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Disruption Management during Supply Chain Disruptions, Presentation

MacKenzie, Cameron A.; Barker, Kash; Santos, Joost

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Disruption Management during Supply Chain Disruptions

Cameron MacKenzie, Defense Resources Management
Institute, Naval Postgraduate School

Kash Barker, School of Industrial and Systems Engineering,
University of Oklahoma

Joost Santos, Department of Engineering Management and
Systems Engineering, The George Washington University

Monterey, California

WWW.NPS.EDU

Japanese earthquake and tsunami





1. Motivation
2. Research contribution
3. Model and simulation
4. Application



- Qualitative [1, 2]
- Quantitative
 - Production and inventory models [3]
 - Game theory [4]

[1] Y. Sheffi, 2005. *The resilient enterprise: Overcoming vulnerability for competitive advantage*. Cambridge: The MIT Press.

[2] C. S. Tang, 2006. Robust strategies for mitigating supply chain disruptions. *International Journal of Logistics Research and Applications* 9 (1):33-45.

[3] B. Tomlin, 2006. On the value of mitigation and contingency strategies for managing supply chain disruption risks. *Management Science* 52 (5): 639-657.

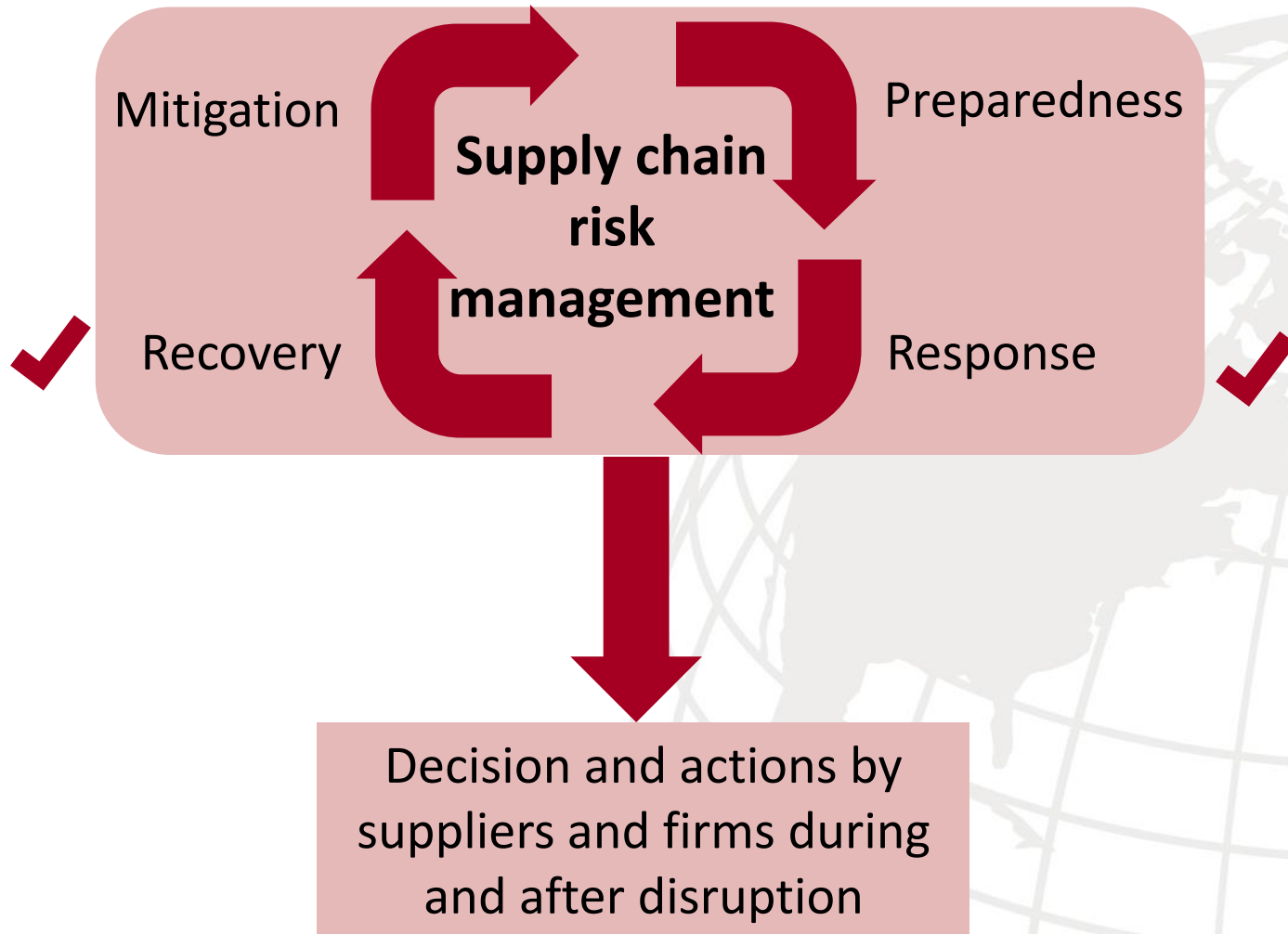
[4] V. Babich, 2006. Vulnerable options in supply chains: Effects of supplier competition. *Naval Research Logistics* 53 (7):656-676.



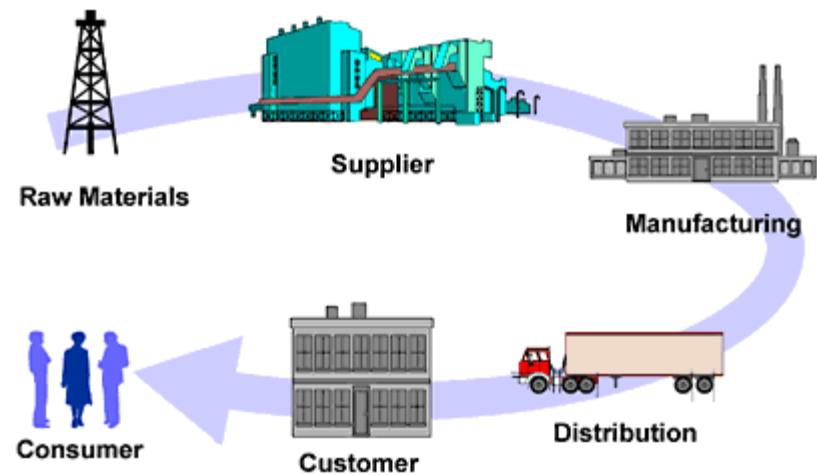
- Disruptions cause operation plans to deviate
- Disruption management studies optimal way to react in the midst of disruptions
 - What should be done once a disruption occurs?
 - How to minimize the impacts and return to normal production?

[1] G. Yu and X. Qi, 2004. *Disruption management: Framework, models and applications*. River Edge, NJ: World Scientific Publishing.

What is new with this research?

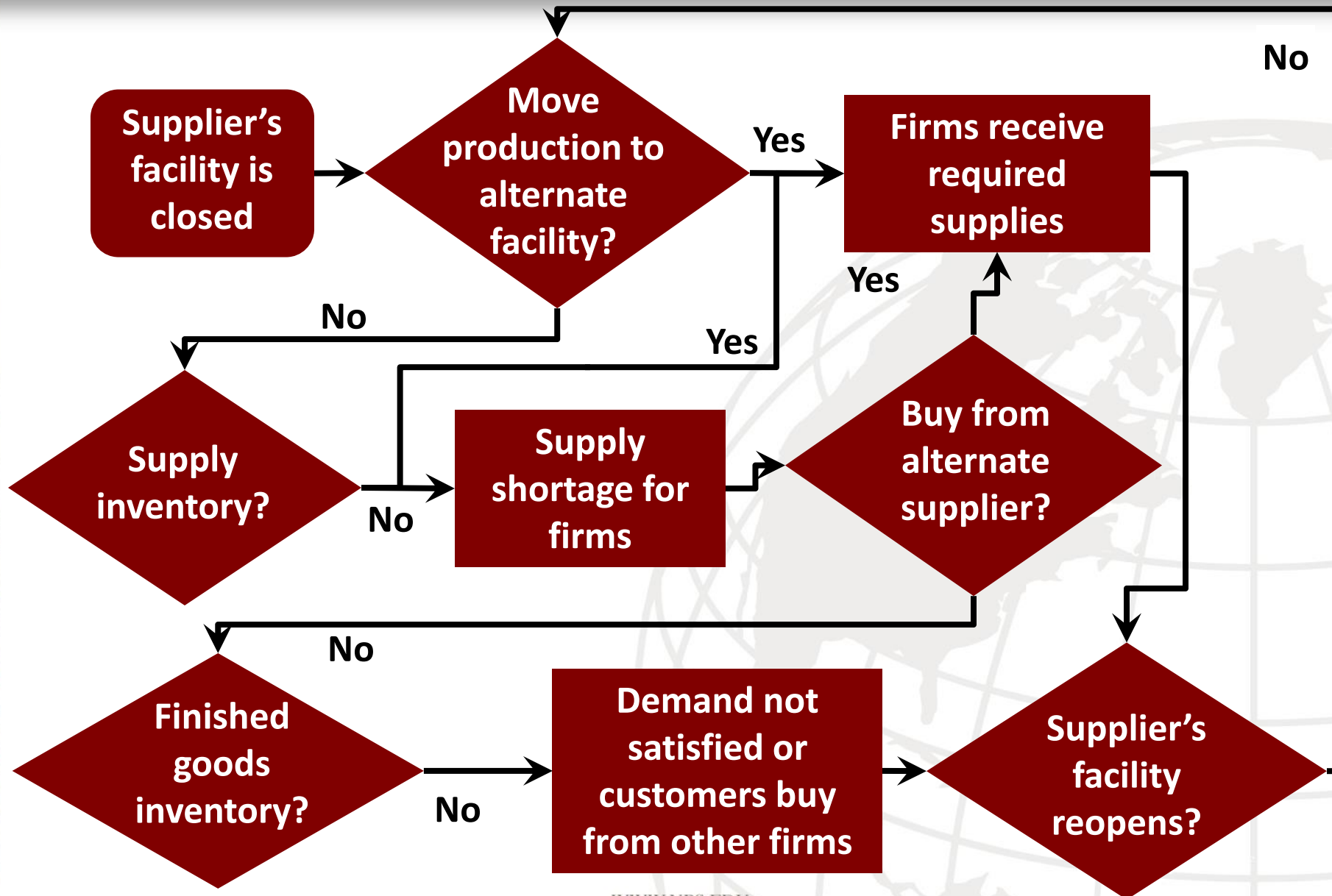


- How can we model the supply chain where
 - Some facilities are inoperable?
 - Other firms experience a supply shortage?
- What can firms do to mitigate the impacts of inoperable facilities and supply shortages?





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Produce at alternate facility?

Cost at
alternate facility

Per-unit
cost of
producing
at alternate
facility

Fixed cost of
moving
production to
alternate
facility



Expected cost at
primary facility

Per-unit cost of
producing
at primary
facility

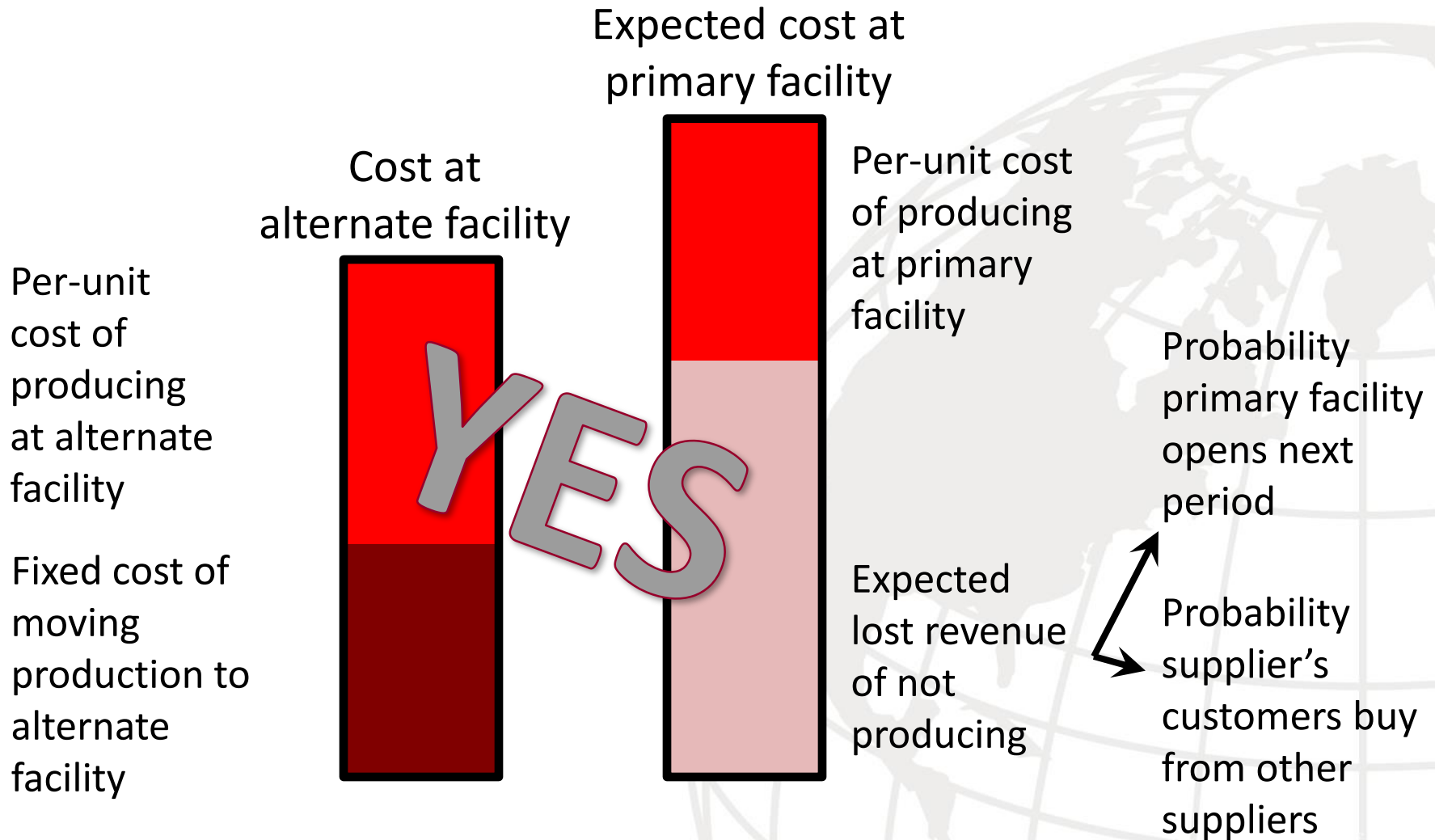
Expected
lost revenue
of not
producing

Probability
primary facility
opens next
period

Probability
supplier's
customers buy
from other
suppliers



Produce at alternate facility?



Threshold parameters for supplier

If probability that primary facility will open next period is greater than \bar{p} , supplier will not produce at alternate facility

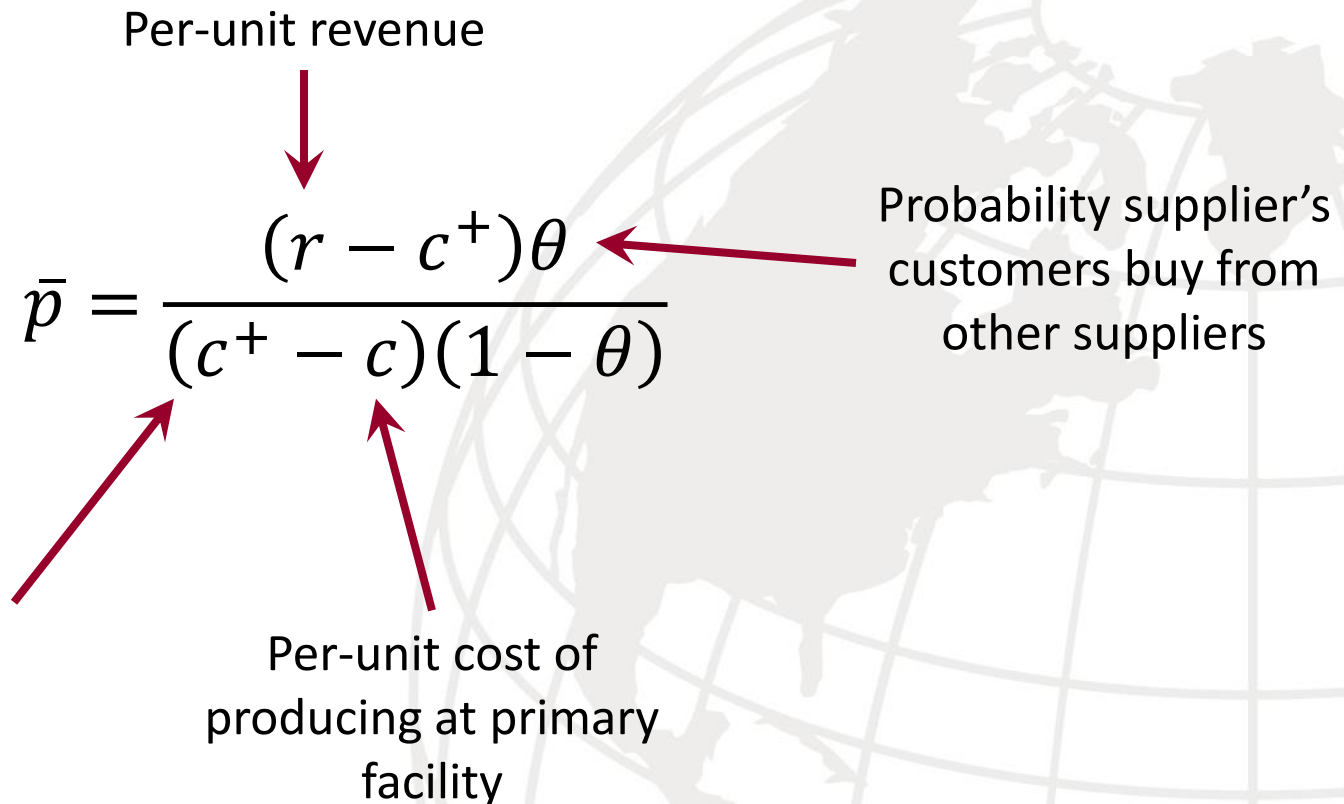
Per-unit revenue

$$\bar{p} = \frac{(r - c^+) \theta}{(c^+ - c)(1 - \theta)}$$

Probability supplier's customers buy from other suppliers

Per-unit cost of producing at alternate facility

Per-unit cost of producing at primary facility



Threshold parameters for supplier

$$\bar{p} = \frac{(r - c^+) \theta}{(c^+ - c)(1 - \theta)}$$

If fixed cost of moving production is greater than \bar{C} , supplier will not produce at alternate facility

$$\bar{C} = \frac{(pZ + z)[(r - c^+) \theta - p(c^+ - c)(1 - \theta)]}{p[1 - (1 - p)(1 - \theta)]}$$

Backorders

Per-period demand

Revenue

Cost of alternate facility

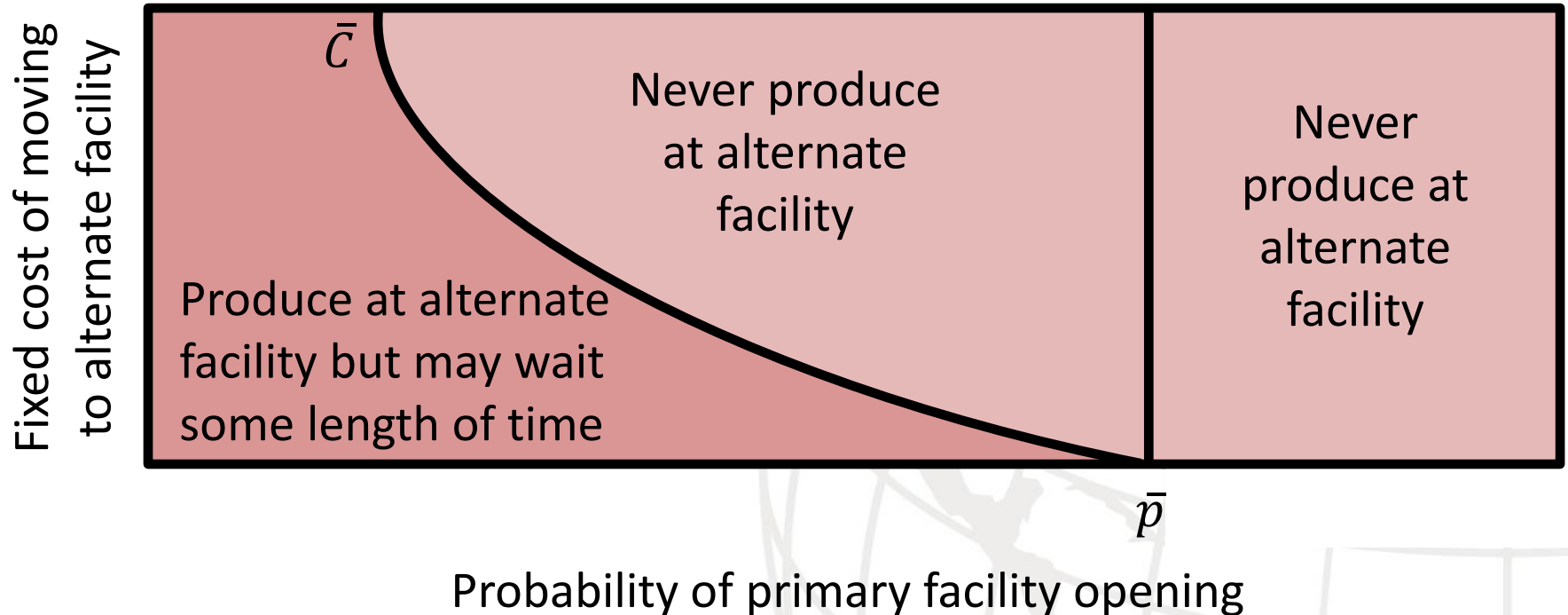
Cost of primary facility

Probability of buying from other suppliers

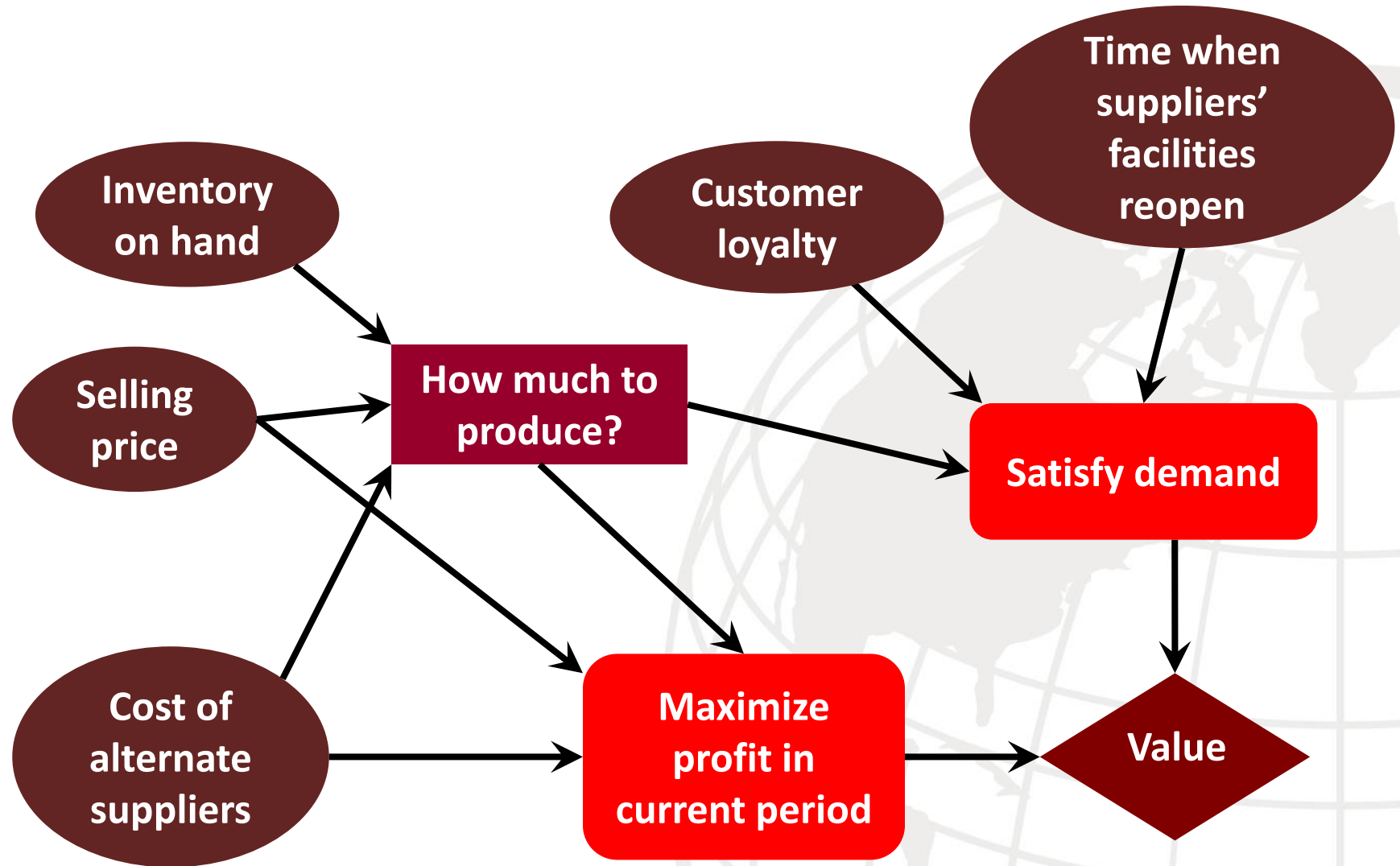
Probability primary facility opens next period

Threshold parameters for supplier

$$\bar{p} = \frac{(r - c^+) \theta}{(c^+ - c)(1 - \theta)} \quad \bar{c} = \frac{(pZ + z)[(r - c^+) \theta - p(c^+ - c)(1 - \theta)]}{p[1 - (1 - p)(1 - \theta)]}$$



Firm's influence diagram





- Incorporating business decisions in midst of supply chain disruptions
- Solving for optimal production decisions as function of model parameters
- Measuring impact of preparedness decisions on firm's ability to respond during disruption



1. Motivation
2. Research contribution
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Supply chain disruption in auto sector

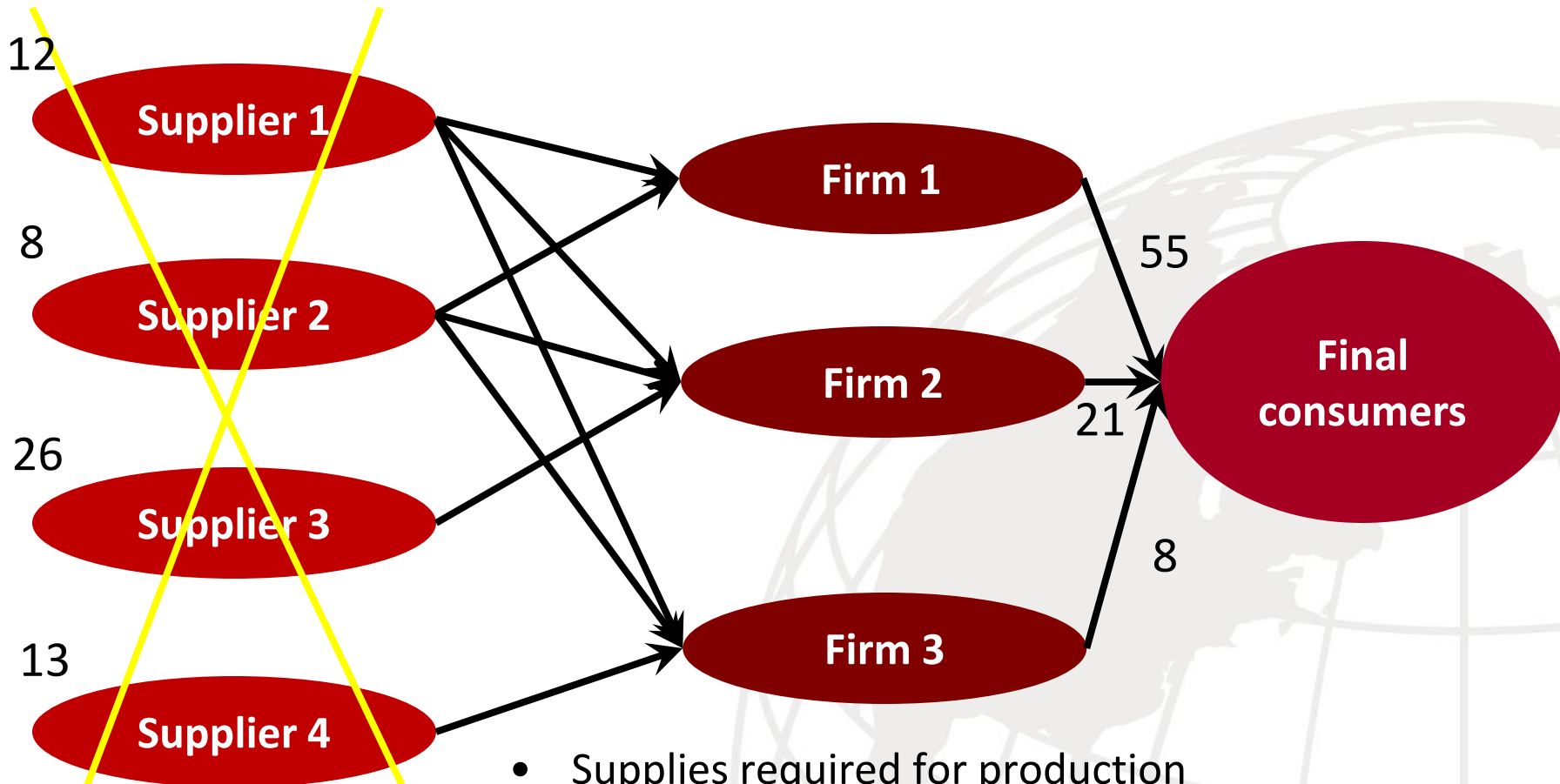
RENESAS
Everywhere you imagine.



HONDA

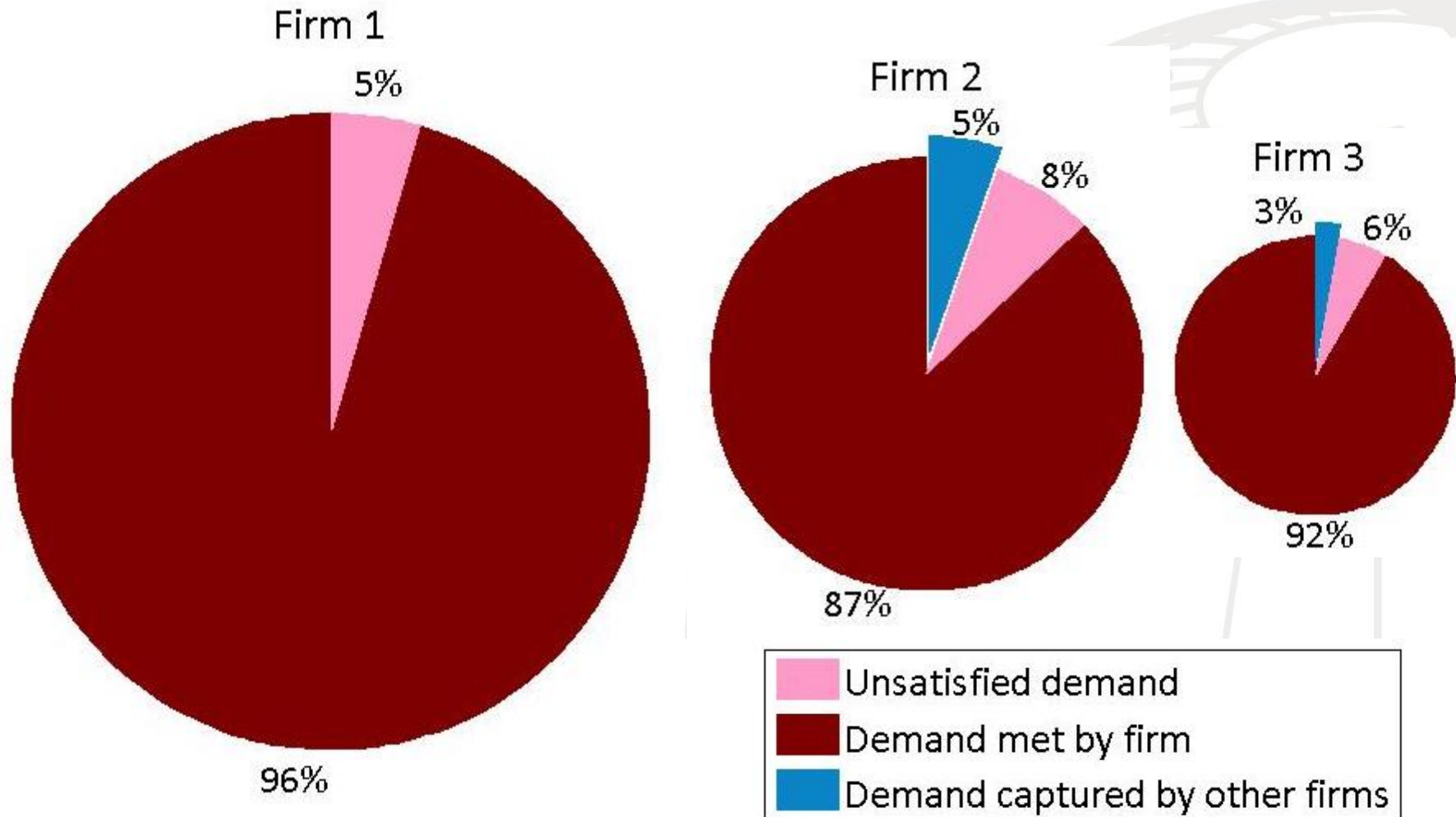


Application inspired by auto sector

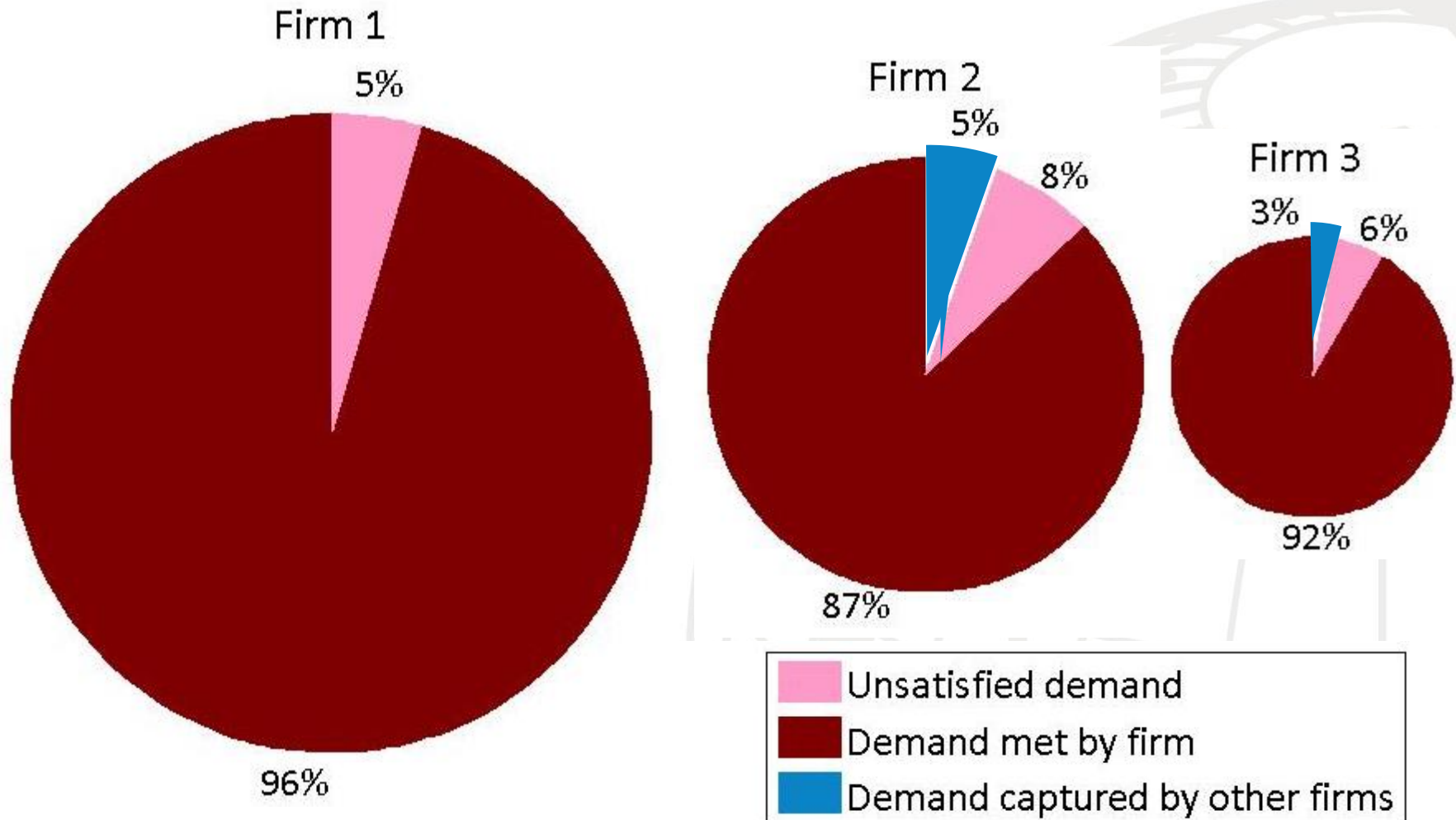


- Supplies required for production
- Several model parameters gleaned from news reports
- More precise information needed for cost and revenue parameters

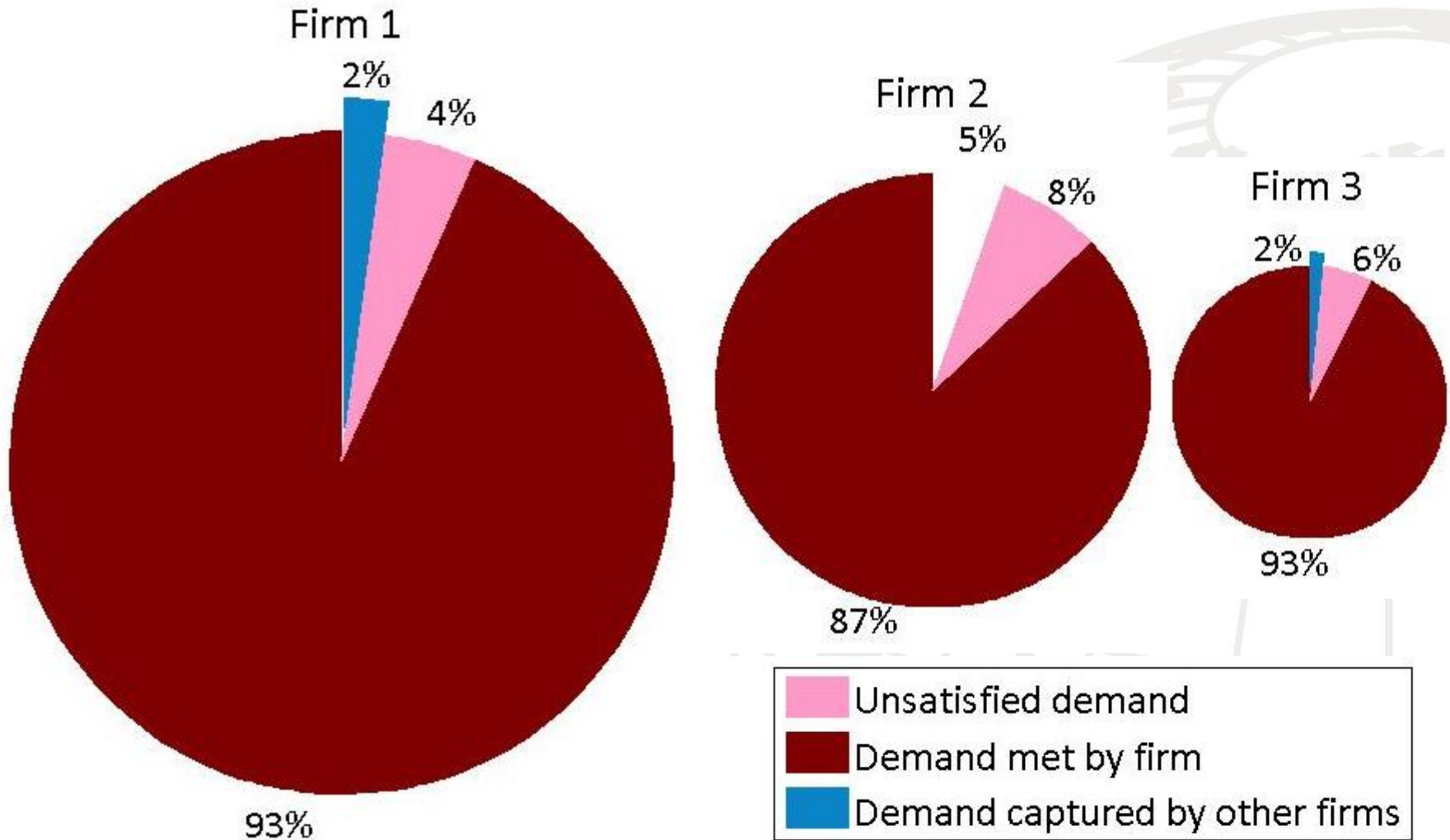
Average production when suppliers do not move to alternate facility



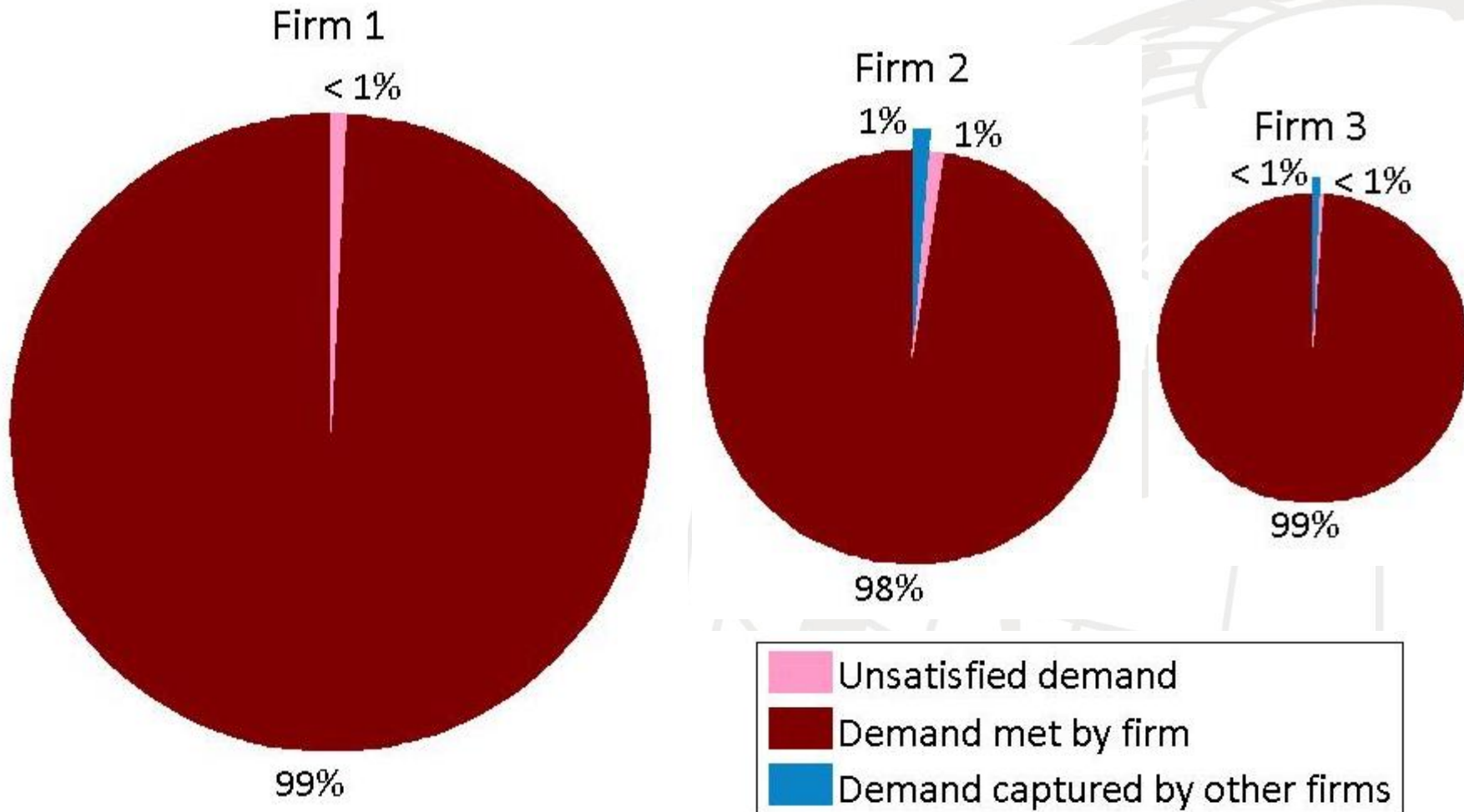
Average production when suppliers do not move to alternate facility



Average production when suppliers do not move to alternate facility



Average production when suppliers move to alternate facility

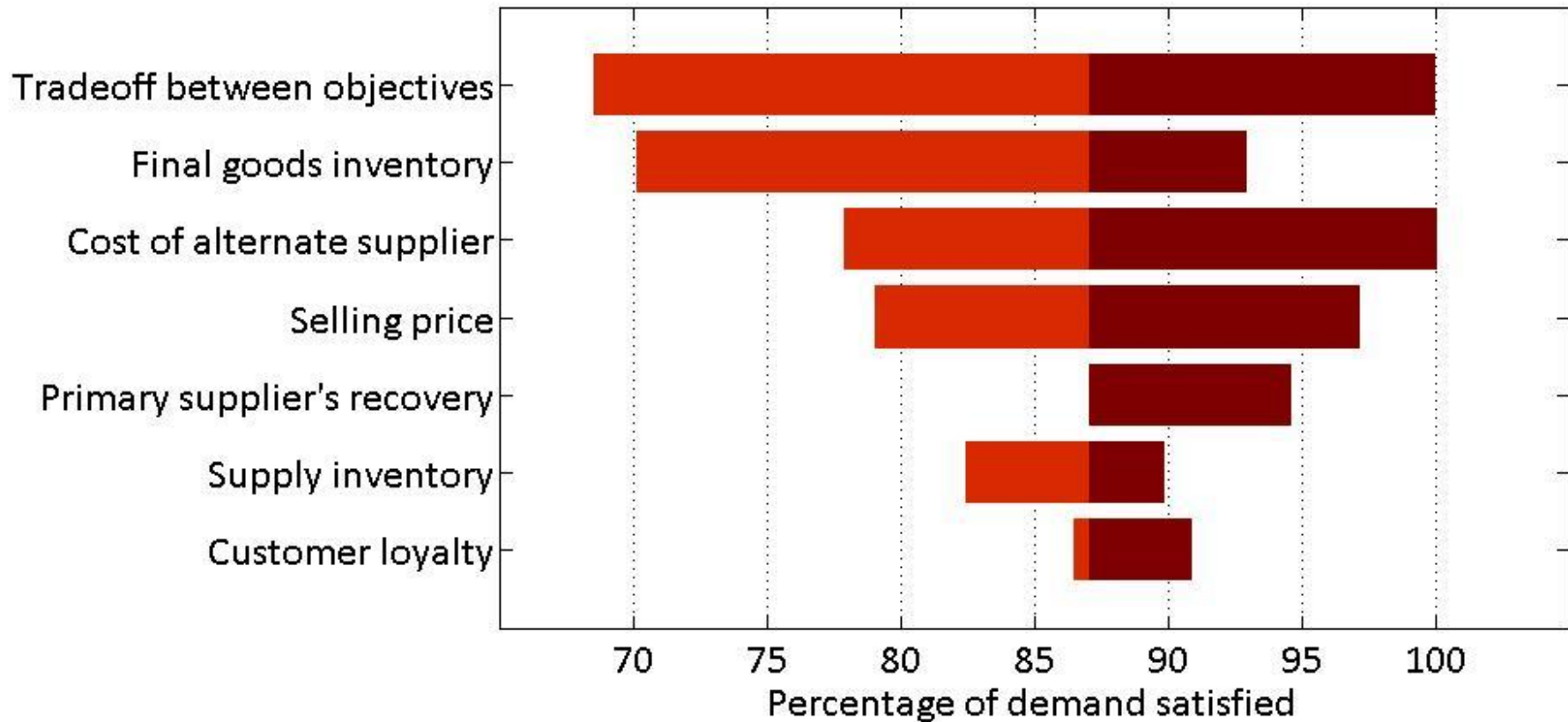




Sensitivity on parameters for Firm 2

Parameter	Low	Base	High
Tradeoff between objectives	Maximizes profit	Equally prefer both objectives	Satisfies demand
Final goods inventory	0 periods	6 periods	12 periods
Cost of alternate supplier	Primary supplier + 6	Primary supplier + 3	Equal to primary supplier
Selling price	Equal to cost	Cost + 1	Cost + 2
Primary supplier's recovery (expected time)	36 periods	26 periods	3 periods
Supply inventory	0 period	2 periods	4 periods
Customer loyalty (probability firm's customer does not buy from competitor)	0.01	0.61	0.99

Sensitivity on parameters for Firm 2





- Illustrative example reflects actual situation
 - Toyota and Honda's share of production in North America fell from 10% to 7% each
 - Nissan's share of production in North America remained constant
 - Detroit 3 automakers increased their share of production in North America by 4%
- Application provides insights into best strategies for response and recovery
 - Buying from an alternate supplier may be a better long-term strategy than inventory
 - Costs of different strategies should be incorporated



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Email: camacken@nps.edu