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Computationally Tractable Inventory Control for Large-Scale Bidirectional Supply Chains

P. Krishnamurthy, F. Khorrami, D. Schoenwald

***Abstract*— In this paper, we consider a new inventory control technique for large-scale supply chains including repairs. Part flow is bidirectional with broken parts propagated upstream for repair. It is well-known that available optimization techniques for inventory control for bidirectional stochastic supply chains are computationally intractable and also necessitate several simplifying assumptions. In contrast, the proposed approach is an adaptive scheme which scales well to practically interesting large-scale multi-item supply chains. Furthermore, practical issues such as stochastic transport delays, manufacturing times, and repair times and probabilistic characterization of part repair success are handled in a unified framework. The control scheme is based on a hierarchical two-level architecture comprised of an adaptive set-point generator and a lower-level order-up-to policy. An application to aircraft supply chains involving multiple OEMs, depots, bases, squadrons, and planes is also investigated.**

I. Introduction

Inventory control for large-scale supply chains is well-recognized [1–3] as an important problem with numerous applications including manufacturing systems, logistics systems, communication networks, and transportation systems. Considerable work on both modeling and control of supply chains has been reported in the literature. A review and literature survey of supply chain modeling techniques can be found in [4]. The existing results on inventory control for supply chains focus primarily on single-directional supply chains [5–13] wherein parts flow from manufacturers to end-users through a chain of transportation and storage nodes. In this case, fairly general results have been obtained especially in the case when the supply chain consists of only one supplier and one client [7,10]. However, these results rely crucially on the assumption that part flow is single-directional and cannot be extended to bi-directional part flow.

In recent years, bidirectional supply chains (or reverse supply chains) have attained increasing importance [14–16] especially in two contexts, one being the case of supply chains that also handle repairs (as is typical in any maintenance supply chain) and the second being the case of supply chains that include recycling whether for environmental or economic reasons. Unlike single-directional supply chains, optimization-based approaches to bidirectional supply chains are computationally intractable for realistic supply chains (partly owing to the property that stochastic disturbances enter at both ends of a bidirectional supply chain) and also necessitate simplifying assumptions on manufacturing times, repair times, demand profiles, etc. In this paper, we propose a new inventory control technique for large-scale bidirectional supply chains. The control scheme is based on a hierarchical two-level architecture which is obtained through a novel formulation of a bidirectional supply chain and the control objective which is framed in an inherently decentralized setting. The higher-level controller in the hierarchical two-level architecture is an adaptive inventory set-point generator which performs on-line tuning of the desired inventory levels while the lower-level controller follows an order-up-to policy. The controller is of a very simple structure and is computationally tractable even for very large-scale supply chains. Furthermore, the applicability of the proposed scheme is enhanced through a decentralized approach. We provide both a fully decentralized scheme and a partially decentralized scheme (wherein each site communicates with its neighbors in the supply chain).

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A mathematical model for the class of supply chains considered is developed in Section II. The proposed inventory control strategy is provided in Section III. In Section IV, we consider the application of the obtained results to aircraft supply chains [17,18] which form a challenging and important example of large-scale supply chains. Simulation results are provided in Section V.

II. Modeling Considerations For Supply Chains with Repairs

We consider a general supply chain composed of manufacturing sites, repair sites, and client sites. Supply chains of the form considered appear in various applications and encompass the category of support networks wherein the purpose of the supply chain is to provide repair and manufacturing services to a set of *end-node*s that are required to satisfy some performance criteria. Typically, such networks have some sites that are responsible for manufacturing new parts and several intermediate sites that maintain inventories and possess some repair capabilities. A mathematical framework for such supply chains is developed below.

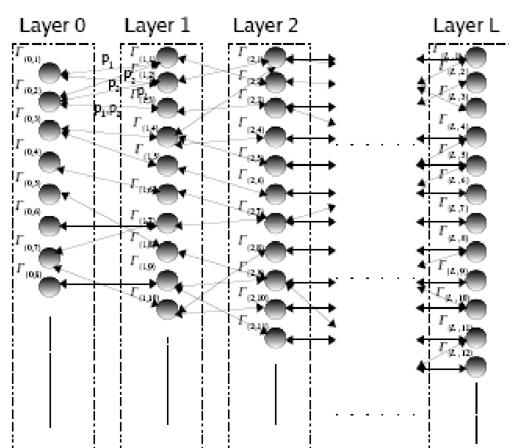

Fig. 1. A supply chain network.

The supply chain is modeled as a network of sites $\Gamma_{(i,j)}, i = 0, \ldots, L, j = 1,\ldots,N_i$ where L, $N_0,\ldots,N_L$ are positive constants. The network is organized as being comprised of $L+1$ layers (see Figure 1) with $\Gamma_{(i,j)}$,j =

$1, \ldots, N_i$ forming the i^{th} layer. The sites $\Gamma_{(0,j)}, j = 1, \ldots, N_0$ which form the 0^{th} layer are the manufacturing sites. The sites $\Gamma_{(i,j)}, i = 1, \ldots, L-1, j = 1, \ldots, N_i$ are the intermediate sites while the sites $\Gamma_{(L,j)}, j = 1, \ldots, N_L$ are the end-nodes. As indicated in Figure 1, the number of sites N_i at layer i generally increases with i. Both the manufacturing sites $\Gamma_{(0,j)}, j = 1, \ldots, N_0$ and the intermediate sites $\Gamma_{(i,j)}, i = 1, \ldots, L-1, j = 1, \ldots, N_i$ possess repair capabilities, though to varying degrees, as modeled by associated probabilities. Only the manufacturing sites $\Gamma_{(0,j)}, j = 1, \ldots, N_O$ possess manufacturing capabilities. The end-nodes $\Gamma_{(L,j)}, j = 1, \ldots, N_L$ possess neither repair nor manufacturing capabilities[1]. Inventory stocks are held at the sites $\Gamma_{(i,j)}, i = 1, \ldots, L-1, j = 1, \ldots, N_i$ and parts utilized at the end-nodes $\Gamma_{(L,j)}, j = 1, \ldots, N_L$. The performance criterion is formulated in terms of the parts available at the end-nodes. A typical example for the class of supply chains outlined above is an aircraft supply chain wherein a set of aircrafts form the end-nodes and require a certain set of parts each to be mission-capable. The application of the proposed inventory control technique to an aircraft supply chain is considered in Section IV. A variety of other supply chains including equipment or machinery support networks also fall within the class of supply chains considered.

The part types handled by the supply chain are denoted by $p_1, \ldots, p_P$ with P being the number of different part types. The inventory stock of part p_k at site $\Gamma_{(i,j)}$ at time t is denoted by $\Gamma^{p_k}_{(i,j)}(t)$. New parts are manufactured at the sites $\Gamma_{(0,j)}, j = 1, \ldots, N_0$ and propagate towards the end-nodes, i.e., from left to right in Figure 1. Parts are utilized at the end-nodes and fail after a duration of time[2] determined by a stochastic distribution after which the broken part is propagated to the left in Figure 1. Each site that receives a broken part attempts to fix it. If successful, the repaired part is sent back downstream, i.e., to the right in Figure 1. If the repair attempt is unsuccessful, however, the broken part is propagated one level further upstream. This continues till a manufacturing site receives the broken part. If the manufacturing site is unsuccessful in repairing the broken part, then the broken part is discarded and a new part manufactured in its place. We focus on a *pull* strategy throughout wherein any site initiates a manufacture, a repair attempt, or a request from further upstream only when a downstream site explicitly requests it. This is in keeping with the "inventory is waste" and Just-In-Time (JIT) philosophies [3].

Each of the end-nodes has an associated set of required parts for the end-node to be considered functional. In general, the part requirements at the end-nodes could be quite complex and involve alternative parts, optional parts, etc. For simplicity, we consider a scenario wherein each of the end-nodes $\Gamma_{(L,j)}$ has an associated set $\{n^{p_k}_{(L,j)} : k = 1, \ldots, P)\}$, $j = 1, \ldots, N_L$ specifying the numbers of parts of each part type p_k required at site $\Gamma_{(L,j)}$. Generalizations for more complex part requirements can be developed along similar lines as in this paper; the details are omitted for brevity.

For each part type, each site has a designated supplier site at the next higher level. The site which acts as the supplier of part p_k to site $\Gamma_{(i,j)}$ is denoted by $\mathcal{S}(\Gamma_{(i,j)}; p_k)$. Formally, for each $k \in \{1, \ldots, P\}$, the following is true for each $i \in \{1, \ldots, L\}$ and $j \in \{1, \ldots, N_i\}$:

$$\begin{array}{c}\exists \text{ a unique } m \in \{1, \ldots, N_{i-1}\} \\ \text{such that } \mathcal{S}(\Gamma_{(i,j)}; p_k) = \Gamma_{(i-1,m)}.\end{array} \quad (1)$$

To denote the set of sites for which a given site acts as a supplier for a given part, we introduce the notation

$$\mathcal{S}^{-1}(\Gamma_{(i,m)}; p_k) = \Big\{ j \in \{1, \ldots, N_{i+1}\} \ni \mathcal{S}(\Gamma_{(i+1,j)}; p_k) = \Gamma_{(i,m)} \Big\}. \quad (2)$$

From the definitions of $\mathcal{S}$ and $\mathcal{S}^{-1}$, we have the relationship

$$\bigcup_{j=1}^{N_i} \mathcal{S}^{-1}(\Gamma_{(i,j)}; p_k) = \{1, \ldots, N_{i+1}\} \quad (3)$$

valid for all $i \in \{0, \ldots, L-1\}$ and $k \in \{1, \ldots, P\}$. Moreover, the union on the left hand side of (3) is a disjoint union.

Note that the suppliers are defined part-wise. This takes into account practical scenarios with different suppliers for different parts. Furthermore, the adaptive controller developed in Section III can handle dynamic supplier relationships, i.e., wherein the supplier $\mathcal{S}(\Gamma_{(i,j)}; p_k)$ is time-dependent[3], possibly for each i, j, and k. The adaptive performance of the proposed controller in the face of changing supplier relationships can be seen in the simulation examples in Section V.

We next describe the behavior of each site. For convenience, we utilize a discrete time base, $t_i, i = 0, 1, 2, \ldots$ with the events occuring on the time interval $(t_{n-1}, t_n]$ assumed, for the purpose of modeling and control design, to occur at the time t_n. The appropriate time differential $\Delta t = (t_n - t_{n-1})$ depends on the particular application and can be typically taken to be in the order of 1 day for aircraft supply chains. At time t_n, the events that can occur at a site $\Gamma_{(i,j)}, i = 1, \ldots, L-1, j = 1, \ldots, N_i$ and the resulting actions are as follows:

1) *A broken part of type p_k is received from a site $\Gamma_{(i+1,m)} \in \{\Gamma_{(i+1,r)} \ni r \in \mathcal{S}^{-1}(\Gamma_{(i,j)}; p_k)\}$*: In this case, a repair attempt for the broken part is initiated. Also, if a working part of type p_k is currently in the on-site inventory at site $\Gamma_{(i,j)}$, then it is sent to the site $\Gamma_{(i+1,m)}$. On the other hand, if a working part of type p_k is not currently available in the on-site inventory at site $\Gamma_{(i,j)}$, then $\Gamma_{(i+1,m)}$ is added to a list of outstanding orders $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ of type p_k maintained at site $\Gamma_{(i,j)}$.
2) A repair attempt of a part of type p_k completes successfully: If $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ is empty, then the repaired part is added to the on-site inventory. On the other hand, if $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ is non-empty, the repaired part is sent to the first site in $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ and the first entry in $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ is removed.

[1]This requirement is introduced for simplicity in demarcating the roles of the networks and can be easily relaxed by extending the supply chain to include an additional layer of end-nodes.

[2]For simplicity, it is assumed that parts only fail at the end-nodes. Practically, this implies that shelf life must be much larger than the mean time before failure during active use. In the case that this assumption is not satisfied, the controller design and analysis can be extended by appropriately modifying the inventory deficit signal.

[3]Hence, $\mathcal{S}$ should be a function of $\Gamma_{(i,j)}$, p_k, and t. However, to avoid notational complexity, we leave the time dependence implicit in $\mathcal{S}$.

3) *A repair attempt of a part of type p_k completes unsuccessfully*: The part is sent to $\mathcal{S}(\Gamma_{(i,j)}; p_k)$.
4) *A working part of type p_k is received from site* $\mathcal{S}(\Gamma_{(i,j)}; p_k)$: If $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ is empty, then the part is added to the on-site inventory. If $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ is non-empty, the part is sent to the first site in $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ and the first entry in $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ is removed.

Similarly, the the events that can occur at one of the manufacturing sites $\Gamma_{(0,j)}, j = 1, \ldots, L_0$ at time t_n and the resulting actions can be listed as follows:

1) *A broken part of type p_k is received from a site* $\Gamma_{(1,m)} \in \{\Gamma_{(1,r)} \ni r \in \mathcal{S}^{-1}(\Gamma_{(0,j)}; p_k)\}$: In this case, a repair attempt for the broken part is initiated. Also, if a working part of type p_k is currently in the on-site inventory at site $\Gamma_{(0,j)}$, then it is sent to the site $\Gamma_{(1,m)}$. On the other hand, if a working part of type p_k is not currently available in the on-site inventory at site $\Gamma_{(0,j)}$, then $\Gamma_{(1,m)}$ is added to a list of outstanding orders $\mathcal{O}(\Gamma_{(0,j)}; p_k)$ of type p_k maintained at site $\Gamma_{(0,j)}$.
2) *A repair attempt of a part of type p_k completes successfully*: If $\mathcal{O}(\Gamma_{(0,j)}; p_k)$ is empty, then the repaired part is added to the on-site inventory. If $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ is non-empty, the repaired part is sent to the first site in $\mathcal{O}(\Gamma_{(0,j)}; p_k)$ and the first entry in $\mathcal{O}(\Gamma_{(0,j)}; p_k)$ is removed.
3) *A repair attempt of a part of type p_k completes unsuccessfully*: The part is discarded.
4) *The manufacture of a part of type p_k completes:* If $\mathcal{O}(\Gamma_{(0,j)}; p_k)$ is empty, then the new part is added to the on-site inventory. If $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ is non-empty, then the part is sent to the first site in $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ and the first entry in $\mathcal{O}(\Gamma_{(i,j)}; p_k)$ is removed.

The events that can occur at one of the end-nodes $\Gamma_{(L,j)}, j = 1, \ldots, N_L$ at time t_n and the resulting actions are as follows:

1) *A part of type p_k fails*: The failed part is sent to the site $\mathcal{S}(\Gamma_{(L,j)}; p_k)$.
2) *A working part of type p_k is received from site* $\mathcal{S}(\Gamma_{(L,j)}; p_k)$: The part is added to the on-site inventory.

The amount of time required for a part to travel from one site to another is characterized via probability distributions defined for each pair $(\Gamma_{(i,j)}, \mathcal{S}(\Gamma_{(i,j)}; p_k)), i = 1, \ldots, L, j = 1, \ldots, N_i, k = 1, \ldots, P$. The probability distribution governing the amount of time taken for a part to move from $(\Gamma_{(i,j)}$ to $\mathcal{S}((\Gamma_{(i,j)}; p_k)$ need not be the same as the probability distribution govering the amount of time taken for a part to move from $\mathcal{S}((\Gamma_{(i,j)}; p_k)$ to $\Gamma_{(i,j)}$. The amounts of time required for repair attempts and part manufactures are also, in general, governed by probability distributions defined for each part and site. The probability of success for part repair attempts also depend on the part and the site.

The purpose of the inventory controller is to generate, at each time instant t_n, decisions as to the number of parts of each part type that each site should order from its associated supplier site and (in the case of the manufacturing sites) the number of parts of each part type to start manufacturing so as to meet some performance objective. We consider two possible performance objectives. The first performance objective that we consider is, roughly stated, the reduction of excess inventory or *slack* in the system. In this case, inventory level set-points are tuned on-line through signals that react to the demand profiles and the controller attempts to satisfy the demand with the lowest possible on-site inventory levels. The second performance objective that we consider is based on a performance index specified in terms of the parts available at the end-nodes. The aircraft supply chain examined in Section IV features a physically meaningful performance index of this kind, the *mission capability* which is defined in terms of a set of requisite parts for a plane to be deemed mission capable. The performance objectives described above are characterized more precisely in Section III and inventory control strategies to meet the performance objectives are developed. It is preferable in the design of the inventory controllers that the amount of information exchange required between sites for the functioning of the controller should be minimal to yield a fully or partially decentralized scheme. In Section III, it is seen that the first performance objective above can be attained in a fully decentralized framework while the second objective requires information exchange between successive layers in the supply chain.

III. Control Strategies

In this section, we develop inventory control strategies based on the model of supply chains with repairs developed in Section II. First, we formulate a mathematical description appropriate for control design of the model developed in Section II. The following signals are introduced for each site $\Gamma_{(i,j)}, i = 1, \ldots, L-1, j = 1, \ldots, N_i$ at each time instant t_n and for each part type p_k:

- $r_{cs}(\Gamma_{(i,j)}; p_k; t_n)$: number of repair attempts for parts of type p_k completed successfully at time t_n at site $\Gamma_{(i,j)}$
- $r_{cu}(\Gamma_{(i,j)}; p_k; t_n)$: number of repair attempts for parts of type p_k completed unsuccessfully at time t_n at site $\Gamma_{(i,j)}$
- $d(\Gamma_{(i,j)}; p_k; t_n)$: number of parts of type p_k received from downstream (from a site in $\mathcal{S}^{-1}(\Gamma_{(i,j)}; p_k)$) at time t_n at site $\Gamma_{(i,j)}$
- $u(\Gamma_{(i,j)}; p_k; t_n)$: number of parts of type p_k received from upstream (from $\mathcal{S}(\Gamma_{(i,j)}; p_k)$) at time t_n at site $\Gamma_{(i,j)}$
- $n_d(\Gamma_{(i,j)}; p_k; t_n)$: number of new orders for part type p_k received from downstream at time t_n at site $\Gamma_{(i,j)}$
- $n_u(\Gamma_{(i,j)}; p_k; t_n)$: number of new orders for part type p_k placed to upstream at time t_n from site $\Gamma_{(i,j)}$
- $s(\Gamma_{(i,j)}; p_k; t_n)$: number of parts of type p_k sent to downstream at time t_n from site $\Gamma_{(i,j)}$

In Section II, we introduced the notation $\Gamma^{p_k}_{(i,j)}(t_n)$ for the number of (working) parts of type p_k in the on-site inventory at site $\Gamma_{(i,j)}$. Also, let $\Gamma^{Rp_k}_{(i,j)}(t_n)$ be the number of parts of type p_k under repair at site $\Gamma_{(i,j)}$ at time t_n. Let $\Gamma^{Up_k}_{(i,j)}(t_n)$ be the number of parts of type p_k expected from upstream at site $\Gamma_{(i,j)}$ at time t_n. Note that since we use a pull architecture for the supply chain, $\Gamma^{Up_k}_{(i,j)}(t_n)$ is a function of the number of parts sent upstream for repair and the number of new orders placed to upstream till the current time. Let $\Gamma^{Op_k}_{(i,j)}(t_n)$ be the number of outstanding orders of type p_k at site $\Gamma_{(i,j)}$ at time t_n, i.e., the number of parts of type p_k that downstream sites are waiting for from site $\Gamma_{(i,j)}$. Let $\Gamma^{Np_k}_{(i,j)}(t_n) \triangleq (\Gamma^{p_k}_{(i,j)}(t_n) + \Gamma^{Rp_k}_{(i,j)}(t_n) + \Gamma^{Up_k}_{(i,j)}(t_n))$ denote the net inventory of parts of type p_k at site $\Gamma_{(i,j)}$ at time t_n. The net inventory includes the parts in the on-site inventory, the parts currently under repair on-site, and the parts expected from upstream. Let $\Gamma^{Pp_k}_{(i,j)}(t_n) \triangleq (\Gamma^{Np_k}_{(i,j)}(t_n) - \Gamma^{Op_k}_{(i,j)}(t_n)) = (\Gamma^{p_k}_{(i,j)}(t_n) + \Gamma^{Rp_k}_{(i,j)}(t_n) + \Gamma^{Up_k}_{(i,j)}(t_n) - \Gamma^{Op_k}_{(i,j)}(t_n))$ denote the *inventory position* for part type p_k at site $\Gamma_{(i,j)}$ at time t_n, i.e., the difference between the net inventory and the outstanding orders. The inventory dynamics at each site $\Gamma_{(i,j)}, i = 1,\ldots,L-1, j = 1,\ldots,N_i$, can be expressed through the following relations.

$$\begin{aligned}\Gamma^{p_k}_{(i,j)}(t_{n+1}) &= \Gamma^{p_k}_{(i,j)}(t_n) + r_{cs}(\Gamma_{(i,j)};p_k;t_n)\\ &\quad +u(\Gamma_{(i,j)};p_k;t_n) - s(\Gamma_{(i,j)};p_k;t_n) \quad (4)\end{aligned}$$

$$\begin{aligned}\Gamma^{Rp_k}_{(i,j)}(t_{n+1}) &= \Gamma^{Rp_k}_{(i,j)}(t_n) - r_{cs}(\Gamma_{(i,j)};p_k;t_n)\\ &\quad -r_{cu}(\Gamma_{(i,j)};p_k;t_n) + d(\Gamma_{(i,j)};p_k;t_n) \quad (5)\end{aligned}$$

$$\begin{aligned}\Gamma^{Up_k}_{(i,j)}(t_{n+1}) &= \Gamma^{Up_k}_{(i,j)}(t_n) + r_{cu}(\Gamma_{(i,j)};p_k;t_n)\\ &\quad +n_u(\Gamma_{(i,j)};p_k;t_n) - u(\Gamma_{(i,j)};p_k;t_n) \quad (6)\end{aligned}$$

$$\begin{aligned}\Gamma^{Op_k}_{(i,j)}(t_{n+1}) &= \Gamma^{Op_k}_{(i,j)}(t_n) + d(\Gamma_{(i,j)};p_k;t_n)\\ &\quad +n_d(\Gamma_{(i,j)};p_k;t_n) - s(\Gamma_{(i,j)};p_k;t_n) \quad (7)\end{aligned}$$

$$\begin{aligned}\Gamma^{Np_k}_{(i,j)}(t_{n+1}) &= \Gamma^{Np_k}_{(i,j)}(t_n) + d(\Gamma_{(i,j)};p_k;t_n)\\ &\quad +n_u(\Gamma_{(i,j)};p_k;t_n) - s(\Gamma_{(i,j)};p_k;t_n) \quad (8)\end{aligned}$$

$$\begin{aligned}\Gamma^{Pp_k}_{(i,j)}(t_{n+1}) &= \Gamma^{Pp_k}_{(i,j)}(t_n) + n_u(\Gamma_{(i,j)};p_k;t_n)\\ &\quad -n_d(\Gamma_{(i,j)};p_k;t_n). \quad (9)\end{aligned}$$

The dynamics of a manufacturing site $\Gamma_{(0,j)}$ can be obtained similarly. Let $m(\Gamma_{(0,j)};p_k;t_n)$ and $m_c(\Gamma_{(0,j)};p_k;t_n)$ be the numbers of part manufactures of type p_k initiated and completed, respectively, at time t_n at site $\Gamma_{(0,j)}$. Let $\Gamma^{Mp_k}_{(0,j)}(t_n)$ be the number of parts of type p_k under manufacture at site $\Gamma_{(0,j)}$ at time t_n. With the rest of the notations defined analogously to above, the inventory dynamics at each site $\Gamma_{(0,j)}, j = 1,\ldots,N_0$ can be written as

$$\begin{aligned}\Gamma^{p_k}_{(0,j)}(t_{n+1}) &= \Gamma^{p_k}_{(0,j)}(t_n) + r_{cs}(\Gamma_{(0,j)};p_k;t_n)\\ &\quad +m_c(\Gamma_{(0,j)};p_k;t_n)\\ &\quad -s(\Gamma_{(0,j)};p_k;t_n) \quad (10)\end{aligned}$$

$$\begin{aligned}\Gamma^{Rp_k}_{(0,j)}(t_{n+1}) &= \Gamma^{Rp_k}_{(0,j)}(t_n) - r_{cs}(\Gamma_{(0,j)};p_k;t_n)\\ &\quad -r_{cu}(\Gamma_{(0,j)};p_k;t_n)\\ &\quad +d(\Gamma_{(0,j)};p_k;t_n) \quad (11)\end{aligned}$$

$$\begin{aligned}\Gamma^{Mp_k}_{(0,j)}(t_{n+1}) &= \Gamma^{Mp_k}_{(0,j)}(t_n) + m(\Gamma_{(0,j)};p_k;t_n)\\ &\quad -m_c(\Gamma_{(0,j)};p_k;t_n) \quad (12)\end{aligned}$$

$$\begin{aligned}\Gamma^{Op_k}_{(0,j)}(t_{n+1}) &= \Gamma^{Op_k}_{(0,j)}(t_n) + d(\Gamma_{(0,j)};p_k;t_n)\\ &\quad +n_d(\Gamma_{(0,j)};p_k;t_n)\\ &\quad -s(\Gamma_{(0,j)};p_k;t_n) \quad (13)\end{aligned}$$

$$\begin{aligned}\Gamma^{Np_k}_{(0,j)}(t_{n+1}) &= \Gamma^{Np_k}_{(0,j)}(t_n) + d(\Gamma_{(0,j)};p_k;t_n)\\ &\quad +m(\Gamma_{(0,j)};p_k;t_n) - s(\Gamma_{(0,j)};p_k;t_n)\\ &\quad -r_{cu}(\Gamma_{(0,j)};p_k;t_n) \quad (14)\end{aligned}$$

$$\begin{aligned}\Gamma^{Pp_k}_{(0,j)}(t_{n+1}) &= \Gamma^{Pp_k}_{(0,j)}(t_n) + m(\Gamma_{(0,j)};p_k;t_n)\\ &\quad -n_d(\Gamma_{(0,j)};p_k;t_n)\\ &\quad -r_{cu}(\Gamma_{(0,j)};p_k;t_n). \quad (15)\end{aligned}$$

To derive the inventory dynamics at the end-nodes, denote the number of parts of type p_k that fail at the site $\Gamma_{(L,j)}(t_n)$ to be $f(\Gamma_{(L,j)};p_k;t_n)$. With $u(\Gamma_{(L,j)};p_k;t_n)$, $n_u(\Gamma_{(L,j)};p_k;t_n)$, $\Gamma^{p_k}_{(L,j)}(t_n)$, $\Gamma^{Up_k}_{(L,j)}(t_n)$, and $\Gamma^{Np_k}_{(L,j)}(t_n)$ defined analogously to above, the inventory dynamics of each site $\Gamma_{(L,j)}, j = 1,\ldots,N_L$ can be expressed as

$$\begin{aligned}\Gamma^{p_k}_{(L,j)}(t_{n+1}) &= \Gamma^{p_k}_{(L,j)}(t_n) - f(\Gamma_{(L,j)};p_k;t_n)\\ &\quad +u(\Gamma_{(L,j)};p_k;t_n) \quad (16)\end{aligned}$$

$$\begin{aligned}\Gamma^{Up_k}_{(L,j)}(t_{n+1}) &= \Gamma^{Up_k}_{(L,j)}(t_n) + f(\Gamma_{(L,j)};p_k;t_n)\\ &\quad +n_u(\Gamma_{(L,j)};p_k;t_n)\\ &\quad -u(\Gamma_{(L,j)};p_k;t_n) \quad (17)\end{aligned}$$

$$\Gamma^{Np_k}_{(L,j)}(t_{n+1}) = \Gamma^{Np_k}_{(L,j)}(t_n) + n_u(\Gamma_{(L,j)};p_k;t_n). \quad (18)$$

Since the end-nodes have to only maintain a required set of parts and cannot store excess inventory, $n_u(\Gamma_{(L,j)};p_k;t_n) = 0, j = 1,\ldots,N_L$.

The inventory dynamics of the sites in the supply chain are coupled through the variables d, u, n_d, n_u, and s. For instance, if the times taken for a part to move from a site $\Gamma_{(i,j)}$ to its corresponding supplier site $\mathcal{S}(\Gamma_{(i,j)};p_k)$ are constant and denoted by $t^{p_k}_{(i,j)}$, then

$$d(\Gamma_{(i,j)};p_k;t_n) = \sum_{\chi\in\mathcal{S}^{-1}(\Gamma_{(i,j)};p_k)} r_{cu}\Big(\Gamma_{(i+1,\chi)};p_k;t_n - t^{p_k}_{(i+1,\chi)}\Big). \quad (19)$$

for $i = 0,\ldots,L-2, j = 1 = 1,\ldots,N_i, k = 1,\ldots,P$, and

$$d(\Gamma_{(L-1,j)};p_k;t_n) = \sum_{\chi\in\mathcal{S}^{-1}(\Gamma_{(L-1,j)};p_k)} f\Big(\Gamma_{(L,\chi)};p_k;t_n - t^{p_k}_{(L,\chi)}\Big). \quad (20)$$

for $j = 1,\ldots,N_{L-1}, k = 1,\ldots,P$. Also, if the amount of time to repair a part of type p_k at site $\Gamma_{(i,j)}$ is constant and denoted by $t^{Rp_k}_{(i,j)}$, then the following relation holds:

$$\begin{aligned}&r_{cs}(\Gamma_{(i,j)};p_k;t_n)\\ &+r_{cu}(\Gamma_{(i,j)};p_k;t_n) = d(\Gamma_{(i,j)};p_k;t_n - t^{Rp_k}_{(i,j)}). \quad (21)\end{aligned}$$

The decomposition of d into r_{cs} and r_{cu} is governed by the repair success probabilities which are defined for each site and part. In general, the transportation times between sites and the repair times are stochastic so that the right hand sides of (19)-(21) involve not certain fixed time delays but a set of stochastic time delays.

The inventory dynamics of the entire supply chain can, atleast conceptually, be obtained by combining together the inventory dynamics of each site and formulating all the coupling signals through the appropriate probability distributions. However, this process is computationally infeasible for any but the simplest supply chains. Instead, we follow here an *agent-based* approach wherein the dynamics of each site are considered separately and the dynamics of the entire supply chain is implicitly captured through the behavior of each site, the transportation network, and the repair and manufacture processes. This simplifies both the controller design and analysis and also the computer simulation (see Section V) where the agent-based approach maps naturally to an object-oriented framework.

The control signal that is to be generated by the inventory controller at site $\Gamma_{(i,j)}$ is $c_{(i,j)} \stackrel{\triangle}{=} \{n_u(\Gamma_{(i,j)}; p_k; t_n) | k = 1, \ldots, P\}$ for $i = 1, \ldots, L-1, j = 1, \ldots, i$, and $c_{(i,j)} \stackrel{\triangle}{=} \{m(\Gamma_{(i,j)}; p_k; t_n) | k = 1, \ldots, P\}$ for $i = 0, j = 1, \ldots, N_0$, i.e., the inventory controller is required to make decisions on new orders and manufactures. We propose a two-level hierarchical controller structure with the higher-level controller being an adaptive inventory set-point generator and the lower-level controller following an order-up-to policy. This is in contrast to optimization-based schemes wherein the inventory set-points are fixed through offline optimization. The structure of the proposed controller strategy is illustrated in Figure 2 where the input to the inventory controller is denoted by $y_{(i,j)}$. The proposed controller is of a simple form with low computational requirements, thus making application to large-scale supply chains feasible. Furthermore, the adaptive strategy allows the supply chain to react rapidly to changes in the topology of the supply chain network and supplier relationships. We propose two different adaptive higher-level controllers, one fully decentralized and the other partially decentralized. In the fully decentralized case, $y_{(i,j)}$ is comprised of local measurements of $\Gamma^{Np_k}_{(i,j)}$ and $\Gamma^{Op_k}_{(i,j)}$. In the partially decentralized case, $y_{(i,j)}$ also incorporates *part deficit* signals received from the sites for which $\Gamma_{(i,j)}$ acts as a supplier. The dynamic performance of the proposed controllers is evaluated through simulation studies in Section V.

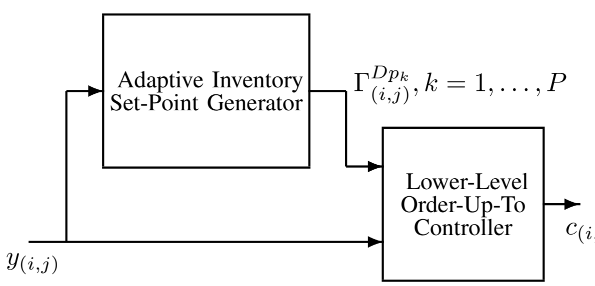

Fig. 2. A hierarchical two-level inventory controller.

Let the inventory set-point (i.e., the desired inventory level) for part type p_k at site $\Gamma_{(i,j)}$ at time t_n be denoted by $\Gamma^{Dp_k}_{(i,j)}(t_n)$. The lower-level controller works to regulate the net inventory $\Gamma^{Np_k}_{(i,j)}(t_n)$ to the inventory set-point $\Gamma^{Dp_k}_{(i,j)}(t_n)$ while the adaptive higher-level controller performs on-line tuning of the inventory set-points $\Gamma^{Dp_k}_{(i,j)}(t_n)$. The lower-level controller which directly assigns $n_u(\Gamma_{(i,j)}; p_k; t_n), i = 1, \ldots, L-1, j = 1, \ldots, i, k = 1, \ldots, P$ and $m(\Gamma_{(0,j)}; p_k; t_n), j = 1, \ldots, N_0, k = 1, \ldots, P$ is given by

$$n_u(\Gamma_{(i,j)}; p_k; t_n) = \begin{cases} 0 \text{ if } \Gamma^{Np_k}_{(i,j)}(t_n) \geq \Gamma^{Dp_k}_{(i,j)}(t_n) \\ \Gamma^{Dp_k}_{(i,j)}(t_n) - \Gamma^{Np_k}_{(i,j)}(t_n) \text{ otherwise} \end{cases} \quad (22)$$

for $i = 1, \ldots, L-1, j = 1, \ldots, i, k = 1, \ldots, P$ and

$$m(\Gamma_{(0,j)}; p_k; t_n) = \begin{cases} 0 \text{ if } \Gamma^{Np_k}_{(0,j)}(t_n) \geq \Gamma^{Dp_k}_{(0,j)}(t_n) \\ \Gamma^{Dp_k}_{(0,j)}(t_n) - \Gamma^{Np_k}_{(0,j)}(t_n) \text{ otherwise} \end{cases} \quad (23)$$

for $j = 1, \ldots, N_0, k = 1, \ldots, P$.

We first consider a fully decentralized candidate for the adaptive higher-level controller given by

$$\begin{aligned} \Gamma^{Dp_k}_{(i,j)}(t_n) &= \max\left\{0, \tilde{\Gamma}^{Dp_k}_{(i,j)}(t_n)\right\} \\ \tilde{\Gamma}^{Dp_k}_{(i,j)}(t_n) &= C^{p_k}_{(i,j)P} \Gamma^{Op_k}_{(i,j)}(t_n) \\ &\quad + C^{p_k}_{(i,j)D}[\Gamma^{Op_k}_{(i,j)}(t_n) - \Gamma^{Op_k}_{(i,j)}(t_{n-1})] \quad (24) \end{aligned}$$

where $\tilde{\Gamma}^{Op_k}_{(i,j)}(t_n)$ is a low-pass filtered version of $\Gamma^{Op_k}_{(i,j)}(t_n)$. $C^{p_k}_{(i,j)P}$ and $C^{p_k}_{(i,j)D}$ are nonnegative constants and form the controller gain parameters. The controller (24) is essentially a Proportional-Derivative (PD) controller based on $\Gamma^{Op_k}_{(i,j)}(t_n)$. The use of a low-pass filtered version of $\Gamma^{Op_k}_{(i,j)}(t_n)$ in (24) rather than $\Gamma^{Op_k}_{(i,j)}(t_n)$ itself reduces sensitivity to stochastically-induced local spikes. The bandwidth of the low pass filter should be picked based on estimates of the time constants of the system which can be inferred from mean time before failure of the each part, transportation delays, and repair and manufacture times.

The stability of the fully decentralized scheme (22), (23), and (24) can be proved using the following relations which can be derived from the part requirements specified at the end-nodes.

$$\begin{aligned} & d(\Gamma_{(L-1,j)}; p_k; t_n) \\ & + n_d(\Gamma_{(L-1,j)}; p_k; t_n) \leq \sum_{\chi \in \mathcal{S}^{-1}(\Gamma_{(L-1,j)}; p_k; t_n)} n^{p_k}_{(L,\chi)} \quad (25) \\ & \Gamma^{Op_k}_{(L-1,j)}(t_n) \leq \sum_{\chi \in \mathcal{S}^{-1}(\Gamma_{(L-1,j)}; p_k; t_n)} n^{p_k}_{(L,\chi)}. \quad (26) \end{aligned}$$

The inequality (26) and the control law (24) yield the inequality

$$\begin{aligned} \Gamma^{Dp_k}_{(L-1,j)}(t_n) \quad \leq \quad & \left(C^{p_k}_{(L-1,j)P} + 2C^{p_k}_{(L-1,j)D}\right) \\ & \times \sum_{\chi \in \mathcal{S}^{-1}(\Gamma_{(L-1,j)}; p_k; t_n)} n^{p_k}_{(L,\chi)}. \quad (27) \end{aligned}$$

This provides a uniform upper bound on $\Gamma^{Dp_k}_{(L-1,j)}(t_n)$. Bounds on $\Gamma^{Dp_k}_{(i,j)}(t_n), i = L-2, \ldots, 0$ can be obtained using induction via inequalities analogous to (25) and (26), thus proving stability of the closed-loop system formed by the overall inventory dynamics of the supply chain and the designed controller.

The higher-level controller (24) is completely decentralized and does not require any information transfer (in addition to the information transfer required by the supply chain itself, i.e., the part transfer and the order placement links) between sites in the supply chain. The downstream demand profiles are inferred purely through the local measurements of broken parts arriving and new orders being placed. If information transfer links between sites and the associated supplier sites can be exploited in the controller, then the performance can be further improved by passing downstream demand information directly to the controller at the supplier site. Furthermore, a performance index defined at the end-nodes can be taken into account in the controller decisions at the upstream sites. Consider a performance index of the form $P_{(L,j)}(\Gamma^{p_1}_{(L,j)}, \ldots, \Gamma^{p_P}_{(L,j)})$ defined at each end-node $\Gamma_{(L,j)}$. The performance index is decomposed into part deficit signals $P^{p_k}_{(L,j)}(t_n)$ defined for each part type p_k at each end-node $\Gamma_{(L,j)}$. The part deficit signals indicate the shortage of each part type at each end-node. The adaptive higher-level controllers at the upstream sites are defined inductively as

$$\begin{aligned} P^{p_k}_{(i,j)}(t_n) &= \overline{P}^{p_k}_{(i,j)}(t_n) \\ \Gamma^{Dp_k}_{(i,j)}(t_n) &= \max\left\{0, \tilde{\Gamma}^{Dp_k}_{(i,j)}(t_n)\right\} \\ \tilde{\Gamma}^{Dp_k}_{(i,j)}(t_n) &= C^{p_k}_{(i,j)P}\Gamma^{Op_k}_{(i,j)}(t_n) \\ &\quad + C^{p_k}_{(i,j)D}[\Gamma^{Op_k}_{(i,j)}(t_n) - \Gamma^{Op_k}_{(i,j)}(t_{n-1})] \\ &\quad + P^{p_k}_{(i,j)} f_E(\Gamma^{Pp_k}_{(i,j)}(t_n)) \end{aligned} \tag{28}$$

if $\Gamma^{Pp_k}_{(i,j)}(t_n) \geq 0$ and

$$\begin{aligned} P^{p_k}_{(i,j)}(t_n) &= f_C(\Gamma^{Pp_k}_{(i,j)}(t_n))\overline{P}^{p_k}_{(i,j)}(t_n) \\ \Gamma^{Dp_k}_{(i,j)}(t_n) &= \max\left\{0, \tilde{\Gamma}^{Dp_k}_{(i,j)}(t_n)\right\} \\ \tilde{\Gamma}^{Dp_k}_{(i,j)}(t_n) &= C^{p_k}_{(i,j)P}\Gamma^{Op_k}_{(i,j)}(t_n) \\ &\quad + C^{p_k}_{(i,j)D}[\Gamma^{Op_k}_{(i,j)}(t_n) - \Gamma^{Op_k}_{(i,j)}(t_{n-1})] \\ &\quad + P^{p_k}_{(i,j)} f_D(\Gamma^{Pp_k}_{(i,j)}(t_n)) \end{aligned} \tag{29}$$

if $\Gamma^{Pp_k}_{(i,j)}(t_n) < 0$ where

$$\overline{P}^{p_k}_{(i,j)}(t_n) = \sum_{\chi \in \mathcal{S}^{-1}(\Gamma_{(i,j)};p_k;t_n)} P^{p_k}_{(i+1,\chi)}. \tag{30}$$

The functions f_C and f_D are picked to be increasing functions while f_E is picked to be a decreasing function. The controller given in (28) and (29) is essentially based on translating the part deficit signals of the downstream sites into on-site generated part deficit signals to be passed on to upstream sites by estimating the “part deficit” in the on-site inventory as captured through the difference of the net inventory and the outstanding orders. The part deficit signals essentially provide a feedforward action in the controller thus providing faster response to changes in the supply chain. The implementation of the controller requires information transfer between each site and the associated supplier sites. The stability analysis of this partially decentralized controller can be carried out along similar lines to the fully decentralized controller above.

The performance can be further improved at the expense of increased computation and communication requirements by considering possibly overlapped geographical conglomerations of sites which behave as larger meta-sites with a cooperative inventory level adaptation. For instance, a site and a set of its supplier sites can be grouped into a larger meta-site with the inventory set-points for the meta-site being controlled using either of the controllers developed above. This provides a possibility of reducing inventories while also reducing transients in the closed-loop system. The mathematical foundation for such groupings of sites is provided by the overlapping decomposition theory [19–21].

IV. Application to an Aircraft Supply Chain

The aircraft supply chain model consists of OEMs, depots, bases, and squadrons:

$$\text{OEM} \longrightarrow \text{Depot} \longrightarrow \text{Base} \longrightarrow \text{Squadron} \longrightarrow \text{Plane}. \tag{31}$$

The new and fixed parts move from left to right in the supply chain in (31) while the requests for new parts and repair move from right to left. The OEMs, depots, and bases can attempt part repair while only the OEMs can manufacture new parts. Part inventory stocks is maintained at OEMs, depots, bases, and squadrons. The end-nodes, i.e., the planes, have an associated set of parts, the availability of which determines *mission capability* (MC).

When a part on a plane fails, the broken part is propagated up the supply chain, i.e., right to left in (31). Each site that is shipped a broken part attempts to repair it. If the repair is successful, the fixed part is returned down-stream based on a first-in-first-out queue of part requests maintained at each site. If a repair is unsuccessful, the broken part is shipped further upstream. Typically, sites that are located further upstream have superior technical facilities and hence higher probability of successful part repair. If repair attempts for a part are repeatedly unsuccessful, the part eventually propagates up to an OEM which also attempts repair of the part. If unsuccessful, the OEM condemns the part and builds a new part.

The aircraft supply chain outlined above falls into the general class of supply chains described in Section II and, hence, the adaptive inventory control strategies developed in Section III are applicable to the aircraft supply chain. Also, as mentioned in Section III, the transient performance of the overall supply chain can be improved while also reducing inventory set-points at the expense of increased computation and communication requirements by considering groupings of sites into meta-sites (see Figure 3). Usually, the squadrons and the associated base are colocated so that the squadrons and the corresponding base do not need to maintain separate inventories. In such a case, squadrons along with the associated base can be grouped together into a meta-site as shown in Figure 4.

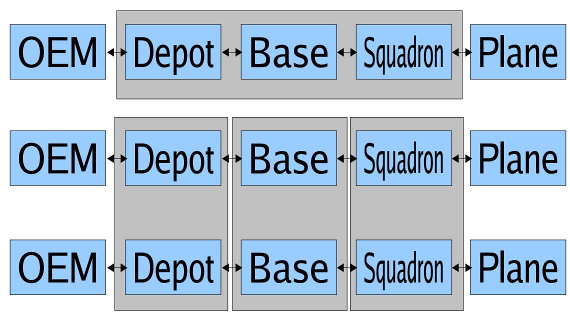

Fig. 3. Grouping sites into meta-sites.

V. Simulation Results

We have developed a simulation package for the class of supply chains described in Section II using an agent-based framework. The simulation package is written in the powerful object-oriented language Python [22]. The object-oriented programming model greatly facilitates an agent-based framework and a behavioral description of the sites and the parts. The behavior of a manufacturing site, an intermediate site, an end-node, a part type, and the transportation network are specified in terms of Python classes and each site and part are created as objects from the associated class. This provides a flexible framework with support for arbitrary network topologies with any number of sites, parts, and part types. The number and locations of sites and parts can be specified at run-time. Part failures and transport delays are randomly generated using Gaussian distributions. Also, the object-oriented framework provides easy reconfigurability of the simulation package. For instance, in the context of the application to an aircraft supply chain, the part requirements for a plane to be deemed mission-capable can be specified at run-time.

We first consider the aircraft supply chain shown in Figure 4 which consists of one OEM, one depot, one base, two squadrons, and four planes per squadron. As is usually the case, the squadrons and the base are taken to be colocated. Hence, as pointed out in Section V, the squadrons and the base do not need to maintain separate inventories and can be grouped together into a meta-site as shown in Figure 4. For simplicity, the parts requirement for the planes is taken to consist of only two part types p_1 and p_2. Each plane is required to have one part each of types p_1 and p_2 to be considered mission capable. The time step Δt for the simulation is taken to be 1 day. The times before failure of the part types p_1 and p_2 are taken to be governed by Gaussian distributions with means 10 days and 20 days, respectively for part types p_1 and p_2, and standard deviations 3 days and 4 days, respectively. The transportation times from the base to the depot and from the depot to the OEM are taken to be either 3, 4, or 5 days with each alternative having probability 1/3. The probabilities of a successful repair at the base, depot, and OEM are taken to be 0.75, 0.85, and 0.9, respectively. The time taken for a repair attempt at each of the base, depot, and OEM is taken to be either 1 day or 2 days with each alternative having probability 0.5. The time taken to manufacture a part at the OEM is also taken to be either 1 day or 2 days with each alternative having probability 0.5. The supply chain is initialized with each plane having one each of part types p_1 and p_2 and with each of the base, depot, and OEM having three each of each part type. The simulation results with the fully decentralized controller are illustrated in Figure 6. The controller parameters $C^{p_k}_{(i,j)P}$ and $C^{p_k}_{(i,j)D}$ are taken to be 5 and 1 for each site. The signals $\tilde{\Gamma}^{Op_k}_{(i,j)}$ are obtained through the low-pass filtering $\tilde{\Gamma}^{Op_k}_{(i,j)}(t_n) = 0.1\Gamma^{Op_k}_{(i,j)}(t_n) + 0.9\tilde{\Gamma}^{Op_k}_{(i,j)}(t_{n-1})$. The average mission capability of the planes (i.e., the average percentage of time that each plane was mission capable with the average taken over all the planes) in the closed-loop supply chain with the fully decentralized controller is obtained to be 98.55%. It can be shown that the controller parameters can be used to trade off the average mission capability against the inventory levels. For instance, increasing $C^{p_k}_{(i,j)P}$ was found, by simulation, to increase average mission capability to 99.9% while resulting in maximum inventories of 16 of part type p_1 and 7 of part type p_2, attained at the OEM and the base, respectively.

The simulation results for the more large-scale aircraft supply chain shown in Figure 5 are illustrated in Figure 7. The supply chain in Figure 5 consists of 2 OEMs, 10 depots per OEM, 10 bases per depot, 10 squadrons per base, and 10 planes per squadron amounting to a total of 22222 sites. As in the first simulation example above, each plane is required to have one each of two part types p_1 and p_2 for mission capability. The probabilities of successful part repairs and the probability distributions for repair times, manufacture times, and times before failure are taken to be as in the first simulation example above. The transportation times are also taken to be identical to the case above, i.e., it takes a part either 3, 4, or 5 days (with equal probabilities) to move from a base to a depot or from a depot to an OEM. Also, the squadrons are taken to be colocated with the associated base. The controller parameters $C^{p_k}_{(i,j)P}$ and $C^{p_k}_{(i,j)D}$ are chosen to be 3 and 1 for each site. The supply chain is initialized with each plane having one each of part types p_1 and p_2 and with each of the base, depot, and OEM having three each of each part type. Figure 7 shows the average desired inventories, on-site inventories, and net inventories with the averages computed over each site type. It can be shown that the initial transients in the closed-loop supply chain are reduced if the initial inventory levels are increased. The adaptive nature of the inventory controller enables the supply chain to dynamically adapt to changing topologies and supplier relationships. This is demonstrated by introducing a perturbation at time $t = 500$ days at which time the depots associated with OEM2 are reassigned to OEM1, i.e., for $t \geq 500$ days, the supplier for all of the depots is OEM1. The adaptation of $\Gamma^{Dp_k}_{(0,1)}$ in response to the increased demand seen by OEM1 is shown in Figure 8. The average mission capability of the planes in the closed-loop supply chain is obtained to be 98.9%.

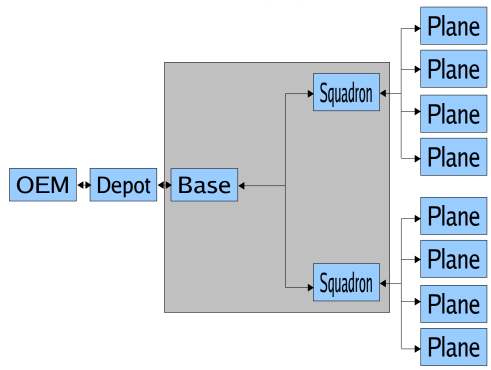

Fig. 4. An aircraft supply chain.

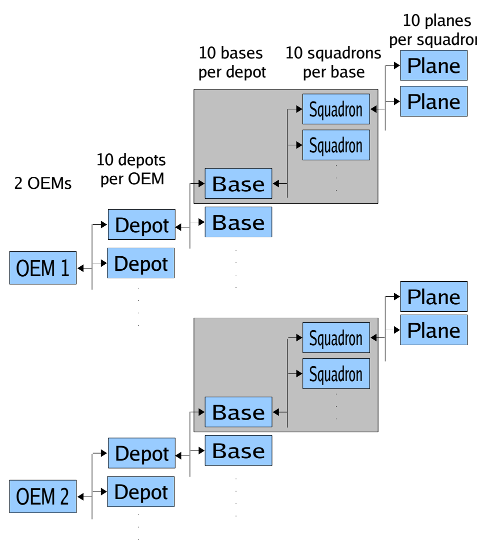

Fig. 5. A large-scale aircraft supply chain.

VI. Conclusion

In this paper, we proposed a new adaptive inventory control strategy wherein the inventory stock set-points at each site are tuned via an on-line adaptation. This yields a technique with low computational requirements that scales well to large supply chain networks. While the controller was designed based on an inherently decentralized control objective, it is seen both from the analysis in Section III

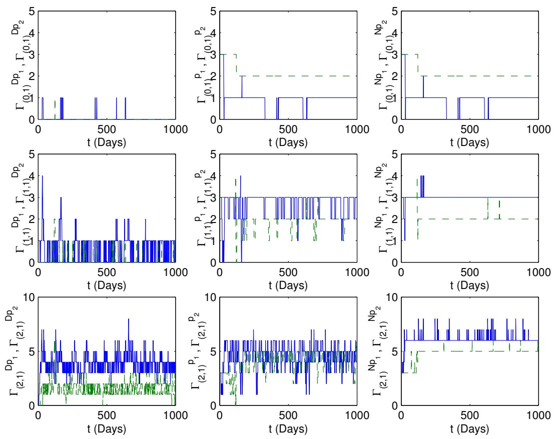

Fig. 6. Simulation results for the aircraft supply chain in Figure 4. Solid line: p_1, dashed line: p_2.

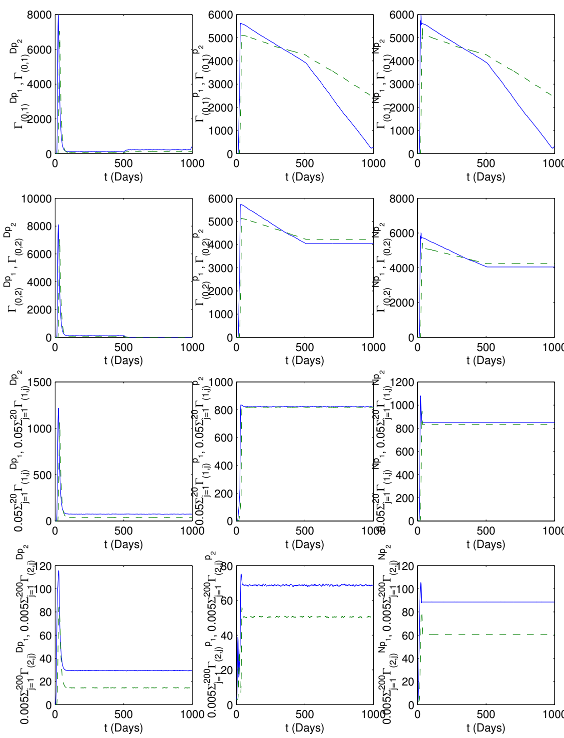

Fig. 7. Simulation results for the aircraft supply chain in Figure 5. Solid line: p_1, dashed line: p_2.

and the simulation results in Section V that the developed controllers provide overall performance and efficiency of the supply chain. We conjecture that performance properties of the overall closed-loop supply chain can be proved in an inverse optimality setting [23,24] and this forms a topic of future research. Other topics for future work include the further relaxation of assumptions and the considering of transportation and storage constraints that induce more coupling between different part types.

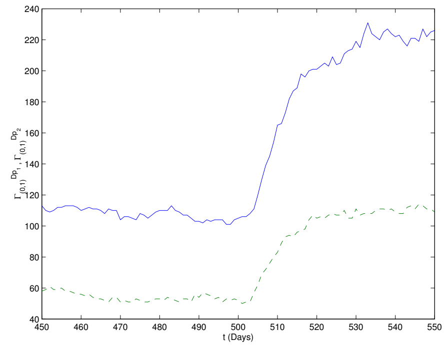

Fig. 8. Adaptation of $\Gamma^{Dp_k}_{(0,1)}$ in response to changes in supplier relationships. Solid line: p_1, dashed line: p_2.

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