation is based on the rule "volume x distance x $15". LTL shipments are allowed;
- Unlimited inventory policy type for all products (this policy assumes the specified products are always in stock at the given facility at any required quantity);
- Product cost parameters:

#	Name	Unit	Selling Price	Cost	Cost Unit
1	Small appliances	pcs	2,000	700	USD
2	Large home appliances	pcs	6,000	2,500	USD
3	Lighting	pcs	5,000	2,000	USD
4	Gardening equipment	pcs	5,500	2,500	USD
5	Furniture	pcs	8,000	300	USD

AS-IS Supply Chain Simulation

To analyze the existing supply chain, Alexander needs to define variable processing and fixed warehousing costs (Figure 34).

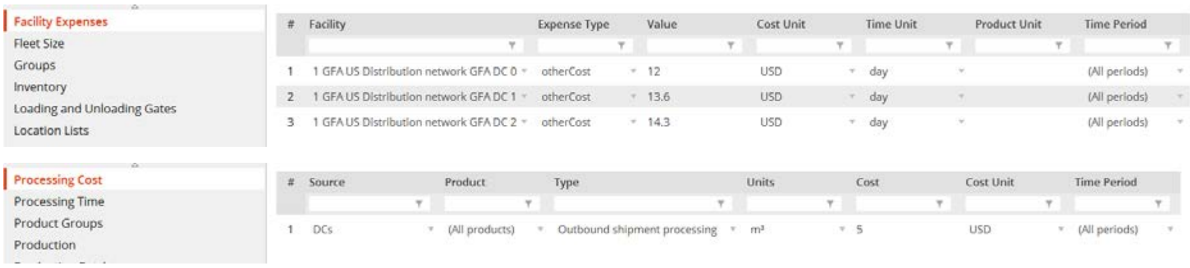


Figure 34: Distribution center-related costs for the existing supply chain

Our first experiment simulates the AS-IS supply chain. Figure 35 displays the results.

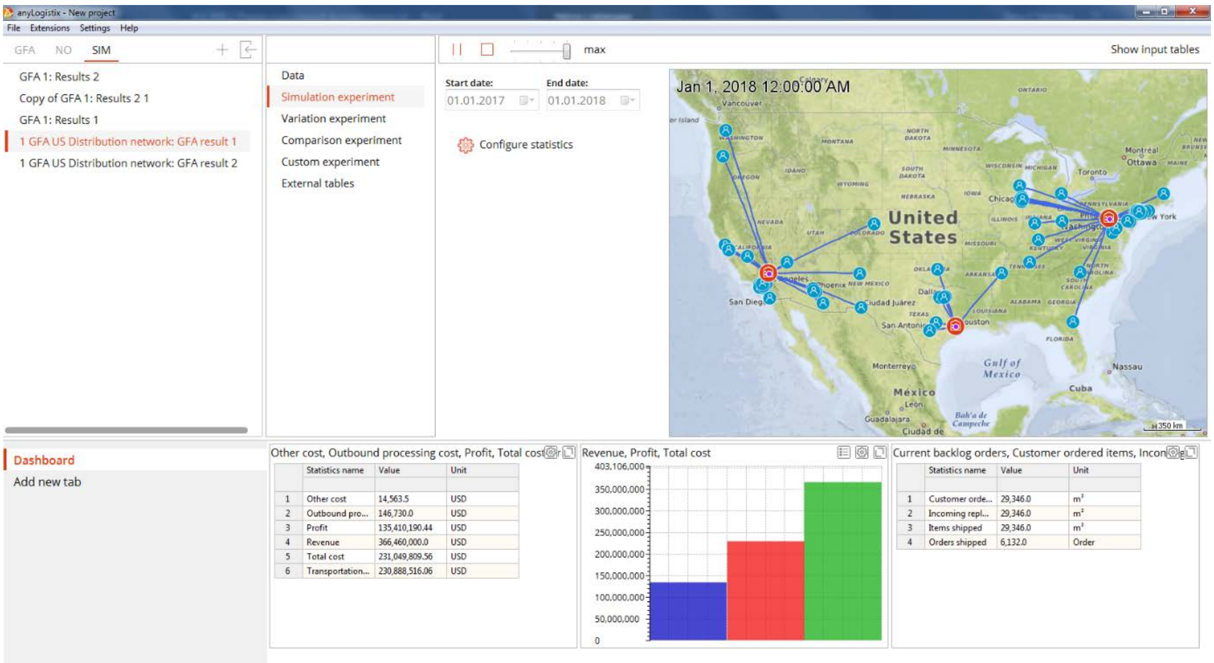


Figure 35: Experimental results for AS-IS supply chain.

Supply Chain Redesign

Alexander will now analyze supply chain efficiency by changing the distribution center locations to match the outcome of the green field analysis. He first estimates distribution center-related operational costs as shown in Figure 36.

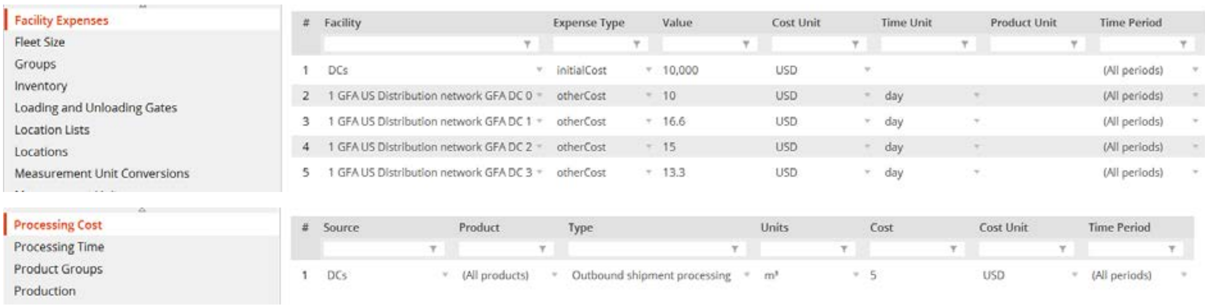


Figure 36: Distribution center-related costs for new supply chain design.

Alexander now simulates this new supply chain design. Figure 37 and Table 5 display the results.

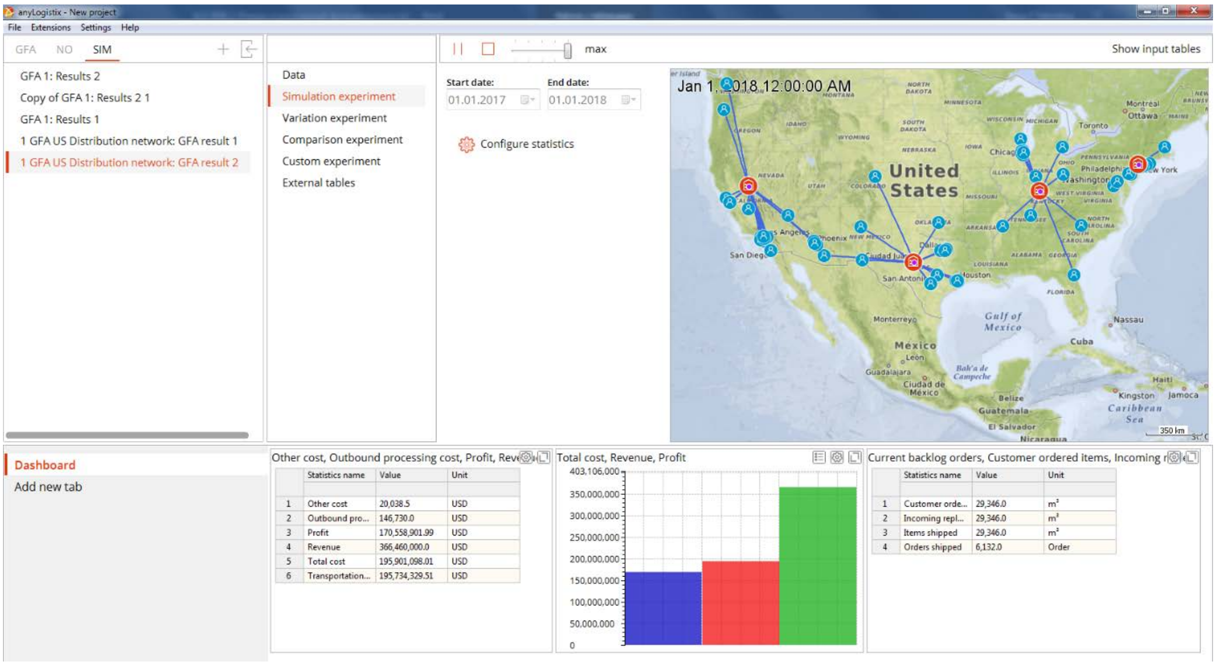


Figure 37: Experiment results for the green field analysis.

Table 6: KPI comparison

KPI	AS-IS	Redesigned Supply Chain
Financial Distribution Center Performance:		
Other cost, $	**14 563.49**	**20 038.5**
Outbound processing cost, $	146 730.0	146 730.0
Profit, $	**135 410 190.44**	**170 558 901.99**
Revenue, $	366 460 000.0	366 460 000.0
Total cost, $	**231 049 809.56**	**195 901 098.01**
Transportation cost, $	**230 888 516.06**	**195 734 329.5**
Customer performance:		
Current backlog orders	0	0
Customer ordered items	29 346.0	29 346.0
Incoming replenishment items	29 346.0	29 346.0
Items shipped	29 346.0	29 346.0
Orders shipped	6 132.0	6 132.0
Outgoing replenishment orders	0	0

Table 6 shows us a supply chain design that uses four distribution centers is more efficient and profitable. It could reduce total supply chain costs and increase total profit by almost 35 million U.S. dollars without affecting customer performance.

Alexander understands it will be too expensive to build four new warehouses. He notes the suggested locations on the East and West coasts are close to the company's current locations. The south location in Texas is also near the current location in Houston. With that in mind, he decides to analyze the supply chain efficiency for three current locations and a new distribution center in Louisville (1 GFA US Distribution network GFA DC 0).

Let's create a copy of AS-IS supply chain scenario, then add new site and activate it in our group distribution centers.

Adding a site may change inventory policies and sourcing paths. That means we first need to remove all records from the **Inventory** table other than the last one, remove all records in the **Sourcing** table and then add the new row as shown in Figure 38.

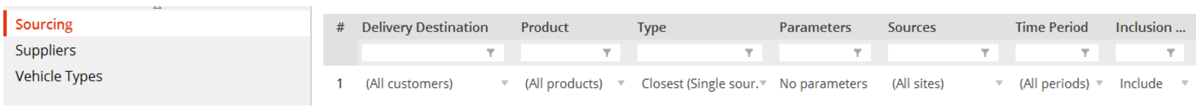


Figure 38: Inclusion type.

Every site has facility expenses. Find all records about Louisville distribution center-related costs in the redesigned supply chain scenario and then add them to the related tables. Figure 39 and Table 7 show the results.

Note: To accurately compare different runs, ensure each completed scenario has the the same data, especially while converting the green field analysis or optimization results into a scenario. You should check the groups, paths and sourcing policies that make up the scenario you are converting from an experimental result.

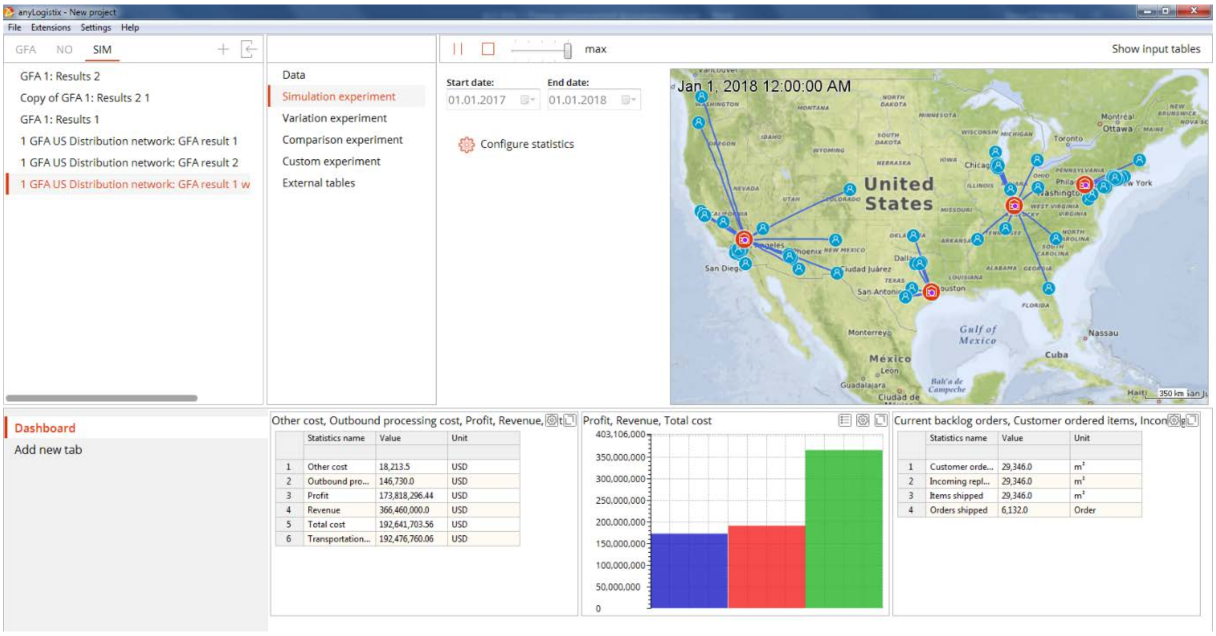


Figure 39: Redesigned supply chain with adapted green field analysis result.

Table 7: KPI Comparison

KPI	AS-IS	Redesigned Supply Chain	Adapted GFA Result
Financial DC performance:			
Other cost, $	**14 563.49**	**20 038.5**	**18 213.5**
Outbound processing cost, $	146 730.0	146 730.0	146 730.0
Profit, $	**135 410 190.44**	**170 558 901.99**	**173 818 296.44**
Revenue, $	366 460 000.0	366 460 000.0	366 460 000.0
Total cost, $	**231 049 809.56**	**195 901 098.01**	**192 641 703.56**

KPI	AS-IS	Redesigned Supply Chain	Adapted GFA Result
Transportation cost, $	**230 888 516.06**	**195 734 329.5**	**192 476 760.06**
Customer performance:			
Current backlog orders	0	0	0
Customer ordered items	29 346.0	29 346.0	29 346.0
Incoming replenishment items	29 346.0	29 346.0	29 346.0
Items shipped	29 346.0	29 346.0	29 346.0
Orders shipped	6 132.0	6 132.0	6 132.0
Outgoing replenishment orders	0	0	0

Figure 39 and Table 7 show the supply chain design that uses three current distribution centers and one new distribution center is even more efficient and profitable than the green field analysis result. You can see the explanation in the transportation policy (LTL) and expected lead time's effect on the number of deliveries and—by extension—the effect on transportation costs.

Are other improvements possible? If yes, where? If no, why? The fundamental problem with the green field analysis has been it only considers transportation costs during the facility location optimization only. The corresponding distribution center-related costs could be included in the simulation phase only.

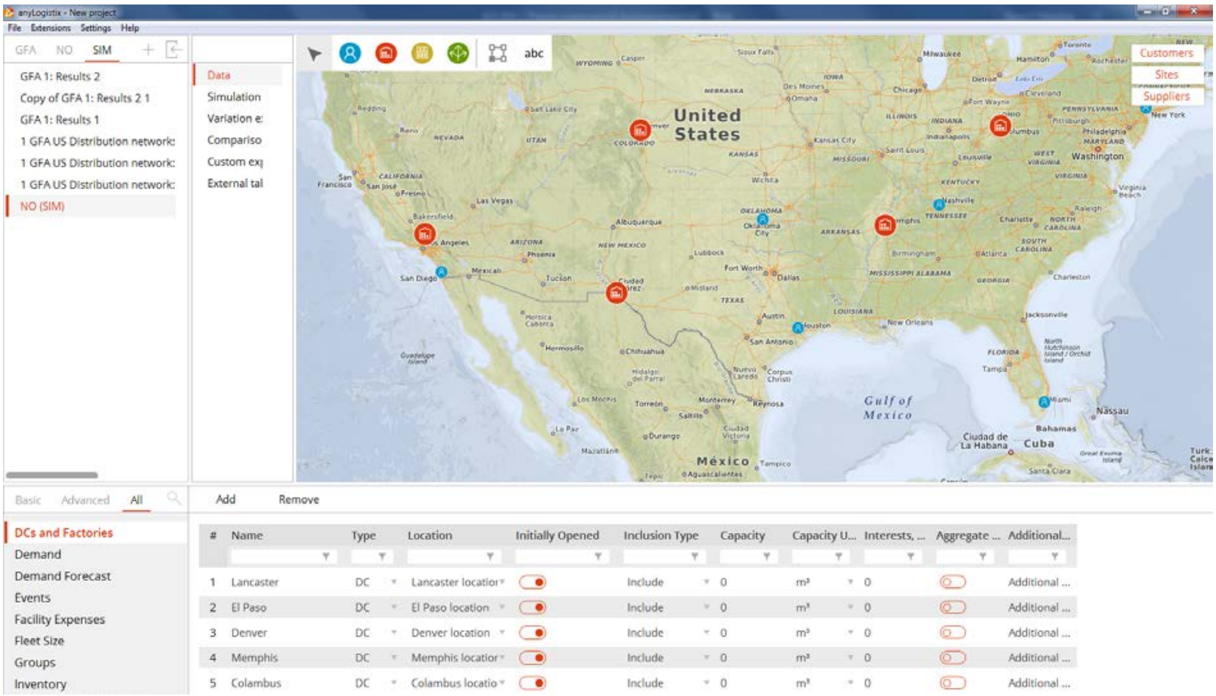
As such, the green field analysis results are valid only for similar distribution center-related costs at different distribution centers. In the case the distribution center-related costs at different distribution centers are not equal, green field analysis results became sub-optimal and the search for supply chain design improvement is only possible on the "*what happens if* …" rule.

If we need to optimize supply chain design by considering transportation and distribution center-related costs, we need to use network optimization. We exemplify the network optimization and optimization-based simulation on an example of a smaller dimensionality to make our analysis more detailed.

Network Optimization Approach and Optimization-based Simulation

Case Study

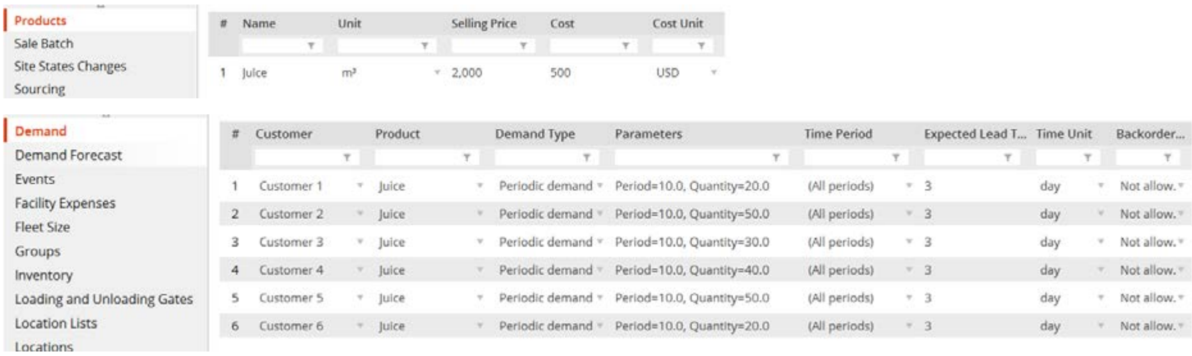
We'll use a U.S.-based beverage distributor that has six demand regions and five distribution centers. As a first step, create a simulation experiment, add their six customers and five sites, and then name them as shown in Figure 40.



#	Name	Type	Location	Initially Opened	Inclusion Type	Capacity	Capacity U...	Interests, ...	Aggregate ...	Additional...
1	Lancaster	DC	Lancaster location		Include	0	m³	0		Additional ...
2	El Paso	DC	El Paso location		Include	0	m³	0		Additional ...
3	Denver	DC	Denver location		Include	0	m³	0		Additional ...
4	Memphis	DC	Memphis location		Include	0	m³	0		Additional ...
5	Columbus	DC	Columbus locatio		Include	0	m³	0		Additional ...

Figure 40: Distribution centers.

Now, create a new product ("Juice") and define each customer's periodic demand (Figure 41):

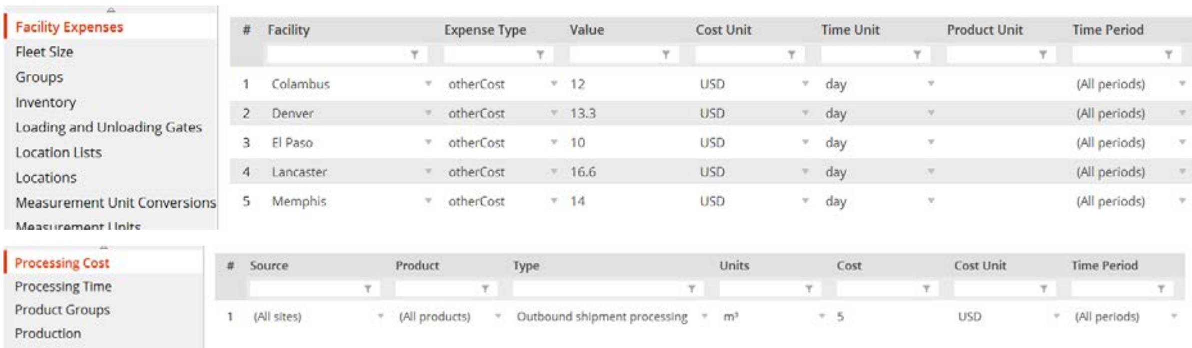


#	Name	Unit	Selling Price	Cost	Cost Unit
1	Juice	m³	2,000	500	USD

#	Customer	Product	Demand Type	Parameters	Time Period	Expected Lead T...	Time Unit	Backorder...
1	Customer 1	Juice	Periodic demand	Period=10.0, Quantity=20.0	(All periods)	3	day	Not allow.
2	Customer 2	Juice	Periodic demand	Period=10.0, Quantity=50.0	(All periods)	3	day	Not allow.
3	Customer 3	Juice	Periodic demand	Period=10.0, Quantity=30.0	(All periods)	3	day	Not allow.
4	Customer 4	Juice	Periodic demand	Period=10.0, Quantity=40.0	(All periods)	3	day	Not allow.
5	Customer 5	Juice	Periodic demand	Period=10.0, Quantity=50.0	(All periods)	3	day	Not allow.
6	Customer 6	Juice	Periodic demand	Period=10.0, Quantity=20.0	(All periods)	3	day	Not allow.

Figure 41: Customer demand and product data.

Define variable processing and fixed warehousing costs (Figure 42).



#	Facility	Expense Type	Value	Cost Unit	Time Unit	Product Unit	Time Period
1	Columbus	otherCost	12	USD	day		(All periods)
2	Denver	otherCost	13.3	USD	day		(All periods)
3	El Paso	otherCost	10	USD	day		(All periods)
4	Lancaster	otherCost	16.6	USD	day		(All periods)
5	Memphis	otherCost	14	USD	day		(All periods)

#	Source	Product	Type	Units	Cost	Cost Unit	Time Period
1	(All sites)	(All products)	Outbound shipment processing	m³	5	USD	(All periods)

Figure 42: Distribution center-related costs for the existing supply chain.

The additional inputs are:

- Sourcing policy: single sourcing (closest)
- Vehicle type: capacity 30 m^3, speed 50 km/h
- Transportation costs: $1.0 x volume x distance
- Inventory policy: unlimited

Simulation Experiment

Figure 43 shows the simulation's results.

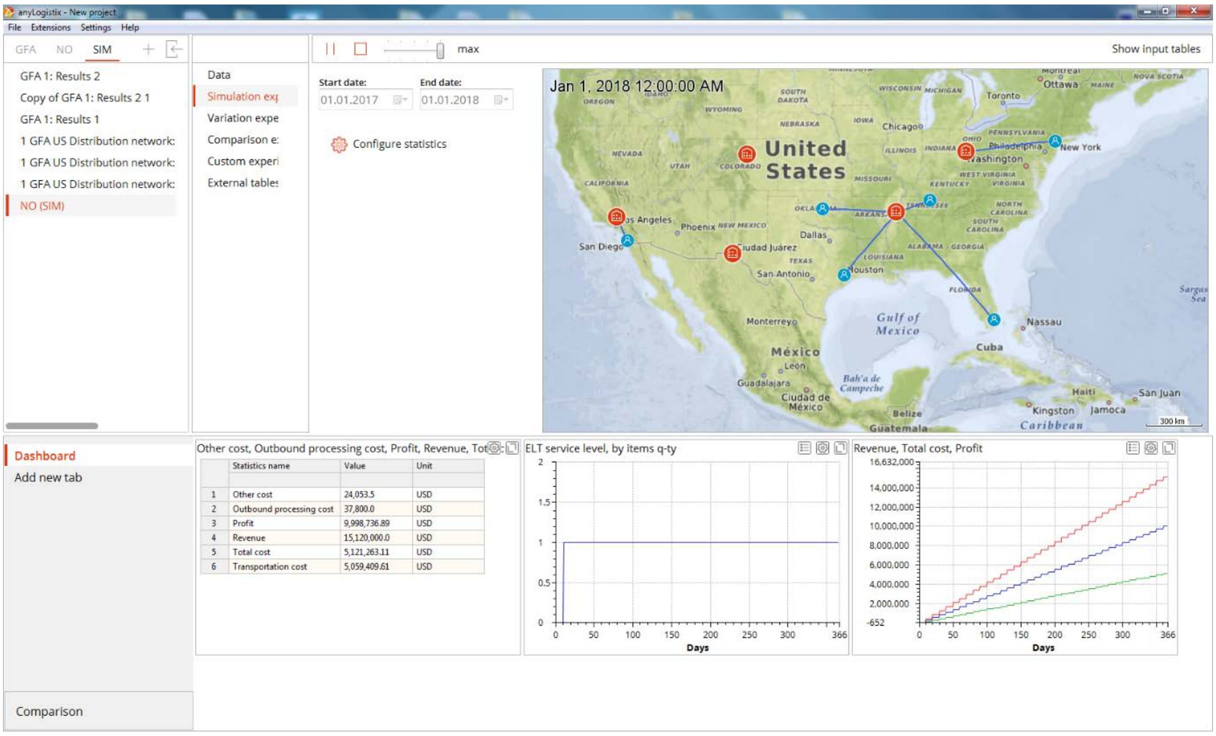


Figure 43: Simulation result for five distribution centers.

The company's CEO reviews the simulation and notes only three of the five distribution centers are used. But is it the optimal supply chain design with minimal total costs? Knowing the CEO wants to select supply chain design with minimal total costs (the sum of fixed and variable costs), he runs an optimization experiment to determine the costs of alternative supply chain designs with varying numbers of distribution centers.

Optimization Experiment

To answer this question and determine the optimal supply chain design, we'll convert our simulation scenario to an NO scenario.

Change Inclusion type of all sites in the **DC** table and Factories to **Consider**.

Since our distribution centers don't produce products, we need to add a Supplier that will provide our sites with a regular scale of Juice. It doesn't matter where our Supplier is located on the map. We will not compute costs related with the distribution center's sided purchases, so put the following data to related tables:

- Create a group named **DCs** (activate all objects in the **Sites** column);
- Update the **Linear Flow Constraint** table
- Update the **Path** table

#	Source	Expand Sources	Destination	Expand Destinati...	Product	Expand Products	Min throughput
1	(All sites)		(All customers)		(All products)		0
2	Supplier 1		(All sites)		(All products)		0

Figure 44: The **Linear Flow Constraint** table

#	From	To	Cost Calculation	Cost Calculation ...	Cost Unit	Distance	Distance Unit	Straight	Vehicle ...	Time ...	Inclusion Ty...
1	DCs	(All locations)	Volume&distance-based c.	1.0 * amount (m³) ...	USD	0	km		Truck	(All p.	Include
2	Supplier 1	DCs	Fixed delivery cost	0.0	USD	0	km		Truck	(All p.	Include

Figure 45: The **Path** table

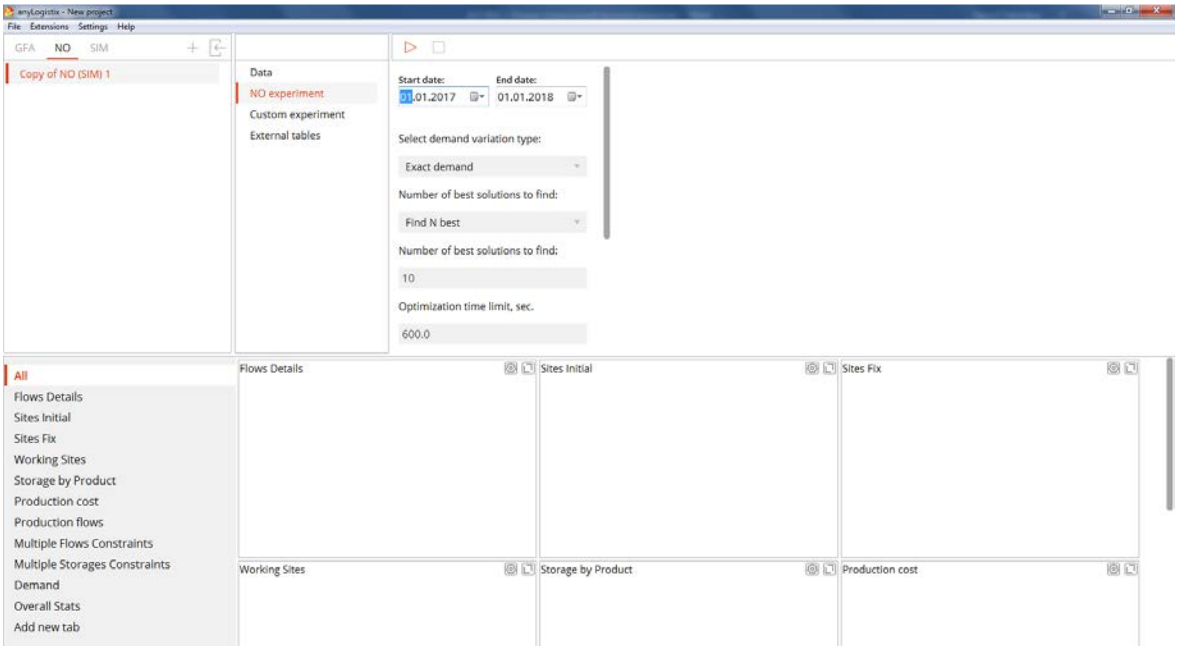


Figure 46: The Start dialog for the optimization experiment.

We run the optimization experiment (Figure 47).

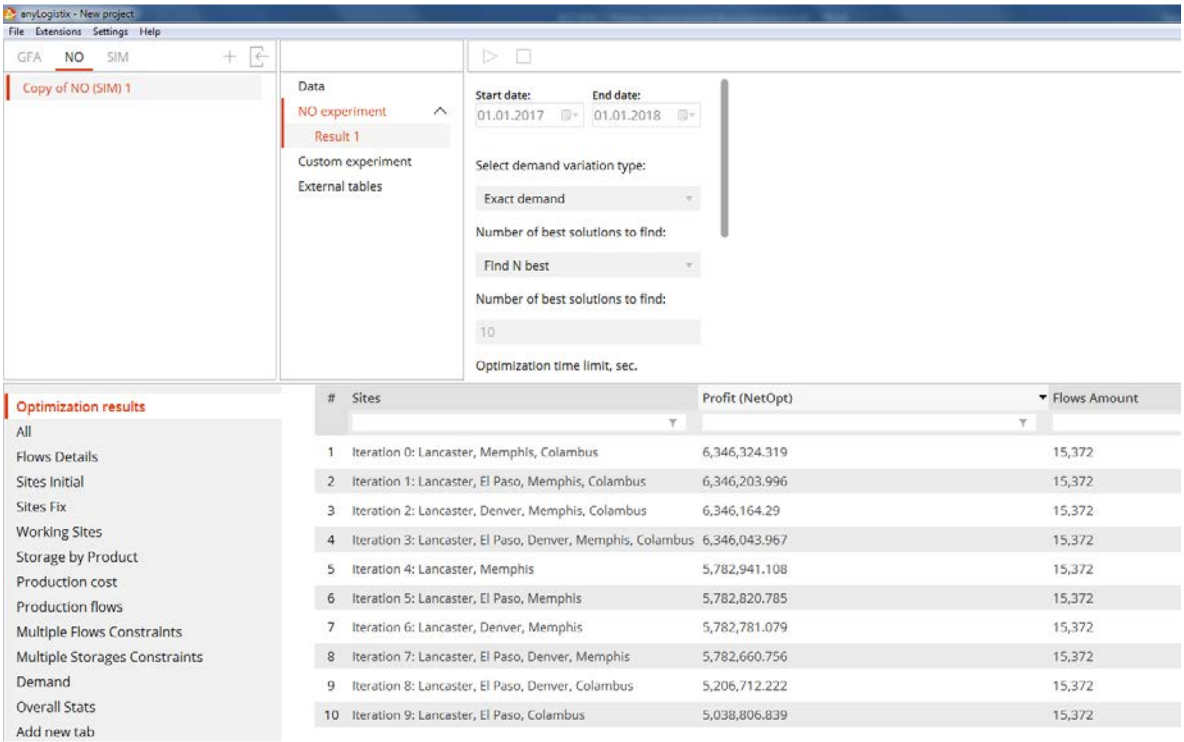


Figure 47: Solution to the network optimization problem in Network Optimization (CPLEX).

We can see our optimization result suggests three distribution centers–in Memphis, Columbus and Lancaster–would increase the supply chain's efficiency. Alexander will now use a simulation with three distribution centers to confirm these results.

Optimization-based Simulation Experiment

We'll use the results from our optimization experiment to perform a new simulation experiment that uses three distribution centers in Memphis, Columbus and Lancaster.

Convert the best NO experiment result to SIM scenario. In the scenario data under **DCs/Factories**, we need to change the **Inclusion Type** for Denver and El Paso from **consider** to **exclude**. Delete all rows in the **Inventory** table and add one record for All sites with **Unlimited Inventory Policy**.

Figure 48 and Table 8 show the simulation's results.

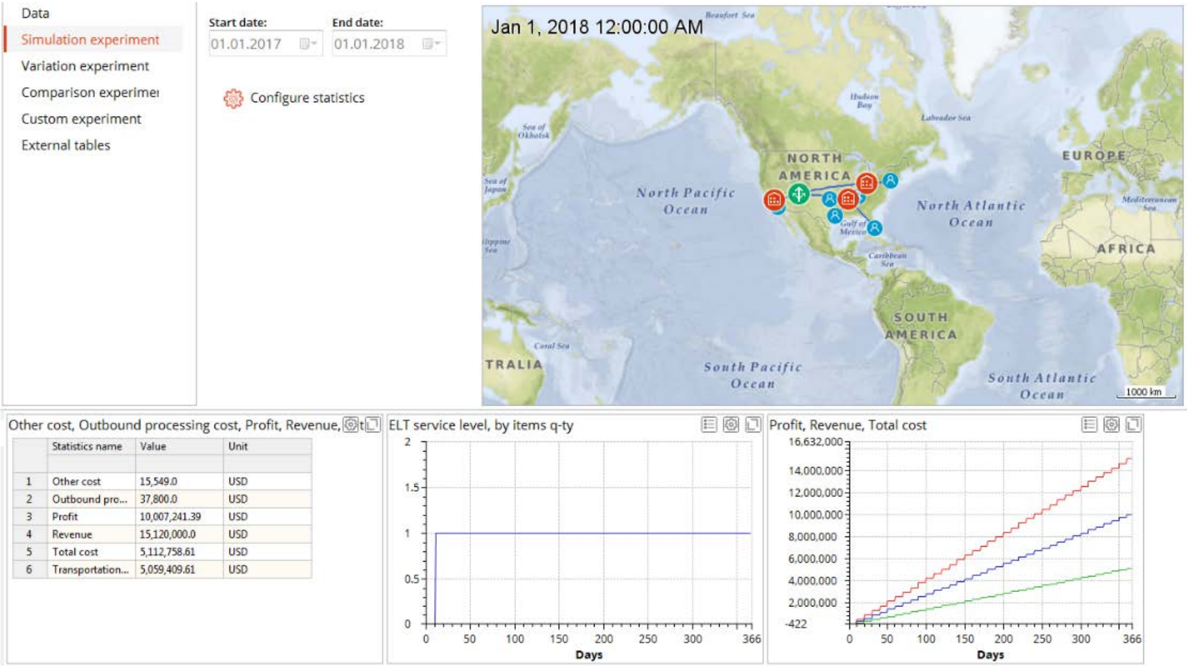


Figure 48: Simulation result for three distribution centers.

> **Note:** In an optimization experiment, we compute optimal supply chain structure and minimum costs for a set of parameters. In a simulation experiment, we observe the structure's dynamic supply chain behavior and dynamics of different KPI over time.

Figure 45 shows EBIDTA increases from $7,017,493.13 to $7,558,944.8 (as compared to Figure 42) due to reduction of fixed warehousing costs (that is, **other costs** in the dashboard).

Table 8: KPI Comparison

KPI	**AS-IS (Five DCs)**	**Three DCs**
Financial DC performance:		
Other cost, $	24 053.5	15 549.0
Outbound processing cost, $	37 800.0	37 800.0
Profit, $	9 998 736.88	10 007 241.39
Revenue, $	15 120 000.0	15 120 000.0
Total cost, $	5 121 263.11	5 112 758.61
Transportation cost, $	5 059 409.61	5 059 409.61
Customer performance:		
Service level, %	100	100

You can see in Table 8 that supply chain design with three distribution centers is more efficient and profitable. The lower fixed warehousing cost have increased the total supply chain's efficiency. This has proven that two distribution centers—one in El Paso, the other in Denver— have excess capacity in the supply chain.

Note: A **Comparison** experiment is a fast and convenient way to compare the KPI of supply chain designs with different policies and parameters. However, because this experiment compares scenarios, we would need to describe each design alternative as an individual scenario. We will learn how to use this option in Chapter 4, Risk Management.

This example of network optimization shows the advantages and limitations of simulation and optimization. It is also helpful to review the application areas of both methods.

Optimization seeks the best solution for an operations or supply chain problem. It works by representing problem choices as decision variables and seeking values that extremized objective functions of the decision variables subject to constraints on variable values expressing the limits on possible decision choice. The drawback is the difficulty in developing a model with the detail to represent complexity and uncertainty that is also simple enough to be solved.

What's more, most optimization models are deterministic and static. Unless there are mitigating circumstances, optimization is the preferred approach. However, most supply chain and operations problems are dynamic. Their mutually dependent parameters and variables are difficult to restrict to an optimization model.

Simulation imitates the dynamic behavior of one system with another. By changing the simulated supply chain, one expects to better understand the physical supply chain's dynamics. Rather than deriving a mathematical solution, you experiment by changing the system's parameters and studying the results. Another advantage of simulation is to visualize the processes and structures.

However, since simulation works on the "what happens if..?" principle, the questions of result extremity, completeness and consistency remain open. That's why simulation can be an ideal tool for analyzing the performance of a proposed supply chain design you derive from an optimization model. Optimization-based simulation is a promising area to support supply chain and operations managers.

Chapter 2. Three-stage Supply chain: Inventory Control and Transportation Policies

We haven't yet considered the effect of inventory control policies such as fixed period or reorder point policies or transportation policies such as full truck load (FTL) and low truck load (LTL). However, both types of policies can play a major role in a company's decisions about its supply chain.

Our Learning Objectives

Our learning objectives for this chapter are to:

1. Provide insight into the impact of inventory control and transportation policies on supply chain and logistics performance
2. Develop the anyLogistix skills you need to create three-stage supply chain models, perform experiments and measure their performance

Inventory Control Policies

Case Study: Distribution Centers with Storage

In an executive meeting, Davis (CEO), Marina (inventory manager), and Cheng (transportation manager) will use financial, customer and operational KPIs to analyze their company's supply chain. Afterward, they'll review their options for changing inventory control and transportation policies to improve their performance.

The following bullet points provide background information about this case study:

- Their supply chain is made up of six customers, two distribution centers and one supplier.
- Their supply chain offers three products (**PC**, **monitor** and **MFP**) and there are two customers for each product. The customer demand is fixed at 50 units a day.
- Their supply chain achieves a 90% customer service level (CSL) policy.
- The distribution centers for each product use a Min-max (that is, s,S) inventory control policy. The minimum level is 57 units subject to the customer service level of 90%. The maximum level is 113 units subject to the maximum storage area capacity for each product at each distribution center.
- The customer expects to receive their order within two days. The lead time from the supplier to the distribution centers is 0.7 days. The lead time from the distribution centers to customers varies from 1.7 to 1.95 days depending on the loading and unloading processes at the distribution centers.
- Trucks with a 60 m^3 capacity transport products from the supplier to the distribution centers. Lorries with a capacity of 20 m^3 transport products from the distribution centers to the customers.
- LTL shipments are used without minimum load restriction and order aggregation. A direct shipment distribution network is used.

Starting the Case Study

To start this case study, you need to import the Microsoft Excel template (**8 SIM Distribution Network inside 4 Walls Models**) you received with anyLogistix.

You can import the template by pointing to the **Help** menu and clicking **Import Example**. After the **Import Example** dialog box opens, click the scenario name to select it and then click **Import**.

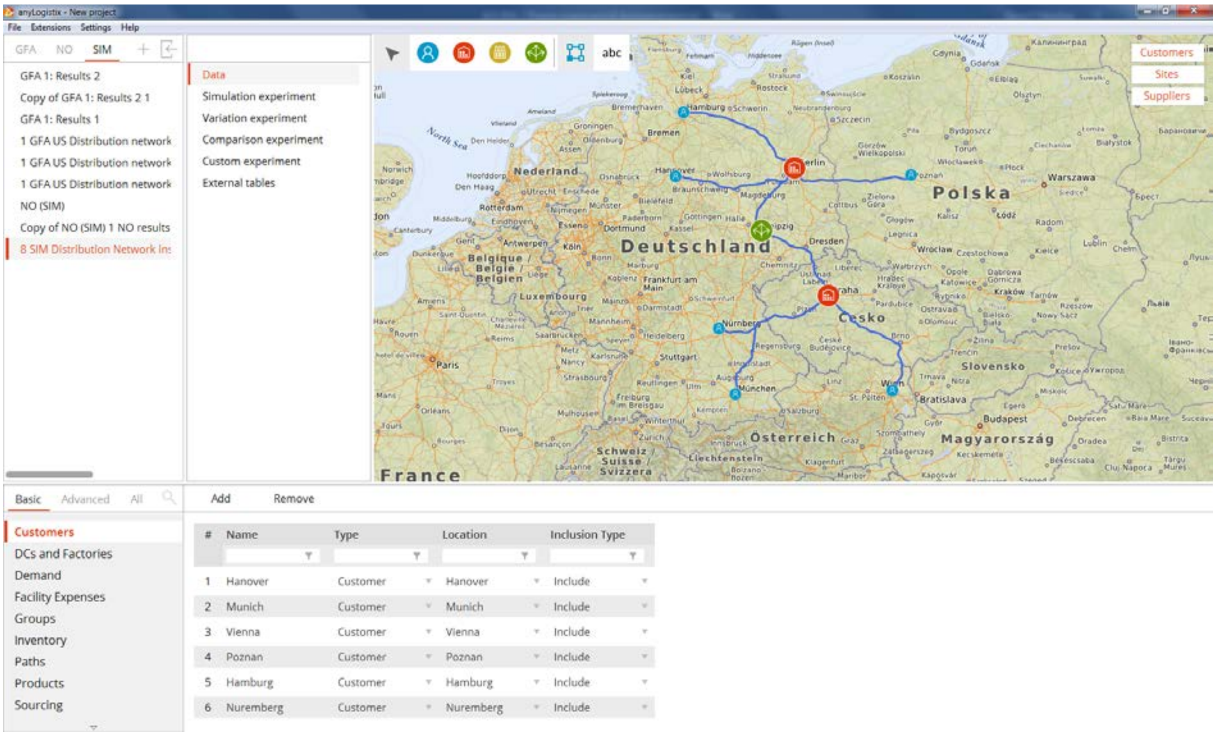


Figure 49: Customers in the three-stage supply chain.

Figure 49 shows the six customer locations we'll use in this case study as well as the distribution centers in Berlin and Prague and the supplier in Leipzig.

Our case study uses three products: **PC**, **Monitor** and **MFP**. Figure 50 shows each product's selling price and cost.

#	Name	Unit	Selling Price	Cost	Cost Unit
1	PC	pcs	1,150	350	USD
2	Monitor	pcs	850	250	USD
3	MFP	pcs	700	200	USD

Figure 50: Products in our case study's supply chain.

With our products set, we need to convert each product's volume. Doing this will allow anyLogistix to determine the number of products a given vehicle can transport. You can use the **Measurement Unit Conversions** table to convert the user-defined weight and volume units you created in the **Measurement units** table.

#	Product	Amount from	Unit from		Amount to	Unit to
1	MFP	1	pcs	=	0.1	m^3
2	Monitor	1	pcs	=	0.1	m^3
3	PC	1	pcs	=	0.1	m^3

Figure 51: Measurement unit conversions.

Demand and Expected Lead Time

Figure 52 shows the demand type and expected lead time for each of the case study's six customers.

#	Customer	Product	Demand Type	Parameters	Time Period	Expected Lead Ti...	Time Unit	Backorder Policy
1	Hanover	MFP	Periodic demand	Period=1.0, Quantity=50.0	(All periods)	2	day	Not allowed
2	Nuremberg	Monitor	Periodic demand	Period=1.0, Quantity=50.0	(All periods)	2	day	Not allowed
3	Munich	MFP	Periodic demand	Period=1.0, Quantity=50.0	(All periods)	2	day	Not allowed
4	Poznan	PC	Periodic demand	Period=1.0, Quantity=50.0	(All periods)	2	day	Not allowed
5	Hamburg	Monitor	Periodic demand	Period=1.0, Quantity=50.0	(All periods)	2	day	Not allowed
6	Vienna	PC	Periodic demand	Period=1.0, Quantity=50.0	(All periods)	2	day	Not allowed

Figure 52: Customer demand and expected lead time.

Transportation Policy and Costs

We can use two types of vehicles (Figure 53).

#	Name	Capacity	Capacity Unit	Speed	Speed Unit
1	Lorry	20	m^3	50.0	km/h
2	Truck	60	m^3	50.0	km/h

Figure 53: Vehicle types

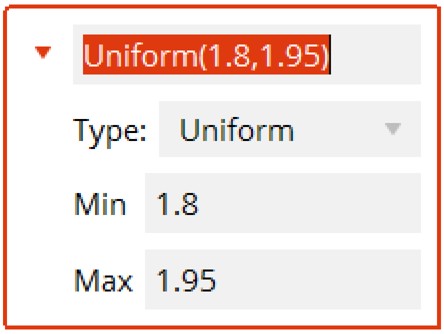
Transportation costs and time computation are based on the rules you define in the **Paths** table (Figure 54). We can see transportation costs are calculated as $1.0 x volume x distance. We then set the transportation time from our Leipzig-based supplier to both distribution centers to a fixed 0.7 days.

#	From	To	Cost Calculation	Cost Calculation ...	Cost Unit	Distance	Distance Unit	Transportation Ti...	Time Unit	Straight	Vehicle Type	Transportat
1	Leipzig	DCs	Volume&distanc..	1.0 * amount (m^3) ...	USD	0	km	0.7	day		Truck	LTL
2	DCs	All customers	Volume&distanc..	1.0 * amount (m^3) ...	USD	0	km	Uniform(1.8,1.95)	day		Lorry	LTL

Figure 54: Transportation policy.

Entering a Fixed Value

Note: Numerical values can be fixed or stochastic (defined by probability distribution). The corresponding table cells provide the drop-down menu that allows you to set the desired value. You can also enter the value manually.



To enter a numerical value, do one of the following:

Option 1: Entering a value

1. Click the table cell to activate the edit box.
2. Click the arrow next to the cell value to open the drop-down menu.
3. Do one of the following:
    - To enter a fixed value, click the **Type** list and enter the desired value in the **Value** box.
    - To enter a stochastic value, click the **Type** list, choose the desired probability distribution, and then set the distribution parameters in the fields below the list.

    > **Note:** anyLogistix supports uniform, triangular, exponential, normal and lognormal probability distributions. The parameters you need to provide vary by the probability distribution type.

4. Save your changes by pressing Enter or clicking outside of the cell.

    To discard your changes, press Escape.

Option 2: Manually entering a value:

1. Click the table cell to activate the edit box.
2. Enter the value:
    - To enter a fixed value, enter the desired numerical value.
    - To enter a stochastic value, use the following format to enter the value: *Distribution Type(Parameter 1, Parameter 2, ...)*.

      Example: Uniform(5.0, 6.0).

Reviewing the Path Table's Parameters

You use the **Paths** table to set up the parameters listed in the table below.

Table 9: Parameters available in the **Paths** table.

Parameter	Purpose
From	Defines the path's origin location. This is the reference to the **Locations** table.

Parameter	Purpose
To	Defines the path's target location. This is the reference to the **Locations** table.
Cost Calculation	Defines the basis for transportation cost calculations: • **Weight-based Cost:** *0.0 * weight + 0.0* Formula parameters are weight and Add cost. • **Volume-based Cost:** *0.0 * volume + 0.0* Formula parameters are volume and Add cost. • **Weight & Distance-based Cost:** *0.0 * weight * distance* Formula parameters are Cost per kg-km, weight and distance. • **Volume & Distance-based Cost:** *0.0 * volume * distance* Formula parameters are Cost per m3-km, volume and distance. • **Fixed Delivery Cost:** *0.0 -* Formula parameter is Cost. • **Distance-based Cost:** *0.0 * distance* Formula parameters are Cost per km and distance.
Cost Calculation Parameters	Defines the parameters for cost calculation formulas
Distance	Defines the path length in km/miles. If set to zero, the path length is calculated based on GIS information
Transportation Time	Defines transportation time for the path in days. If set to zero time, the transportation time is calculated based on GIS information
Straight	Defines if anyLogistix should use straight paths between sites or real roads
Vehicle Type	Defines the vehicle type (previously defined vehicles in the **Vehicle Types** table) used for shipping products along the path
Transportation Policy	Regulates the handling of orders for the amount less than the selected vehicle's capacity
Min Load, ratio	In FTL transportation policy, it defines the minimum load ratio
Aggregate Orders	Defines whether the orders are accumulated during the time period defined in **Aggregation Period, days**
Aggregation period	The period during which the orders are aggregated
Inclusion Type	The path's status: • **Include** - Vehicles can use it to get to their destination • **Exclude** - The scenario does not use the path

Grouping Supply Chain Elements

In the next step, we'll create four groups (**DCs**, **Customers Prague**, **All customers** and **Customers Berlin**) to make it easier for us to develop our model and analyze our results (Figure 55). Instead of creating individual paths for each customer, we'll create a path from the **DCs** group to the **Customers Prague** group.

#	Group	Description	Customers	Sites	Suppliers	Groups
1	DCs		[]	[DC Prague, DC Berlin]	[]	[]
2	Customers Prague		[Munich, Vienna, Nuremberg]	[]	[]	[]
3	All customers		[Hanover, Munich, Vienna, Poznan, Hamburg, Nuremberg]	[]	[]	[]
4	Customers Berlin		[Hanover, Hamburg, Poznan]	[]	[]	[]

Figure 55: Groups

Inventory Control Policy

The information in the **Policy Parameters** column shows us our example uses a (*s*,*S*) inventory control policy (Figure 56).

#	Facility	Product	Policy Type	Policy Parameters	Initial Stock, units	Periodic Check	Period	Policy Basis	Stock Calculation...	Time Unit
1	DCs	(All products)	Min-max policy	s=57, S=113	57		0	Quantity	0	day

Figure 56: Inventory control policy

Note: anyLogistix uses the **Inventory** table to define an inventory policy's parameters. However, we use "Inventory control policy" throughout this guide to describe the parameters defined in the **Inventory** table.

We use the **Inventory** table to set up the following parameters:

Table 10: Parameters available in the **Inventory** table.

Parameter	Purpose
Facility	The facility or group of facilities for which an inventory policy is specified
Product	The product or group of products which the policy is applied to
Policy Type	The type of inventory control policy
Policy Parameters	The parameters for selected inventory control policy
Initial Stock	The initial quantity of products at the site(s)
Periodic Check	If inventory is checked periodically or after each change
Period	The number of days between inventory level checks
Policy Basis	Whether quantity or days of demand is the policy basis
Stock Calculation Window	The number of days to calculate the mean daily demand

Parameter	Purpose
Time Period	The period during which the inventory policy will be considered
Inclusion Type	The status of given inventory policy

Sourcing Policy

Figure 57 shows our sourcing policy.

#	Delivery Destinat...	Product	Type	Parameters	Sources	Time Period	Inclusion Type
1	DCs	(All products)	Closest (Single s...	No parameters	Leipzig	(All periods)	Include
2	Customers Berlin	(All products)	Closest (Single s...	No parameters	DC Berlin	(All periods)	Include
3	Customers Pragu	(All products)	Closest (Single s...	No parameters	DC Prague	(All periods)	Include

Figure 57: Sourcing policy.

Defining Operational Costs at Distribution Centers

Finally, we use the **Facility Expenses** table to define the costs of operating the distribution centers. In addition to the cost of operating the distribution centers, our simulation includes interest rate (10%, expressed as 0.1) and inventory carrying costs per day per m^3 ($0.01, expressed as 0.01) (Figure 58).

#	Name	Type	Location	Initially Opened	Inclusion Type	Capacity	Capacity Unit	Interests, ratio per year	Aggregate Orde
1	DC Prague	ExtendedDC	Prague		Include	34	m^3	0.1	
2	DC Berlin	ExtendedDC	Berlin		Include	34	m^3	0.1	

#	Facility	Expense Type	Value	Cost Unit	Time Unit	Product Unit	Time Period
1	DCs	carryingCost	0.01	USD	day	m^3	(All periods)

Figure 58: Inventory holding costs at distribution centers.

Creating a KPI Dashboard

We will define an extended KPI dashboard by creating the following three tabs:

- Financial and customer performance KPI
- Operational performance KPI
- Inventory and capacity dynamics

Tab 1: Financial and Customer Performance KPI

Our dashboard's **Financial and customer performance** tab will have six blocks to help us assess our supply chain's financial and customer performance (Figure 59).

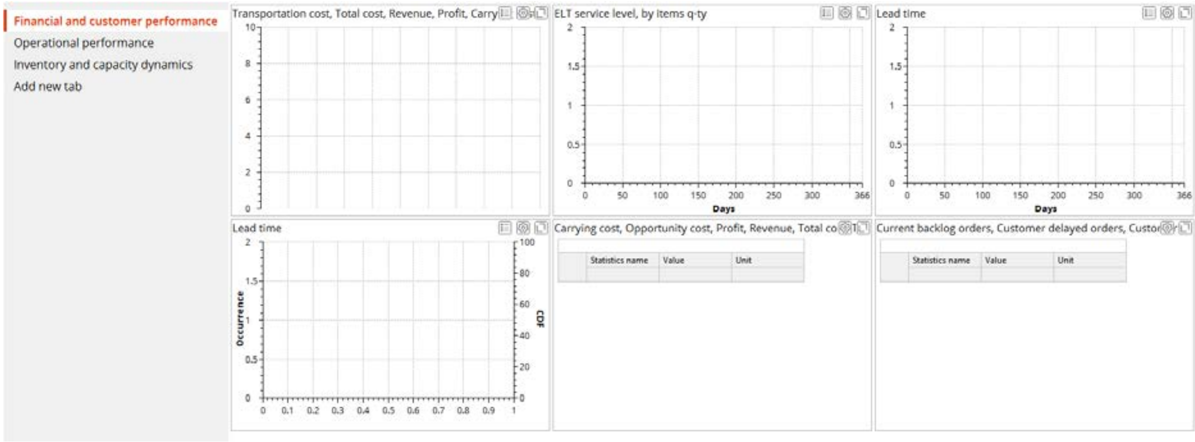


Figure 59: The six blocks that make up our **Financial and customer performance** tab.

> **Note:** For more information about the technical issues of KPI dashboard design, please review Chapter 1 in this guide.

Our dashboard's first block will display information about revenue, total costs, profit, carrying costs, opportunity costs and transportation costs (Figure 60).

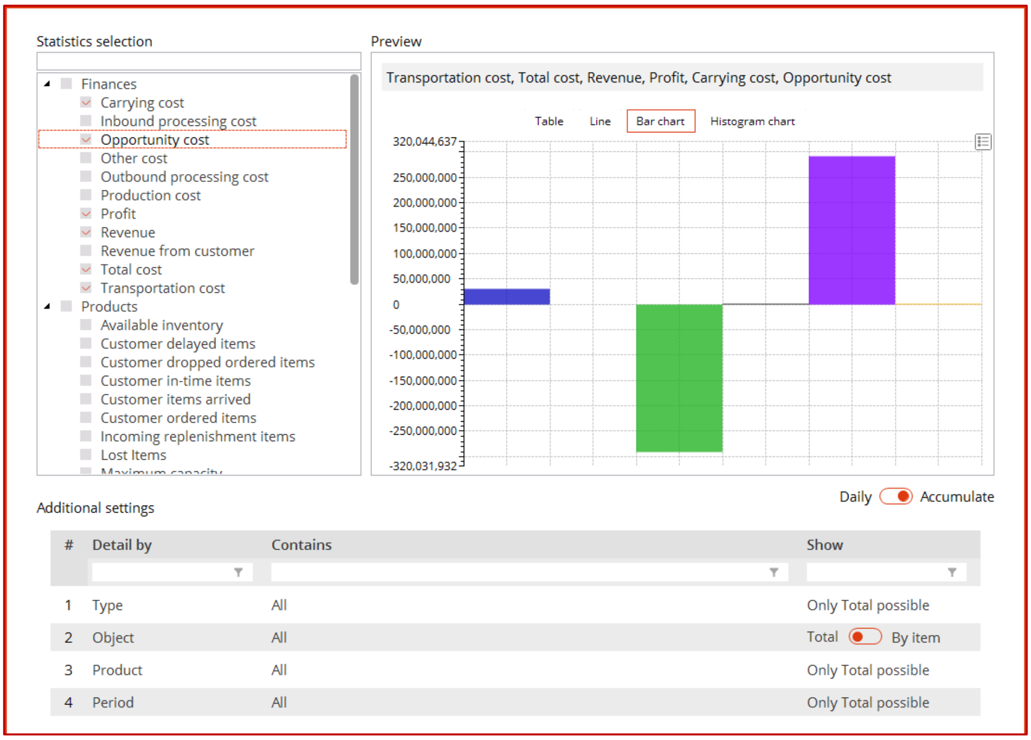


Figure 60: Financial performance statistics.

The second block displays information about our service levels (Figure 61).

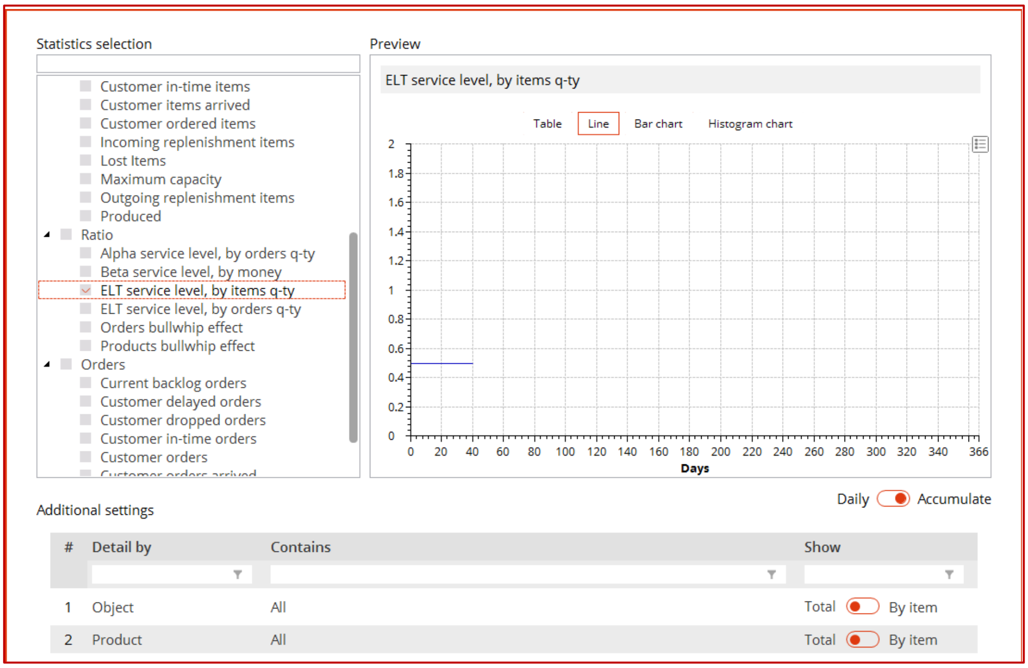


Figure 61: Service level metrics.

For a detailed analysis, we can review the service levels for each distribution center and each product (shown by item).

Our **Financial and customer performance** tab's third and fourth blocks will display a lead time analysis for each distribution center and for each customer. One of the blocks will be a line chart, the other will be a histogram chart (Figures 62 and 63).

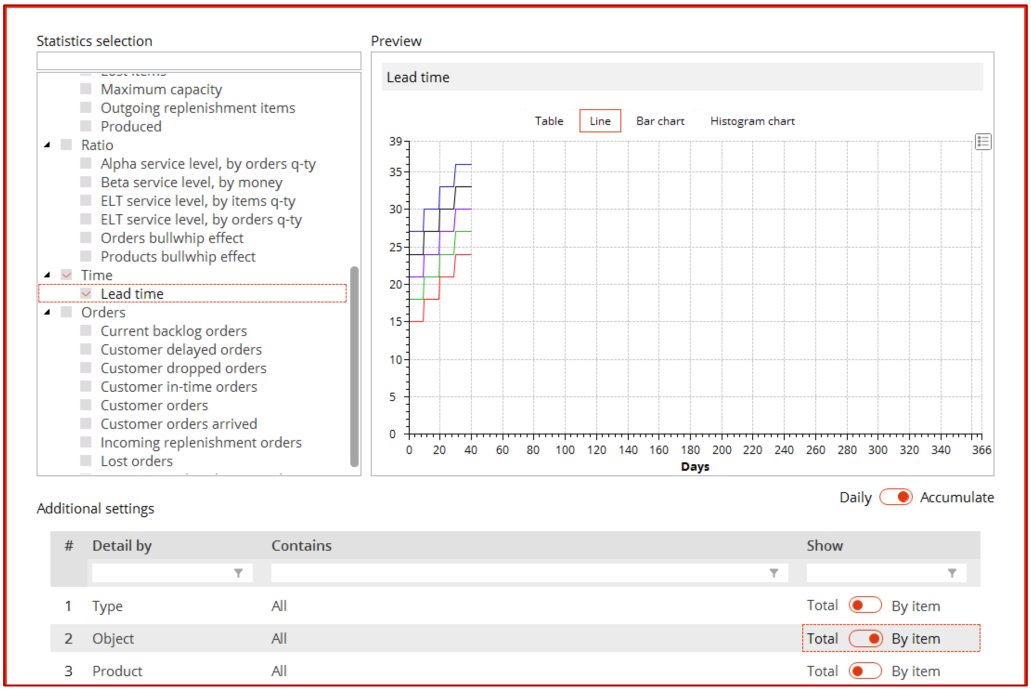


Figure 62: Lead time statistics displayed in a line chart.

Figure 63: Lead time statistics displayed in a histogram chart.

Our **Financial and customer performance** tab's final two blocks display our financial performance (Figure 64) and our order fulfilment performance (Figure 65).

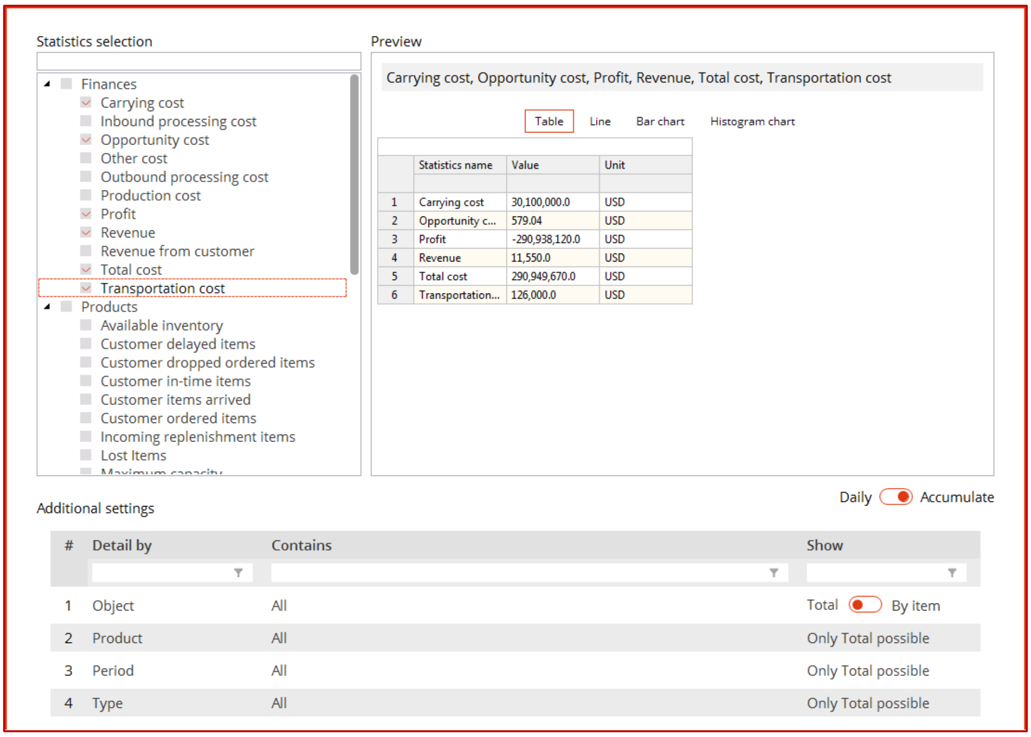


Figure 64: Our dashboard's fifth block displays our financial performance.

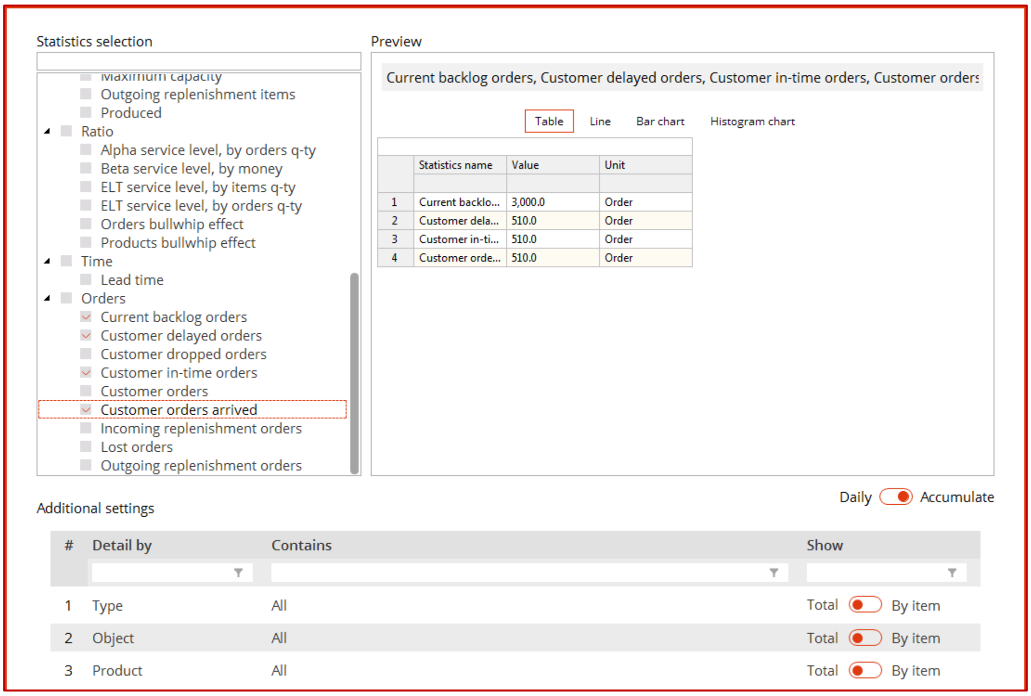


Figure 65: Our dashboard’s final block displays our order fulfilment performance.

Tab 2: Operational Performance KPI

Our Operational Performance KPI dashboard will display a capacity and an inventory analysis for the supply chain (Figure 66).

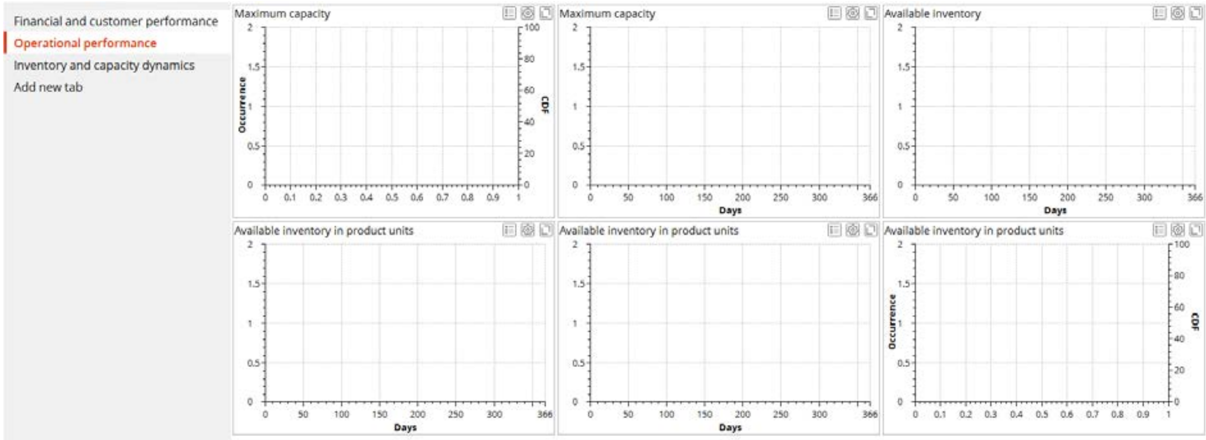


Figure 66: A capacity and inventory analysis for the overall supply chain.

First, the program will display data for maximum distribution center capacity consumption as a histogram chart and as a line (Figures 67 and 68). This data will help us make informed decisions on distribution center capacities.

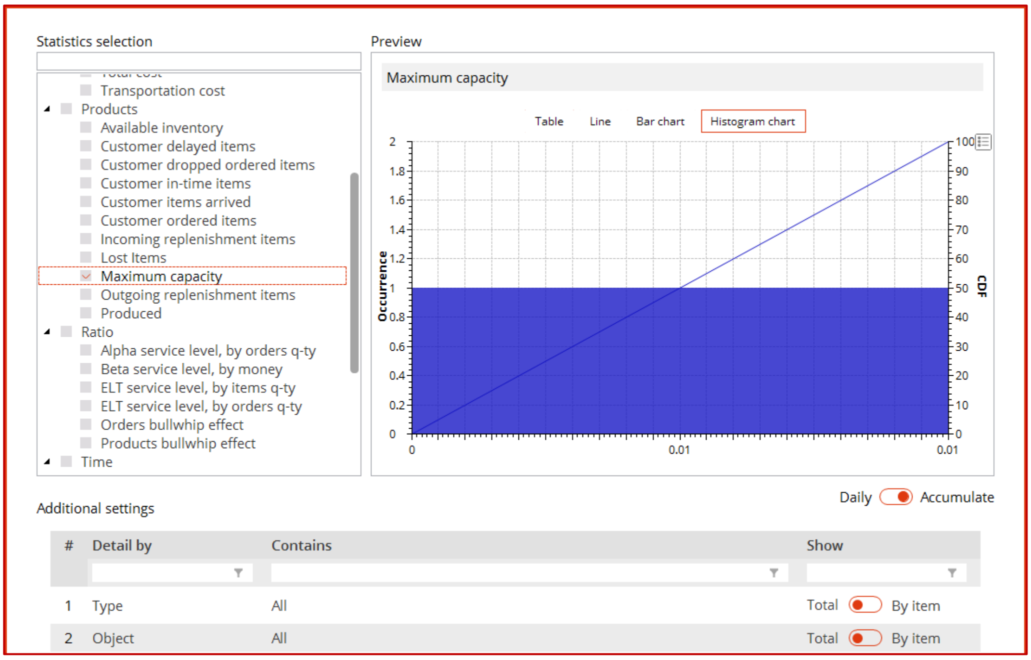


Figure 67: An analysis of maximum distribution center capacity consumption displayed as a histogram chart.

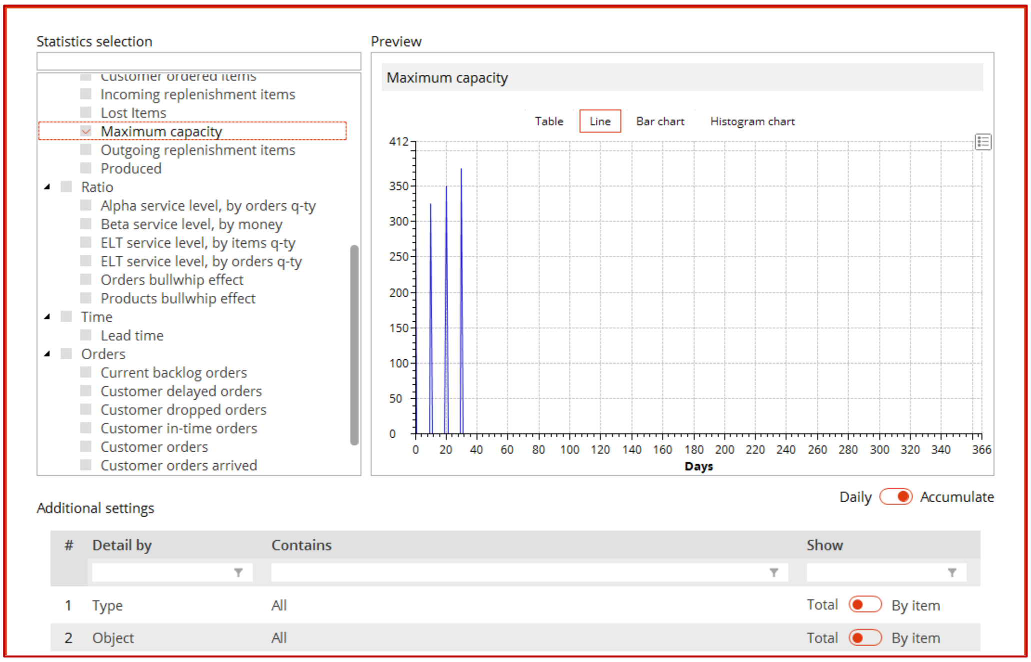


Figure 68: An analysis of maximum distribution center capacity consumption displayed as a line.

The program will present the dynamics of available inventory volume as a line (Figure 69).

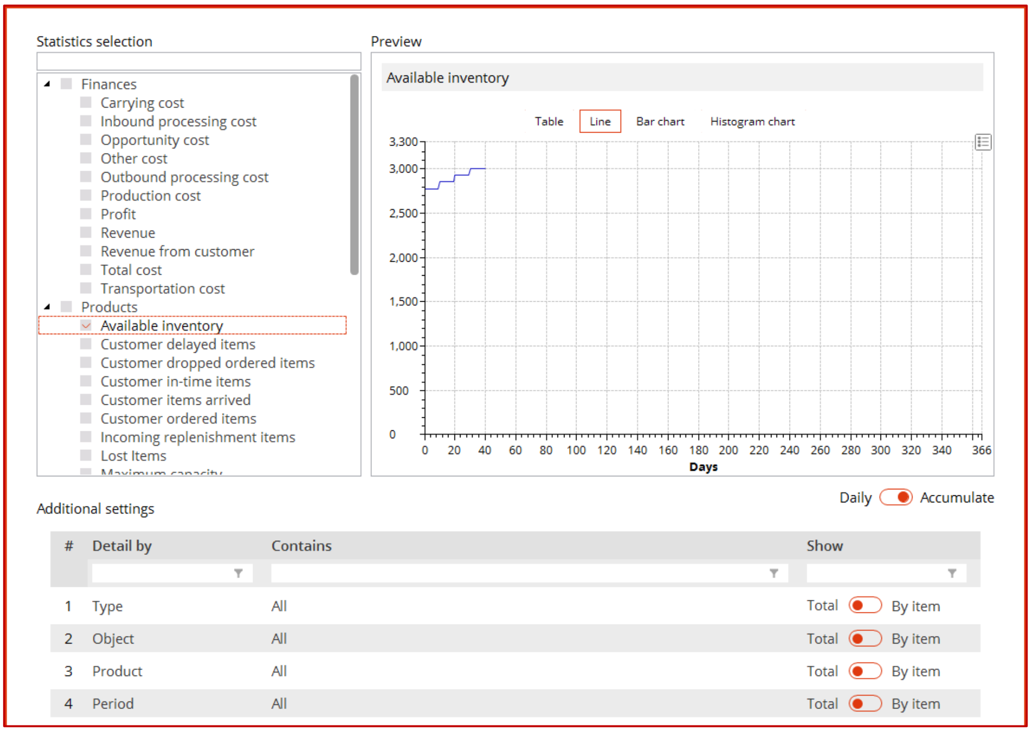


Figure 69: Dynamics of available inventory volume in the supply chain displayed as a line.

Third, the program will display the dynamics of available inventory quantity for the overall supply chain as a line and as a histogram chart. It will display the objects and products as a line (Figures 70-71).

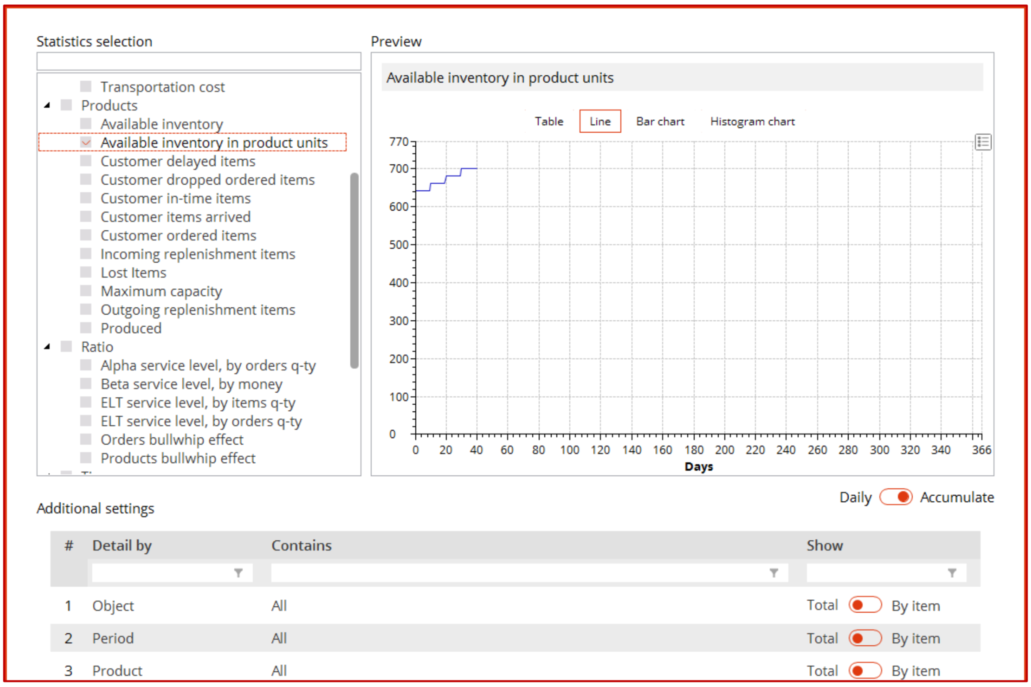


Figure 70: Dynamics of available inventory quantity in the supply chain as a line.

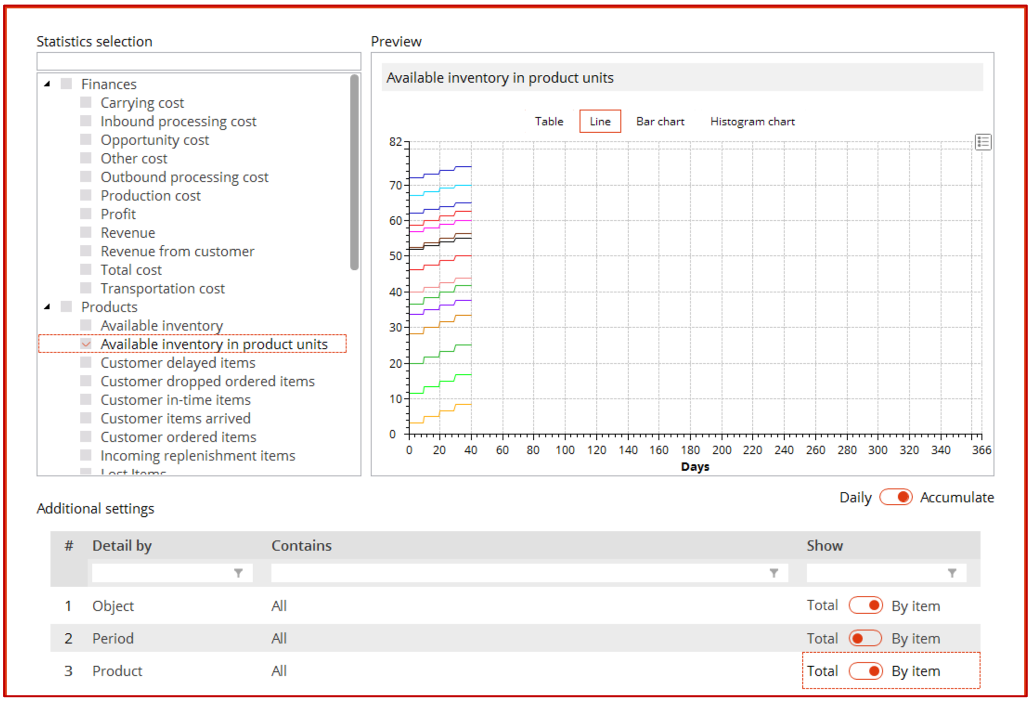


Figure 71: Dynamics of available inventory quantity at objects and for different products displayed as a line.

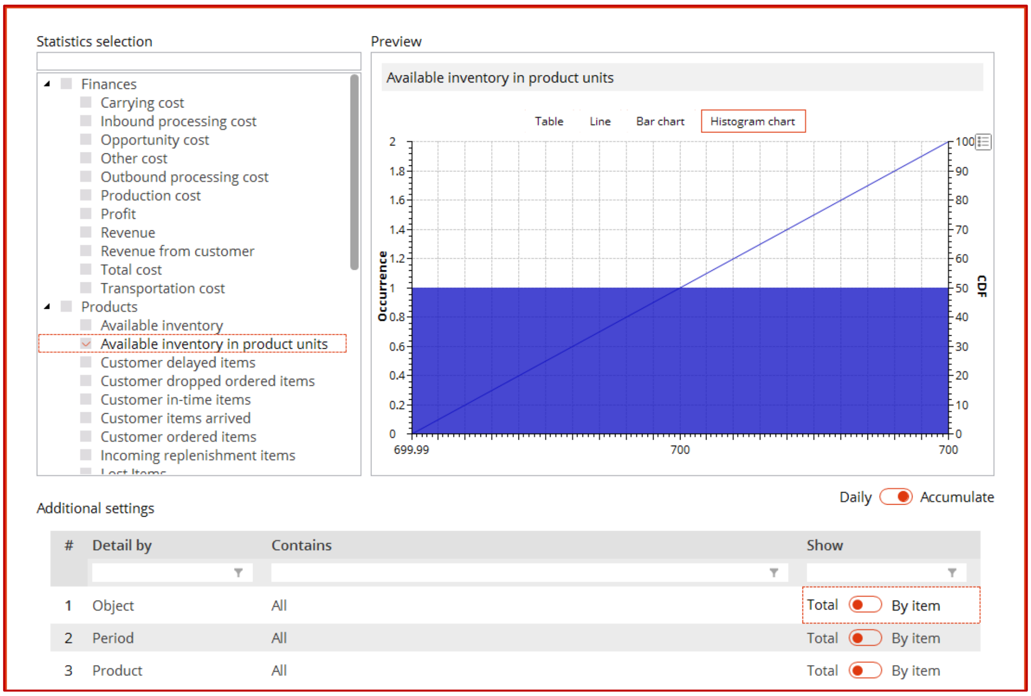


Figure 72: New screenshot goes here. This histogram chart displays the dynamics of the supply chain's available inventory quantity.

Inventory and Capacity Dynamics

This dashboard displays inventory and capacity dynamics at the object and product levels (Figure 73).

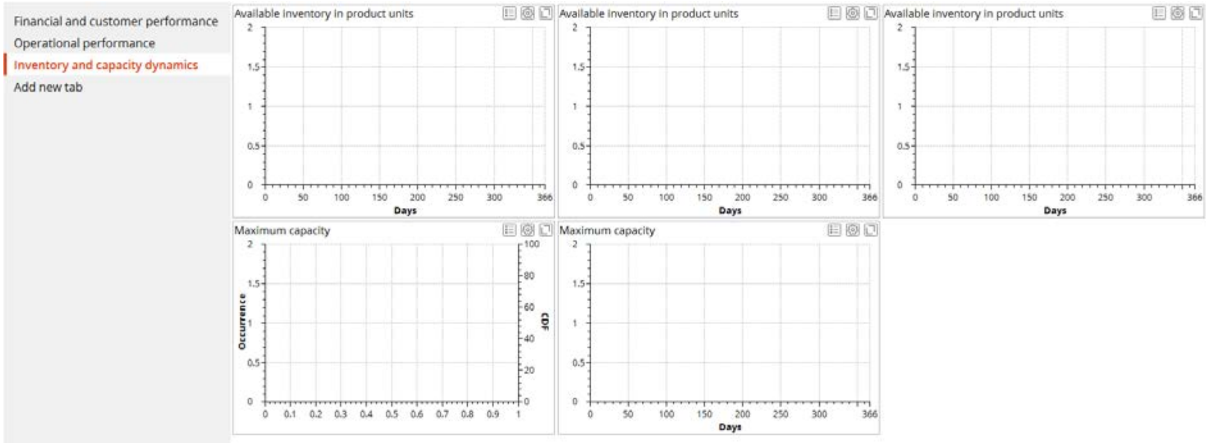


Figure 73: Dashboard for dynamics of inventory and capacity at the object and product levels.

The upper three blocks display the inventory dynamics at each distribution center for each of our three products: monitors, PC and MFP. The following image (Figure 74) displays the dynamics for our **monitor** product.

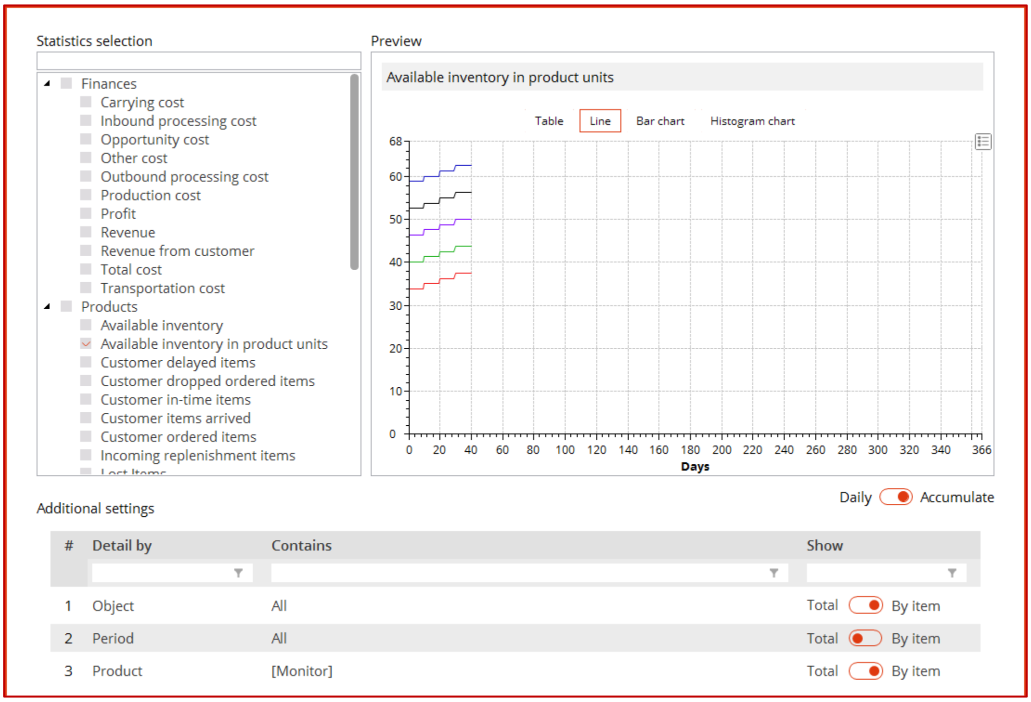


Figure 74: Inventory dynamics for the **monitor** product at each distribution center

The other dashboard blocks (on the bottom) display capacity dynamics for each distribution center as a line and as a histogram chart (Figures 75-76).

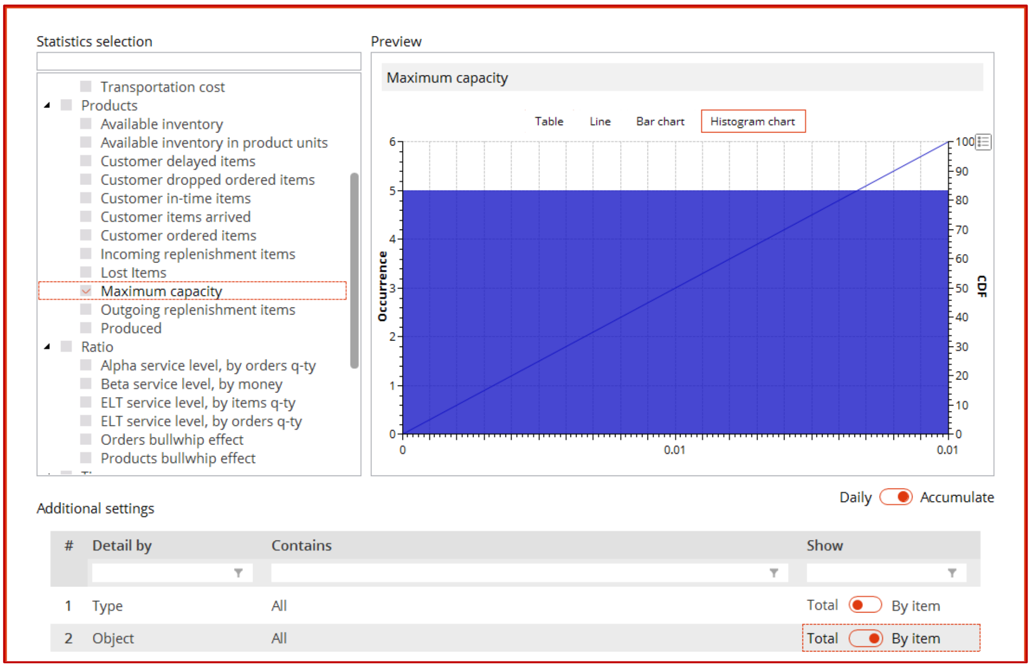


Figure 75: Capacity dynamics for each distribution center as a histogram chart.

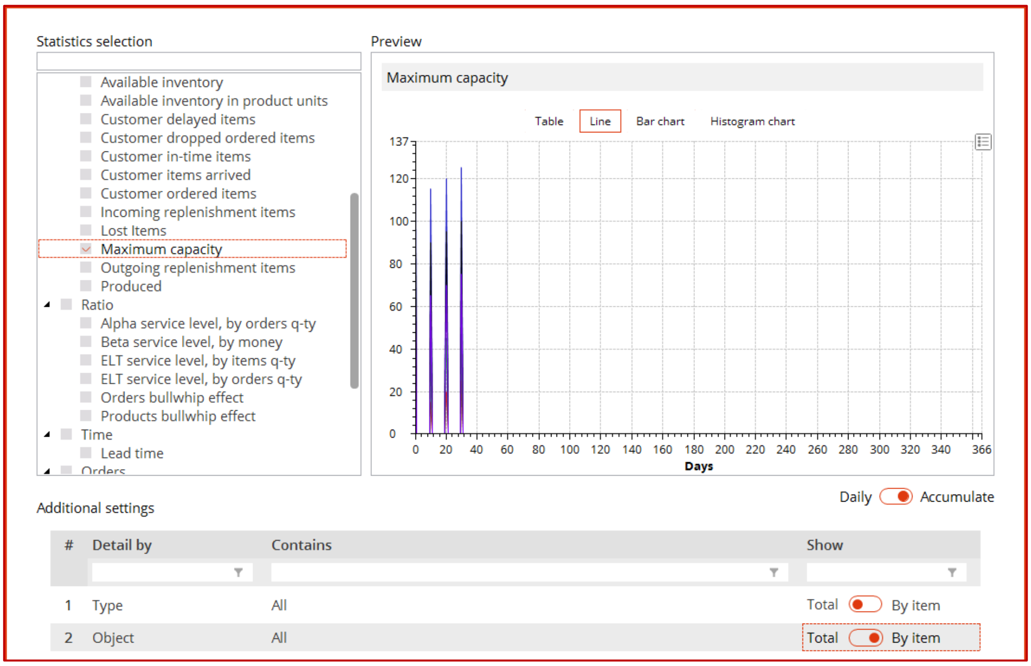


Figure 76: Capacity dynamics for each distribution center as a line.

Experiment and Result Analysis

Experimental Results

In their first executive meeting, Davis (CEO), Marina (inventory manager), and Cheng (transportation manager) use financial, customer and operational KPIs to analyze their supply chain's performance. Afterward, they use the **8 SIM Distribution Network inside 4 Walls Models** scenario to run a new simulation experiment. Figures 77-81 display their results.

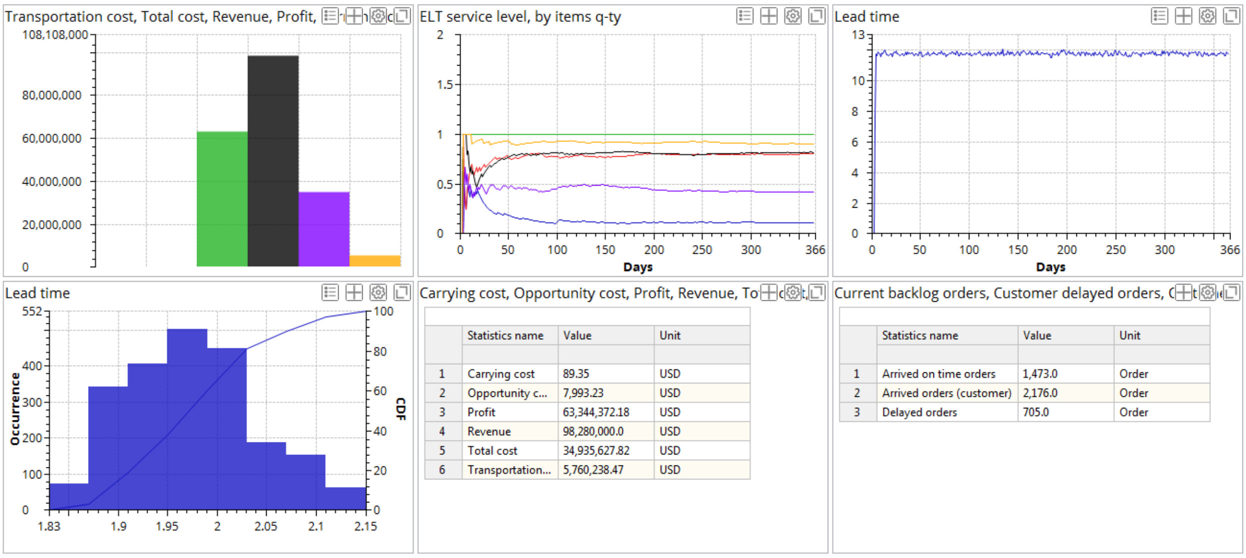
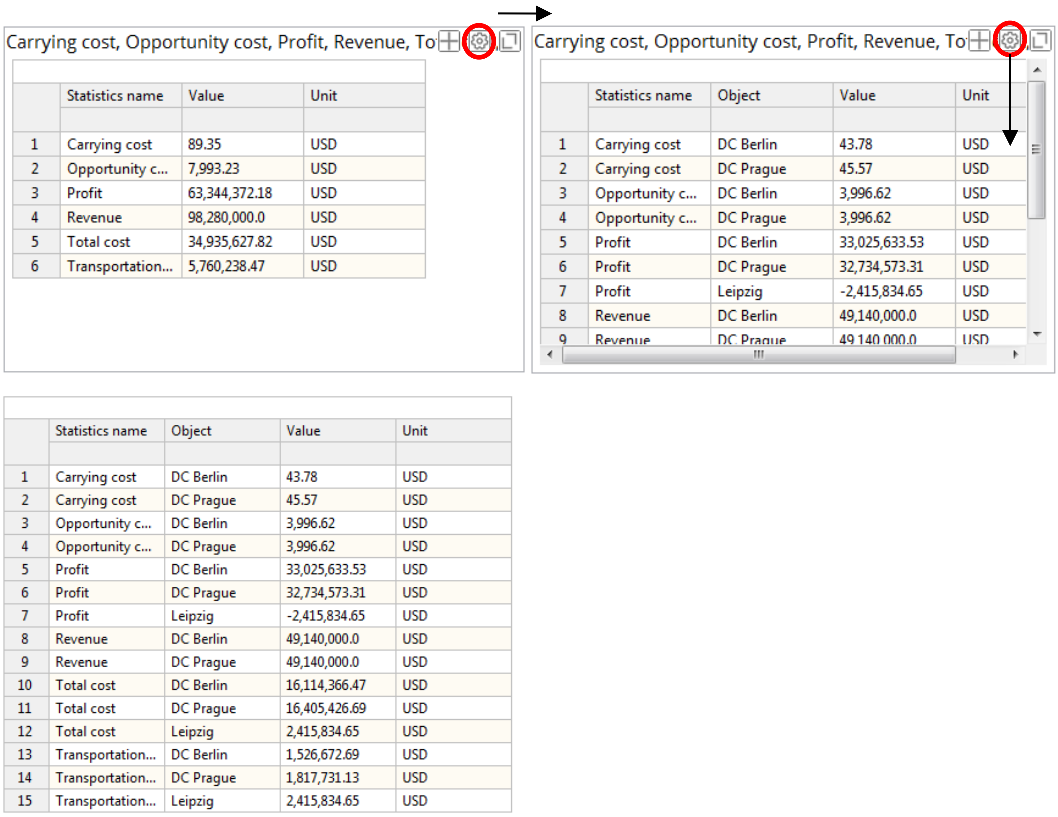


Figure 77: Financial and customer KPIs.

By looking at Figure 77, we can see the supply chain generates a revenue of $98,280,000.0 and profit of $63,344,372.18. Total lead time from the distribution centers to customers is 11.8 days, and there are no backlogged orders. Customers have placed 2,176 orders: 1,473 were fulfilled on time and 705 were delayed.

Note: You can view detailed costs and profit analyses by locating the **Additional Settings** area and then selecting **by item**. Figure 77 shows an example of the detailed view.



	Statistics name	Value	Unit
1	Carrying cost	89.35	USD
2	Opportunity c...	7,993.23	USD
3	Profit	63,344,372.18	USD
4	Revenue	98,280,000.0	USD
5	Total cost	34,935,627.82	USD
6	Transportation...	5,760,238.47	USD

	Statistics name	Object	Value	Unit
1	Carrying cost	DC Berlin	43.78	USD
2	Carrying cost	DC Prague	45.57	USD
3	Opportunity c...	DC Berlin	3,996.62	USD
4	Opportunity c...	DC Prague	3,996.62	USD
5	Profit	DC Berlin	33,025,633.53	USD
6	Profit	DC Prague	32,734,573.31	USD
7	Profit	Leipzig	-2,415,834.65	USD
8	Revenue	DC Berlin	49,140,000.0	USD
9	Revenue	DC Prague	49,140,000.0	USD
10	Total cost	DC Berlin	16,114,366.47	USD
11	Total cost	DC Prague	16,405,426.69	USD
12	Total cost	Leipzig	2,415,834.65	USD
13	Transportation...	DC Berlin	1,526,672.69	USD
14	Transportation...	DC Prague	1,817,731.13	USD
15	Transportation...	Leipzig	2,415,834.65	USD

Figure 78: Costs and profit detailization.

Figure 78 shows revenue at DC Prague is $49,140,000 and revenue at DC Berlin is $49,140,000.00. Total costs at DC Prague is $16,405,426.69 and total costs at DC Berlin is $16,114,366.47.

We can also see data on transportation costs. Costs from the supplier in Leipzig to both distribution centers is $2,415,834.65. The transportation from the distribution centers to the customers are $1,817,731.13 (DC Prague) and $1,526,672.69 (DC Berlin).

Note: Be careful with *total* costs, profit and revenue evaluation! In this case, anyLogix calculates total transportation costs for the complete supply chain (that is, the transportation costs across all stages, from suppliers to customers). However, the program calculates total costs, profit and revenue for the distribution centers.

You can use the same diagrams to compare distribution centers and customers. (Figure 79).

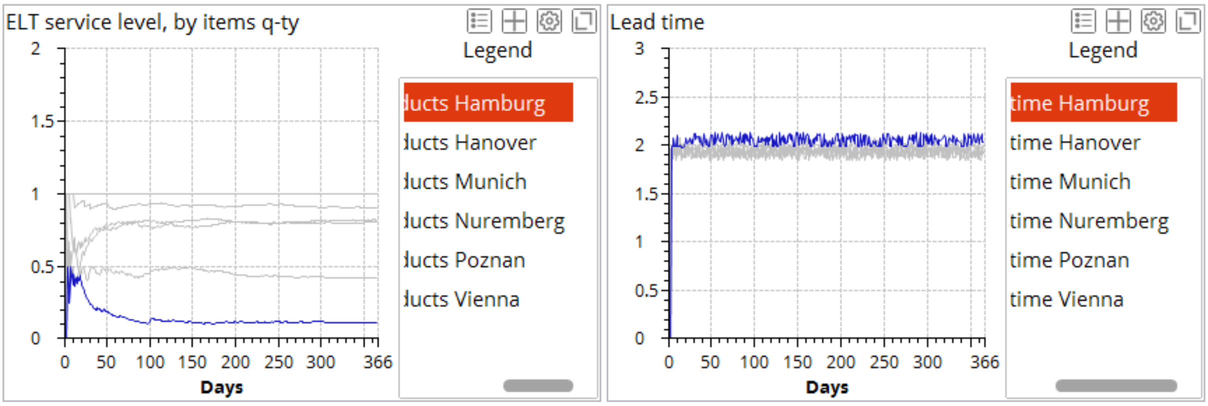


Figure 79: Detailed service level and lead time analysis for the Hamburg-based customer.

Next, we'll consider the overall supply chain's operational performance (Figure 80).

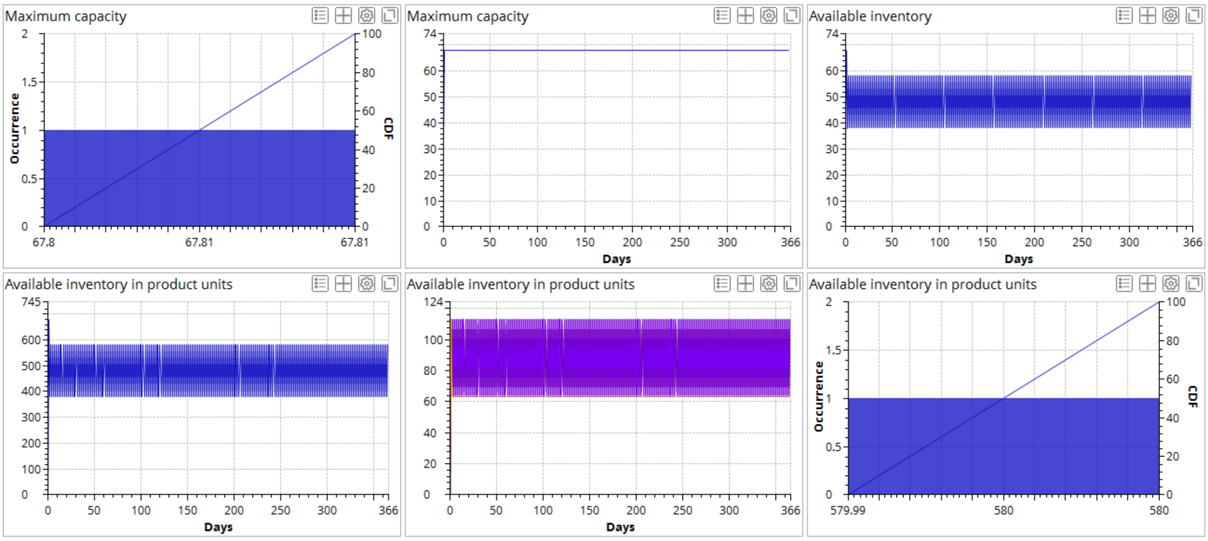


Figure 80: Operational performance for the overall supply chain.

The diagrams in Figure 80 show maximum capacity use at the distribution centers in Prague and Berlin has been 67.8 m^3 in total or 33.9m^3 for each distribution center. The available inventory of each product at each distribution center changed between 39 and 59 units (as set up in Min-Max policy) while the supply chain's total inventory was between 390 and 590 units.

Note: In the diagrams, inventory level does not drop to exactly 57 units (for all products in total) since we always replenish in advance.

The third and fourth dashboards—Inventory and Capacity Dynamics—display these results (Figure 81).

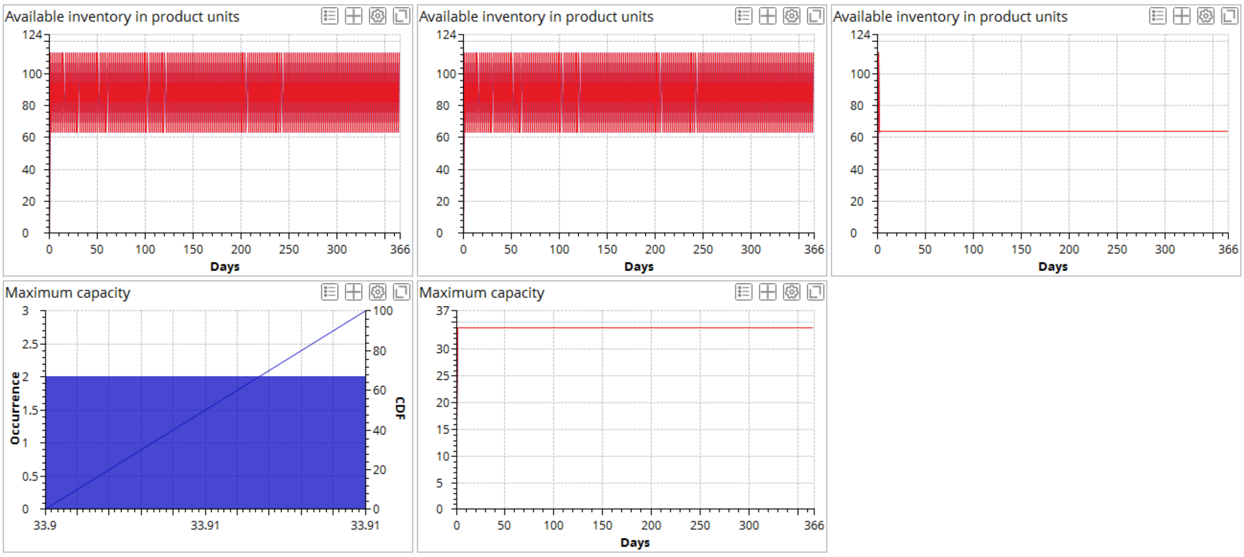


Figure 81: Inventory and Capacity Dynamics Analysis

Result Analysis

Davis, Marina and Cheng (the transportation manager) analyze the gained results. For example, they see the distribution center's total revenue was $98,280,000. Their supply chain includes demand for three products of 50 units respectively, each of which is handled by two distribution centers.

Assuming 365 working days, the annual demand for each product is 3,630 units (36,300 m^3). In other words, their supply chain allows them to meet their demand and receive the maximum possible revenue.

In the min-max inventory control policy, they set **min** = 57 and **max** = 113. With these parameters, total inventory costs (that is, opportunity costs) are $7,993.23. Both distribution centers need to run at capacity of 40 m^3. 2,176 customer orders have been generated for three products supplied from two distribution centers. In other words, every day a new customer order has been generated for each product.

Finally, we can see the LTL transportation policy, trucks with capacity of 60 m^3 used for deliveries from the Leipzig-based supplier to distribution centers are used at 87.5% considering total volume of each delivery as 0.1 + 0.1 + 0.15 (total volume of three products) x 150 units = 52.5 m^3. Two trucks are needed since two distribution centers need to be served. For lorries, we have six direct shipments each of which of 50 units. This results into average capacity utilization of 25% only since just 5% of 20 m^3 is used.

These results support decision-making in many areas of supply chain management, including:

- Capacity design
- Lead time agreements
- Inventory control policy and its parameters
- Transportation policy (FTL/LTL)
- Replenishment planning
- Sales planning
- Budget planning

For example, we can use capacity usage dynamics diagrams to analyze the real distribution center productivity. This extends classical methods based on throughput capacity analysis or setting maximum capacity for some material flows.

By understanding real lead times, order fulfilment dynamics and service levels, we have a solid decision-support basis for our negotiations and contracts with suppliers and customers. Inventory dynamics analysis allows us to estimate and compare the effect of different inventory control policies and their parameters.

Impact of Inventory Control Policy

The standard anyLogistix settings offer ten inventory control policies (Figure 82).

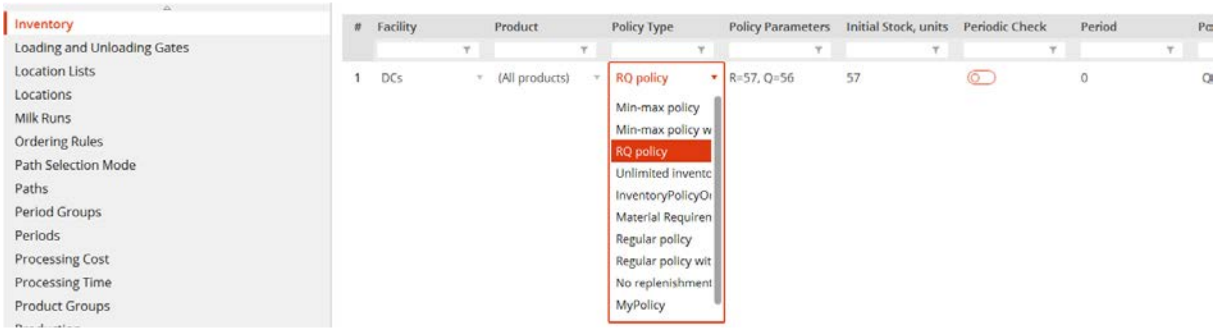


Figure 82: Inventory control policy selection.

Table 11: Inventory control policies.

Policy	Details
Min-max policy Also named (s, S) inventory policy	Products are ordered when the inventory level falls below a fixed replenishment point (s). The ordered quantity is set to such a value that the resulting inventory quantity equals S.
Min-max policy with safety stock	The (s, S) inventory policy with safety stock. Products are ordered when the inventory level falls below a fixed replenishment point (s + safety stock). The ordered quantity is set to such a value that the resulting inventory quantity equals S + safety stock.

Policy	Details
RQ policy	(R, Q) inventory policy. Fixed replenishment point / fixed replenishment quantity policy. When the inventory level falls below a fixed replenishment point (R), the fixed replenishment quantity (Q) of products is ordered.
Unlimited inventory	Selected by default. By selecting the **Unlimited inventory** policy, we assume products are always in stock at any required quantity.
Inventory policy on demand	The distribution center does not keep products in stock. The required number of products is ordered only after receiving an order from a customer/factory or another distribution center.
Material Requirements Planning	Schedules inventory replenishment based on safety stock level.
Regular policy [Periodic check option must be enabled]	Products are ordered every specified Period
No replenishment	The distribution center will not replenish its inventory. If certain initial stock is available, the distribution center will ship products until it runs out of stock.
My policy	A user defined policy. Use this option for policies you designed with AnyLogic.
XDock policy	Distribution center operated like a cross-docking facility. It does not have inventory, it only transfers products from one type of transport to another.

You can set up other inventory control policy parameters:

- Policy type: RQ Policy
- Policy type: R=57, Q=56

You can also define the policies based on the days of supply.

Experiment

In their next executive meeting, Davis, Marina and Cheng analyze the inventory control and transportation policies they can use to improve their supply chain's performance. Marina noticed the Min-level for inventory was calculated based on steady demand for all products—fixed at 50 units a day—and a lead time variation of between 1.7 and 1.95 days (that is, the lead time's standard deviation is 0.125 days).

Since the supply chain is running 90% CSL policy, safety stock was computed as

$ss = z \times \sigma_{LT} \times d_{daily} = 1.28 \times 0.125 \times 50 = 8$ units *

* see the theory on safety stock and reorder point computation in:

Ivanov D., Tsipoulanidis A., Supply chainhönberger J. (2017). Global Suppy Chain and Operations Management, Springer, 1st Edition.

Therefore, Min inventory level (that is, the reorder point) was set at 57 units. Marina reduced the safety stock from statistically computed 8 units to 7 units by her expert decision.

Marina now suggests they reduce safety stock. She has noticed demand is always close to the average and 90% CSL is high. She decides to reduce the reorder point to 53 units.

Later, they learn if they change their contract with the Leipzig-based supplier from a Min-Max contract to a fixed-order quantity contract, the supplier can reduce the product per-unit costs by 10%. Based on the required customer lead time of two days and fixed demand of 50 units a day, Marina and Alice set the target level (MAX) at 105 units.

They run the simulation experiment they created during their meeting. Figures 83-86 and Table 12 display the results:

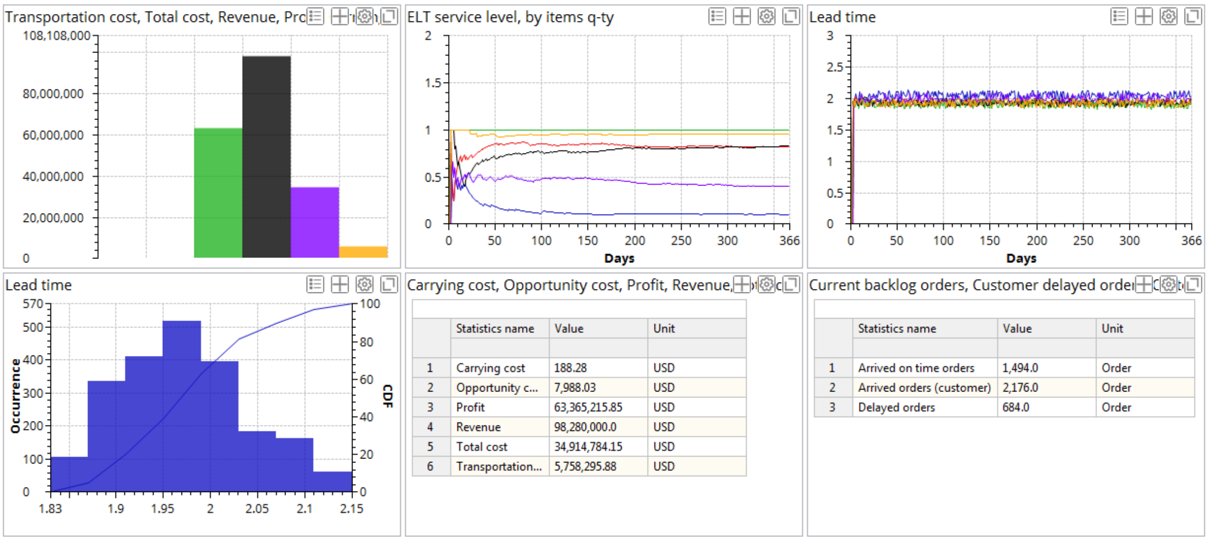


Figure 83: Financial and customer performance dashboard.

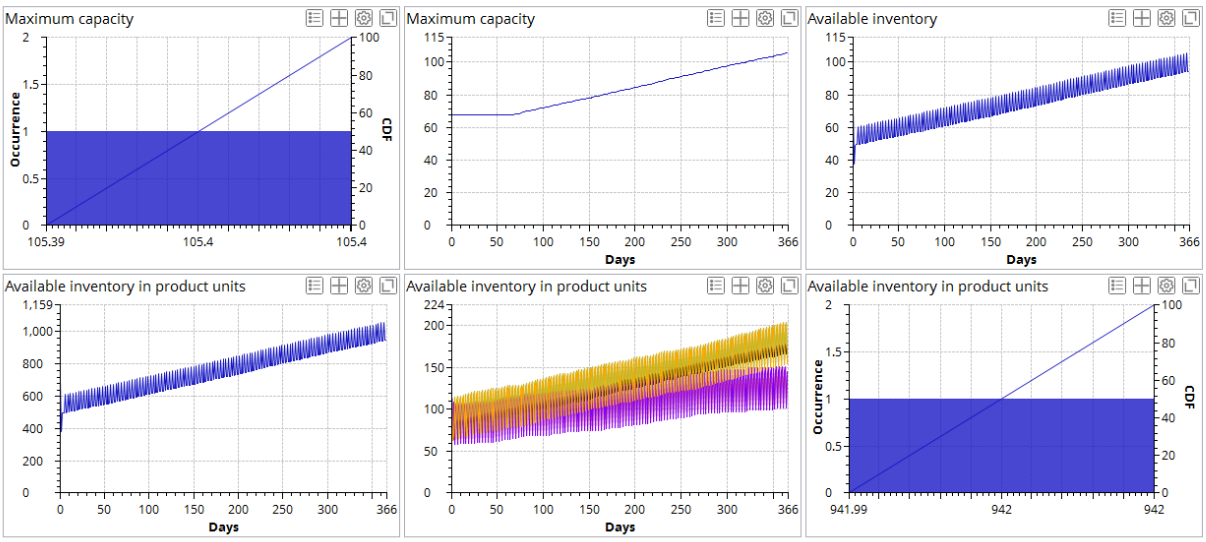


Figure 84: Operational performance dashboard.

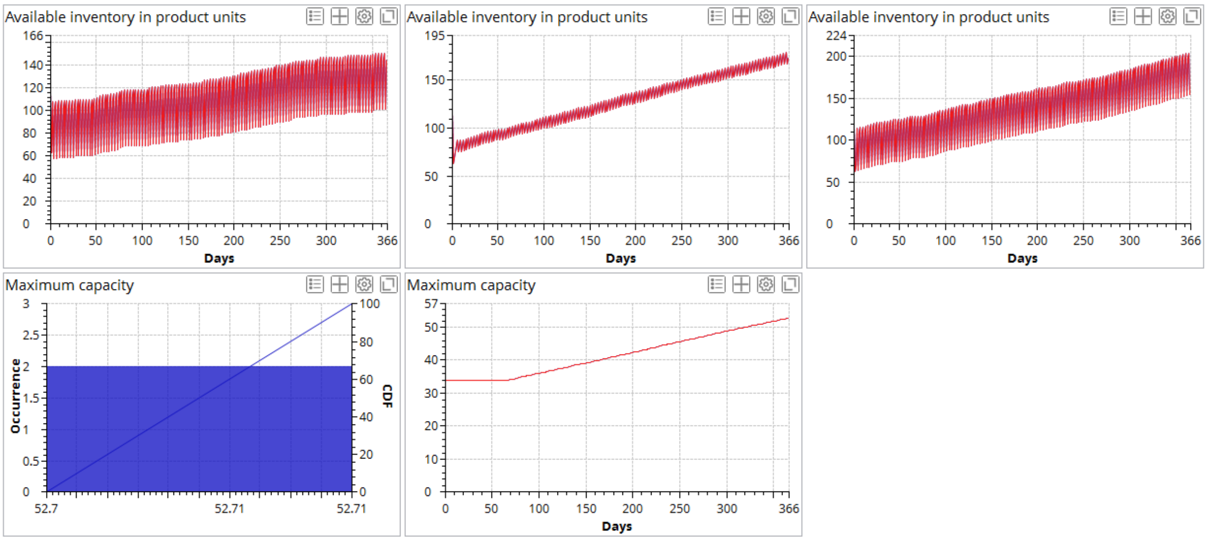


Figure 85: Inventory and capacity dashboard.

Table 12: KPI comparison.

KPI	Initial Supply Chain	New Inventory Control Policy
Financial distribution center performance:		
Carrying cost	89.35	188.28
Opportunity cost	7 993.23	7 988.03
Profit	63,344,372.18	63,365,215.85
Revenue	98,280,000.0	98,280,000.0
Total cost	34,935,627.82	34,914,784.15
Transportation cost	5,760,238.47	5,758,295.88
Customer performance:		
Maximum lead time, days	2.04	2.04
Min-Max Service level, %	10-100	40-100
Current backlog orders	0	0
Customer delayed orders	706.0	684.0
Customer in-time orders	1472.0	1494.0
Customer orders arrived	2175.0	2176.0

KPI	Initial Supply Chain	New Inventory Control Policy
Operational performance:		
Maximum capacity usage in the supply chain, m^3	67.8	105.4
Maximum inventory in the supply chain, units	580	942.0

Results Analysis

The results above show us the new inventory policy increases the supply chain profit and improves both inventory management performance and the service level.

What else can they improve? Cheng suggests they think about order quantities and customer lead time requirements. An increase in order quantity and a transition from daily deliveries to twice-a-week deliveries would improve transportation capacity utilization. However, Marina points out limited warehouse capacity rules out an increase in order quantity.

Marina and Cheng will now use anyLogistix with embedded AnyLogic functionality to understand the effect warehouse processes will have over time.

Using AnyLogic to Extend anyLogistix

One of anyLogistix's advantages is the opportunity to use AnyLogic to extend an object. For example, you can use AnyLogic to extend the distribution center operations in a way that simulates internal processes such as forklift capacity utilization and loading times. (Figure 87).

> **Note:** anyLogistix's Personal Learning Edition (PLE) does not allow you to create extensions.

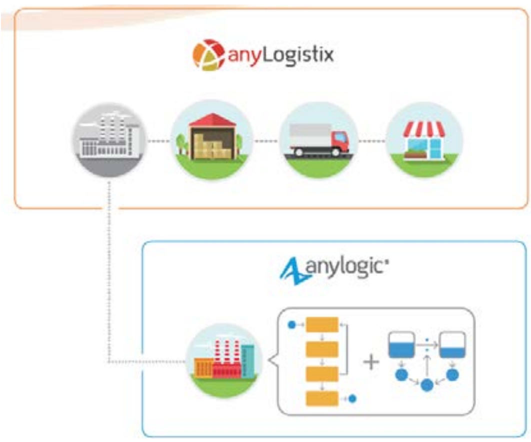


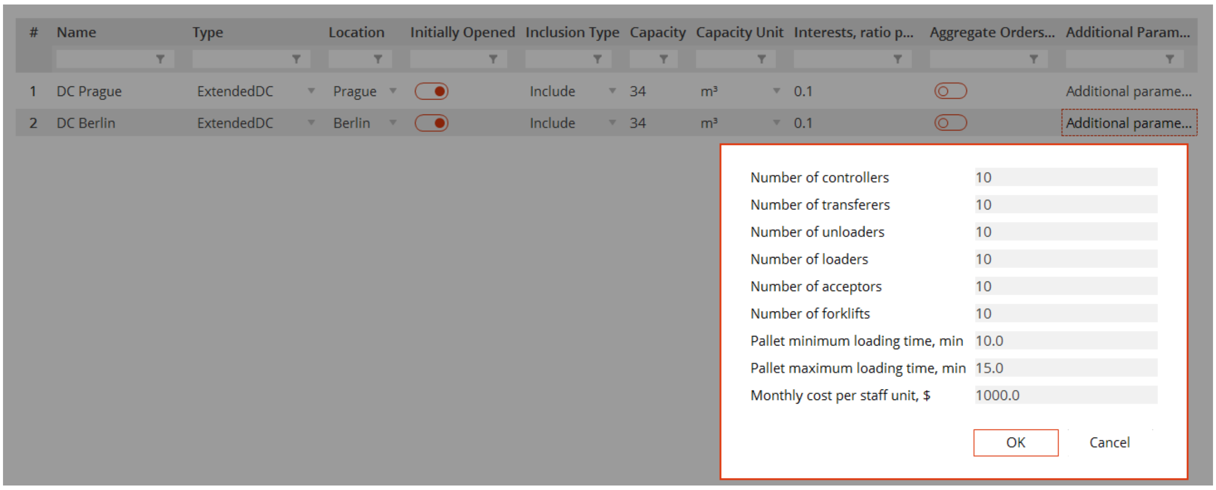
Figure 87: Extensions to anyLogistix in AnyLogic

In anyLogistix's main menu, point to **Extensions** and then click **Run AnyLogic**. For more information about creating inventory control policies or distribution center operational models in AnyLogic, refer to:

- The book AnyLogic in Three Days
- The book Operations and Supply Chain Simulation with AnyLogic
- Sample models in AnyLogic such as **Distribution Center**, **Adaptive Supply chain**, **Supply chain** and **Wholesale Warehouse**.

In AnyLogic, we need to extend a template that describes a network object's behavior. After we implement the export as a library (C:\Users\User\.anyLogistix\Extensions\extension.jar), we need to restart anyLogistix.

For example, the sample Microsoft Excel workbook--**8 SIM Distribution Network inside 4 Walls Models**—embeds additional parameters into the distribution centers' activities:



You can watch the distribution center operation in the simulation run by clicking the **distribution center** icon (Figures 88-89).

Figure 88: Embedded AnyLogic model in the anyLogistix: 2D view.

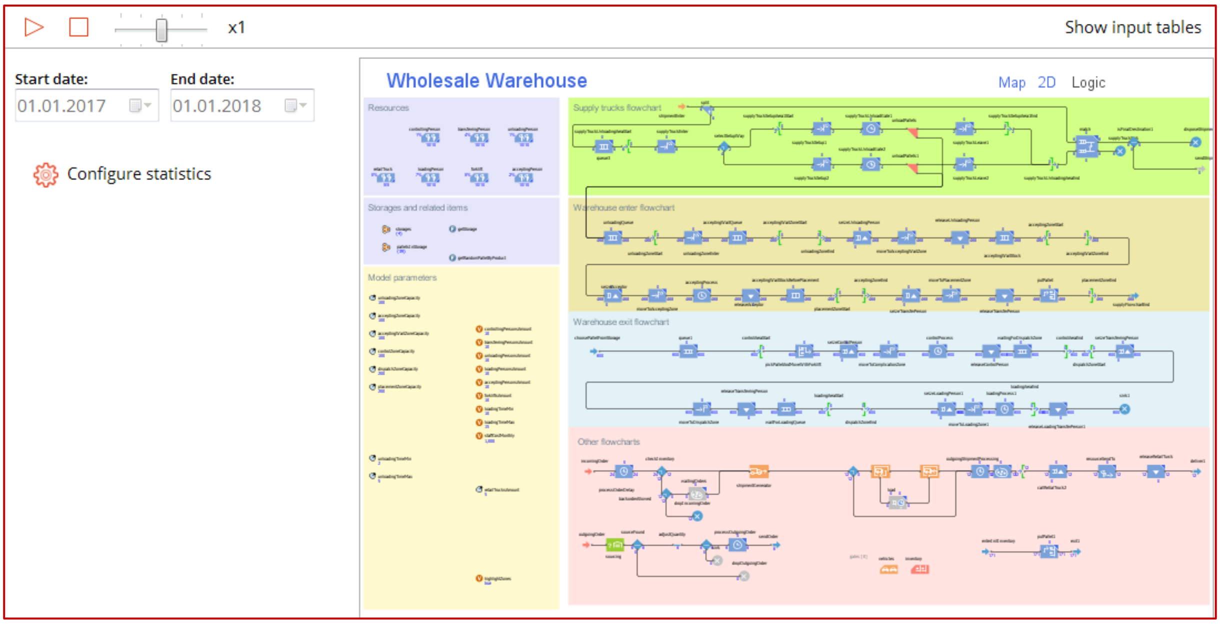


Figure 89: Embedded AnyLogic model in the anyLogistix: process logic view.

The mutual, multi-facted extensions of AnyLogic and anyLogistix include the following issues:

- Customized supply chain model based on anyLogistix scenario data
- Additional data sources such as an external database, other files or Internet sources
- Data pre/post processing
- External solvers
- Your own optimization algorithms
- Heuristics
- Custom statistics
- Results: New anyLogistix scenarios (like GFA and NetOpt)

You can use these extensions with several anyLogistix elements, including **DC**, **Factory** or **Customer**. You can customize sourcing, inventory and transportation policies as well as the decision-making logic that takes factors such as shipment times, shipment grouping, source selection logic or route selection logic in account. You can also create custom experiments.

Impact of Transportation Policy

You use the **Vehicle Types** and **Paths** tables to manage transportation policy. In the **Vehicle Types** table, you can set the transportation mode, capacity and speed. The **Paths** table allows you to set up FTL or LTL policy, transportation costs and time computation schemes, minimum load and order aggregation parameters.

You can based your transportation cost computations on four rules:

- Weight x volume x distance
- Distance-based

- Fixed delivery costs
- Weight-based costs

The transportation time can be fixed or determined automatically based on real routes and transportation speed.

Experiment

In their next executive meeting, Davis, Marina, and Cheng review their options. Their goal is to change the transportation policy in a way that helps improve their supply chain's performance.

While Cheng has noticed the capacity utilization of lorries is very low (25%), there are ways to improve it. For example, the company might decide to change their schedule from daily deliveries to a delivery every four days based on the FTL policy. However, this would imply an order quantity of at least 200 units, an amount that exceeds the maximum storage capacity of 113 units. Davis tells the others a short-term capacity extension like this is impossible.

Cheng wants to try another option: replace the lorries that have a capacity of 20 m^3 with lorries that have a capacity of 7 m^3. This would reduce transportation costs from $1 for km and m^3 to $0.5 for km and m^3. Afterward, they change the lead time from distribution centers to the customers to [0.7; 0.9]. Figure 90 and Table 13 display their results:

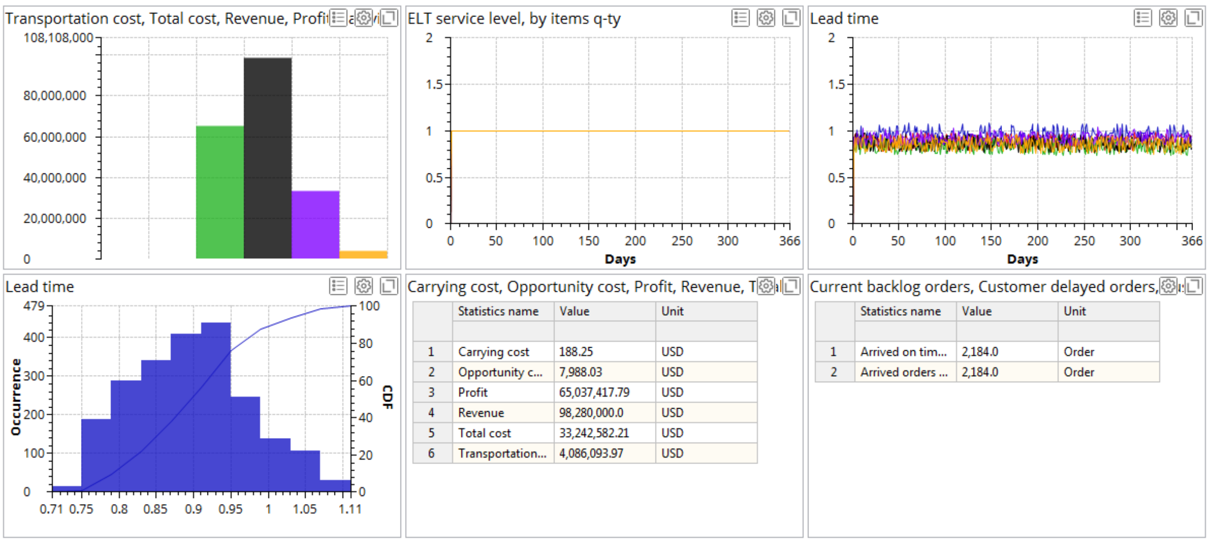


Figure 90: Financial and customer performance for changed transportation capacity.

Table 13: KPI comparison

KPIs	Initial Supply Chain	New Inventory Control Policy	New Inventory Control Policy + New Transportation Policy
Financial distribution center performance:			
Carrying cost	89.35	188.28	188.25
Opportunity cost	7 993.23	7 988.03	7 988.03

KPIs	Initial Supply Chain	New Inventory Control Policy	New Inventory Control Policy + New Transportation Policy
Profit	63,344,372.18	63,365,215.85	65,037,417.79
Revenue	98,280,000.0	98,280,000.0	98,280,000.0
Total cost	34,935,627.82	34,914,784.15	33,242,582.21
Transportation cost	5,760,238.47	5,758,295.88	4,086,093.97
Customer performance:			
Maximum lead time, days	2.04	2.04	0.95
Min-Max Service level, %	10-100	40-100	100
Current backlog orders	0	0	0
Customer delayed orders	706.0	684.0	0
Customer in-time orders	1472.0	1494.0	2184.0
Customer orders arrived	2175.0	2176.0	2184.0
Operational performance:			
Maximum capacity usage in the supply chain, m^3	67.8	105.4	105.4
Maximum inventory in the supply chain, units	580.0	942.0	942.0

Results Analysis

Table 9 shows us total profit has increased. This is evidence of the transportation capacity utilization impact on the supply chain costs.

Finally, Davis wants to estimate the effect of reducing lead time from two days to one day since this would increase supply chain competitiveness and might result in a sales increase. Reducing the lead time from two days to one day would likely result in lower inventories (good for Marina!) but higher transportation costs (a problem for Cheng!).

They change **Expected lead time** in the **Demand** table to **1** day, lead time from distribution centers to the customers to [0.6; 0.8], and transportation costs from the distribution centers to the customers to $0.02.

Figure 91 and Table 14 display the simulation's results:

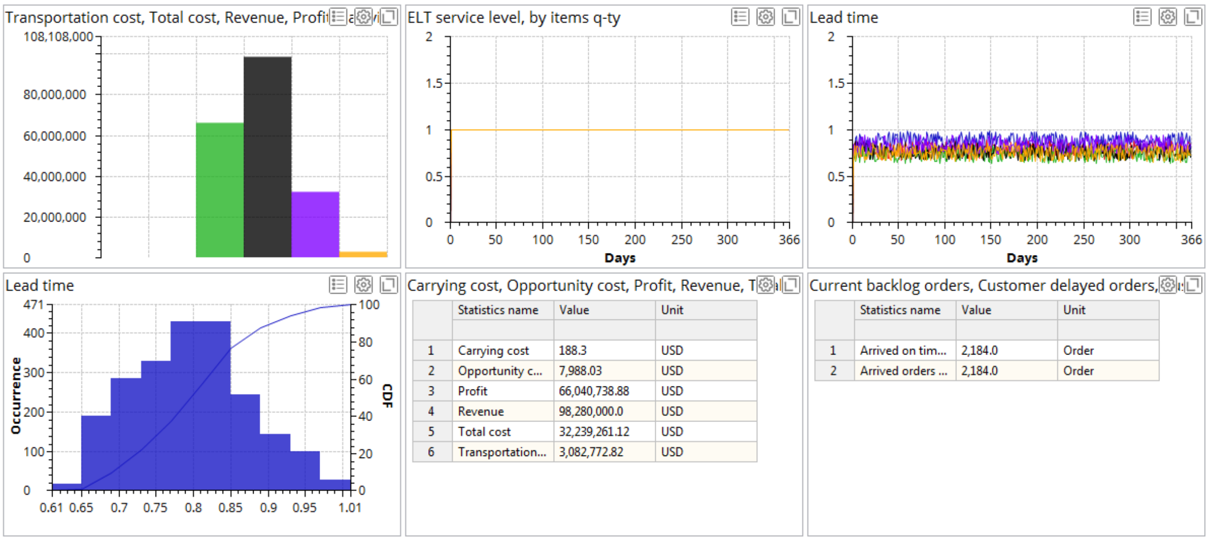


Figure 91: Financial and customer performance.

Table 14: KPI Comparison

KPI	Initial Supply Chain	New Inventory Control Policy	Lead Time = 1 Day
Financial distribution center performance:			
Carrying cost	89.35	188.28	188.24
Opportunity cost	7 993.23	7 988.03	7 988.03
Profit	63,344,372.18	63,365,215.85	66,040,738.88
Revenue	98,280,000.0	98,280,000.0	98,280,000.0
Total cost	34,935,627.82	34,914,784.15	32,239,261.12
Transportation cost	5,760,238.47	5,758,295.88	3,082,772.82
Customer performance:			
Maximum lead time, days	2.04	2.04	0.85
Min-Max Service level, %	10-100	40-100	100
Current backlog orders	0	0	0
Customer delayed orders	706.0	684.0	0
Customer in-time orders	1472.0	1494.0	2184.0
Customer orders arrived	2175.0	2176.0	2184.0
Operational performance:			

KPI	Initial Supply Chain	New Inventory Control Policy	Lead Time = 1 Day
Maximum capacity usage in the supply chain, m^3	67.8	105.4	105.4
Maximum inventory in the supply chain, units	580.0	942.0	942.0

By comparing the results, we can see the reduced lead time has increased supply chain profit. It also improves inventory efficiency, order fulfilment rates and service levels, measures which can all strengthen the company's competitive position.

Chapter 3. Four-stage Supply Chain: Production Factories and Sourcing Policies

Our Learning Objectives

Our learning objectives for this chapter are to:

1. Gain insight into the impact of production and sourcing policies on supply chain and logistics performance
2. Develop the anyLogistix skills needed to create four-stage supply chain models, perform experiments and measure performance

Production Factories

Case Study: Smartphone Supply Chain

WHC is a supply chain for smartphone production and distribution (Figure 93).

The smartphone assembly process that takes place at the Chinese factory requires one display and two chips. The Chinese supplier delivers their displays by truck and the Taiwanese supplier delivers their chips by ferry.

The factory delivers the smartphones by air to the distribution center in the U.S. From there, the distribution center ships them by air to the customers. The factory and distribution center are running Min-Max inventory control policy at a 1% interest rate.

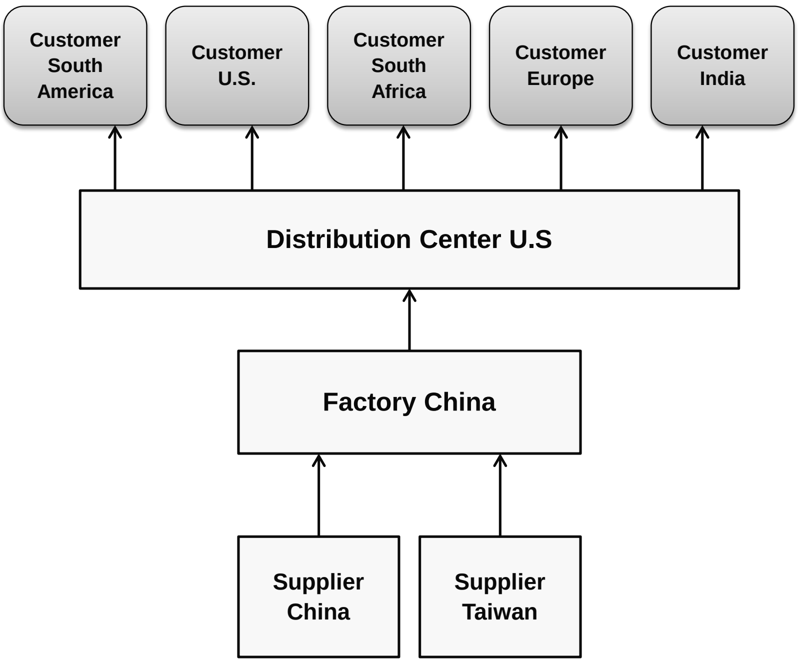


Figure 93: WHC supply chain

We need to analyze two demand scenarios: a positive and a negative market for smartphones.

Assessment Questions:

- What strategies—production, distribution, sourcing and transportation—does this case study use?

- What other inventory control policies do you know?

Supply Chain Design

Multi-stage Supply Chain Design

In Figure 94, we start a new scenario and set up the supply chain design to match Figure 93.

Figure 94: Supply chain design.

We'll first rename the default Suppliers and Customers by their locations (**Supplier China**, **Supplier Taiwan**, **US**, **Brazil**, **South Africa**, **Italy** and **India**) and then rename Site 1 to **DC** and Site 2 to **Factory**.

Transportation, Sourcing and Inventory Policy

Afterward our renaming is complete, we then define the following model elements (Figures 95-100):

- products
- demand and lead time
- vehicle types
- sourcing policy
- the paths
- inventory control policy

#	Name	Unit	Selling Price	Cost	Cost Unit
1	Smartphone	pcs	600	200	USD
2	Display	pcs	30	10	USD
3	Chip	pcs	20	5	USD

Figure 95: Products.

#	Product	Amount from	Unit from		Amount to	Unit to
1	Smartphone	1	pcs	=	0.001	m³
2	Display	1	pcs	=	0.0005	m³
3	Chip	1	pcs	=	0.000001	m³

Figure 96: Measurement unit conversions.

#	Name	Capacity	Capacity Unit	Speed	Speed Unit
1	Airplane	40	m³	800.0	km/h
2	Truck	20	m³	50.0	km/h
3	Ship	2,000	m³	50.0	km/h
4	Ferry	2,000	m³	50.0	km/h

Figure 97: Vehicle types.

#	Delivery Destinat...	Product	Type	Parameters	Sources	Time Period	Inclusion Type
1	Factory	Display	Closest (Single s...	No parameters	Supplier China	(All periods)	Include
2	Factory	Chip	Closest (Single s...	No parameters	Supplier Taiwan	(All periods)	Include
3	DC	Smartphone	Closest (Single s...	No parameters	Factory	(All periods)	Include
4	(All customers)	Smartphone	Closest (Single s...	No parameters	DC	(All periods)	Include

Figure 98: Sourcing policy.

#	From	To	Cost Calculation	Cost Calculation ...	Cost Unit	Distance	Distance Unit	Transport...	Time Unit	Straight	Vehicle Type	Transpo
1	Supplier China	Factory	Distance-based c.	0.5 * distance	USD	0	km	0.0	day		Truck	LTL
2	Supplier Taiwan	Factory	Distance-based c.	0.8 * distance	USD	0	km	0.0	day		Ferry	LTL
3	Factory	DC	Volume&distanc..	0.01 * amount (m...	USD	0	km	2.0	day		Airplane	LTL
4	DC	(All locations)	Volume&distanc..	0.01 * amount (m...	USD	0	km	2.0	day		Airplane	LTL

Figure 99: Paths.

#	Facility	Product	Policy Type	Policy Parameters	Initial Stock, units	Periodic Check	Period
1	DC	Smartphone	Min-max policy	s=20, S=50	40		0
2	Factory	Smartphone	Min-max policy	s=30, S=60	40		0
3	Factory	Chip	Unlimited invent.	Unlimited	∞		0
4	Factory	Display	Unlimited invent.	Unlimited	∞		0

Figure 100: Inventory control policy.

Since our objective is to compare two scenarios with different customer demands, we rename our scenario to **Four-Stage supply chain (Optimistic scenario)**, copy it and name the copy **Four-Stage supply chain (Pessimistic scenario)**. We'll define the demand for both scenarios in the following way (Figure 101-102):

#	Customer	Product	Demand Type	Parameters	Time Period	Expected Lead Ti...	Time Unit	Backorder Policy
1	US	Smartphone	Periodic demand	Period=10.0, Quantity=35.0	(All periods)	30	day	Not allowed
2	Brazil	Smartphone	Periodic demand	Period=10.0, Quantity=15.0	(All periods)	30	day	Not allowed
3	South Africa	Smartphone	Periodic demand	Period=10.0, Quantity=10.0	(All periods)	30	day	Not allowed
4	Italy	Smartphone	Periodic demand	Period=10.0, Quantity=10.0	(All periods)	30	day	Not allowed
5	India	Smartphone	Periodic demand	Period=10.0, Quantity=30.0	(All periods)	30	day	Not allowed

Figure 101: The optimistic scenario for positive market development.

#	Customer	Product	Demand Type	Parameters	Time Period	Expected Lead Ti...	Time Unit	Backorder Policy
1	US	Smartphone	Periodic demand	Period=10.0, Quantity=7.0	(All periods)	30	day	Not allowed
2	Brazil	Smartphone	Periodic demand	Period=10.0, Quantity=3.0	(All periods)	30	day	Not allowed
3	South Africa	Smartphone	Periodic demand	Period=10.0, Quantity=2.0	(All periods)	30	day	Not allowed
4	Italy	Smartphone	Periodic demand	Period=10.0, Quantity=2.0	(All periods)	30	day	Not allowed
5	India	Smartphone	Periodic demand	Period=10.0, Quantity=6.0	(All periods)	30	day	Not allowed

Figure 102: The pessimistic scenario for negative market development.

Production Policy and Bill of Materials (BOM)

Because our example has a factory and two suppliers, we need to define the parameters for BOM (bill-of-material) and the Production policy (Figures 103-104):

#	Name	End Product	Quantity	Components
1	BOM 1	Smartphone	1	[Display:1.0, Chip:2.0]

Figure 103: BOM (bill-of-materials).

#	Site	Product	Type	Parameters	BOM	Production Cost	Cost Unit	Time Period	Inclusion Type
1	Factory	Smartphone	Simple make pol.	Time = 0.01 (day)	BOM 1	50	USD	(All periods)	Include

Figure 104: Production policy.

Production and Sales Batches

You can use the main menus—**Production Batch** and **Sales Batch**—to set up production and sales batches as additional parameters. For simplicity, we will not consider these options in this example. For more information about these options, see Chapter 4, Sect. 6 “Bullwhip Effect”.

AS-IS Simulation

Experiment Preparation and KPI Dashboard

Note: A good modeler tends to modify the existing models for similar problem statements instead of creating models from scratch each time.

Because we chose **pcs** as our product unit, we need to change the value in the **Product statistics unit** field. We do this by clicking **Configure statistics** and selecting **pcs** as shown in Figure 105.

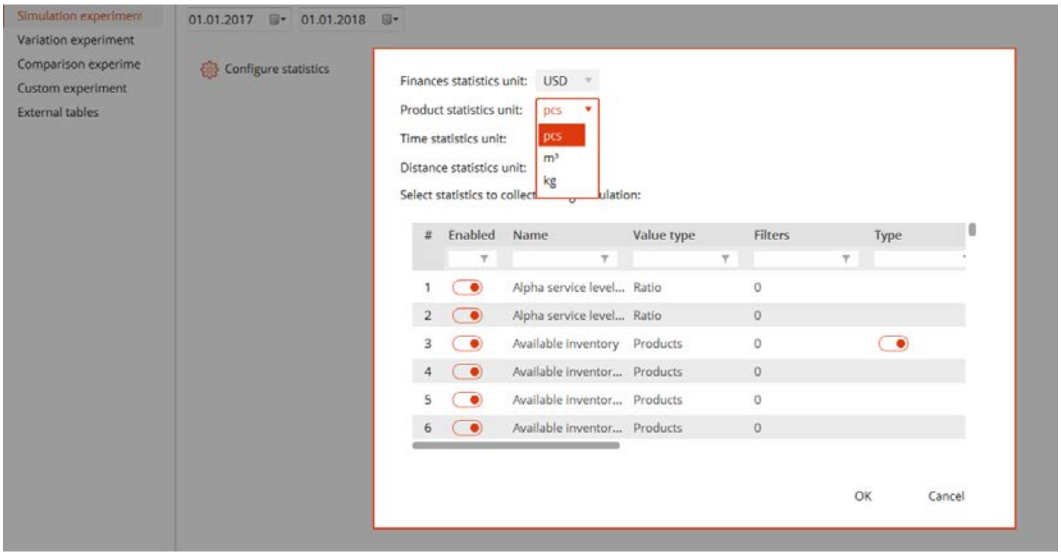


Figure 105: Product statistic unit.

We'll create a KPI dashboard for our example:

Financial and customer performance:

- Opportunity cost, Production cost, Profit, Revenue, Total cost, Transportation cost (table)
- ELT service level by orders (line)
- Lead-time (line)

Operational performance:

- Maximum capacity (line)
- Available inventory (line)

Production and Sourcing:

- Production cost, Transportation cost (table, "Object" show → by item)
- Current backlog orders, Customer delayed orders, Customer dropped orders, Customer in-time orders, Customer orders, Customer orders arrived, Produced (table)

Experimental Result for Pessimistic Scenario

The simulation provides the following results for the pessimistic scenario with low demand (Figures 106-108).

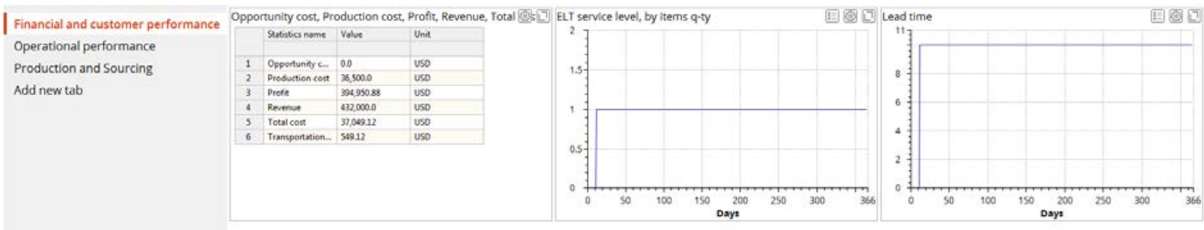


Figure 106: Financial and customer performance.

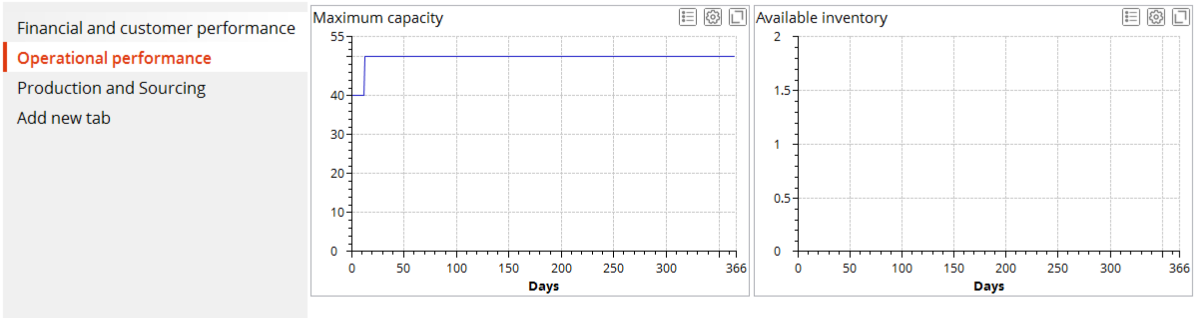
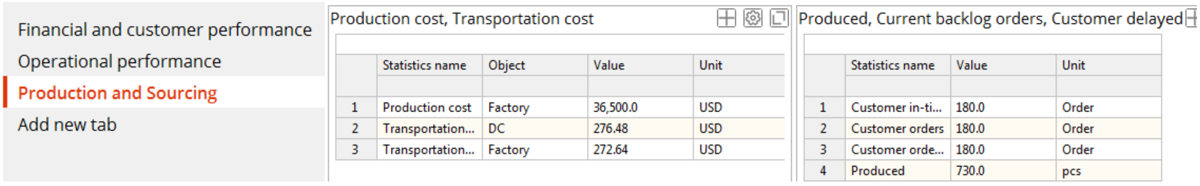


Figure 107: Operational performance.



	Statistics name	Object	Value	Unit
1	Production cost	Factory	36,500.0	USD
2	Transportation...	DC	276.48	USD
3	Transportation...	Factory	272.64	USD

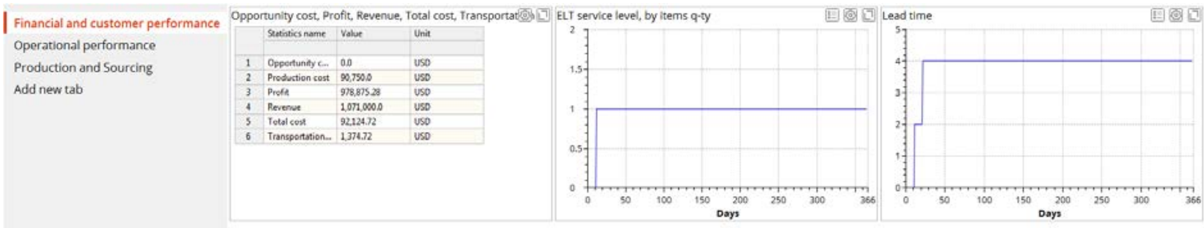
	Statistics name	Value	Unit
1	Customer in-ti...	180.0	Order
2	Customer orders	180.0	Order
3	Customer orde...	180.0	Order
4	Produced	730.0	pcs

Figure 108: Production and sourcing performance.

Why is the **Available inventory** histogram blank? To address this issue, we need to open the **Inventory** table and update our settings.

Experimental Result for Optimistic Scenario

The simulation provides the following results for the optimistic scenario with high demand (Figure 109 to Figure 111).



	Statistics name	Value	Unit
1	Opportunity c...	0.0	USD
2	Production cost	90,750.0	USD
3	Profit	978,875.28	USD
4	Revenue	1,071,000.0	USD
5	Total cost	92,124.72	USD
6	Transportation...	1,374.72	USD

Figure 109: Financial and customer performance.

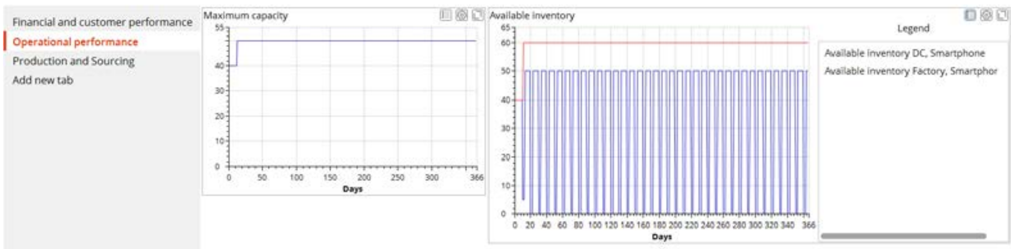


Figure 110: Operational performance.

Compare the data in the **Available inventory** histogram with our previous results.

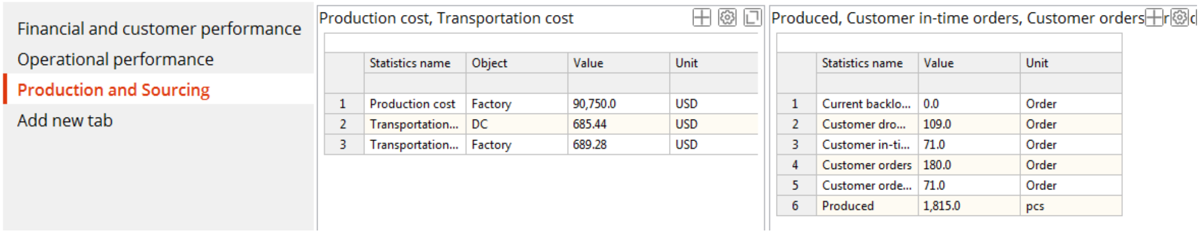


Figure 111: Production and sourcing performance.

Result Analysis

Table 15 shows the KPI from the pessimistic and optimistic scenarios.

Table 15: KPI comparison.

KPI	Pessimistic Scenario	Optimistic Scenario
Financial and customer performance:		
Opportunity cost, $	0.0	0.0
Production cost, $	36 500.0	90 750.0
Profit, $	394 950.88	978 875.28
Revenue, $	432 000.0	1 071 000.0
Total cost, $	37 049.12	92 124.72
Transportation cost (distribution center), $	276.48	685.44
Transportation cost (Factory), $	272.64	689.28
Service level, %	100%	100%
Lead time, days	10	4
Operational performance:		
Maximum capacity usage in the supply chain, pcs	50	50
Maximum inventory in the supply chain (distribution center), pcs	50	50
Maximum inventory in the supply chain (Factory), pcs	60	60
Production and sourcing performance:		
Current backlog orders	0	0
Customer delayed orders	0	0

KPI	**Pessimistic Scenario**	**Optimistic Scenario**
Customer dropped orders	0	109.0
Customer in-time orders	180.0	71.0
Customer orders	180.0	180.0
Customer orders arrived	180.0	71.0
Produced, pcs	730.0	1815.0

In Table 15, we can see higher demand has led to increased supply chain profit. At the same time, order fulfilment rates have fallen. This analysis shows the supply chain design's limits and provides evidence the company will need to redesign their supply chain if they believe the optimistic scenario is realistic.

Sourcing Policies

Our Case Study: Extended Supply Chain for Smartphones

WHC's supply chain manager suggests we analyze two options for improving the supply chain performance for a positive market development:

Option	Fixed Costs
Increase distribution center capacity and imply new Min-Max values 100-200 at distribution center and 120-240 at factory in the inventory control policy	$10,000
Build a second distribution center in China and imply Dual Sourcing	$50,000

Improvement Action: Single Distribution Center - Increased Capacity

Experimental Result

The simulation provides the following results for the optimistic scenario with high demand and supply chain redesign in the **single distribution center-increased capacity** option (Figures 112-114).

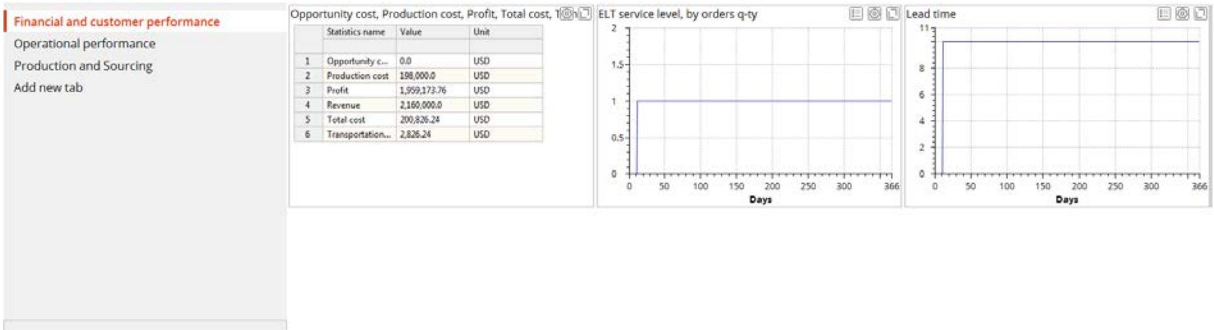


Figure 112: Financial and customer performance.

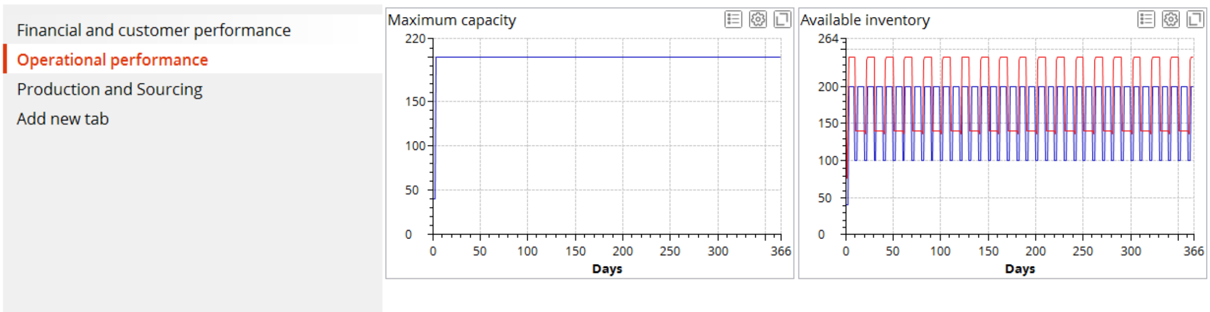


Figure 113: Operational performance.

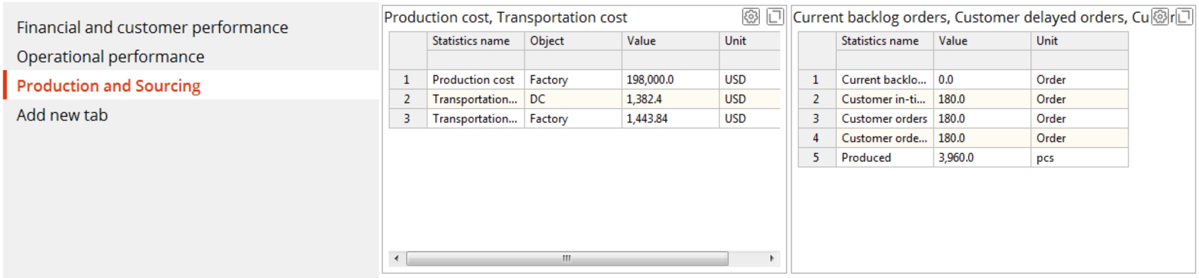


Figure 114: Production and sourcing performance.

Result Analysis

Table 16 shows us the redesigned supply chain's impact on the KPI.

Table 16: KPI comparison

KPI	**Optimistic Scenario** **AS-IS Supply Chain Design**	**Optimistic Scenario Redesign** **"single distribution center - increased capacity"**
Financial and customer performance:		
Opportunity cost, $	0.0	0.0
Production cost, $	90 750.0	198 000.0
Profit, $	978 875.28	1 959 173.76
Revenue, $	1 071 000.0	2 160 000.0
Total cost, $	92 124.72	200 826.24
Transportation cost (distribution center), $	685.44	1 382.4
Transportation cost (Factory), $	689.28	1 443.84
Service level, %	100%	100%
Lead time, days	4	10
Operational performance:		
Maximum capacity usage in the supply chain, pcs	50	200
Maximum inventory in the supply chain (distribution center), pcs	50	200
Maximum inventory in the supply chain (Factory), pcs	60	240
Production and sourcing performance:		

KPI	Optimistic Scenario AS-IS Supply Chain Design	Optimistic Scenario Redesign “single distribution center - increased capacity”
Current backlog orders	0	0
Customer delayed orders	0	0
Customer dropped orders	109.0	0
Customer in-time orders	71.0	180.0
Customer orders	180.0	180.0
Customer orders arrived	71.0	180.0
Produced, pcs	1815.0	3 960.0

Table 16 shows us the redesigned supply chain performs far better than the AS-IS supply chain design. Financial, customer, and operational performance have all improved and the WHC can almost double its total profit. The results also point to the maximum capacity the extended distribution center will need (200 pcs) as well as the required production capacity (3,960 units).

Improvement Action: New Distribution Center - Dual Sourcing

Changing the Scenario’s Sourcing Policy

To perform an experiment that uses dual sourcing, we need to update our scenario. First, we need to go to **Sourcing** to change the single sourcing policy to multiple source policy for deliveries from the distribution centers to the customers. Do not forget to create the new distribution center in China! (Figure 115).

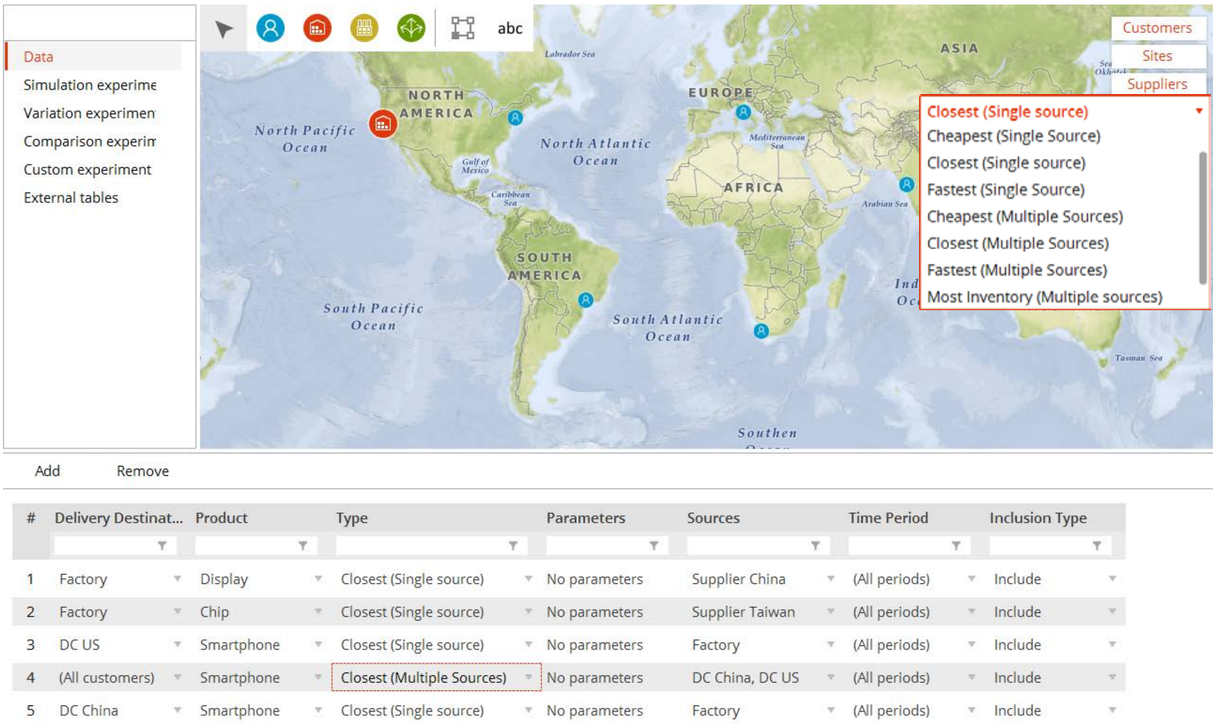


Figure 115: Sourcing policy selection.

Second, we set up inventory control parameters (Figure 116).

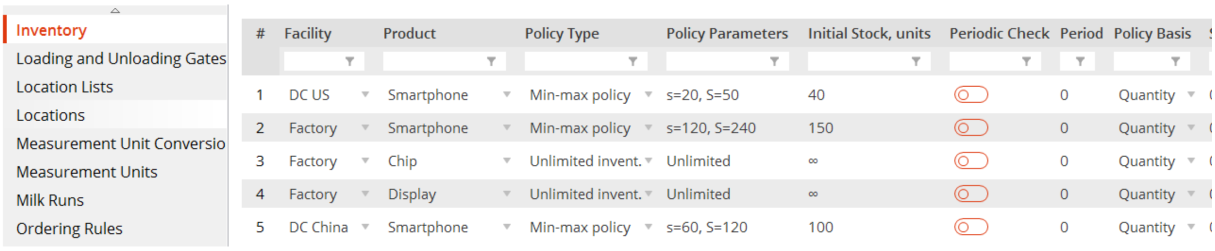


Figure 116: Inventory control policy.

Third, we consider $50,000 as fixed costs for opening the new distribution center in China (Figure 117).

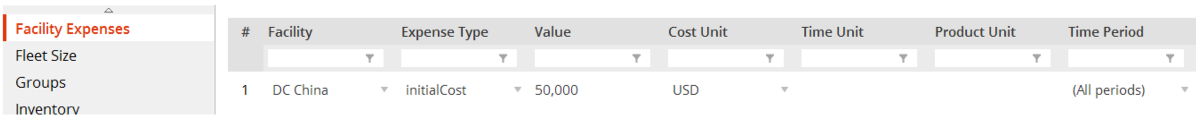


Figure 117: Distribution center/factory settings.

Finally, we add paths to and from the new distribution center in China (Figure 118).

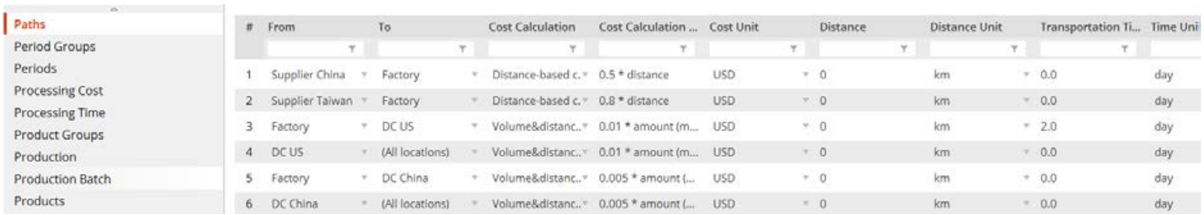


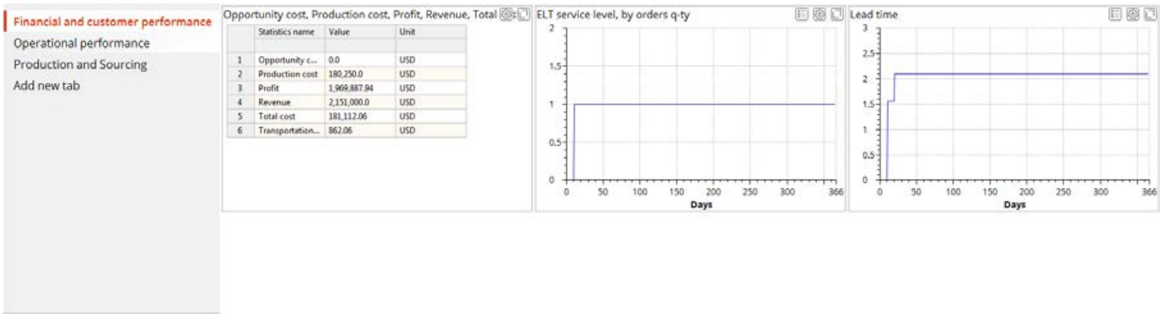
Figure 118: Transportation policy.

Note: Inventory control policies immediately interact with production policy. Production is controlled by parameters of inventory policies.

Experimental Result

The simulation provides the results for the following optimistic scenario with high demand and supply chain redesign in the **new distribution center – dual sourcing** option (Figures 119-122).

Figure 119: Dual sourcing experiment.



	Statistics name	Value	Unit
1	Opportunity c...	0.0	USD
2	Production cost	180,250.0	USD
3	Profit	1,969,887.94	USD
4	Revenue	2,151,000.0	USD
5	Total cost	181,112.06	USD
6	Transportation...	862.06	USD

Figure 120: Financial and customer performance.

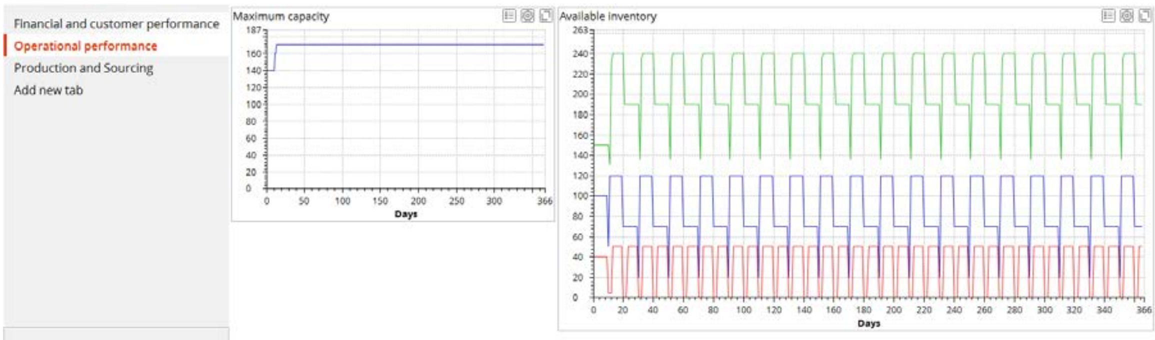


Figure 121: Operational performance

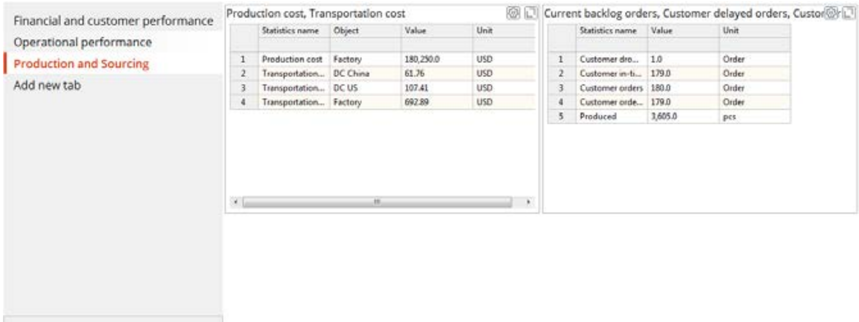


Figure 122: Production and sourcing performance

Result Analysis

Table 17 shows the redesigned supply chain's impact on the KPI.

Table 17: KPI comparison.

KPI	Optimistic Scenario AS-IS Supply Chain Design	Optimistic Scenario Supply Chain Redesign "single distribution center - increased capacity"	Optimistic Scenario Supply Chain Redesign "new distribution center – dual sourcing"
Financial and customer performance:			
Opportunity cost, $	0.0	0.0	0.0
Production cost, $	90 750.0	198 000.0	180 250.0
Profit, $	978 875.28	1 959 173.76	1 969 887.94
Revenue, $	1 071 000.0	2 160 000.0	2 151 000.0
Total cost, $	92 124.72	200 826.24	181 112.06
Transportation cost (distribution center US), $	685.44	1 382.4	107.41
Transportation cost (distribution center China), $	-	-	61.75
Transportation cost (Factory), $	689.28	1 443.84	692.89
Service level, %	100%	100%	100%
Lead time, days	4	10	2.09
Operational performance:			

KPI	Optimistic Scenario AS-IS Supply Chain Design	Optimistic Scenario Supply Chain Redesign “single distribution center - increased capacity”	Optimistic Scenario Supply Chain Redesign “new distribution center – dual sourcing”
Maximum capacity usage in the supply chain, pcs	50	200	170
Maximum inventory in the supply chain (distribution center US), pcs	50	200	50
Maximum inventory in the supply chain (distribution center China), pcs	-	-	70
Maximum inventory in the supply chain (Factory), pcs	60	240	190
Production and sourcing performance:			
Current backlog orders	0	0	0
Customer delayed orders	0	0	0
Customer dropped orders	109.0	0	1.0
Customer in-time orders	71.0	180.0	179.0
Customer orders	180.0	180.0	180.0
Customer orders arrived	71.0	180.0	179.0
Produced, pcs	1815.0	3 960.0	3 605.0

Table 17 shows us the redesigned supply chain performs much better than the AS-IS supply chain design and the first supply chain redesign option. Financial, customer and operational performance have all improved, and the WHC can double its total profit compared to the first supply chain redesign option.

The results are also evidence of the maximum distribution center capacity that the new distribution center in China (170 m^3) needs as well as the production capacity (3,605 units). For a more detailed analysis, you need to include warehousing costs for the second distribution center in China.

Comparison to New Distribution Center – Single Sourcing

To estimate whether a dual sourcing policy will perform better than a single sourcing policy, we simulate the same example but with single sourcing policy. The U.S.-based distribution center ships to customers in the U.S. and Brazil, and the China-based distribution center ships to all other customers (Figure 123).

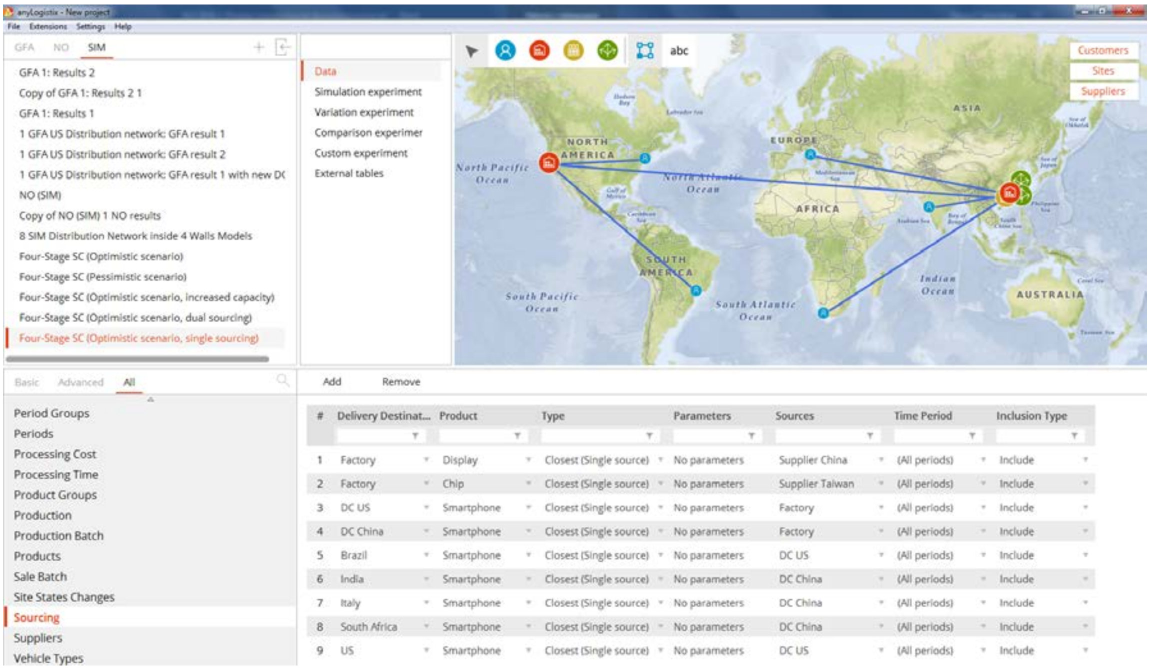


Figure 123: A supply chain design that uses a single sourcing policy with a second distribution center.

The simulation provides the following results for the optimistic scenario with high demand and supply chain redesign in the **new distribution center – single sourcing** option (Figures 124-126).

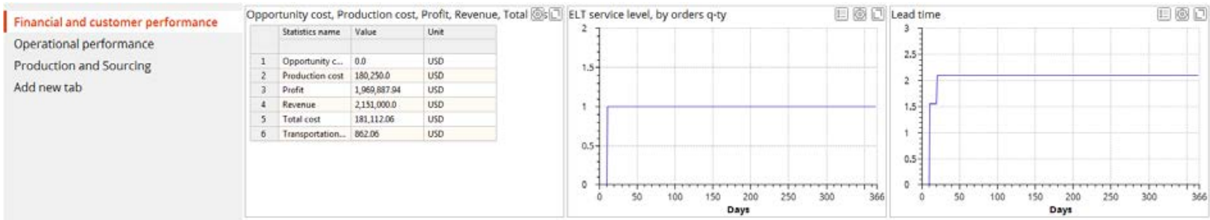


Figure 124: Financial and customer performance.

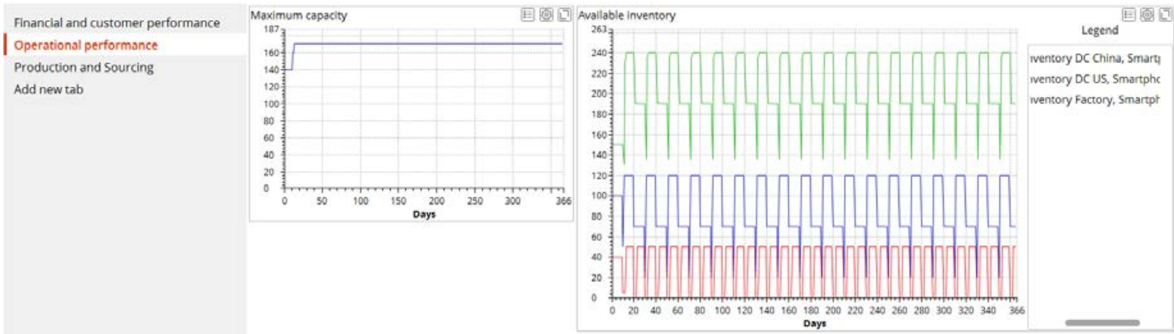


Figure 125: Operational performance.

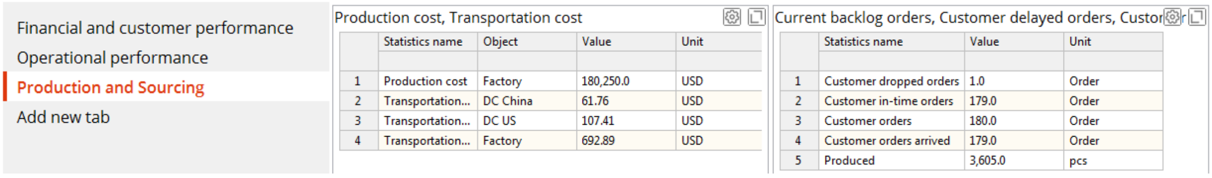


Figure 126: Production and sourcing performance.

Table 18 displays the results.

Table 18: KPI comparison.

KPI	**Optimistic Scenario** **Supply Chain Redesign** **“single distribution center - increased capacity”**	**Optimistic Scenario** **Supply Chain Redesign** **“new distribution center – dual sourcing”**	**Optimistic Scenario** **Supply Chain Redesign** **“new distribution center – single sourcing”**
Financial and customer performance:			
Opportunity cost, $	0.0	0.0	0.0
Production cost, $	198 000.0	180 250.0	180 250.0
Profit, $	1 959 173.76	1 969 887.94	1 969 887.94
Revenue, $	2 160 000.0	2 151 000.0	2 151 000.0
Total cost, $	200 826.24	181 112.06	181 112.06
Transportation cost (distribution center US), $	1 382.4	107.41	107.41
Transportation cost (distribution center China), $	-	61.75	61.76
Transportation cost (Factory), $	1 443.84	692.89	692.89
Service level, %	100%	100%	100%
Lead time, days	10	2.09	2.09
Operational performance:			
Maximum capacity usage in the supply chain, pcs	200	170	170

KPI	**Optimistic Scenario** **Supply Chain Redesign** **“single distribution center - increased capacity”**	**Optimistic Scenario** **Supply Chain Redesign** **“new distribu-tion center – dual sourcing”**	**Optimistic Scenario** **Supply Chain Redesign** **“new distribu-tion center – single sourc-ing”**
Maximum inventory in the supply chain (distribution center US), pcs	200	50	50
Maximum inventory in the supply chain (distribution center China), pcs	-	70	70
Maximum inventory in the supply chain (Factory), pcs	240	190	190
Production and sourcing per-formance:			
Current backlog orders	0	0	0
Customer delayed orders	0	0	0
Customer dropped orders	0	1.0	1.0
Customer in-time orders	180.0	179.0	179.0
Customer orders	180.0	180.0	180.0
Customer orders arrived	180.0	179.0	179.0
Produced, pcs	3 960.0	3 605.0	3 605.0

Table 18 shows us the major impact of building a new distribution center is lower lead time. The SXC design with a new distribution center allows us to achieve the highest total profit with single and dual sourcing policy.

Comparing Sourcing Strategies

Before you decide how to design your supply chain, you should analyze some additional factors, including (Ivanov et al. 2017):

- Production cost
- Use of available resources
- Focusing on core competencies
- Cost restructuring
- Time-to-market
- Risk sharing

- Know-how sharing
- Quality issues
- Flexibility
- Taxes

By reducing your supplier base, you can order larger volumes from one supplier (single sourcing strategy) with the goal of generating volume bundling (supply chain) effects.

However, your dependence on a single supplier may be too high a risk. Recent disruptions have forced supply chain managers to rethink this lean sourcing strategy. In 2011, tsunamis and floods in Japan and Thailand affected many suppliers based in these countries. Many factories did not operate for months.

With that in mind, you may want to work with a second or third supplier who can provide a part or module. This supplier strategy—typically called dual sourcing—might even grow to be a multiple sourcing strategy which better balances the global flows of material and reduces risk.

This discussion above raises some critical issues we need to consider before we commit to a single, dual or multiple sourcing strategy. They include:

- Volume
- Product variety
- Demand uncertainty
- Lead time importance
- Disruption and other risks
- Transportation costs
- Manufacturing complexity
- Coordination complexity
- Post-sale issues

Single Sourcing Advantages

Some common advantages of single sourcing are:

- Long-term agreements
- Price stability
- The opportunity to include Suppliers in the product development process at a very early stage
- Low transactional costs
- Supply chain effects

Single Sourcing Disadvantages

Single sourcing also has several shortcomings:

- Inefficient price policy
- Lead time, quality and service issues
- Lack of collaboration with many suppliers.

For *global sourcing*, items of high volume, steady demand, and low transportation costs are most preferable. However, different *chances and risks* for costs, service, quality, and sustainability issues should be part of the analysis.

- Costs: labor, taxes, transportation, insurance, transshipment, duties and transactions.

- Quality: bill-of-materials, quality control, after-sales service and certifications.
- Service: on-time delivery, responsiveness, flexibility, technical equipment, image and reliability.
- Sustainability: political, economic and social issues.

Global sourcing offers many advantages, including access to the broadest available range of suppliers. But at the same time, the work required to establish relationships with global vendors or partners will increase, as they require certain language skills.

Global sourcing also requires time to travel to suppliers and for the transportation of goods. Topics such as currency risk or political stability are important considerations as well as different cultures, norms or standards.

Chapter 4. Risk Management in Supply Chains

Our Learning Objectives

Our learning objectives for this chapter are to:

1. Develop analytical and management skills to analyze bullwhip and ripple effects in the supply chain
2. Develop technical skills on batching, ordering rules and events
3. Performing variation and comparison experiments in AnyLogistix
4. Understand major trade-offs in supply chain risk management

In supply chain design and planning, we need to take uncertainty and risk into account as we develop problem statements and decision-oriented solutions. Recent literature suggests we need to consider recurrent or *operational* risks and *disruptive* risks.

Risks in supply chains appear at different times and have different performance impacts. High-frequency-low-impact disruptions are typically considered in bullwhip-effect and refer to demand and lead-time fluctuations. Bullwhip effect considers weekly/daily demand and lead-time fluctuations as primary drivers of the supply chain changes which take place at the parametric level and can be eliminated in a short-term perspective. In light of low-frequency-high-impact disruptions, ripple effect has been considered (Ivanov et al. 2014).

Bullwhip Effect in the Supply chain

Case Study

We consider a supply chain for beer production and distribution made up of a supplier, a brewery, a distribution center and a customer (Figure 127).

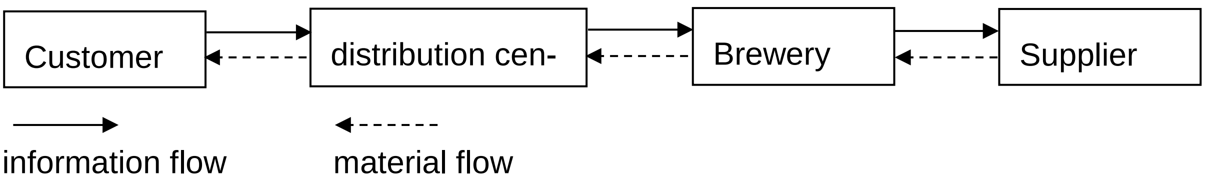


Figure 127: Supply chain structure.

The customer demand (in units) fluctuates and is distributed over 36 days (Table 19).

Table 19: Demand distribution by periods

1-5	6-10	11-15	16-20	21-25	26-30	31-35	36
4	4	9	7	11	14	8	9
4	4	7	8	9	8	11	
4	10	8	6	4	9	7	
2	11	6	10	11	6	9	
5	7	10	7	9	9	10	

Experiment and Bullwhip Effect Analysis

Supply Chain Design and Policies

First, we create a new scenario (**BWE**) and set up the locations (Figure 128).

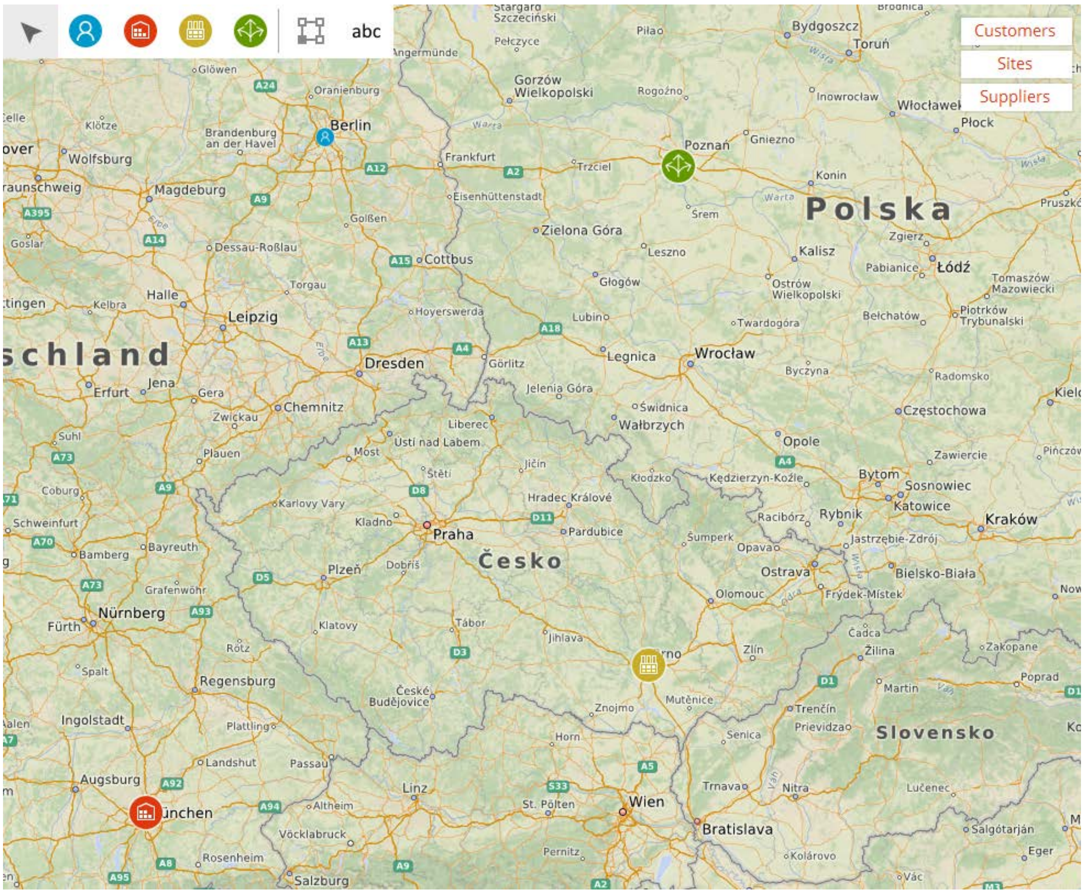


Figure 128: Our scenario's supply chain locations.

Our next step is to create a new product (**Beer**) and a new vehicle (**Truck**), and set up demand (**historic demand**), inventory control policy (**Min**=5; M**ax**=20), and sourcing policy and production time (Figures 129-136).

#	Name	Unit	Selling Price	Cost	Cost Unit
1	Beer	pcs	2	1	USD

Figure 129: Product.

#	Product	Amount from	Unit from		Amount to	Unit to
1	Beer	1	pcs	=	0.001	m³

Figure 130: Unit Conversions.

#	Name	Capacity	Capacity Unit	Speed	Speed Unit
1	Truck	6	m³	50.0	km/h

Figure 131: Vehicle Type.

#	From	To	Cost Calculation	Cost Calculat...	Cost Unit	Distance	Distance Unit	Transportation Ti...	Time Unit	Straight	Vehicle Type	Transportation
1	Supplier 1	Site 1	Fixed delivery cos	0.0	USD	0	km	3.0	day		Truck	LTL
2	Site 1	Site 2	Fixed delivery cos	0.0	USD	0	km	2.0	day		Truck	LTL
3	Site 2	Customer 1	Fixed delivery cos	0.0	USD	0	km	1.0	day		Truck	LTL

Figure 132: Transportation policy.

#	Delivery Destinat...	Product	Type	Parameters	Sources	Time Period	Inclusion Type
1	Customer 1	Beer	Closest (Single s...	No parameters	Site 2	(All periods)	Include
2	Site 2	Beer	Closest (Single s...	No parameters	Site 1	(All periods)	Include
3	Site 1	Beer	Closest (Single s...	No parameters	Supplier 1	(All periods)	Include

Figure 133: Sourcing policy.

#	Site	Product	Type	Parameters	BOM	Production Cost	Cost Unit	Time Period	Inclusion Type
1	Site 1	Beer	Simple make pol.	Time = 2.0 (day)		0	USD	(All periods)	Include

Figure 134: Production policy.

#	Facility	Product	Policy Type	Policy Parameters	Initial Stock, ...	Periodic Check	Period	Policy Basis	Stock Calculation...	Time Unit	Time Period
1	(All sites)	Beer	Min-max policy	s=5, S=20	12		0	Quantity	0	day	(All periods)

Figure 135: Inventory control policy.

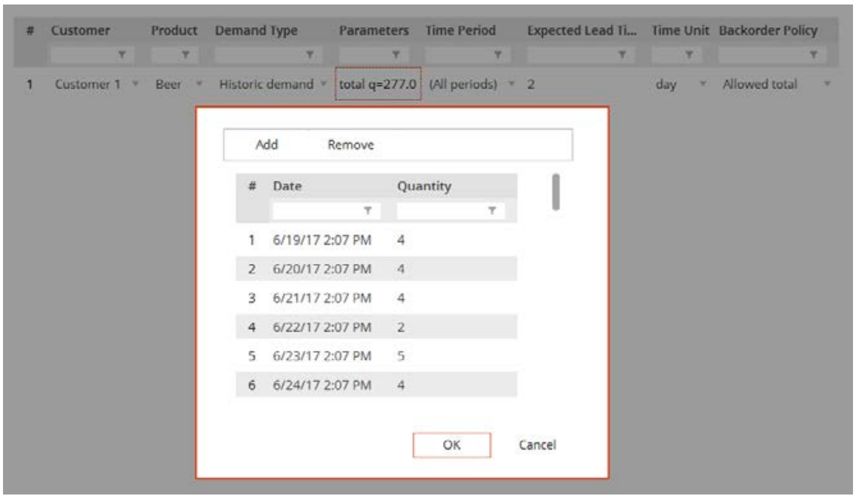


Figure 136: Demand data.

Note *backordering* is allowed in this case.

KPI Dashboard

For bullwhip effect analysis, we design the following two-part KPI dashboard (Figures 137 and 139).

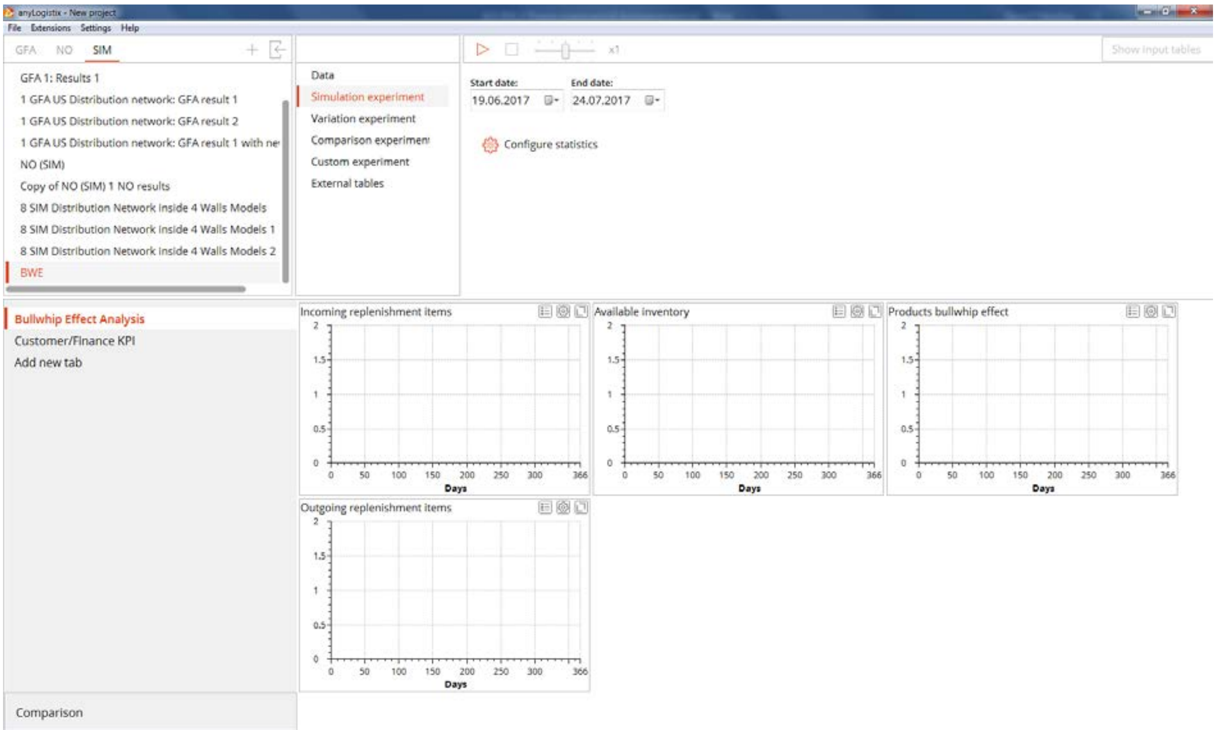


Figure 137: KPI dashboard for bullwhip-effect analysis.

The **Daily Incoming Products / Daily Outgoing Products** diagrams will display the quantities of incoming and outgoing deliveries. The program's computation of the variation of incoming and outgoing deliveries allows us to compute the BWE (bullwhip-effect) index as shown in Figure 138 (based on Heizer and Render 2014).

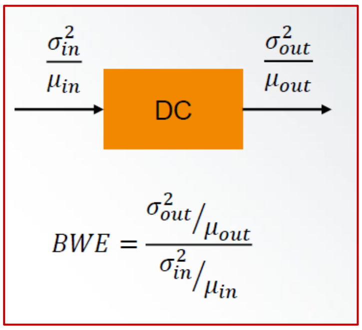


Figure 138: BWE computation

The **Products bullwhip effect** diagram will use the BWE index. If the BWE measure is:

> 1 – Variance amplification is present

= 1 – No amplification is present

< 1 – Smoothing or dampening is occurring

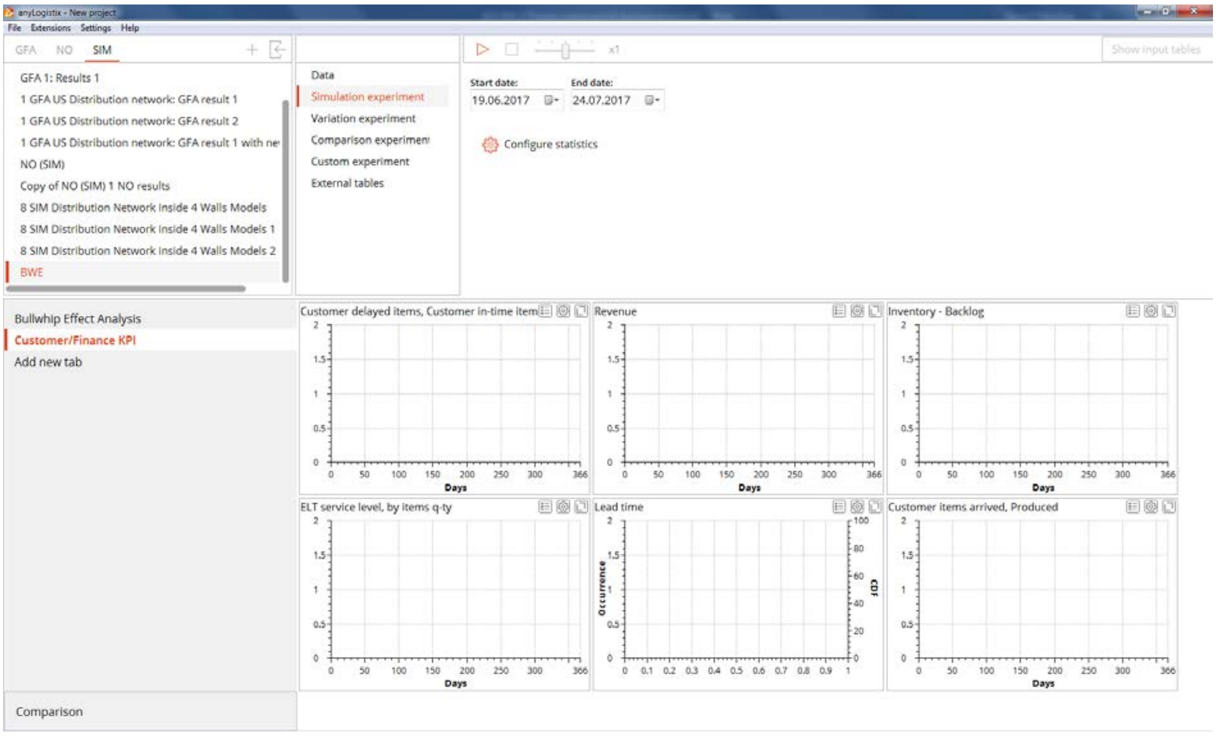


Figure 139: Dashboard with customer and financial KPI.

Experiments and Result Analysis

We start a new simulation experiment for the data described in the case study. You'll find our results in Figures 140-142.

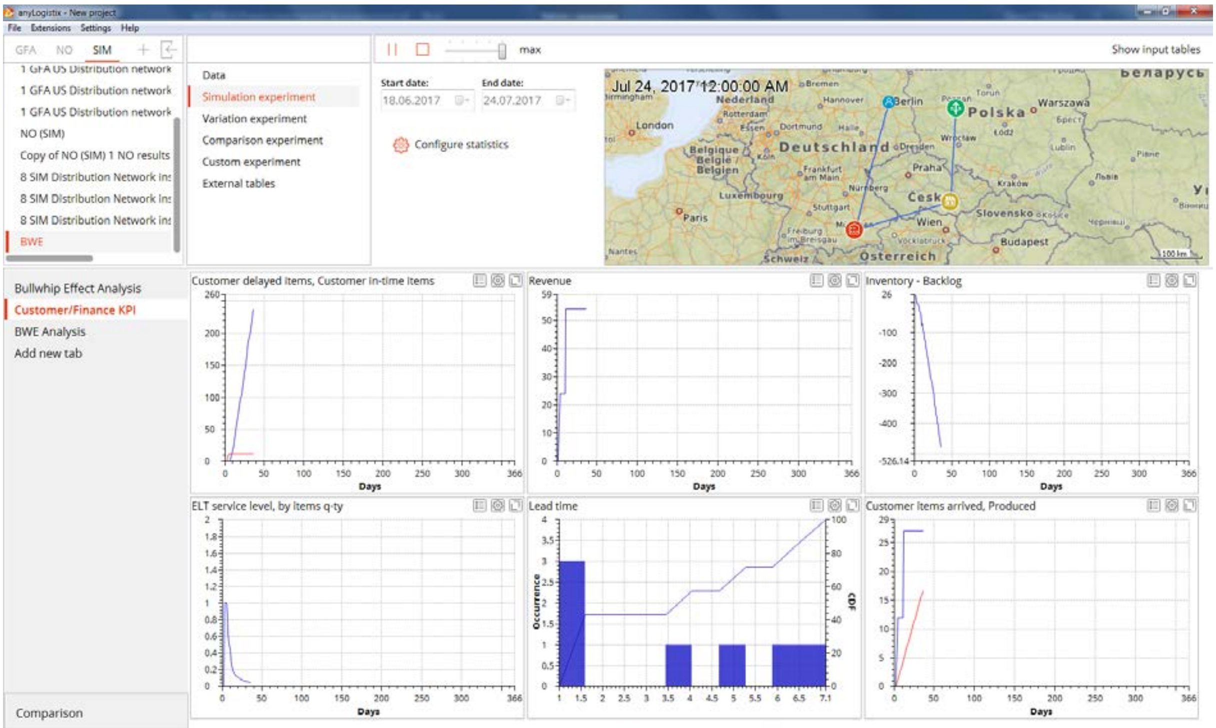


Figure 140: Customer and financial KPI.

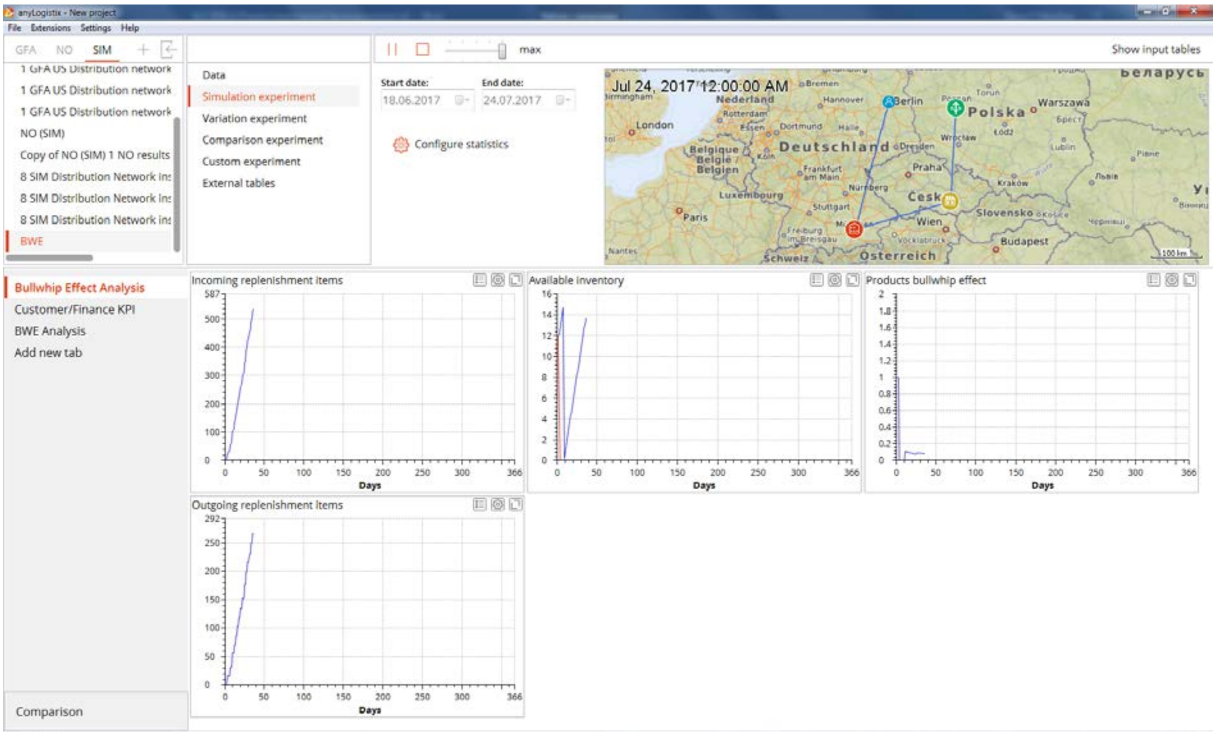
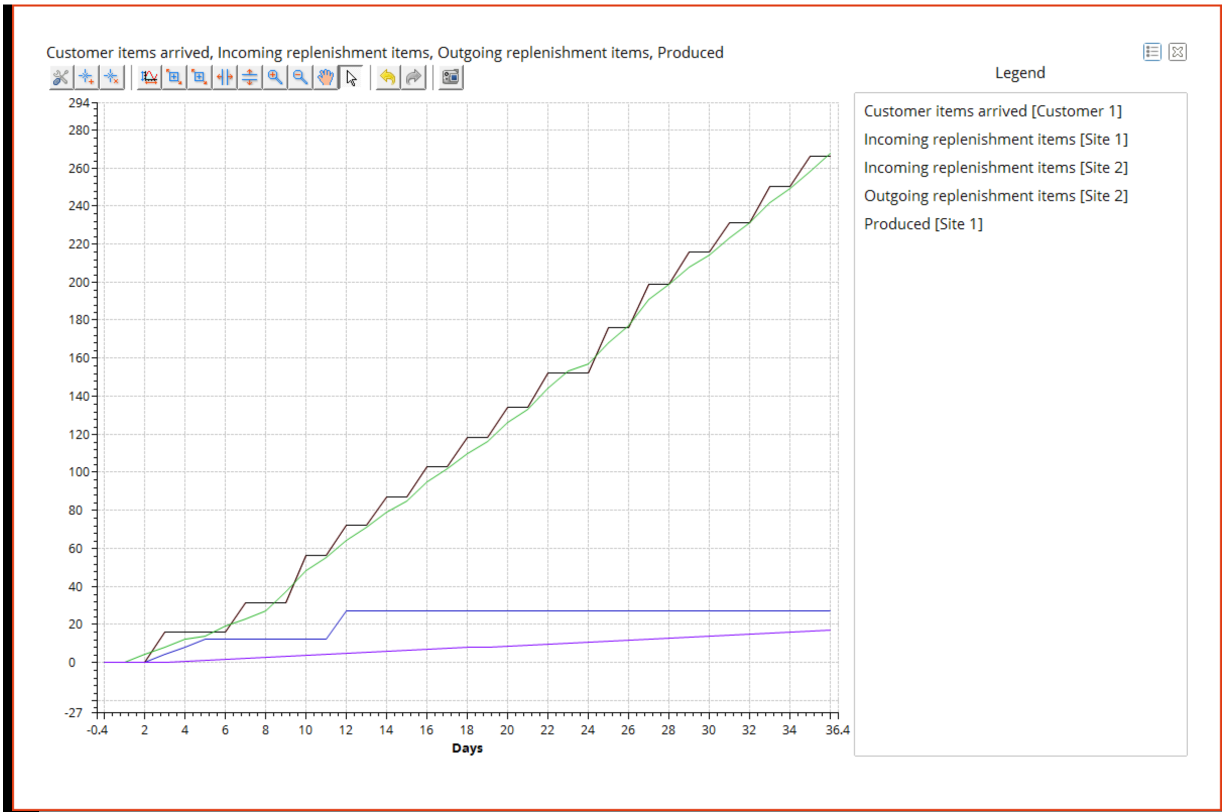


Figure 141: KPI dashboard for bullwhip-effect analysis.



66

Figure 142: A detailed view of bullwhip-effect analysis.

We can see two things in Figure 140: our revenue was $56 and our already-low service level is decreasing. The one to seven-day lead time for some orders is increasing both the number of delayed products and the backlog. We can see the production speed is very low compared to the incoming customer orders. Moreover, Figures 141 and 142 show us the supply chain does not display a bullwhip effect. The variability of delivered quantities is decreasing.

Note: The **Products bullwhip effect** diagram is cumulative.

The simulation shows our supply chain has two major problems: our inventory is too low and our production time is too long. We'll use the following parameters to conduct the next experiment:

- Production time is changed from 2 days to 0.1 day;
- Min-Max levels are changed from 5-20 to 20-40.

Figures 143-144 display our results:

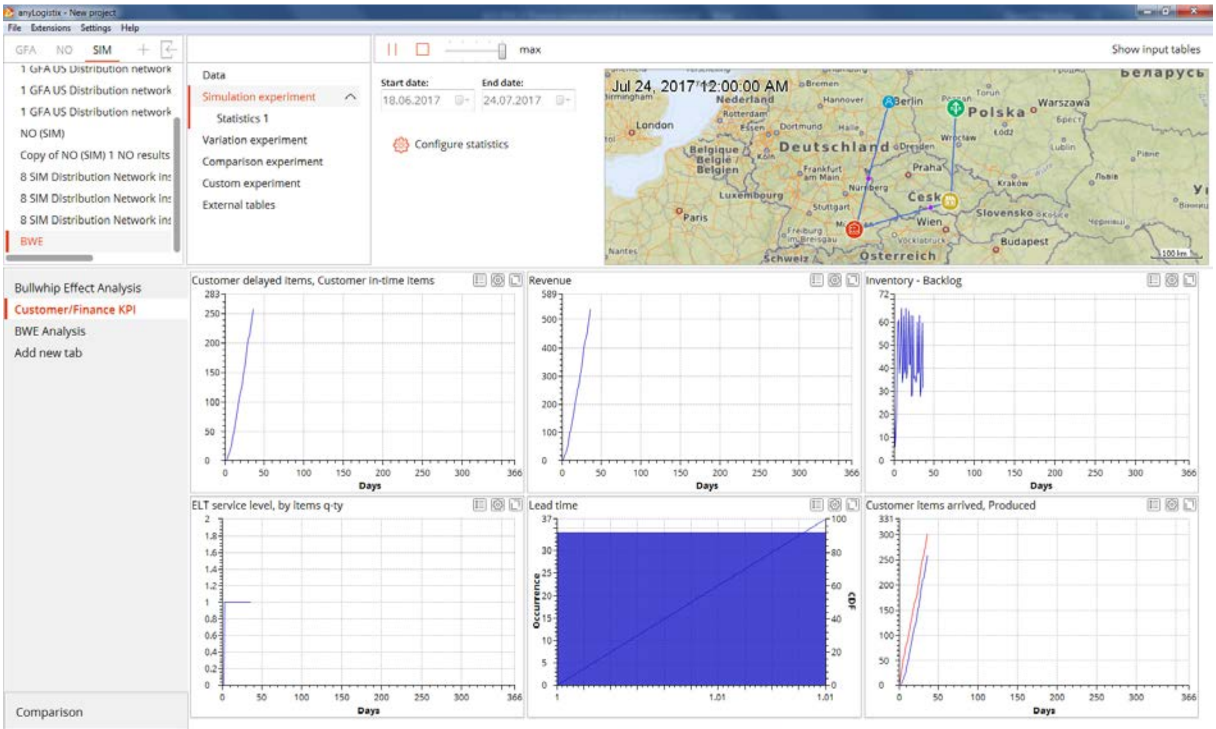


Figure 143: Customer and financial KPI.

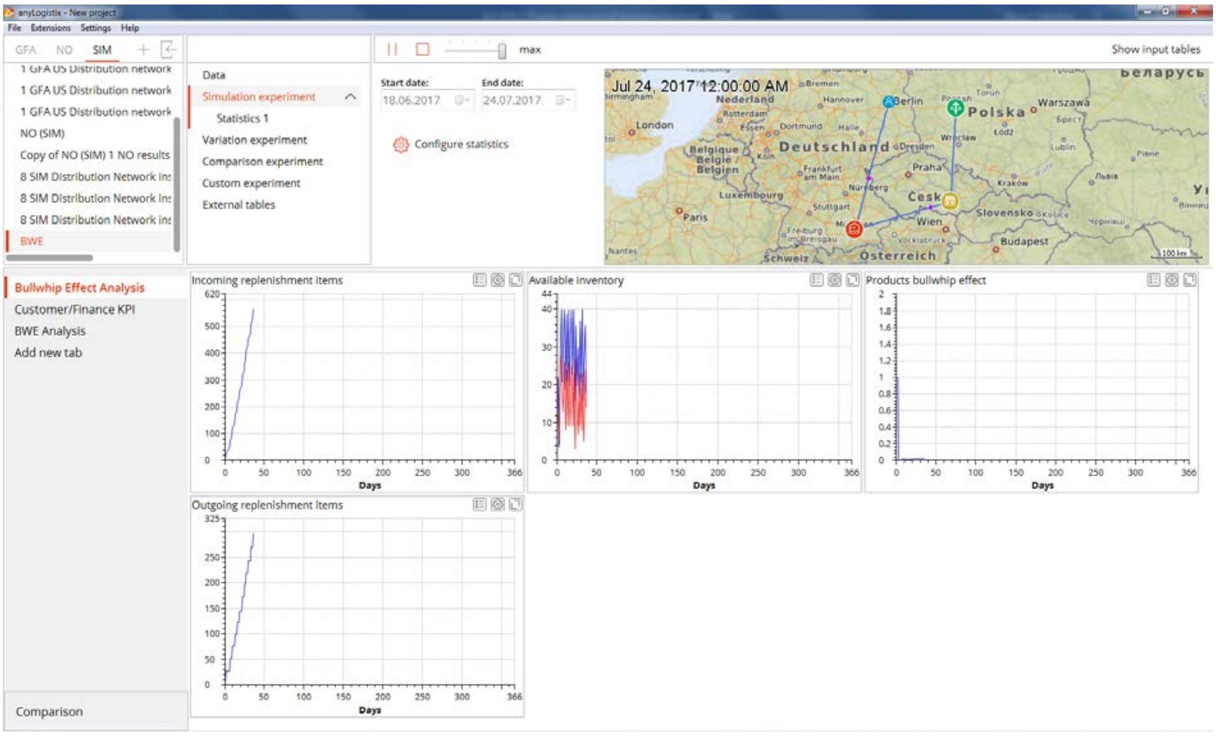


Figure 144: KPI dashboard for bullwhip-effect analysis.

Figure 143 shows us we received a revenue of more than $500 (compared to $54 in the initial supply chain), our service level is 100% and our lead time is 1 day. This results in 100% on-time delivered products and no backlog: we can see production speed is aligned with the incoming customer orders.

Moreover, Figure 144 shows the supply chain does not display a bullwhip effect. The variability of delivered quantities is decreasing. By comparing the results from the two experiments, you can see the second setting has reduced the BWE.

Batching and Ordering Rules

Knowing production, sales and transportation quantities can be batched, we'll review how to set up batching and ordering rules and analyze their effect on the bullwhip effect.

Transportation Batches

To aggregate transportation orders to a batch, we use the **Paths** table to set up the amount of time or a minimum load (Figure 145).

#	From	To	Cost Calcula...	Cost...	Cost Unit	Distance	Dista...	Transpor...	Time Unit	Straight	Vehicle Type	Transpo...	Mi...	Aggregate Ord...	Aggregation Period
1	Supplier 1	Site 1	Fixed delive...	0.0	USD	0	km	3.0	day		Truck	LTL	0		0
2	Site 1	Site 2	Fixed delive...	0.0	USD	0	km	2.0	day		Truck	LTL	0		5
3	Site 2	Customer 1	Fixed delive...	0.0	USD	0	km	1.0	day		Truck	LTL	0		0

Figure 145: Transportation order aggregation

In Figure 145, we used the **Aggregation Period** column to set a five-day aggregation period for shipments from the factory to the distribution center. This means our simulation will batch five days of shipments. As an alternative, we could have used a batching rule that set the minimum load of trucks. As an example, we could enter 0.6 to set the minimum truck capacity to 60%. (cf. Sect. 1.6.3).

Sales and Production Batches

We need to set up the batch sizes in **Sales Batch** and **Production Batch**, respectively (Figures 146-147) to batch sales and production orders.

#	Source	Product	Type	Batch Size	Step Size	Price (per unit)	Price (per batch)	Cost Unit
1	Site 2	Beer	Exact	5	5	2	10	USD

Figure 146: Setting sales batch sizes.

#	Source	Product	Type	Batch Size	Step Size	Production Cost (...	Production Cost (...	Cos...	Production Time (...	Production Time (...	Time Unit
1	Site 1	Beer	Exact	10	0	1	10	USI	0.05	0.5	day

Figure 147: Setting sales batch sizes.

In Figure 146, we set up a sales batch with a size of 5 units and a size step (that is, the amount the batch can be increased) of 5 units. In Figure 147, we set up a production batch with a size of 10 units and a size step of 0.

Our production batch function uses the following rule:

- Inventory policy for finished goods warehouse tells how much to order (Q)
- If **Production batch** > Q, then nothing is produced
- If **Production batch** < Q, then the factory produces the closest number of products using the policies we defined for the batch but not more than Q.

Example 1: Batch: 100; Q=90 → Nothing produced

Example 2: Batch: 100, Size step: 100, Q: 290 → factory will produce 200 and the rest 90 will be added to the next order

Ordering Rules

We use the **Ordering rules** table to set the batch size requirements (Figure 148).

#	Destination	Product	Rule	Limit, units
1	Customer 1	Beer	Can Increase	5
2	Customer 1	Beer	Can Decrease	5
3	(All sites)	Beer	Can Increase	5
4	(All sites)	Beer	Can Decrease	5

Figure 148: Ordering rules.

- **Destination** – defines the product destination
- **Product** – defines the product
- **Rule** – allows to choose an ordering rule
  Can Increase – allows an increase in order size up to the number in the **Limit** column
  Can Decrease – allows a decrease in order size up to the number in the **Limit** column
- **Limit, units** – the number of units within the order size can be adjusted

In our example, we allow five-unit increases and decreases in batch size.

Impact of Batching and Ordering Rules on Bullwhip Effect

In this section, we'll perform a simulation experiment that uses the batching and ordering rules we described above. First, we aggregate transportation orders for five days.

> **Note:** We increased the transportation quantity, but we also need to increase the inventory control policy's MAX-Level. If we do not, an insufficient warehouse capacity will stop our simulation experiment. We should also increase the MIN-level to account for the increased replenishment interval.

We change the inventory control policy parameters from 20-40 to 50-100. Figures 149 and 150 display our results:

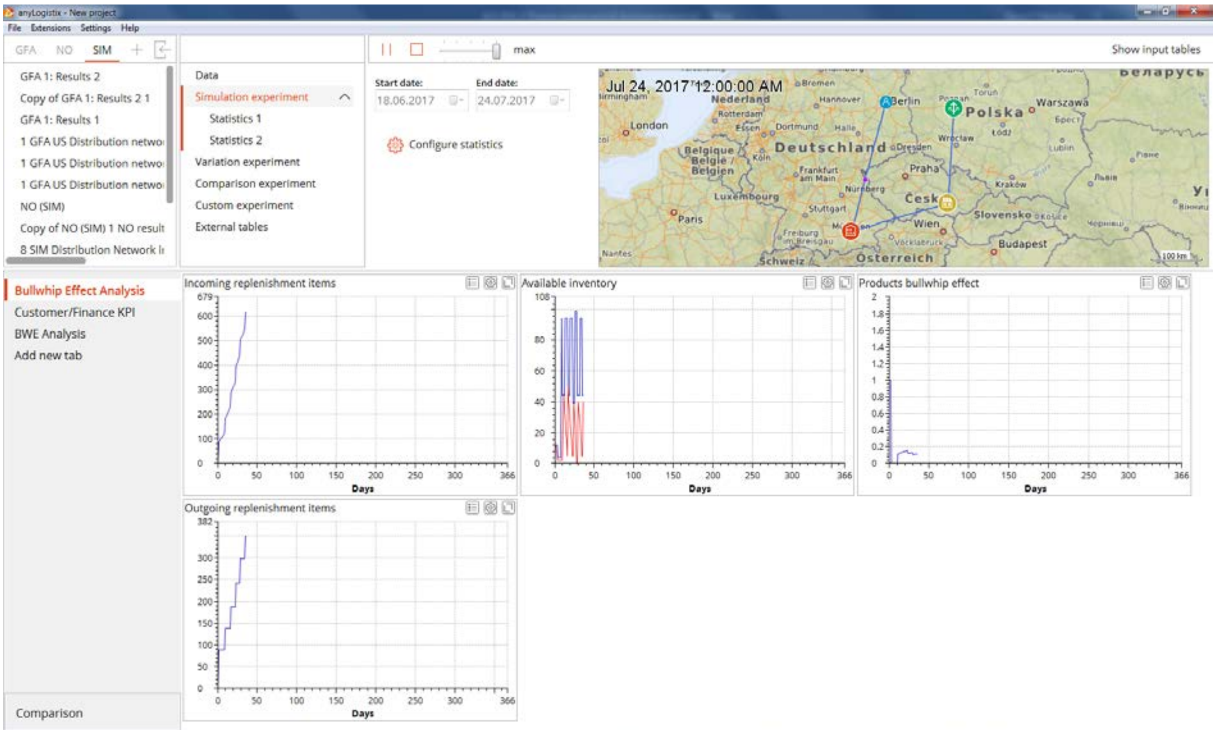


Figure 149: KPI dashboard for bullwhip effect analysis.

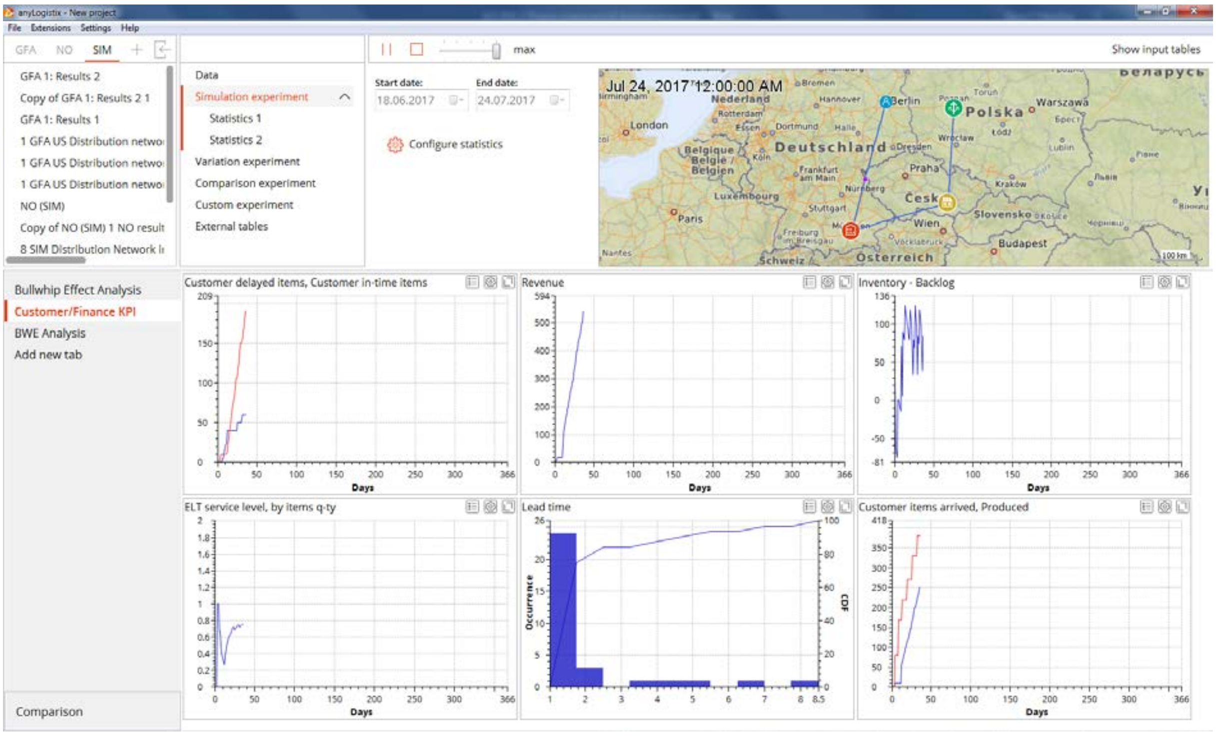


Figure 150: Customer and financial KPI.

Figure 150 shows us we received more than $500 of revenue and our service level is very low. With our lead time unequally distributed between 1 and 9 days, we can see the transportation batch rule is not aligned with the incoming customer orders, an issue which leads to a backlog and a reduced service level.

Moreover, Figure 149 shows the bullwhip effect in the supply chain started on day 10. The variability of delivered quantities increases from day 10 because the quantities of incoming products that arrive at the distribution center exceed the outgoing deliveries.

This experiment shows us batching can lead to bullwhip effect. But what will happen if we increase our maximum stock level from 100 to 200? Figures 151-152 display our simulation's results.

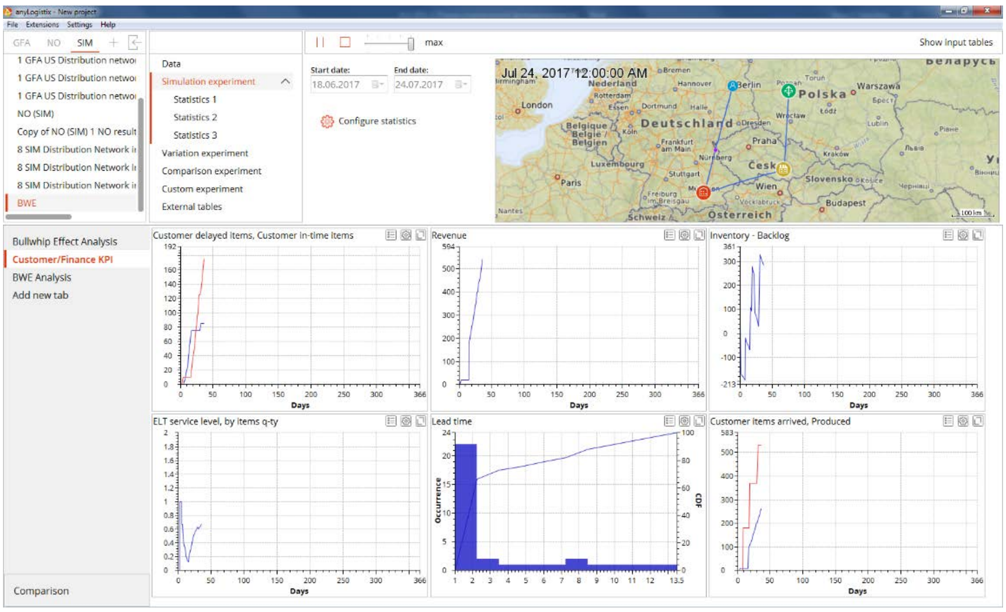


Figure 151: Customer and financial KPI.

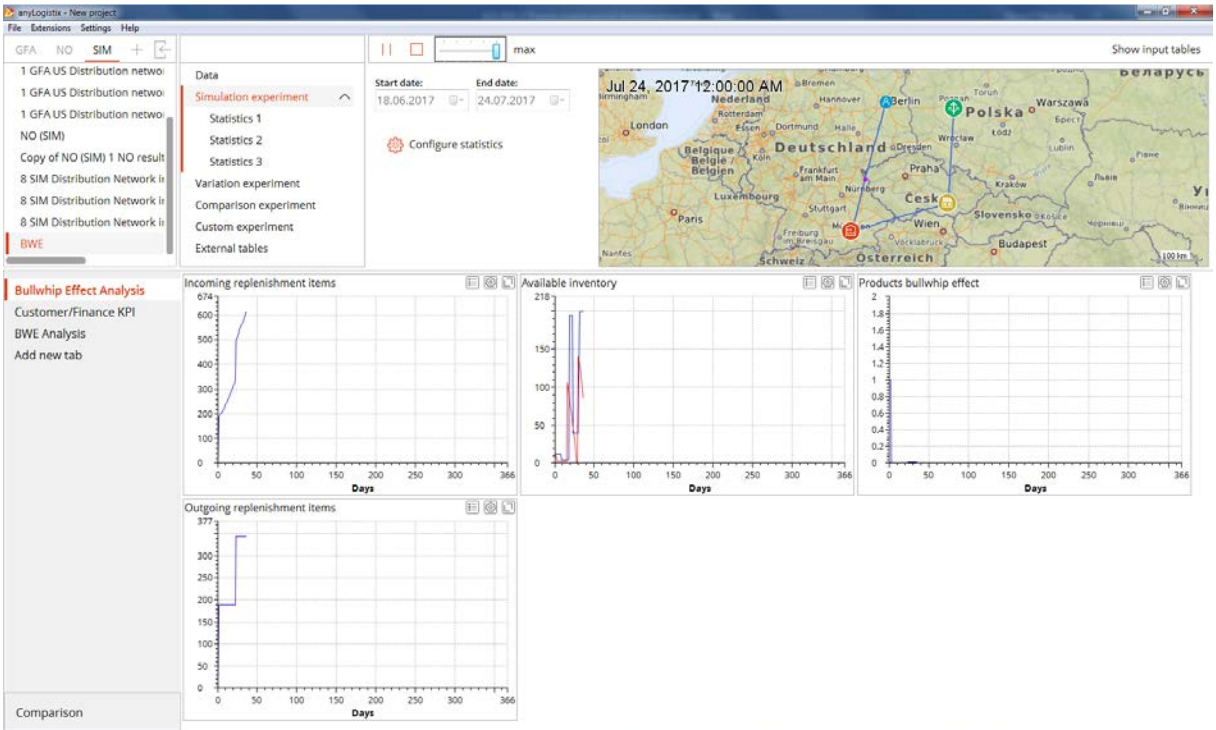


Figure 152: KPI dashboard for bullwhip-effect analysis.

Figure 151 shows us our revenue hasn’t changed and our service level is low. The lead time is unequally distributed between 1 and 13 days, which results in an increasing number of delayed products and a backlog. Our transportation batch and inventory control rules--that are not aligned with the incoming customer orders--has led to a backlog and a lower service level.

However, Figure 151 also shows us the bullwhip effect has reduced. The variability of incoming products to the distribution center is balanced with outgoing deliveries. This experiment show us an inventory increase leads to a reduced bullwhip effect.

Finally, we perform simulation experiment using sales and production batching and ordering (cf. Figures 146-148). There are no transportation batches and inventory MIN-MAX levels are 20-40, respectively. We copy the **BWE** scenario and use the new **Copy of BWE** scenario for this simulation. Figures 153-154 show the results.

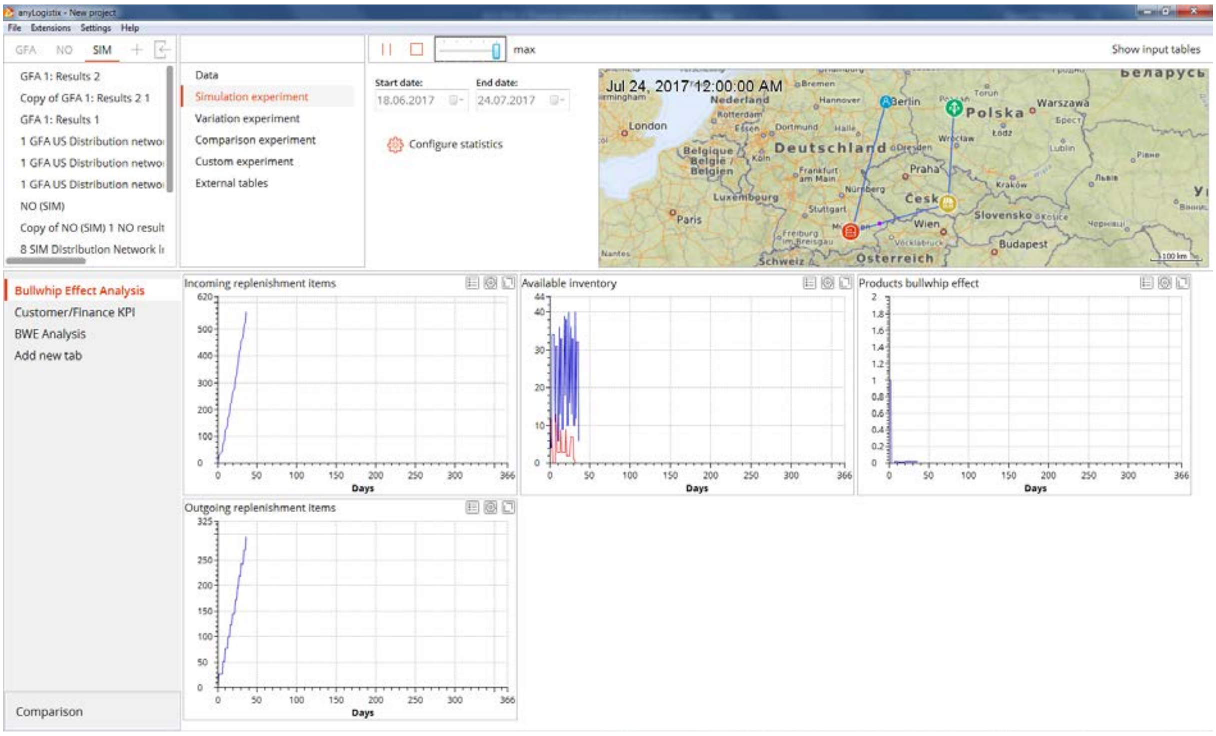


Figure 153: KPI dashboard for bullwhip-effect analysis.

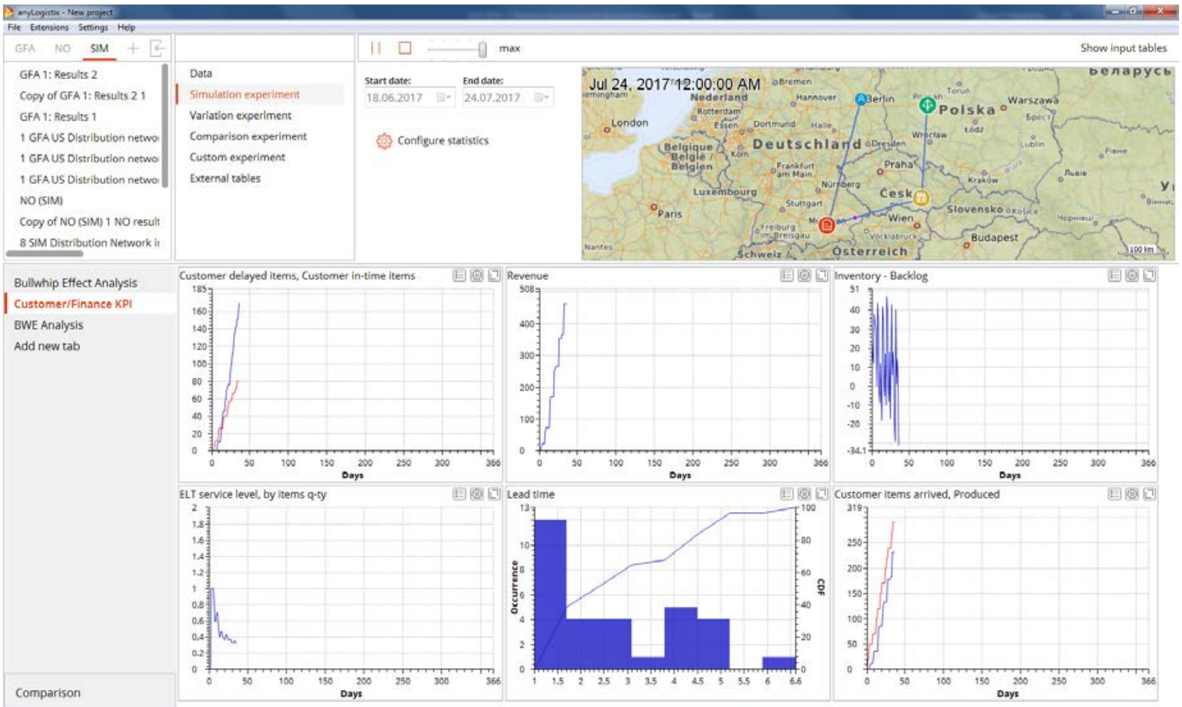


Figure 154: Customer and financial KPI.

Figure 154 shows us we received less than $500 of revenue and our service level is low. With lead time between 1 and 6 days, we can see our production speed aligns with the incoming six orders and our supply chain does not have a bullwhip effect. The variability of delivered quantities is decreasing.

Comparison Experiment

A convenient way to compare the KPI and statistics of experiments is the **Comparison** experiment that allows us to compare supply chain structures.

To perform a comparison, we need to select scenarios for our comparison and use the **Configure statistics** table to activate the respective KPI. Our comparison of the experiments (cf. Figures 143-144 and 152-154) gives us the following results (Figures 155-156).

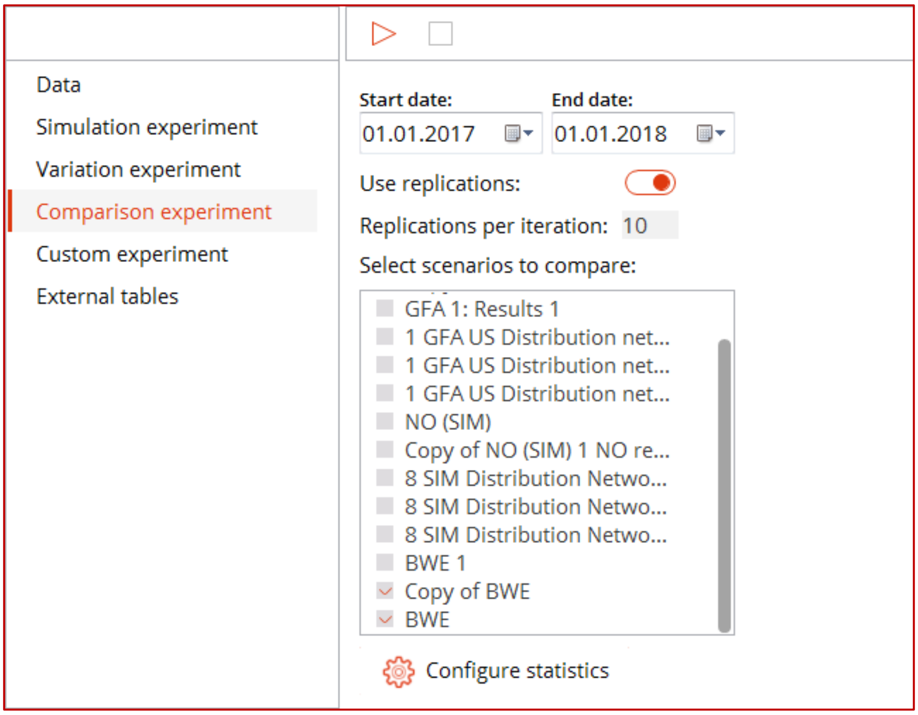


Figure 155: Selecting supply chain scenarios for our comparison experiment.

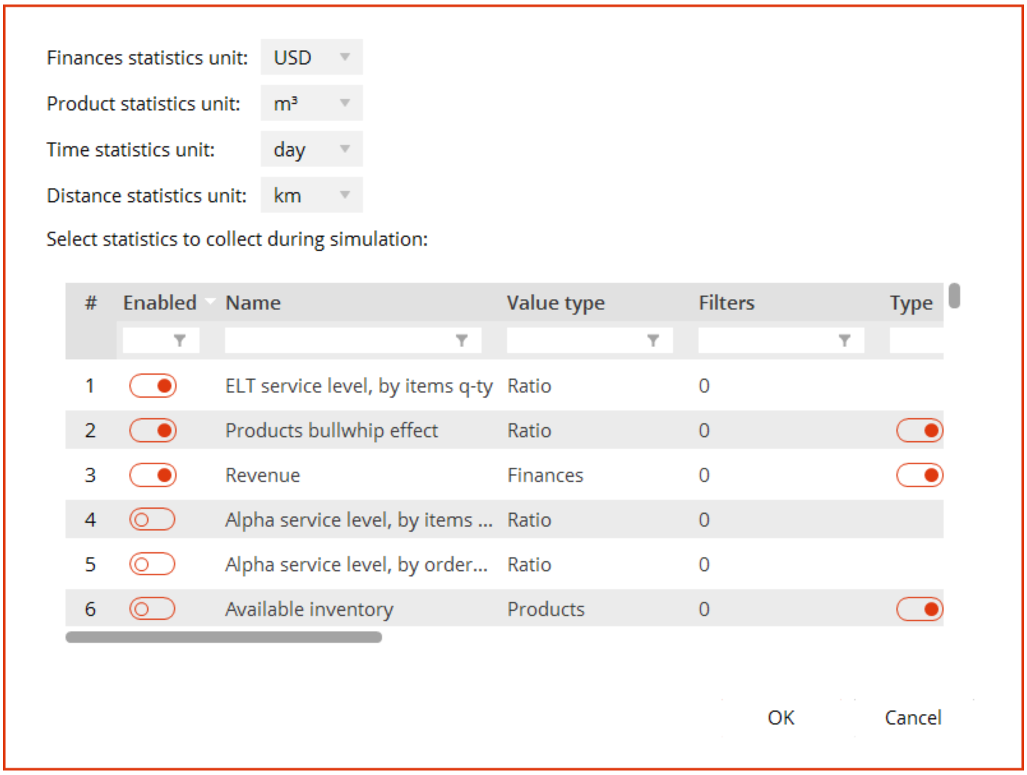


Figure 156: Selecting statistics for our comparison experiment.

	Description	ELT service level, by item... mean	Products bullwhip effect mean	Revenue mean
1	BWE	1	0.02	554
2	Copy of BWE	0.361	0.02	554

Figure 157: A comparison for three KPI.

Figure 157 shows us the Comparison experiment is a useful tool for comparing the KPIs from different scenarios without running full simulations. In this case, we see batching (the **Copy of BWE** scenario) leads to a service level reduction from 100% to 36.1%.

Ripple Effect in the Supply Chain

Severe disruptions may ripple quickly through global supply chains and cause significant losses in revenue, sales, service level and total profits. These risks are a challenge for industries that face the *ripple effect* that arises from vulnerability, instability and disruptions in supply chains (Ivanov et al. 2014).

We can talk about ripple effect in a supply chain if a disruption at a supplier or a transportation link spreads to other parts of the supply chain. Unlike the well-known bullwhip effect that considers high-frequency-low-impact *operational risks*, the ripple effect studies low-frequency-high-impact *disruptive risks* (Table 20).

Table 20: Bullwhip effect and ripple effect.

Feature	Ripple Effect	Bullwhip Effect
Risks	Disruptions (for example, an explosion)	Operational (for example, a demand fluctuation)
Affected areas	Structures and critical parameters (such as supplier unavailability or lost sales)	Operational parameters such as lead-time and inventory
Recovery	Middle- and long-term; significant coordination efforts and investments	Short-term coordination to balance demand and supply
Decreased performance	Output performance such as annual sales or profits	Current performance such as stock-out/overage costs

Ripple effect describes the impact of a disruption on supply chain performance, disruption propagation, and disruption-based scope of changes in the supply chain structures and parameters (Ivanov 2017). The ripple effect's scope and its impact on economic performance depends on the amount in reserve (for example, redundancies like inventory or capacity buffers), flexibility in products and processes, disruption duration, and speed and scale of recovery measures.

The ripple effect is a phenomenon of disruption propagations in the supply chain and their impact on output supply chain performance (for example, sales, on-time delivery and total profit). If a disruption occurs in the supply chain, three questions are important:

- What is the disruption's impact on operational and financial performance?

- What parts of the supply chain are affected by the disruption (that is, what is the scope of disruption propagation)?
- Is stabilization or recovery needed? If yes, what changes are necessary? When are those changes necessary?

Two basic approaches to hedging supply chain against the negative impacts of disruptions – *proactive* and *reactive*. A proactive approach creates certain protections and takes into account possible perturbations during the supply chain design. A reactive approach aims to adjust supply chain processes and structures in the presence of unexpected events.

It is natural to use *simulation* to study the disruption propagations and ripple effect in the supply chain considering time and length of disruptions and recovery policies.

Case Study: A Distribution Center Stops Working for a Month

The goal of this case study is to show you how you can use anyLogistix to perform a disruption risk analysis.

Consider the smartphone supply chain described in Sect. 5.1-5.2 and Figure 93. A fire disrupts a U.S.-based distribution center and prevents it from making or accepting deliveries during the one-month recovery time. The supply chain manager needs to estimate the disruption's impact on the supply chain performance for the following KPI:

- Products received (incoming orders)
- Products delivered (outgoing orders)
- Expected magnitude (that is, lost sales)
- Customer service level

Afterward, the supply chain manager needs to select the most efficient proactive and reactive strategies. He or she can use two proactive strategies: an inventory increase in the supply chain and a backup distribution center or two reactive strategies: fast and expensive distribution center recovery and slow and efficient distribution center recovery.

Events

We change the inventory policy at distribution center to s=100, S=200 and then use the **Event** option (Figure 158) to create a disruption in the supply chain simulation model.

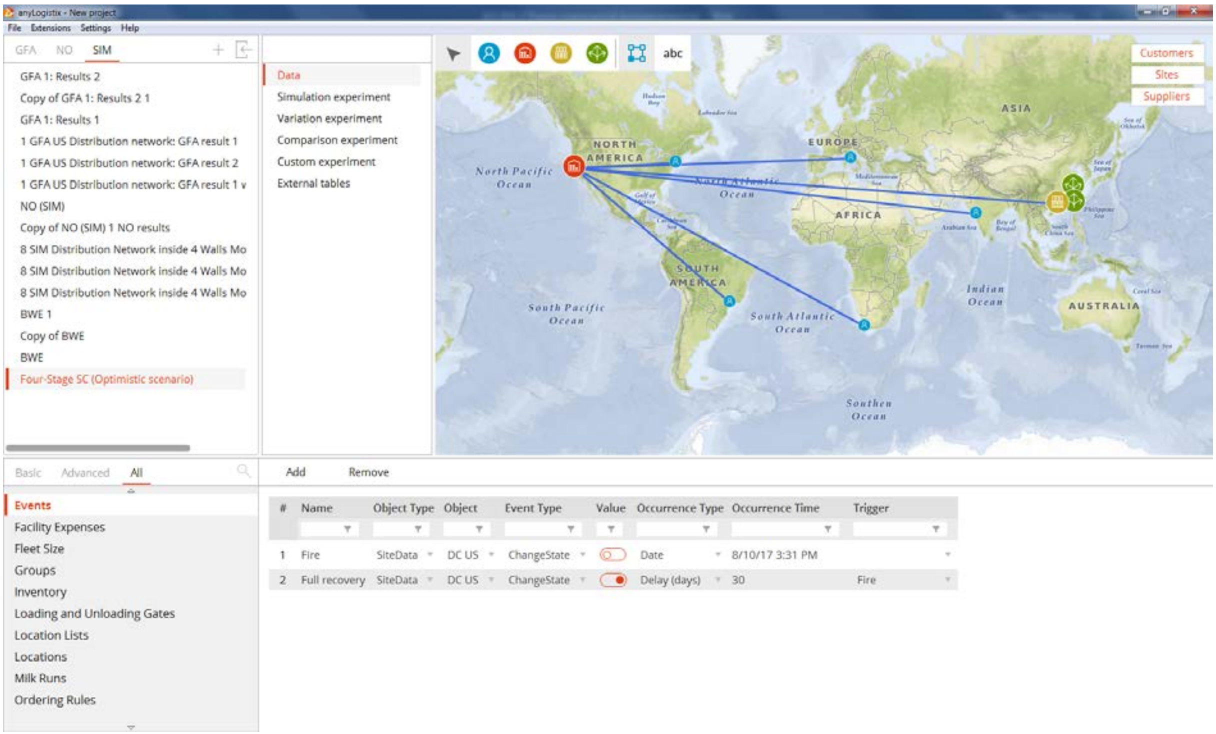


Figure 158: Events as disruptions in the supply chain.

You use the **Events** table to dynamically open and close supply chain sites or change demand:

- **Name** – the event's name
- **Object Type** – to which object this event is related (demand or site)
- **Object** – a site in the supply chain that works only if **Object type** is **SiteData**
- **Event type** – define what the event does. Depends on Object type
- **Value** – Value which event will assign. Depends on "Object type"
- **Occurrence type** – defines when an event occurs
- ➢ *Date* – the specific date an event should occur
- ➢ *Random* – event may occur randomly according to uniform distribution
- ➢ *Delay* – event happens after some delay (see trigger)
- **Occurrence time** – define the date or delay
- **Trigger** – a reference to another event which serves as a trigger

Events is a powerful function that allows us to model conditions such as:

- Seasonality
- Closing/opening sites
- Closing/opening paths
- Ex. Some paths may be available only during winter time
- Change the demand for a particular customer
- One Event may be triggered by another Event that allows you to model very complex behavior
- We may add their own Event through extension of anyLogistix with AnyLogic Professional Software

In our case, we created two events. The first event – **Fire** – takes place at a specific time: August 10, 2017. In the **Value** column, we switch off the distribution center on this date. The second event – **Full recovery** – switches on the distribution center after a 30-day delay triggered by the first event **Fire**.

Simulation Experiment for Ripple Effect

Let's analyze how the disruption at the distribution center will affect the following KPI:

- Products received (incoming orders)
- Products delivered (outgoing orders)
- Expected magnitude (that is, lost sales)
- Customer service level

First, we run the simulation experiment for the non-disruption case (that is, we switch on the **Value** column's slider for the event **Fire**), see Figure 159.

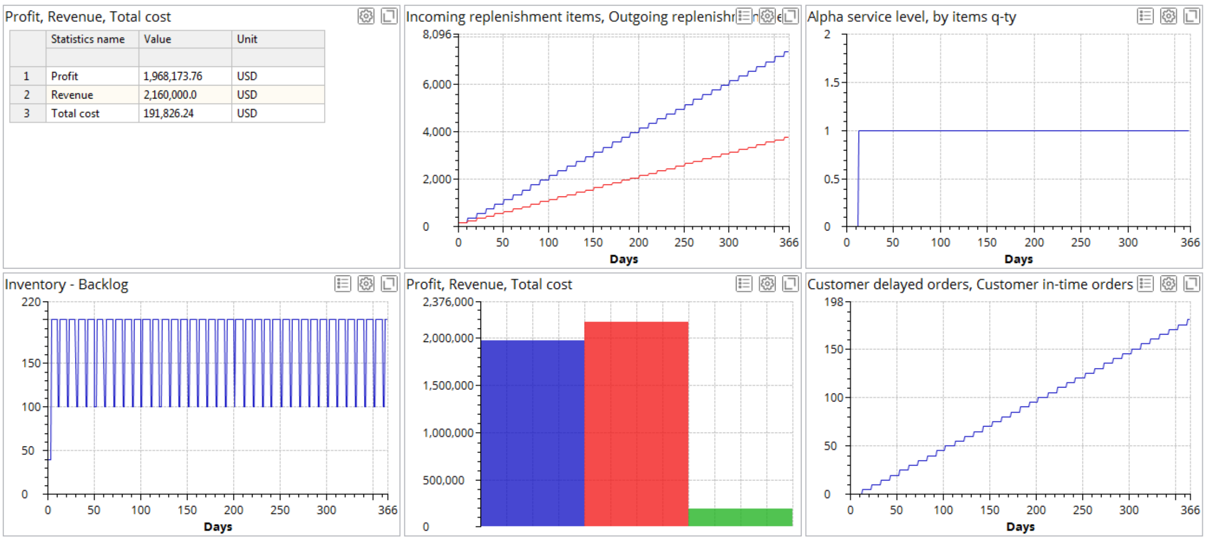


Figure 159: Simulation results for the non-disruption case.

We can see the opportunity to receive a profit of $1,968,173.76 and total revenue of $2,160,000.0. The service level is 100% and there is no interruption in replenishment and customer-in-time orders.

Second, we perform the simulation experiment for the disruption case (that is, we switch off the **Value** column's slider for the **Fire** event). see Figure 160.

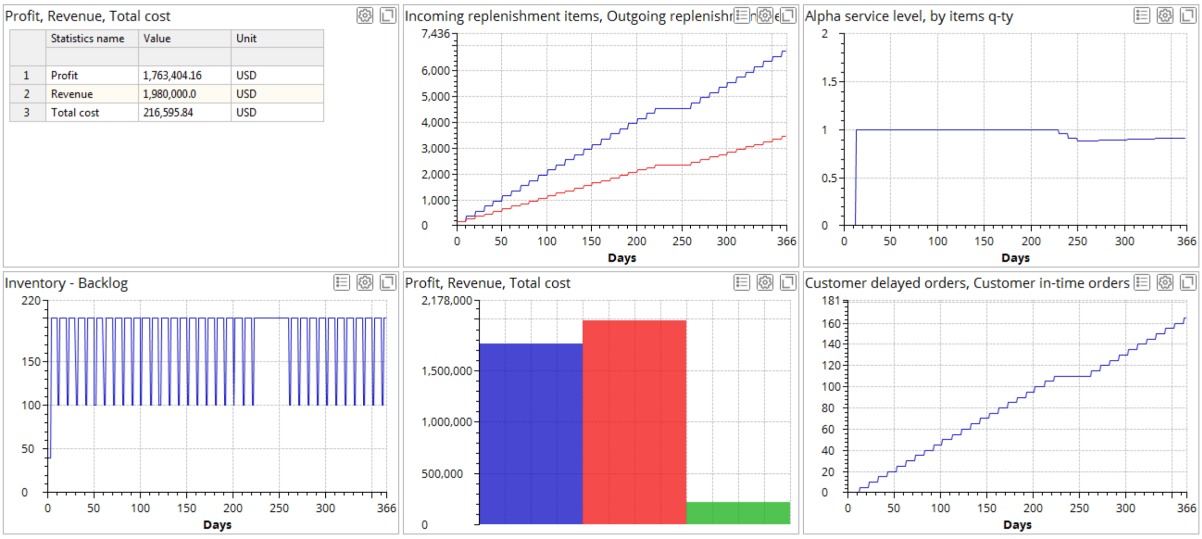


Figure 160: Simulation results for the disruption case.

Figure 160 displays a profit of $1,763,404.16 (instead of $1,968,173.76) and total revenue of $1,980,000.0 (instead of $2,160,000.0) due to an interruption in replenishment and customer-in-time orders.

Analysis of Proactive and Reactive Policies

The supply chain manager needs to select the most efficient proactive and reactive strategies. They can opt for proactive strategies such as an inventory increase in the supply chain and a backup distribution center. They can also apply reactive strategies, including a fast and expensive distribution center recovery and a slow and efficient distribution center recovery.

Impact of Inventory Increase

We change the distribution center’s inventory policy from s=100, S=200 to s=100, S=400. Figure 161 shows our simulation’s results:

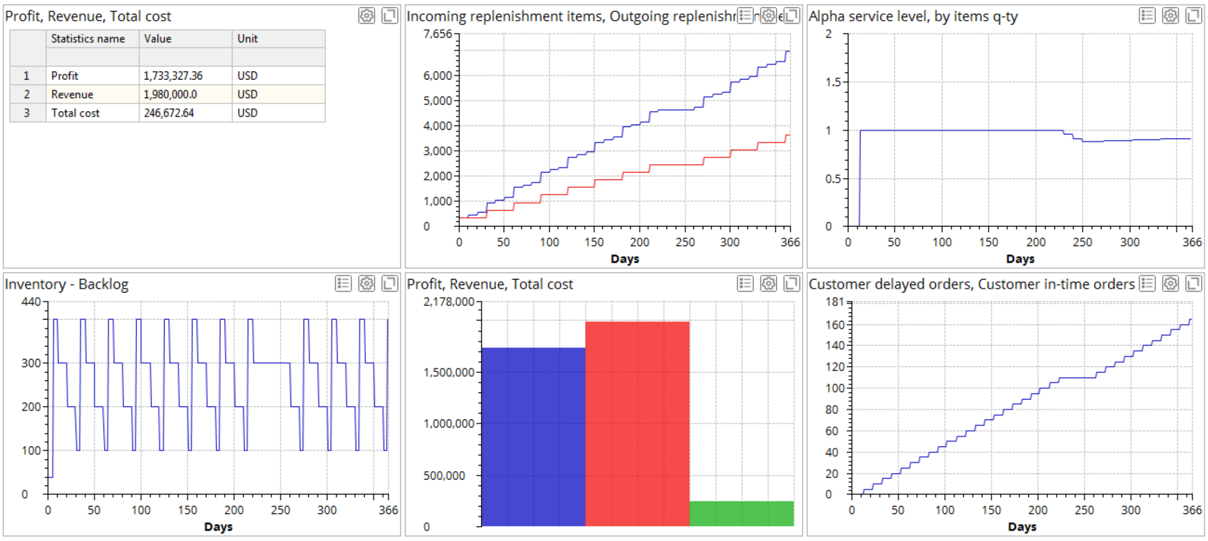


Figure 161: Impact of the change to the distribution center’s inventory policy from s=100, S=200 to s=100, S=400.

Figure 161 shows the supply chain's performance could not be improved. In fact, higher opportunity costs have reduced our supply chain's performance. We can see inventory increase is sensible downstream but not at this point.

What would happen to the supply chain if the area within the distribution center that accepts incoming deliveries was destroyed? What effect would the inventory increase have if the distribution center's storage and outgoing areas operated normally? How would you simulate this in anyLogistix?

Impact of a Backup Distribution Center

We now add a backup distribution center near the main distribution center. This distribution center isn't part of our normal supply chain, but it's available should the need arise. We define this policy by new events 3 and 4 (Figure 162).

#	Name	Object Type	Object	Event Type	Value	Occurrence Type	Occurrence Time	Trigger
1	Fire	Site	DC US	Change state		Date	8/10/17 3:31 PM	
2	Full recovery	Site	DC US	Change state		Delay (days)	30	Fire
3	In back-up DC	Site	Back-Up DC	Change state		Date	8/10/17 3:31 PM	Fire
4	Out back-up DC	Site	Back-Up DC	Change state		Delay (days)	30	In back-up DC

Figure 162: New events for backup distribution center.

The capacity *flexibility* is costly: the backup distribution center creates initialization costs of $40,000 (Figure 163).

#	Facility	Expense Type	Value	Cost Unit	Time Unit	Product Unit	Time Period
1	Back-Up DC	Initial cost	40,000	USD			(All periods)

Figure 163: Data for backup distribution center.

We also need to extend the sourcing, inventory and transportation policies for the backup distribution center (Figures 164-166).

#	Delivery Destinat...	Product	Type	Parameters	Sources	Time Period	Inclusion Type
1	Factory	Display	Closest (Multiple...	No parameters	Supplier China	(All periods)	Include
2	Factory	Chip	Closest (Multiple...	No parameters	Supplier Taiwan	(All periods)	Include
3	DC US	Smartphone	Closest (Multiple...	No parameters	Factory	(All periods)	Include
4	(All customers)	Smartphone	Closest (Multiple...	No parameters	Back-Up DC, DC US	(All periods)	Include
5	Back-Up DC	Smartphone	Closest (Single s...	No parameters	Factory	(All periods)	Include

Figure 164: Extended sourcing policy.

#	Facility	Product	Policy Type	Policy Parameters	Initial Stock, ...	Periodic Check	Period	Policy Basis	Stock Ca...	Time Unit	Time Period
1	DC US	Smart..	Min-max policy	s=100, S=200	150		0	Quantity	0	day	(All periods)
2	Factory	Smart..	Min-max policy	s=30, S=60	40		0	Quantity	0	day	(All periods)
3	Factory	Chip	Unlimited invent.	Unlimited	∞		0	Quantity	0	day	(All periods)
4	Factory	Display	Unlimited invent.	Unlimited	∞		0	Quantity	0	day	(All periods)
5	Back-Up DC	Smart..	Min-max policy	s=100, S=200	50		0	Quantity	0	day	(All periods)

Figure 165: Extended inventory policy.

#	From	To	Cost Calcula...	Cost...	Cost Unit	Distance	Dista...	Transpor...	Time Unit	Straight	Vehicle Type	Transpo...	Mi...	Aggregate Ord...
1	Supplier C...	Factory	Distance-ba...	0.5 ...	USD	0	km	0.0	day		Truck	LTL	0	
2	Supplier Ta...	Factory	Distance-ba...	0.8 ...	USD	0	km	0.0	day		Ferry	LTL	0	
3	Factory	DC US	Volume&di...	0.01...	USD	0	km	2.0	day		Airplane	LTL	0	
4	DC US	(All locations)	Volume&di...	0.01...	USD	0	km	2.0	day		Airplane	LTL	0	
5	Back-Up DC	(All locations)	Volume&di...	0.01...	USD	0	km	2.0	day		Airplane	LTL	0	

Figure 166: Extended transportation policy.

Figure 167 shows the simulation results.

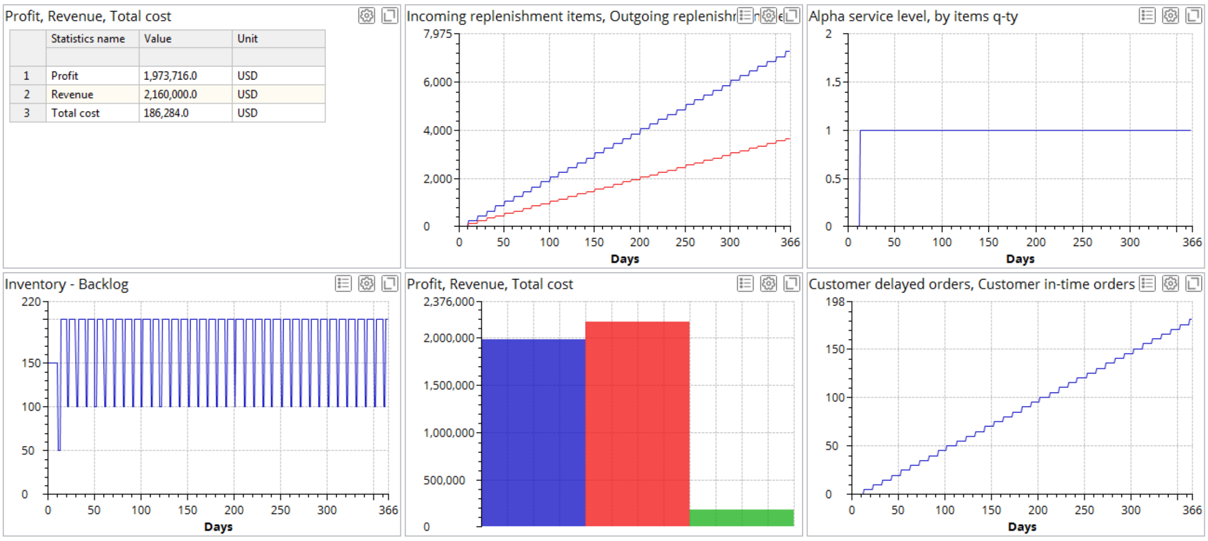


Figure 167: The backup distribution center's impact on supply chain performance.

We compare this result with Figure 160. We can see Profit of $1,973,716.0 (instead of $1,763,404.16) and total revenue of $2,160,000.0 (instead of $1,980,000.0) can be achieved. The service level is 100% and both replenishment and customer-in-time orders are uninterrupted.

The supply chain manager needs to decide if they want to invest in the supply chain. Should they avoid investing to receive the highest possible profit in the case of the disruption-free scenario? Or should they make an investment (that is, invest in the backup distribution center)? If a disruption occurs, this investment would increase profits. But if nothing happens, it would reduce profits.

Impact of Recovery Strategies

Instead of or jointly with proactive actions, we can consider different recovery strategies and analyze their impact on performance. In our example, you can compare two reactive strategies: a fast and expensive distribution center recovery and a slow and efficient distribution center recovery.

Let's assume using the backup distribution center is referred to as the fast and expensive distribution center recovery (Sect. 8.4.2). We'll also assume a recovery in 30 days without any proactive strategy (Sect. 8.3) is referred to as the slow and efficient distribution center recovery. In this case, we follow the discussion about Figure 167 and find we can recommend the fast and expensive distribution center recovery strategy that uses the backup distribution center.

Variation Experiment

A simulation experiment runs the model once, but which experiment should you use if you want to do 20 iterations and look at minimums, maximums, means and standard deviations?

Our goal for this section is to show you how to use the **Variation** experiment and how you can use it to address problems. We will create a variation experiment, vary the backup distribution center's initialization costs, and measure the performance impact.

Create New Variation Experiment

We need to complete the following steps to create a variation experiment (Figures 168-170):

1. Create the experiment.
2. Replications number (anyLogistix's Personal Learning Edition limits you to 10 replications).
3. Configure statistics.
4. Select parameters to vary and the variation range and step.
5. Run the variation experiment.

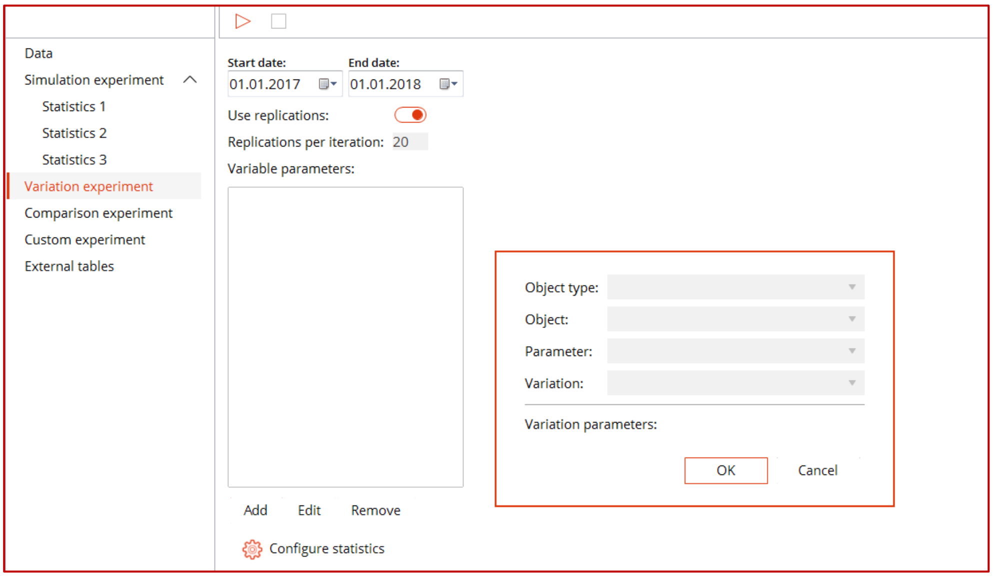


Figure 168: The general framework of the variation experiment.

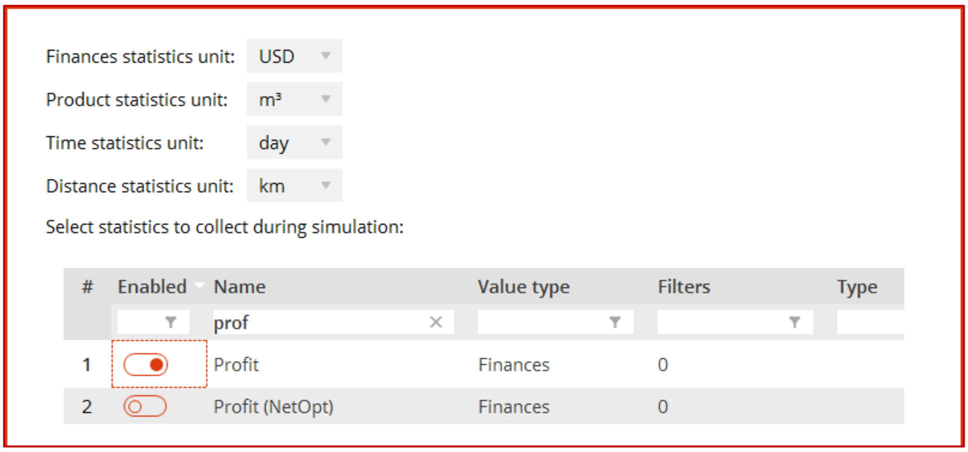


Figure 169: KPI selection.

Note: You can filter the **Enabled** column's contents according to the activated statistics by typing **True** in the field below the column name. This helps you find enabled statistics and avoid including unwanted statistics in the experiment results.

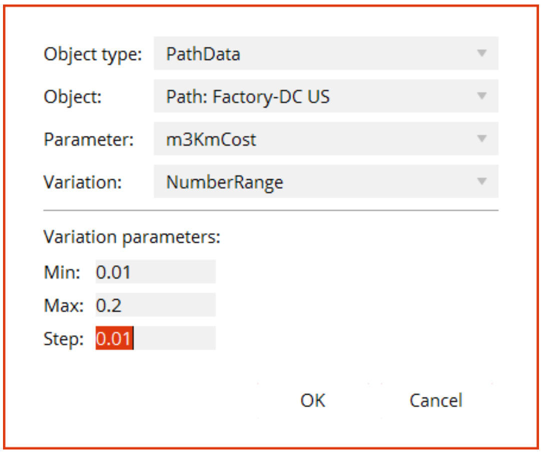


Figure 170: Variation parameter and range selection.

Performing a Variation Experiment

We run the variation experiment to see the impact of the transportation costs. Figure 171 displays the results.

	Description	Profit mean
1	m3KmCost: 0.01	1,973,716
2	m3KmCost: 0.02	1,972,314.4
3	m3KmCost: 0.03	1,970,912.8
4	m3KmCost: 0.04	1,969,511.2
5	m3KmCost: 0.05	1,968,109.6
6	m3KmCost: 0.06	1,966,708
7	m3KmCost: 0.07	1,965,306.4
8	m3KmCost: 0.08	1,963,904.8
9	m3KmCost: 0.09	1,962,503.2
10	m3KmCost: 0.1	1,961,101.6
11	m3KmCost: 0.11	1,959,700
12	m3KmCost: 0.12	1,958,298.4
13	m3KmCost: 0.13	1,956,896.8
14	m3KmCost: 0.14	1,955,495.2
15	m3KmCost: 0.15	1,954,093.6
16	m3KmCost: 0.16	1,952,692
17	m3KmCost: 0.17	1,951,290.4
18	m3KmCost: 0.18	1,949,888.8
19	m3KmCost: 0.19	1,948,487.2
20	m3KmCost: 0.2	1,947,085.6

Figure 171: Variation results

Figure 171 shows we have a linear relation between the transportation costs and profit.

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Summary and Discussion Questions

Chapter 1

In Chapter 1, we learned how to create a new supply chain model, design the KPI dashboard, and perform simulation, network optimization and simulation-based optimization experiments.

We learned how to create a scenario and define its customers, products, supply chain facility locations, sourcing and transportation policies. We used the created supply chain model for facility location planning and network optimization tasks. We learned how to apply anyLogistix to green field analysis for single and multiple warehouse locations and different objectives, that is, costs and service distance.

We extended our analysis to network optimization using mathematical programming models. We learned the similarities, differences and application areas of simulation and optimization methods in supply chain design. Using anyLogistix, we reviewed the advantages and disadvantages of different facilities, facility costs, transportation costs and response time.

Finally, we learned how to create new KPI dashboard, collect statistics, prepare and run simulation and network optimization experiments of supply chain design analysis improvement.

Discussion questions:

- Imagine you are selling lithium batteries for electric vehicles. How would you create a scenario for GFA analysis? What parameters do you need? What optimization criteria can you use?
- Now imagine you are responsible for reverse logistics and you need to design the closed-loop supply chain. You need to define optimal number and locations of the collection centers and then analyze the dynamics of the collection processes. How can you use anyLogistix for these decisions?
- If you want to build two distribution centers in the US and use a green field analysis experiment to find the suggested areas, will you get the same results for the following experiment settings?
    - ✓ Number of distribution centers –2
    - ✓ Service distance – 2100 km (data about US: West to East –4200 km, North to South-2500 km)
- What is the difference between Network Optimization and Simulation-based Network Optimization experiments?
- What is the difference between alpha, beta and ELT service levels?
- When does it make sense to use simulation-based network optimization instead of analytical network optimization?
- How can you include capacity limitations in the analysis?

Chapter 2

In Chapter 2, we took several inventory control policies (for example, fixed period or re-order point policies) and transportation policies (for example, FTL – full truck load and LTL – low truck load) into consideration. In practice, inventory control and transportation policies often impact decisions on supply chain design and operations. In this chapter, we gained skills on impact of inventory control and transportation policies on supply chain and logistics performance.

We created a three-stage supply chain structure, performed experiments and measured performance. Using this model, we learned about the trade-offs among the various inventory control policies, transportation frequencies, and lead times. We also learned how to use AnyLogic to extend anyLogistix.

Discussion Questions:

- You need to increase the frequency of transportation from your suppliers to your distribution center to respond to customer demand changes. How would you model this situation in anyLogistix? What tradeoffs should you consider for inventory control and warehouse capacity?
- How can you use anyLogistix to analyze capacity utilization at your warehouse?
- Imagine we want to ship a product to the US from China. Which experiment should we use to decide which port is the best option?
- Imagine your chief asks you to analyze the impact of current inventory control policy on total supply chain costs. How would you model this in anyLogistix?
- Is there a difference in NetOpt results if you use LTL or FTL transportation policy?
- Let's assume you supply luxury goods and you want to analyze the service level you will be able to provide to your customers with the given supply chain structure. How could you estimate it with anyLogistix?

Chapter 3

In Chapter 3, we considered the effect of different production and sourcing policies. We used anyLogistix to create a four-stage supply chain structure, perform experiments and measure performance. Using this model, we learned about the trade-offs among single and multiple sourcing, production times, transportation frequencies, inventory control policies and lead time. We also learned how to create BOM (bill-of-materials) and how to include soft facts to move from a model-based result to a management decision.

Discussion Questions:

- Imagine increased demand requires you to increase the amount you ship from your factory to your distribution center. How would you model this situation in anyLogistix? What trade-offs should you consider for transportation policy, inventory control and warehouse capacity?
- How can you use anyLogistix to analyze lead time at your customers in dynamics?
- Imagine you want to ship a product to the US from China and from India. How would you decide if single or dual sourcing is more efficient?

- Imagine your manager asks you to analyze the impact of currently used sourcing policy on the lead time. How would you model this situation in anyLogistix?

Chapter 4

In Chapter 4, we considered anyLogistix applications to risk management and control in supply chains. Risks in supply chains are characterized by different frequency and performance impact.

High-frequency-low-impact disruptions are typically considered in light of bullwhip-effect and refer to demand and lead-time fluctuations. Bullwhip effect considers weekly/daily demand and lead-time fluctuations as primary drivers of the changes in the supply chain which occur at the parametric level and can be eliminated in a short-term perspective. In light of low-frequency-high-impact disruptions, we also considered ripple effect.

We learned how to use anyLogistix to model and quantify bullwhip effect and ripple effect. We developed technical skills on batching, ordering rules and events. Later, we learned how to prepare and run variation and comparison experiments.

Finally, we focused on understanding the major trade-offs in supply chain risk management and their effect on efficiency and resilience. We included proactive and reactive recovery strategies in analysis.

Discussion questions:

- What is the difference between bullwhip effect and ripple effect?
- How can you explain the meaning of the **Products Bullwhip Effect** statistics in anyLogistix?
- Imagine you need to increase the sales batch size because of transportation policy optimization. How might this decision affect other decisions or policies in the supply chain? How can you use anyLogistix to analyze them?
- What does BWE mean? Why does it allow to identify a bullwhip effect?
- What does it mean if BWE = 1?
- Does it make sense to measure BWE for a number of products?
- How does the BWE depend on the inventory control policy?
- Create three scenarios with different demand distributions and use the **Comparison** experiment to compare them
- What kinds of events can you add to your model?
- Imagine you need to analyze performance impacts of a strike at a transportation company, a fire at a distribution center, and an explosion at a factory. How would you model this in anyLogistix? Which experiments would you use?
- How can you analyze different ways an event may happen?
- If you want to vary the location of a factory how would you do this?
- How do you vary suppliers in sourcing policy?
- How do **Variation** and **Comparison** experiments differ?
- Which supply chain parameters can be varied and in what decisions?

Avoiding Typical Conceptual Mistakes

Number	Description	Possible Remedies
1	Your simulation experiment does not start; the supply chain objects are not connected on the map.	You need to define sourcing rules.
2	Your simulation experiment does not start or it starts, but ends quickly.	• Check maximum warehouse or factory capacity • Too long production time or processing time • Check the assignments of objects and products to groups • You need to define Inventory policies need for all sites • You need to define Paths for all stages in the supply chain
3	In the network optimization experiment, you cannot select some sites for optimization.	In **Factory/distribution centers**, the **Inclusion type** should be **Consider**.
4	After an order aggregation in transportation policy, your simulation experiment does not run.	Our decision to increase the transportation quantity means we also need to increase the inventory control policy's MAX-Level. If we don't increase the MAX-Level, the insufficient warehouse capacity will stop our simulation experiment. It's also a good idea to increase the MIN-level since the replenishment interval will be increased. --or— Ensure the aggregation policy is aligned with the inventory control policy's Max value.
5	Your experiment with BOM does not show any activities between the suppliers and the assembly factory.	In Inventory, you need to define the inventory policy for all products of BOM, not only for the final product.
6	You cannot see the an experiment's complete results.	Click any other experiment or scenario and then return to your experiment. You should see the complete results.
7	In the experiment's results, you only see transportation costs for the connection between the customers and distribution center. You don't see costs for the connection between the distribution center and factory.	Activate transportation costs for the factory in your experiment's **Configure statistics** area.

Number	Description	Possible Remedies
8	In your simulation experiment, time is running but nothing is shipped.	Check demand parameters, backorder policy and initial inventory.
9	Orders are not shipped to customers.	Check LTL and FTL policies and the corresponding minimum ratio, aggregation periods as well as product characteristics and transportation capacities.
10	Orders are not shipped to customers.	The inventory policies, vehicle types and transportation policies are not compatible. For example, some large vehicles with a LTL policy of min. load 0.8 and an aggregation period of 10 days waste time waiting to load the vehicles. You can fulfill more customer orders by reducing the vehicle size and increasing your inventory policy's parameters.

Appendix 1: Examples of Case Study Problem Statements

Example 1: Consolidation Effects in the Retail Supply Chain

Our learning objective: students become familiar with model-based decision-making principles in supply chain management on the example of optimization and simulation application to analysis of a real-life location-allocation problem in a global retail supply chain.

Management Problem Statement

Object of Investigation

A global retail company comprises producers of fruits and vegetables and regional distributions centers (distribution center).

Investigation Process

We investigate the process of fruit and vegetable delivery from suppliers to regional distribution centers.

The Problem and its Relationship to the Literature

The products are shipped from suppliers to regional distribution centers directly using LTL policy with an average of 15 pallets per delivery. This causes high coordination complexity, low fleet capacity utilization, higher transportation costs and higher inventory holding costs.

The retail company wants to build central distribution centers between the suppliers and the regional distribution centers (Figure 1).

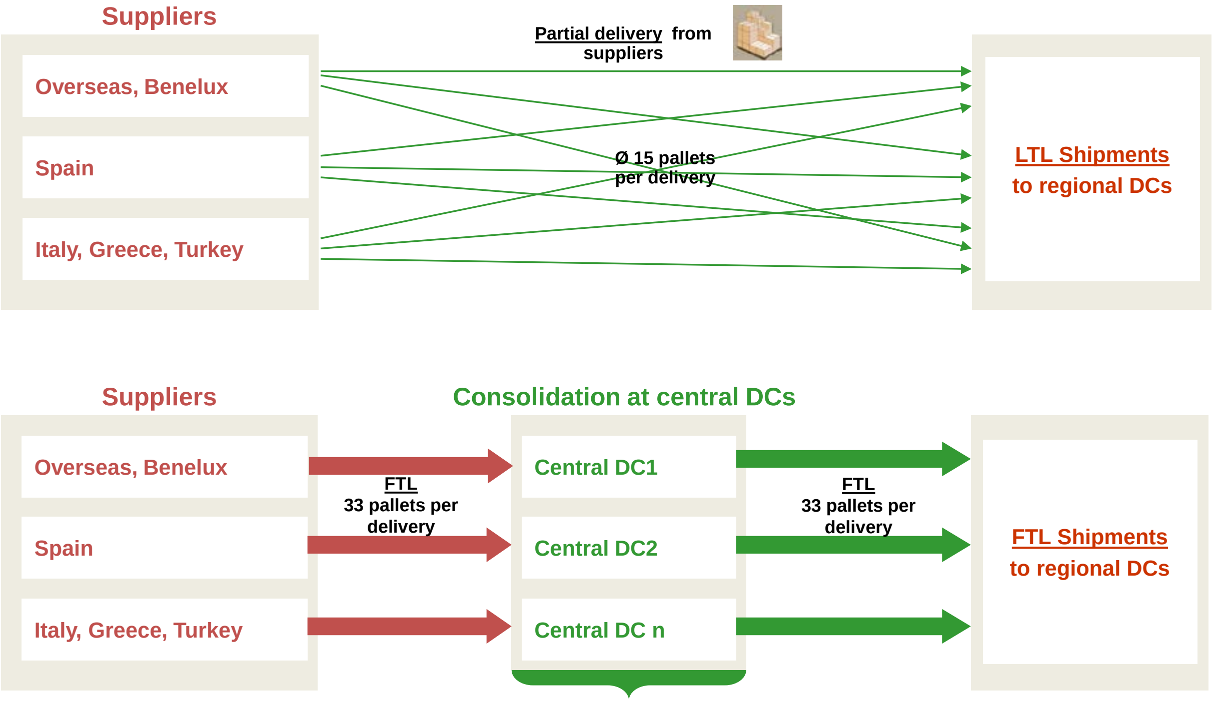


Figure 1: Initial and planned supply chain design.

The problem is how to determine the number of central distribution centers, their locations, and the allocation of regional distribution center demands to central distribution centers. It is to balance the distribution center capacities, transportation policy, sourcing policy and inventory control policy in the most efficient way subject to a predetermined customer service level.

This problem statement corresponds to the standard location-allocation problem in the literature.

Two scenarios need to be analyzed and compared subject to Figure 1:

- Direct shipments
- Shipments via central distribution centers

In addition, we need to account for future shifts in demand up to 30% to 50% at some regional distribution centers in regard to population growth forecasts and local farmer market development forecasts.

The Goal of Investigation

The goal of our investigation is to increase supply chain efficiency without decreasing the customer service level.

Our Main Decision

The main decision is to determine the number of central distribution centers, their locations, and the allocation of regional distribution centers to central distribution centers. In addition, we need to decide:

- what capacity we should use at the distribution centers
- our fleet size and transportation policy
- our inventory control policy and its parameters
- our sourcing policy
- our resilience policy

Research Question

The main research question is to analyze the impact of supply chain redesign on (i) location-allocation options, (ii) impact of transportation, sourcing, and inventory control policies as well as (iii) future capacity and demand changes on supply chain financial, customer, and operational performance.

Questions to be Answered to Make the Decision

- compare supply chain without central distribution centers and with central distribution centers on supply chain financial, customer and operational performance
- compare different location-allocation variants on supply chain financial, customer and operational performance
- compare the impact of LTL and FTL shipment policies on supply chain financial, customer, and operational performance
- compare inventory control policies on supply chain financial, customer and operational performance
- compare the impact of sourcing policies on supply chain financial, customer and operational performance

- analyze the impact of future demand changes on supply chain financial, customer and operational performance
- analyze the impact of capacity disruption risks on supply chain financial, customer and operational performance
- analyze the impact of distribution center capacity changes on supply chain financial, customer and operational performance

Table 1.8: KPI to measure the results of investigation.

Financial Distribution Center Performance	**Customer Performance**
total profit (EBIDTA), $	Maximum lead time, days
total revenue, $	Min-Max Service level, %
opportunity costs, $	OTD (on-time delivery), orders
production costs, $	Total incoming orders from customers
inventory holding costs, $	Total outgoing orders to customers
transportation costs at suppliers, $	Total orders shipped to customers
transportation costs at distribution center, $	Operational performance:
profit and lost statement, $	Maximum capacity usage at distribution centers, m^3
total costs at distribution center, $	Maximum inventory in the supply chain, units

Data Needed to Solve Management Problem

The following data is needed to solve the problem described above:

Table 2.1: Demand at regional distribution centers.

Regional Distribution Center	**Forecasted Demand (Pallets per Day)**	**Initial Inventory (Pallets)**
Bulgaria		
Hungary 1		
Hungary 2		
Romania 1		
Romania 2		
Romania 3		

Regional Distribution Center	**Forecasted Demand (Pallets per Day)**	**Initial Inventory (Pallets)**
Croatia		
Slovakia 1		
Slovakia 2		
Czech Republic 1		
Czech Republic 2		
Czech Republic 3		
Czech Republic 4		
Czech Republic 5		
Poland		

Table 2.2: Supply to regional distribution centers in the initial supply chain with direct shipment

	BG1	**H1**	**H2**	**RO1**	**RO2**	**RO3**	**CR**	**SK1**	**SK2**	**CZ1**	**CZ2**	**CZ3**	**CZ4**	**CZ5**	**P**
Albania															
Argentina															
Austria															
Belgium															
Brazil															
Bulgaria															
Chile															
China															
Columbia															
Costa Rica															
Croatia															
Cyprus															
Czech Republic															

	BG1	H1	H2	RO1	RO2	RO3	CR	SK1	SK2	CZ1	CZ2	CZ3	CZ4	CZ5	P
Ecuador															
Egypt															
France															
Germany															
Greece															
Honduras															
Hungary															
India															
Israel															
Italy															
Mexico															
Moldavia															
Morocco															
Nether-lands															
New Zea-land															
Overseas															
Panama															
Peru															
Poland															
Romania															
Senegal															
Serbia															
Slovenia															
South Af-rica															

	BG1	H1	H2	RO1	RO2	RO3	CR	SK1	SK2	CZ1	CZ2	CZ3	CZ4	CZ5	P
Spain															
Turkey															

Table 2.3: Costs and profits.

Costs and profits	**$**
distribution center inbound operating costs	
distribution center outbound operating costs	
Initial costs for building distribution center	
Facility operating costs	
Opportunity costs	
Inventory carrying costs	
Fixed distribution center costs	
Transportation costs	
Sales price	

Table 2.4: Further estimations.

Parameters	
Lead time	
Transportation mean capacity	
Distribution center capacity	
Expected lead time	
…	

Description of Experiments

Direct shipment analysis

It is to compute for initial scenario's financial, customer, and operational performance subject to KPI in §1.8 for:

- AS-IS parametric setting
- Changed parametric settings subject future shifts in demand up to 30% to 50% at some regional distribution centers in regard to population growth forecasts and local farmer market development forecasts
- Changed parametric settings subject to severe disruptions in supplier and regional distribution center capacities

Experiment used: Simulation (inventory control policy parameters can be computed analytically prior to simulation)

Central Distribution Center Shipment Analysis

We need to analyze the scenarios with central distribution centers:

- How many central distribution centers should we use?
- Where should we locate the distribution centers?
- How should we allocate regional distribution centers to central distribution centers?

Experiments: Analytical: Green Field Analysis and Network Optimization

- what capacity at the distribution centers should be used
- fleet size and transportation policy
- inventory control policy and its parameters
- sourcing policy
- resilience policy

Experiment: Simulation (inventory control policy parameters can be computed analytically prior to simulation)

Comparing Two Scenarios

You need to compare the financial, customer and operational performance of:

- A supply chain with and without central distribution centers
- Different location-allocation variants
- LTL and FTL shipment policies
- Inventory control policies
- compare the impact of sourcing policies on supply chain financial, customer and operational performance
- analyze the impact of future demand changes on supply chain financial, customer and operational performance
- analyze the impact of capacity disruption risks on supply chain financial, customer and operational performance
- analyze the impact of distribution center capacity changes on supply chain financial, customer and operational performance

Experiments: Comparison and Variation

Project report structure

1. Management problem statement (object of investigation, process of investigation, main goal of investigation, decision to be taken, sub-questions to be answered to take the decision, KPI to measure results of investigation)
2. Data needed to solve management problem
3. Model description (objective function, constraints, parameters, variables; if optimization models: set of equations, if simulation model: process diagrams and themes)
4. Description of software
5. Implementation in software
6. Description of experiments
7. Presentation of computational results
8. Analysis of results
9. Recommendations on the solution of the management problem stated in 1) on main goal of investigation, decision to be taken, sub-questions we need to answer to make the decision, and KPI to measure the investigation's results.

Example 2

The demand for the ETC company's high-quality wines led them to build distribution centers in Europe, Asia, and North and South America. Now that demand is fluctuating, ETC's management wants to know:

- After taking all the available information into account—customer demand, the locations of their customers and the distances from their warehouses to their customers—where should ETC locate their distribution centers?
- Would closing ETC's South American distribution center make the company's supply chain more cost-effective?
- ETC's CEO wants to compare the important KPIs from scenario 1 (which uses 4 distribution centers) to those from scenario 2 (which uses 3 distribution centers). Which scenario's KPIs are better?

Example 3

ZSE is a Berlin-based e-commerce company that wants to be the European Union's most successful online shopping platform. To reach their goal, the company has developed a four-year strategy focused on fast product delivery, excellent customer service and an efficient supply chain.

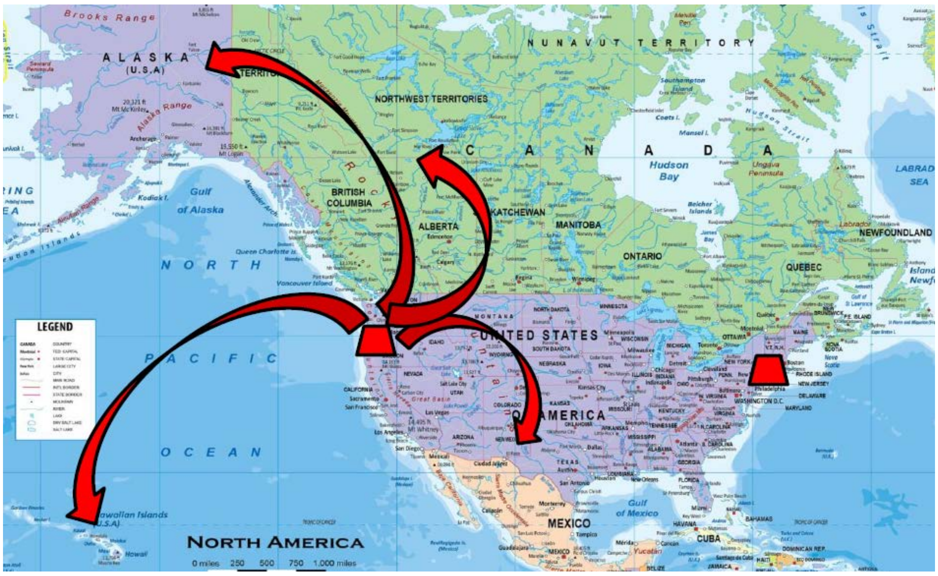
To expand the business in Europe and meet the expected increase in demand, ZSE needs to decide whether they should open a new distribution center or expand their German distribution center.

If they decide to open a new distribution center, they'll need to determine the best location to help them minimize their supply chain costs and meet their minimum service level requirements.

Example 4

Pharmapacks ships everything you expect to find in a drug store. The company sells almost 25,000 different products, ships 570,000 orders each month, and has agreements with 16 suppliers.

Their pricing management software—"Master Mind"—has helped the company to dominate their market. It calculates the best price and manages their whole stock and sales/demand forecasts. They have increased their sales six fold in a year. Their revenue in 2016 amounted to $160 million and from 2011 to 2013 they grew by 3,035 percent. When looking at the performance indicators, the delivery time is slow, which is caused by having only one warehouse, in New York City.



Does it make sense to open a second warehouse on the West coast to speed delivery to the Western United States and meet customer expectations?

Appendix 2: Methods in Facility Location Modelling

In this section, we provide another example of how to apply optimization and simulation methods to the supply chain facility location problem. The objective of this case study is to teach you how to apply simulation and optimization modelling to supply chain design decisions. Figures A1-A2 summarize the basic features of optimization and simulation methods.

- NetOpt is used to find:
  - Locations for facilities
  - Sourcing policies
  - Product flows
- To conduct the NetOpt experiment you must specify:
  - Locations – the "Locations" table
  - Periods – the "Periods" (basic period is used by default) table
  - Customers – the "Customers" table
  - Products – the "Products" table
  - Demand – the "Demand" table
  - Initial, outbound/inbound processing, other monthly costs – the "DCs and Factories" and "Facility Expenses" tables
  - Supplier – the "Suppliers" table
  - Storage constraints – the "Linear Site Constraints" table
  - Flow constraints – the "Linear Flow Constraints" table
  - Transportation cost and option to use real routes – the "Path" table
- About NetOpt:
  - Optimization method: Mixed Integer Linear Programming
  - Criteria: solution cost = transportation cost + sites associated costs + penalties - revenue
- NetOpt Results (Tables)
  - DCs and Factories – the best sites have "inclusion type" included
  - Sourcing – defines where and which product to buy
  - Inventory – NetOpt creates and parameterizes "S"& "s" inventory policies
    - *s = average daily demand * lead time*
    - *S = 2*s*
  - Overview of solution costs, revenues
- Notes
  - NetOpt operates with flows

Figure A-1: Analytical framework summary NetOpt

- Analytical Optimization
  - To solve a **particular** problem you create the system of equations which are only relevant to this problem – analytical model
  - You can only consider aggregated flows
  - **Optimization** means minimization/maximization of an objective function meeting constraints, e.g.:
    - *F(X1, X2, X3) -> MIN*
    - *X1 = X2 + X3*
    - *X2 = X1 + X3*
    - *X3 = X1 + X2*
    - *X1 < 120*
    - *X3 > 400*
  - Criteria
    - *As system of equations and inequalities is developed for a particular problem the criteria is also related to this particular problem*
- Simulation Optimization
  - A Simulation model describes how the system works. It makes sense without the problem.
  - You can consider events, stochastics and changes of the system over time
  - **Optimization** means a number of simulation runs with different input parameters
  - Criteria
    - *Everything that is measured by simulation model can be a criteria*

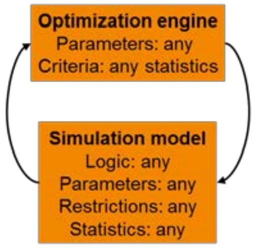


Figure A-2: Application of simulation and optimization modeling.

Consider the following example: A German-based supply chain includes one Supplier, three distribution centers and ten Customers (Figure A-3).

Figure A-3: Supply chain structure.

We use the following input data (Fig A-4):

Path Selection Mode
Paths (1)
Period Groups
Periods (3)
Processing Cost (3)
Processing Time

#	Name	Start	End	Demand Coeffici...
1	First period	1/1/17	1/4/17	1
2	Second period	1/5/17	1/8/17	1
3	Third period	1/9/17	1/1/18	1

BOM (0)
Customers (10)
DCs and Factories (3)
Demand (10)
Demand Forecast (0)
Events (0)

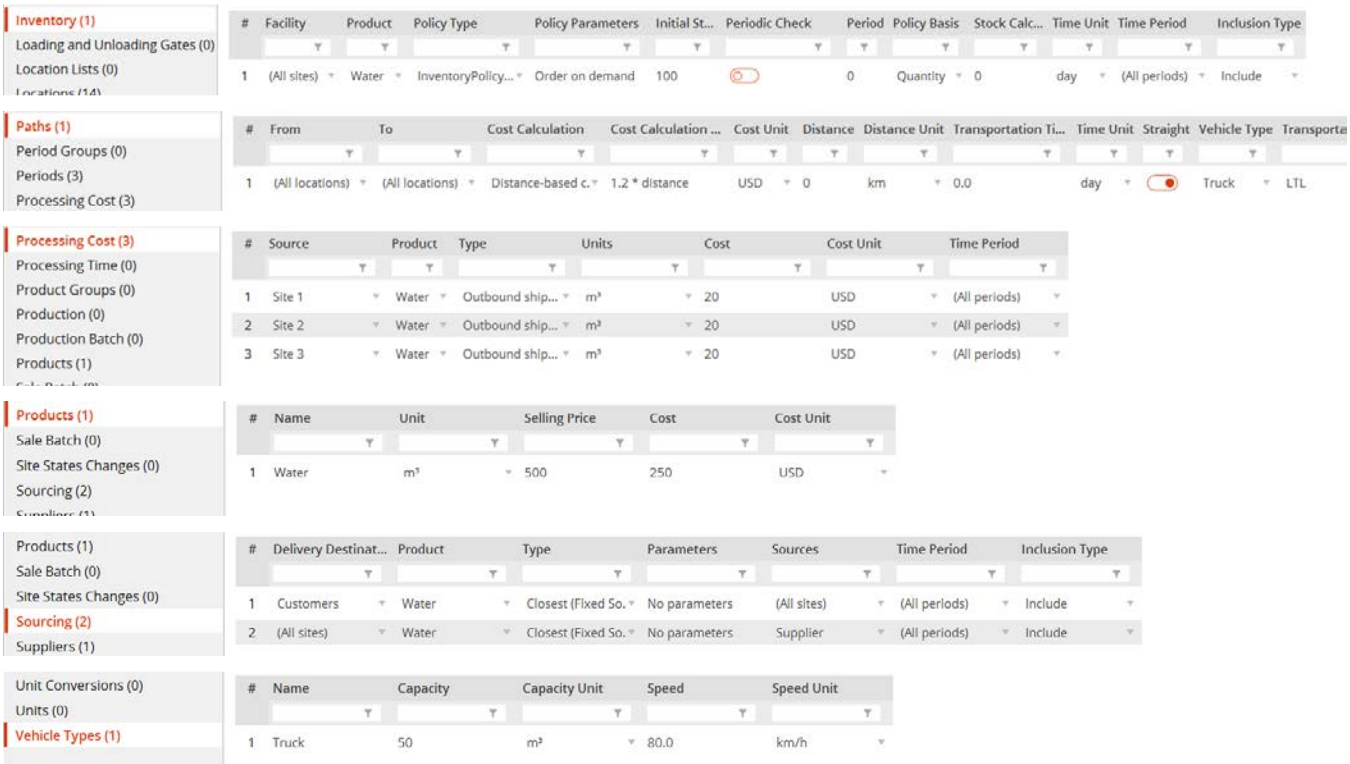
#	Name	Type	Location	Initially Opened	Inclusion Type	Capacity	Capacity Unit	Interests, ratio ...	Aggregate Orders...	Additional Param...
1	Site 1	DC	Site 1 location		Consider	0	m³	0		Additional parame...
2	Site 2	DC	Site 2 location		Consider	0	m³	0		Additional parame...
3	Site 3	DC	Site 3 location		Consider	0	m³	0		Additional parame...

Demand (10)
Demand Forecast (0)
Events (0)
Facility Expenses (3)
Fleet Size (0)
Groups (1)
Inventory (1)
Loading and Unloading Gates (0)
Location Lists (0)
Locations (14)
Milk Runs (0)
Ordering Rules (0)
Path Selection Mode (0)
Paths (1)

#	Customer	Product	Demand Type	Parameters	Time Period	Expected Lead Ti...	Time Unit	Backorder Policy
1	Hamburg	Water	Periodic demand	Period=5.0, Quant...	(All periods)	30	day	Allowed total
2	Berlin	Water	Periodic demand	Period=5.0, Quant...	(All periods)	30	day	Allowed total
3	Hannover	Water	Periodic demand	Period=5.0, Quant...	(All periods)	30	day	Allowed total
4	Dresden	Water	Periodic demand	Period=5.0, Quant...	(All periods)	30	day	Allowed total
5	Frankfurt	Water	Periodic demand	Period=5.0, Quant...	(All periods)	30	day	Allowed total
6	Erfurt	Water	Periodic demand	Period=5.0, Quant...	(All periods)	30	day	Allowed total
7	Munchen	Water	Periodic demand	Period=5.0, Quant...	(All periods)	30	day	Allowed total
8	Stuttgart	Water	Periodic demand	Period=5.0, Quant...	(All periods)	30	day	Allowed total
9	Cologne	Water	Periodic demand	Period=5.0, Quant...	(All periods)	30	day	Allowed total
10	Nurnberg	Water	Periodic demand	Period=5.0, Quant...	(All periods)	30	day	Allowed total

Facility Expenses (3)
Fleet Size (0)
Groups (1)
Inventory (1)
Loading and Unloading Gates (0)
Location Lists (0)

#	Facility	Expense Type	Value	Cost Unit	Time Unit	Product Unit	Time Period
1	Site 1	Other costs	666	USD	day		(All periods)
2	Site 2	Other costs	666	USD	day		(All periods)
3	Site 3	Other costs	666	USD	day		(All periods)



Inventory (1)
Loading and Unloading Gates (0)
Location Lists (0)

#	Facility	Product	Policy Type	Policy Parameters	Initial St...	Periodic Check	Period	Policy Basis	Stock Calc...	Time Unit	Time Period	Inclusion Type
1	(All sites)	Water	InventoryPolicy...	Order on demand	100		0	Quantity	0	day	(All periods)	Include

Paths (1)
Period Groups (0)
Periods (3)
Processing Cost (3)

#	From	To	Cost Calculation	Cost Calculation ...	Cost Unit	Distance	Distance Unit	Transportation Ti...	Time Unit	Straight	Vehicle Type	Transporte
1	(All locations)	(All locations)	Distance-based c...	1.2 * distance	USD	0	km	0.0	day		Truck	LTL

Processing Cost (3)
Processing Time (0)
Product Groups (0)
Production (0)
Production Batch (0)
Products (1)

#	Source	Product	Type	Units	Cost	Cost Unit	Time Period
1	Site 1	Water	Outbound ship...	m³	20	USD	(All periods)
2	Site 2	Water	Outbound ship...	m³	20	USD	(All periods)
3	Site 3	Water	Outbound ship...	m³	20	USD	(All periods)

Products (1)
Sale Batch (0)
Site States Changes (0)
Sourcing (2)

#	Name	Unit	Selling Price	Cost	Cost Unit
1	Water	m³	500	250	USD

Products (1)
Sale Batch (0)
Site States Changes (0)
Sourcing (2)
Suppliers (1)

#	Delivery Destinat...	Product	Type	Parameters	Sources	Time Period	Inclusion Type
1	Customers	Water	Closest (Fixed So...	No parameters	(All sites)	(All periods)	Include
2	(All sites)	Water	Closest (Fixed So...	No parameters	Supplier	(All periods)	Include

Unit Conversions (0)
Units (0)
Vehicle Types (1)

#	Name	Capacity	Capacity Unit	Speed	Speed Unit
1	Truck	50	m³	80.0	km/h

Figure A-4: Input data.

First, we perform a simulation experiment for a supply chain design that uses three distribution centers. The result is shown in Figure A-5:

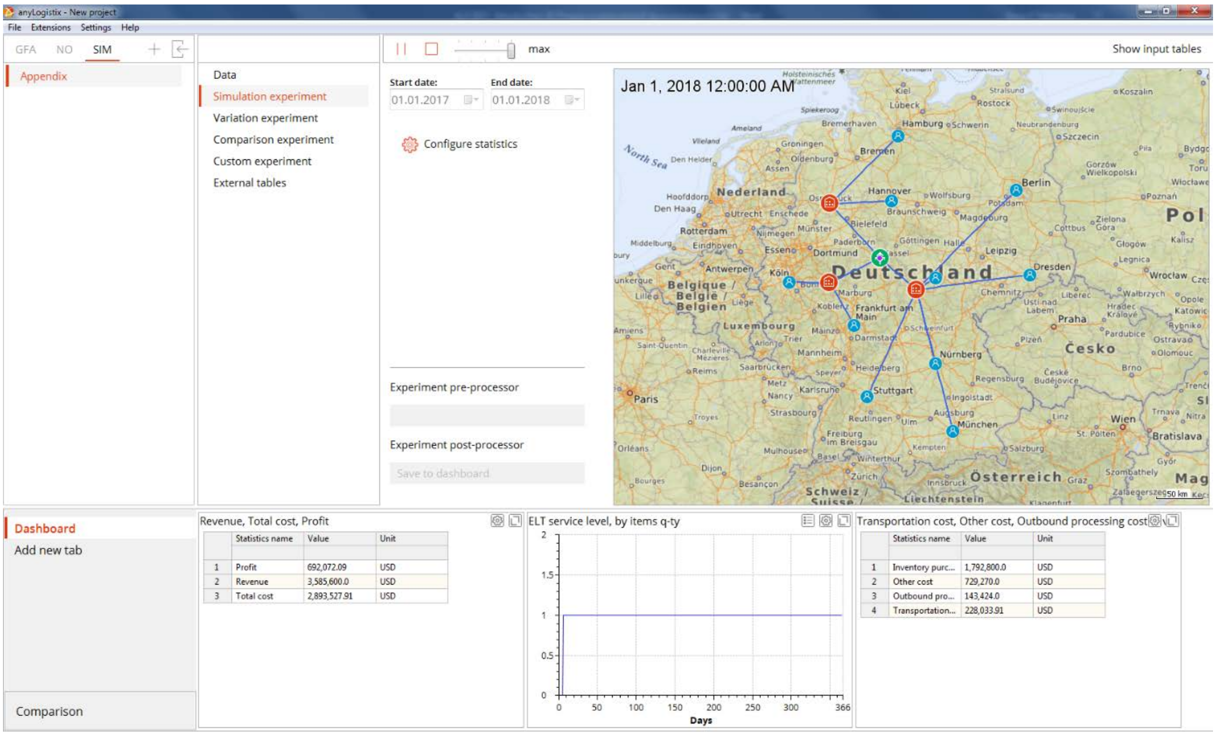


Figure A-5: The performance of a supply chain that has three distribution centers.

Then convert current simulation scenario to NO scenario and enter the following data into the **Demand** table:

Table 16: Demand distribution

Customer	Product	Demand Type	Time Period	Revenue	Down Penalty	Up Penalty
Hamburg	Water	PeriodicDemand [period:5.0;quantity:10.0]	First	500	5000	5000
Berlin	Water	PeriodicDemand [period:5.0;quantity:12.0]	First	500	5000	5000
Hannover	Water	PeriodicDemand [period:5.0;quantity:8.0]	First	500	5000	5000
Dresden	Water	PeriodicDemand [period:5.0;quantity:8.0]	First	500	5000	5000
Frankfurt	Water	PeriodicDemand [period:5.0;quantity:10.0]	First	500	5000	5000
Erfurt	Water	PeriodicDemand [period:5.0;quantity:7.0]	First	500	5000	5000
Munchen	Water	PeriodicDemand [period:5.0;quantity:13.0]	First	500	5000	5000
Stuttgart	Water	PeriodicDemand [period:5.0;quantity:8.0]	First	500	5000	5000
Cologne	Water	PeriodicDemand [period:5.0;quantity:12.0]	First	500	5000	5000
Nurnberg	Water	PeriodicDemand [period:5.0;quantity:8.0]	First	500	5000	5000
Hamburg	Water	PeriodicDemand [period:5.0;quantity:13.0]	Second	500	5000	5000
Berlin	Water	PeriodicDemand [period:5.0;quantity:15.6]	Second	500	5000	5000
Hannover	Water	PeriodicDemand [period:5.0;quantity:10.4]	Second	500	5000	5000
Dresden	Water	PeriodicDemand [period:5.0;quantity:10.4]	Second	500	5000	5000
Frankfurt	Water	PeriodicDemand [period:5.0;quantity:13.0]	Second	500	5000	5000
Erfurt	Water	PeriodicDemand [period:5.0;quantity:9.1]	Second	500	5000	5000
Munchen	Water	PeriodicDemand [period:5.0;quantity:16.9]	Second	500	5000	5000

Customer	Product	Demand Type	Time Period	Revenue	Down Penalty	Up Penalty
Stuttgart	Water	PeriodicDemand [period:5.0;quantity:10.4]	Second	500	5000	5000
Cologne	Water	PeriodicDemand [period:5.0;quantity:15.6]	Second	500	5000	5000
Nurnberg	Water	PeriodicDemand [period:5.0;quantity:10.0]	Second	500	5000	5000
Hamburg	Water	PeriodicDemand [period:5.0;quantity:8.0]	Third	500	5000	5000
Berlin	Water	PeriodicDemand [period:5.0;quantity:9.6]	Third	500	5000	5000
Hannover	Water	PeriodicDemand [period:5.0;quantity:6.4]	Third	500	5000	5000
Dresden	Water	PeriodicDemand [period:5.0;quantity:6.4]	Third	500	5000	5000
Frankfurt	Water	PeriodicDemand [period:5.0;quantity:8.0]	Third	500	5000	5000
Erfurt	Water	PeriodicDemand [period:5.0;quantity:5.6]	Third	500	5000	5000
Munchen	Water	PeriodicDemand [period:5.0;quantity:10.4]	Third	500	5000	5000
Stuttgart	Water	PeriodicDemand [period:5.0;quantity:6.4]	Third	500	5000	5000
Cologne	Water	PeriodicDemand [period:5.0;quantity:9.6]	Third	500	5000	5000
Nurnberg	Water	PeriodicDemand [period:5.0;quantity:6.4]	Third	500	5000	5000

In the second step, network optimization experiment is run (Figure A-6).

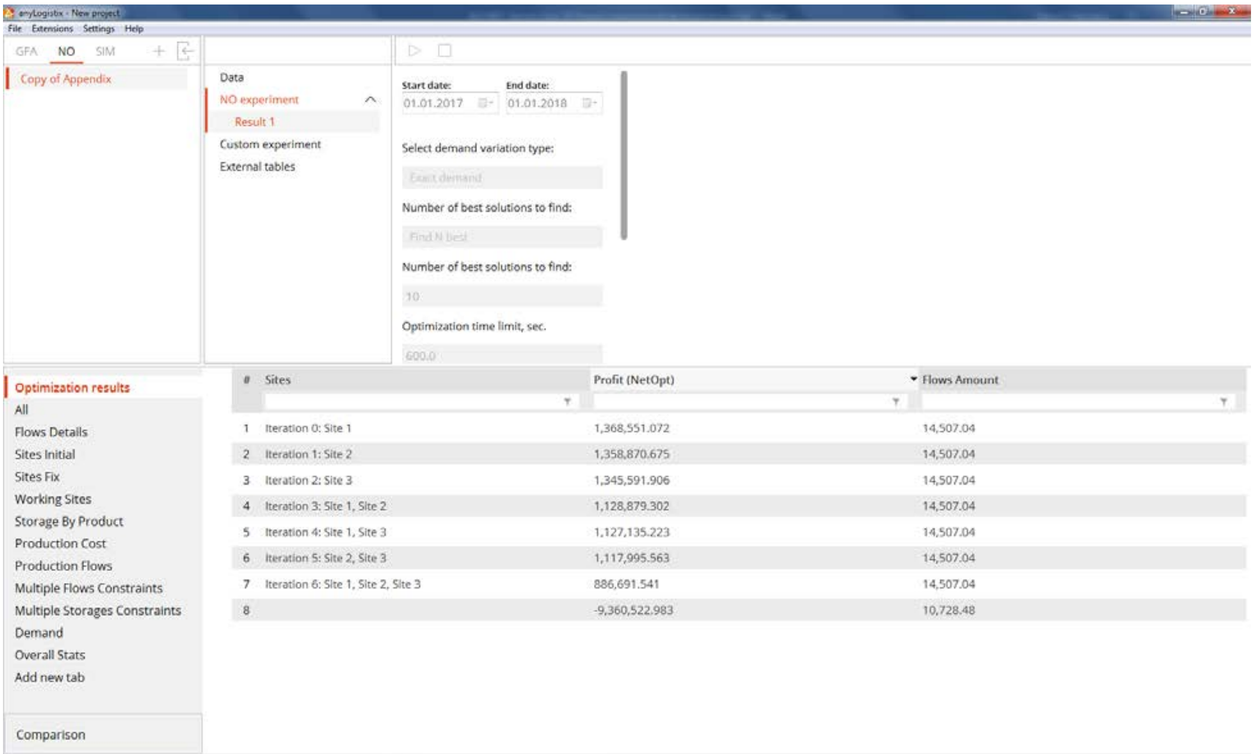


Figure A-6: Network optimization experiment.

Third, we use the best result of the network optimization that suggests using one distribution center is the most profitable supply chain design (profit of $1,368,551.072). We convert it to the SIM scenario, change our input data (delete Supplier information and inventory policy) and run a simulation experiment with the optimal supply chain design subject to maximum profit (Figure A-7).

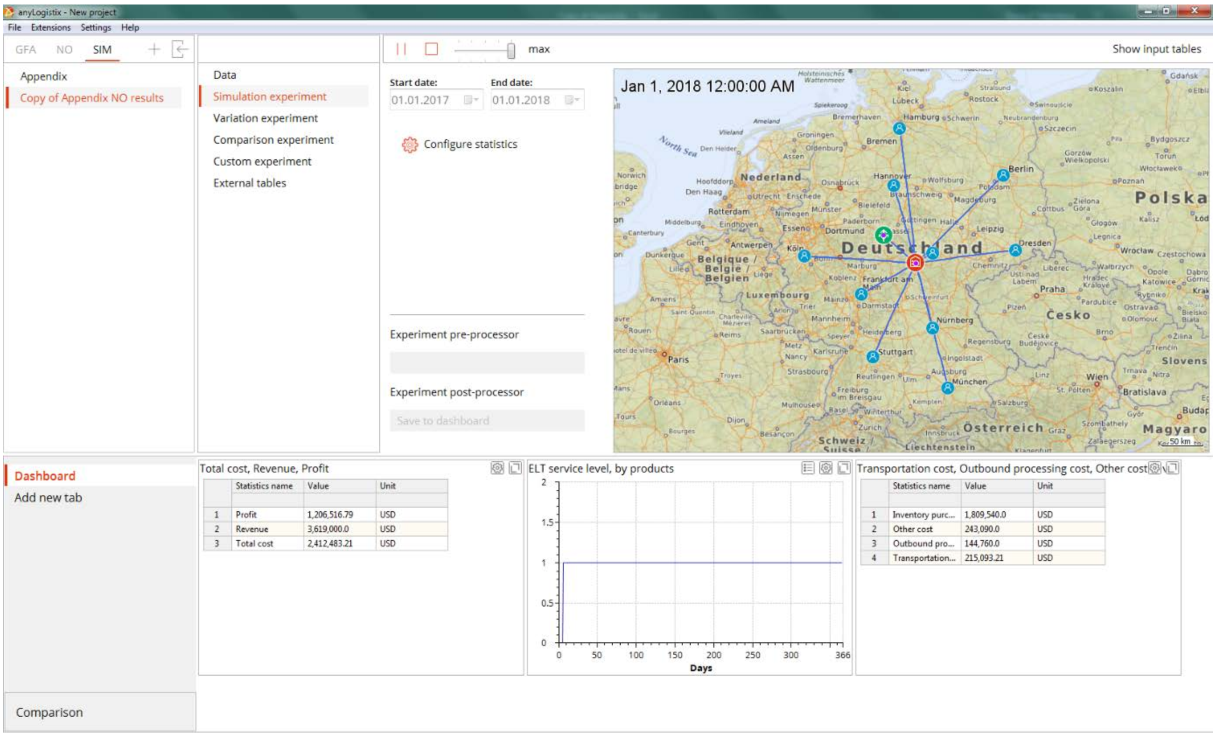


Figure A-7: Simulation experiment with optimal supply chain design.

We can see the sum of fixed warehousing costs is $243,090.0 and variable transportation costs equals $215,093.21.

We use a **Comparison** experiment to compare the supply chain design that uses three distribution centers (scenario Appendix) with the design that uses one distribution center (scenario Copy of Appendix 1 NO results) (Figure A-8).

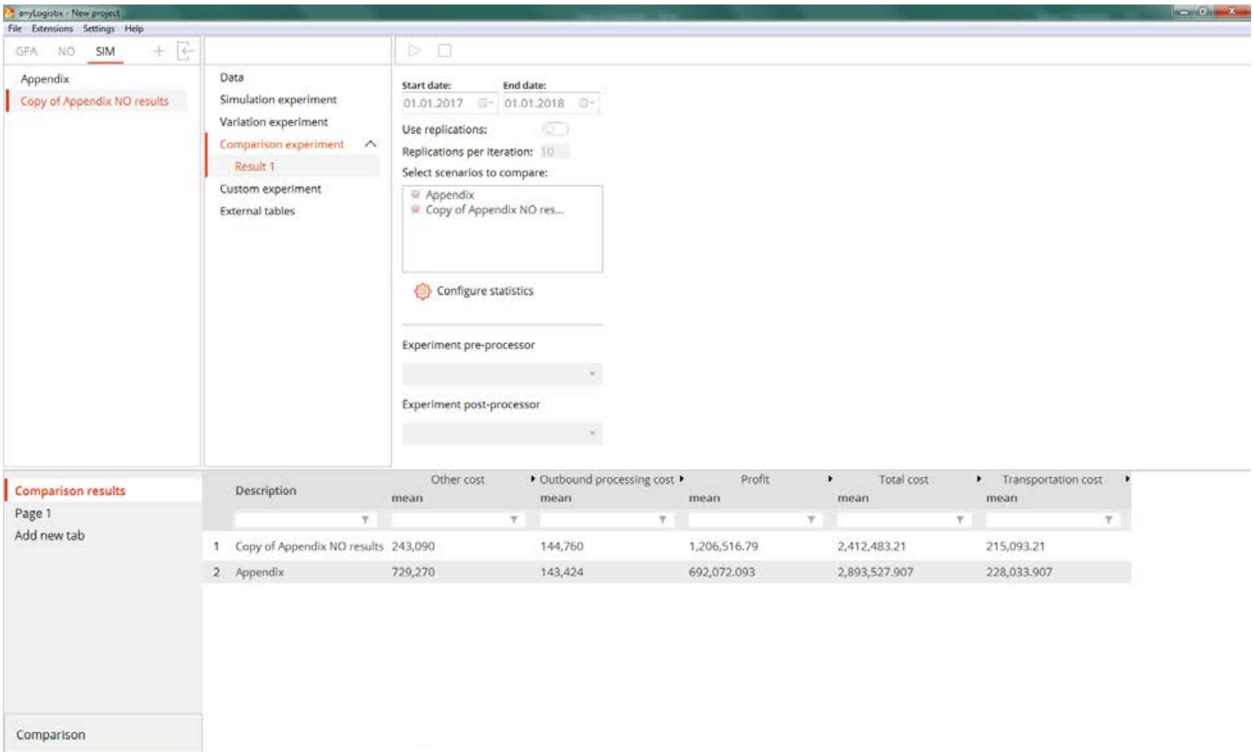


Figure A-8: Comparison experiment.

Figure A-8 shows us the supply chain design that uses three distribution centers has lower transportation costs. However, the significant savings in fixed warehousing costs makes the design that uses one distribution center far more efficient and profitable.

Finally, we perform a variation analysis to analyze KPI sensitivity to the changes in transportation costs in range from $0.2 to $2.0 for a kilometer (Figures A9-A12).

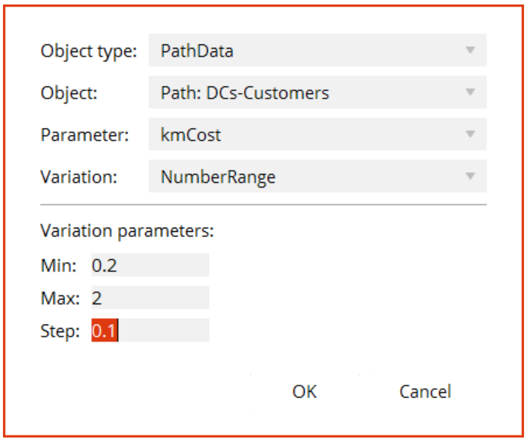


Figure A-9: Setting the range for parameter change.

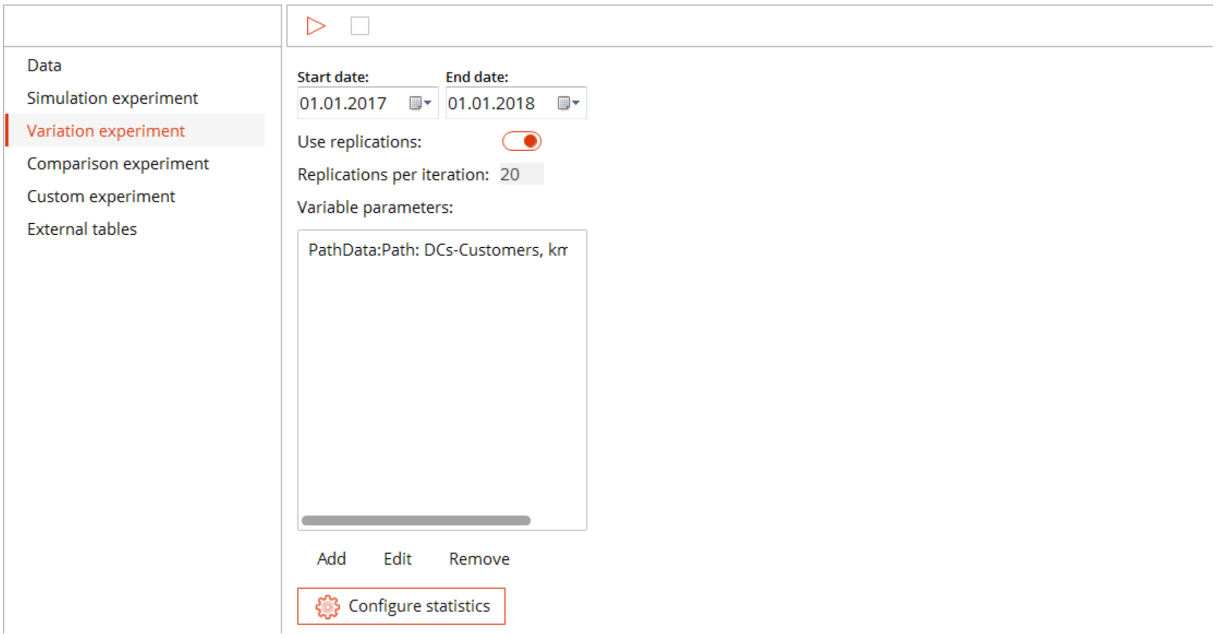


Figure A-10: Setting the number of replications.

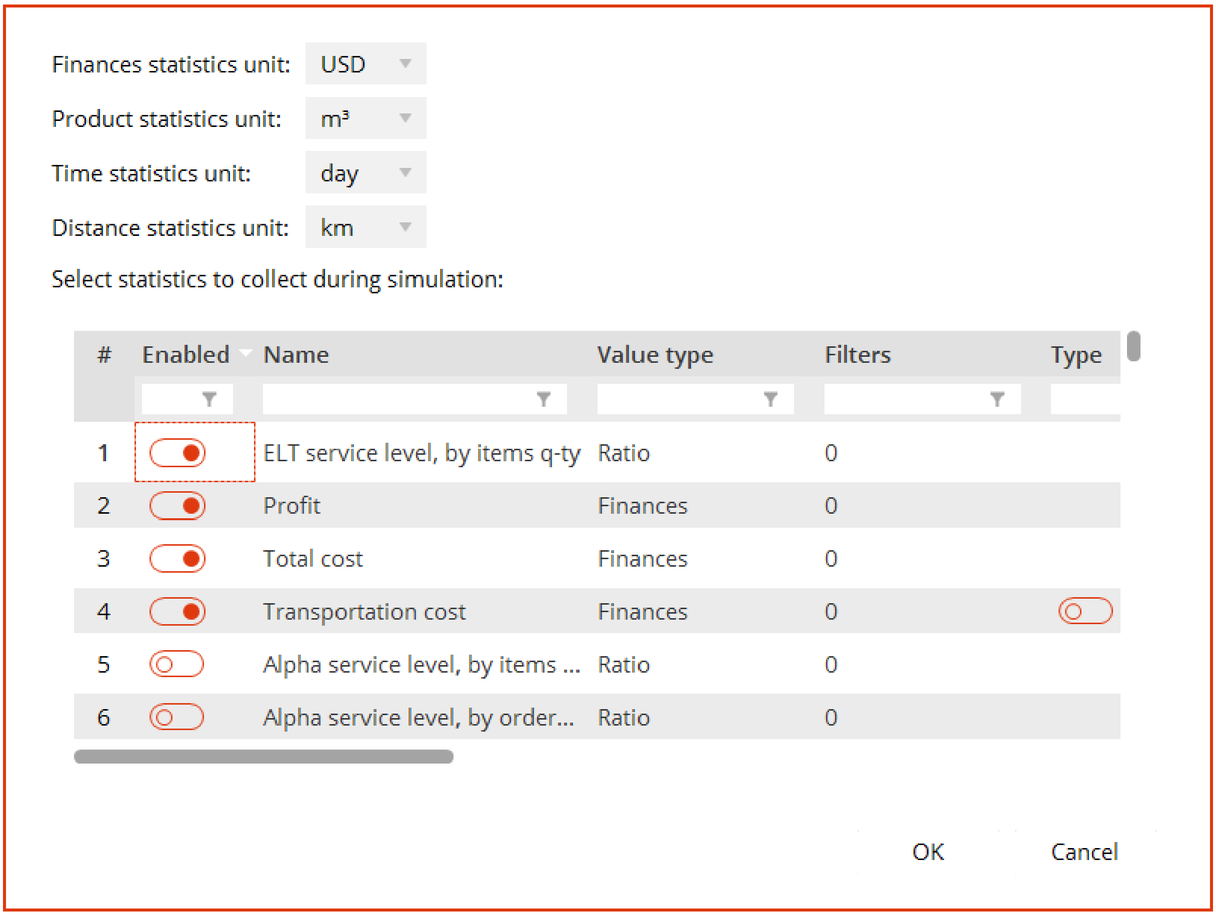
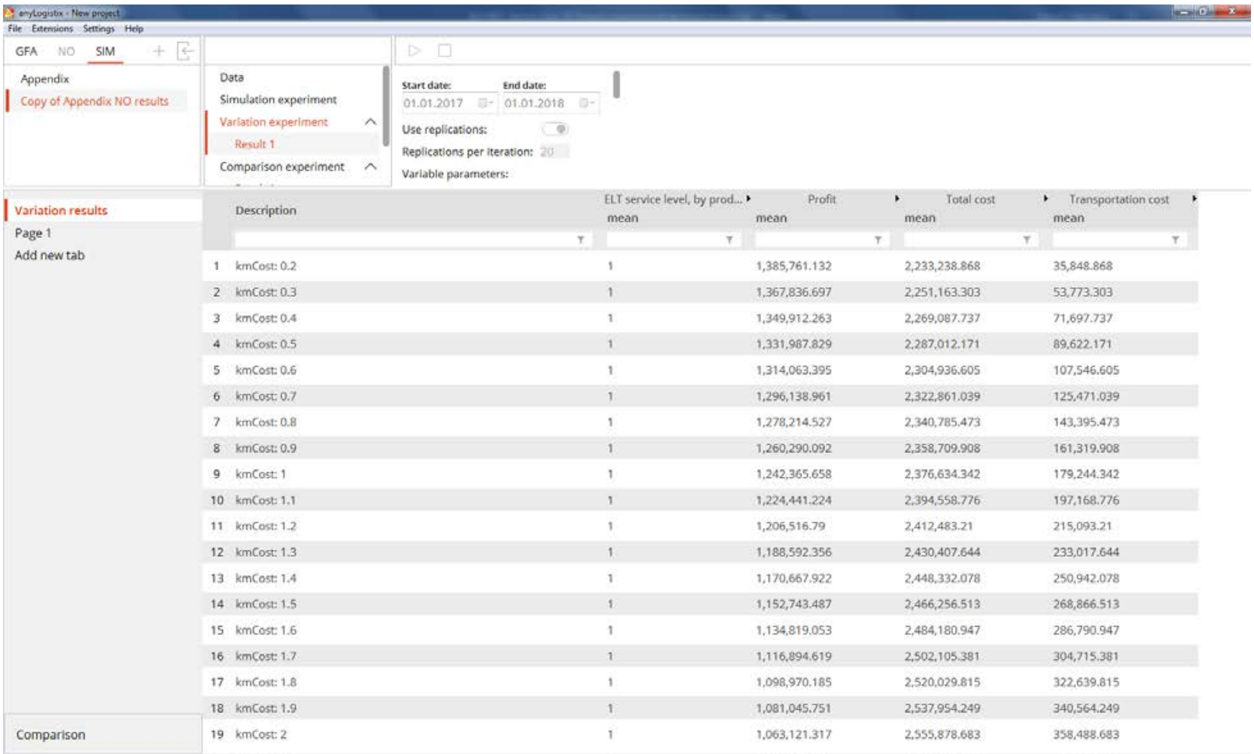


Figure A-11: Configuring statistics.



	Description	ELT service level, by prod... mean	Profit mean	Total cost mean	Transportation cost mean
1	kmCost: 0.2	1	1,385,761.132	2,233,238.868	35,848.868
2	kmCost: 0.3	1	1,367,836.697	2,251,163.303	53,773.303
3	kmCost: 0.4	1	1,349,912.263	2,269,087.737	71,697.737
4	kmCost: 0.5	1	1,331,987.829	2,287,012.171	89,622.171
5	kmCost: 0.6	1	1,314,063.395	2,304,936.605	107,546.605
6	kmCost: 0.7	1	1,296,138.961	2,322,861.039	125,471.039
7	kmCost: 0.8	1	1,278,214.527	2,340,785.473	143,395.473
8	kmCost: 0.9	1	1,260,290.092	2,358,709.908	161,319.908
9	kmCost: 1	1	1,242,365.658	2,376,634.342	179,244.342
10	kmCost: 1.1	1	1,224,441.224	2,394,558.776	197,168.776
11	kmCost: 1.2	1	1,206,516.79	2,412,483.21	215,093.21
12	kmCost: 1.3	1	1,188,592.356	2,430,407.644	233,017.644
13	kmCost: 1.4	1	1,170,667.922	2,448,332.078	250,942.078
14	kmCost: 1.5	1	1,152,743.487	2,466,256.513	268,866.513
15	kmCost: 1.6	1	1,134,819.053	2,484,180.947	286,790.947
16	kmCost: 1.7	1	1,116,894.619	2,502,105.381	304,715.381
17	kmCost: 1.8	1	1,098,970.185	2,520,029.815	322,639.815
18	kmCost: 1.9	1	1,081,045.751	2,537,954.249	340,564.249
19	kmCost: 2	1	1,063,121.317	2,555,878.683	358,488.683

Figure A-12: Results of variation analysis.

Note: Figure A-13 displays the unfiltered results of the variation analysis. If you want to make it easier to display the results, you can filter the results such as the **Total costs** column.

With the help of variation analysis, we can observe the KPI change in dependence on the input parameter changes. This is helpful for sensitivity analysis.