## Optimization

## Using Analytic Solver Platform

## REVIEW BASED ON MANAGEMENT SCIENCE



## What We'll Cover Today



- Introduction
- Session II beta training program goals
- Classic Models for Common Business Situations
- Focus on Modeling with Linear and Integer Constraints
- 'Linearizing' Ratio, Either-Or, If-Then Constraints


## Session II Online Beta Training Goals



## To familiarize you with the following concepts:

- Art of identifying and formulating constraints
- Designing linear constraints, using binary variables
- How ASP can linearize constraints automatically

To empower you to achieve success

- State of the art tools
- Online educational training
- User guides and video demos


## Typical Optimization Applications

Industry $\left\{\begin{array}{l}\text { Energy } \\ \text { Chemical } \\ \text { Manufacturing } \\ \text { Transportation } \\ \text { Finance } \\ \text { Agriculture } \\ \text { Health } \\ \text { Mining } \\ \text { Defense } \\ \text { Forestry }\end{array}\right.$

## Why Focus on Linear Models



- Most common business situations can be modeled with linear functions, sometimes using integer variables.
- A linear program, with a linear objective function and all linear constraints, can be solved quickly to a globally optimal solution.
- Integer variables make a problem non-convex and more difficult to solve, but their structure can be exploited by modern Solvers.
- If there is a choice, use a linear formulation rather than a nonlinear formulation.


## Common Model Structures in Business Problems



- Allocation Models - Maximize objective (profit) subject to $\leq$ constraints on capacity.
- Covering Models - Minimize objective (cost) subject to $\geq$ constraints on coverage.
- Blending Models - Mix inputs with different properties to satisfy quality constraints and minimize cost.
- Network Models - For situations with 'flows' from sources to destinations.
- Transportation - Moving goods.
- Assignment - Matching candidates to positions.
- Network Models for Process Technologies.


## Formulation



1) Determine decision variables

- "What factors are under our control?"

2) Determine objective function

- "What measure are we trying to optimize?"

3) Determine constraints

- "What restrictions limit our choice of decision variables?"
- Available resources
- Physical constraints
- Policy constraints


## Allocation Models

- Maximize objective (profit) subject to $\leq$ constraints on capacity.
- Veerman Furniture Company - Page 221 - Powell \& Baker.
- Determine the mix of chairs, desks, \& tables to maximize profit.

| Department | Hours per Unit |  |  |  |
| :--- | :---: | :---: | :---: | :---: |
|  | Chairs | Desks | Tables | Hours Available |
| Fabrication | 4 | 6 | 2 | 1,850 |
| Assembly | 3 | 5 | 7 | 2,400 |
| Shipping | 3 | 2 | 4 | 1,500 |
| Demand Potential | 360 | 300 | 100 |  |
| Profit | $\$ 15$ | $\$ 24$ | $\$ 18$ |  |

## Allocation Models

1) What factors are under our control?

- The product mix - number of Chairs (C), Desks (D), Tables (T).

2) What measure are we trying to optimize?

- Maximize profit contribution.

3) What restrictions limit our choice of decision variables?

- Production capacity
- Fabrication
- Assembly
- Shipping
- Demand potential
- Physical Constraint


## Allocation Models



- Decision variables - number of Chairs (C), Desks (D), Tables (T)
- Objective Function - Profit maximization
- Constraints -
- Fabrication
- Assembly
- Shipping
- Demand potential
- Non-negativity

$$
\left.\begin{array}{rl}
4 C+6 D+2 D & \leq 1850 \\
3 C+5 D+7 T & \leq 2400 \\
3 C+2 D+4 T & \leq 1500 \\
C & \leq 360 \\
D & \leq 300 \\
T & \leq 100 \\
C & \geq 0 \\
D & \geq 0 \\
T & \geq 0
\end{array}\right] \text { Limited Resources }
$$

$$
\operatorname{Max} 15 C+24 D+18 T
$$

Subject to

## Covering Models



- Minimize objective (cost) subject to $\geq$ constraints on coverage.
- Dahlby Outfitters - Page 226 - Powell \& Baker.
- The ingredients contain certain amounts of vitamins, minerals, protein, and calories.
- The final product (trail mix) must have a certain minimum nutritional profile.
- Minimize production cost while satisfying the nutritional profile.

| Component | Grams per Pound |  |  |  |  | Nutritional <br> Requirements |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Seeds | Raisins | Flakes | Pecans | Walnuts |  |
|  | 10 | 20 | 10 | 30 | 20 | 10 |
| Minerals | 5 | 7 | 4 | 9 | 2 | 15 |
| Proteins | 1 | 4 | 10 | 2 | 1 | 600 |
| Calories | 500 | 450 | 160 | $\$ 7$ | $\$ 6$ |  |
| Cost | $\$ 4$ | $\$ 5$ |  |  |  |  |

## Covering Models



1) What factors are under our control?

- The package trail mix - amounts of Seeds (S), Raisins (R), Flakes (F), Pecans (P), Walnuts (W)

2) What measure are we trying to optimize?

- Minimize cost of a package.

3) What restrictions limit our choice of decision variables?

- Nutritional Profile
- Vitamins
- Minerals
- Protein
- Calories


## Covering Models

- Decision variables - pound of Seeds (S), Raisins (R), Flakes (F), Pecans (P), Walnuts (W)
- Objective Function - Cost minimization

$$
\text { Min } 4 S+5 R+3 F+7 P+6 W
$$

- Constraints -
- Vitamins
- Minerals
- Protein
- Calories
- Non-negativity

Subject to

$$
\begin{aligned}
10 S+20 R+10 F+30 P+20 W & \geq 20 \\
5 S+7 R+4 F+9 P+2 W & \geq 10 \\
1 S+4 R+10 F+2 P+1 W & \geq 15 \\
500 S+450 R+160 F+300 P+500 W & \geq 600 \\
S, R, F, P, \text { and } W & \geq 0
\end{aligned}
$$

## Blending Models



- Representing ratios/proportions in Veerman Furniture - Page 229 - Powell \& Baker.
- Having 0 chairs for sale is unacceptable to Marketing - something was missing from our original formulation.
- Add a policy constraint: Each of the products much make up at least 25 percent of the products available for sale.
- Total number sold: $C+D+T$; Chairs (C), Desks (D), Tables (T).
- $25 \%$ of total sales for chairs: $\frac{C}{C+D+T} \geq 0.25$
- This is not a linear constraint and will make the model nonlinear.


## Add a Ratio Constraint



- $25 \%$ of total sales for chairs: $\frac{C}{C+D+T} \geq 0.25$
- $(C+D+T) \times \frac{C}{C+D+T} \geq 0.25 \times(C+D+T)$
- $C \geq 0.25(C+D+T)$
- $C-0.25 C-0.25 D-0.25 T \geq 0$
- $0.75 C-0.25 D-0.25 T \geq 0$
- Same for Desks (D), Tables (T)
- $-0.25 C+0.75 D-0.25 T \geq 0$
- $-0.25 C-0.25 D+0.75 T \geq 0$


## Ratio Constraints



- Model situations where the value of one (or more) variable, compared with the value of another (one or more) variable, must satisfy some relationship.
- Ratio:

$$
\frac{x_{1}}{x_{2}} \geq 2.5
$$

- This constraint can occur when a certain product mix ratio is desired between two products.
- Percentage Constraints: $\frac{x_{1}}{x_{1}+x_{2}+x_{3}} \leq 0.25$
- Common in blending problems, where recipes may have a certain amount of flexibility.
- Useful in portfolio investment problems to stay within certain asset allocation guidelines (for example, at most $25 \%$ of total portfolio should be invested in bonds).
- Weighted Average: $\quad \frac{\left(20 x_{1}+35 x_{2}\right)}{\left(x_{1}+x_{2}\right)} \geq 10$


## Linearizing Ratio Constraints



- Ratio:



## Non-linear form

- $x_{2} \times \frac{x_{1}}{x_{2}} \geq 2.5 \times x_{2}$
- $x_{1} \geq 2.5 x_{2}$
- $x_{1}-2.5 x_{2} \geq 0$
- Percentage Constraints: $\frac{x_{1}}{\left(x_{1}+x_{2}+x_{3}\right.} \leq 0.25 \quad$ Non-linear form
- $\left(x_{1}+x_{2}+x_{3}\right) \times \frac{x_{1}}{x_{1}+x_{2}+x_{3}} \leq 0.25 \times\left(x_{1}+x_{2}+x_{3}\right)$
- $x_{1} \leq 0.25\left(x_{1}+x_{2}+x_{3}\right)$
- $x_{1} \leq 0.25 x_{1}+0.25 x_{2}+0.25 x_{3}$
- $x_{1}-0.25 x_{1}-0.25 x_{2}-0.25 x_{3} \leq 0$


## Linearizing Ratio Constraints

- Weighted Average: $\frac{\left(20 x_{1}+35 x_{2}\right)}{\left.\left(x_{1}+x_{2}\right)\right)} \geq 10 \quad$ Non-linear form
- $\left(x_{1}+x_{2}\right) \times \frac{\left(20 x_{1}+35 x_{2}\right)}{\left(x_{1}+x_{2}\right)} \geq 10 \times\left(x_{1}+x_{2}\right)$
- $20 x_{1}+35 x_{2} \geq 10\left(x_{1}+x_{2}\right)$
$\longleftarrow$ Linear forms
- $20 x_{1}+35 x_{2} \geq 10 x_{1}+10 x_{2}$
- $20 x_{1}+35 x_{2}-10 x_{1}-10 x_{2} \geq 0$
- $10 x_{1}+25 x_{2} \geq 0$


## Network Models



- Many business situations involve a 'flow' between connected elements.
- Flow might involve materials, funds, information, or just correspondence.
- Elements can be places or times such as cities, months, or production stages.
- Elements can be represented by nodes (circles).
- Direction of flow can be represented by arcs, or arrows.


A Network Diagram

## Transportation Model



- Transportation model includes:
- Supply locations (known capacities)
- Demand locations (known requirements)
- Unit transportation cost between supply-demand pairs.
- Bonner Electronics - Page 257 - Powell \& Baker.

Plant


## Transportation Model



- Decision variables are number of cartons along each route.
- Objective function Minimize the total cost.
- Constraints -
- Minneapolis capacity
- Pittsburgh capacity
- Tucson capacity
- Atlanta demand
- Boston demand
- Chicago demand
- Denver demand
- Non-negativity

$$
\begin{gathered}
\text { Min } 0.60 M A+0.56 M B+0.22 M C+0.40 M D \\
+0.36 P A+0.30 P B+0.28 P C+0.58 P D \\
+0.65 T A+0.68 T B+0.55 T C+0.42 T D \\
M A+M B+M C+M D \leq 9000 \\
P A+P B+P C+P D \leq 12000 \\
T A+T B+T C+T D \leq 13000 \\
M A+P A+T A \geq 7500 \\
M B+P B+T B \geq 8500 \\
M C+P C+T C \geq 9500 \\
M D+P D+T D \geq 8000
\end{gathered}
$$

$M A, M B, M C, M D, P A, P B$, $P C, P D, T A, T B, T C$, and $T D \geq 0$

Plant
Warehouse


## Transshipment Model



- Western Paper company - Page 269 - Powell \& Baker.
- Manufacturing paper at three factories (F1, F2, \&F3) with known monthly production capacity.
- Products are shipped by rail to depots (D1\&D2).
- Repacked products are sent by truck to warehouses (W1,W2,\&W3) with known demand.
- Determine the scheduling the material flow at minimum cost.

| Factory | Depots |  | Capacity |
| :--- | :--- | :--- | :--- |
|  | D1 | D2 |  |
| F1 | $\$ 1.28$ | $\$ 1.36$ | 2,500 |
| F2 | $\$ 1.33$ | $\$ 1.38$ | 2,500 |
| F3 | $\$ 1.68$ | $\$ 1.55$ | 2,500 |


| Depots | Warehouse |  |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: |
|  | W1 |  | W2 |  | W3 |
| W4 | W5 |  |  |  |  |
| D1 | 0.60 | 0.42 | 0.32 | 0.44 | 9,000 |
| D2 | 0.57 | 0.30 | 0.40 | 0.38 | 12,000 |
| Requirement | 1,200 | 1,300 | 1,400 | 1,500 | 1,600 |

## Transshipment Model



- Decision variables -
- First stage $x_{i j}$ : quantity shipped from factories to depots
- Second stage $y_{j k}$ : quantity shipped from depots to warehouses
- Objective - Minimize total cost
- Constraints -
- Balance
- Supply
- Demand
- Non-negativity



## Balance constraints



- Used to model processes where the "inputs" must equal the "outputs."
- They have an equality form "=."
- Also used to model balance between time periods.
- The process of carrying inventory is modeled with a balance constraint.
- Western Paper's depots are temporary holding points.

Flow Out = Flow In
Flow Out - Flow $\operatorname{In}=0$
Depot 1: $y_{11}+y_{12}+y_{13}+y_{14}+y_{15}=x_{11}+x_{21}+x_{31}$
$y_{11}+y_{12}+y_{13}+y_{14}+y_{15}-x_{11}-x_{21}-x_{31}=0$


## Transshipment Model



- Objective -

$$
\begin{aligned}
\text { Min } & 1.28 x_{11}+1.36 x_{12}+1.33 x_{21}+1.38 x_{22}+1.68 x_{31}+1.55 x_{32} \\
& +0.60 y_{11}+0.42 y_{12}+0.32 y_{13}+0.44 y_{14}+0.68 y_{15} \\
& +0.57 y_{21}+0.30 y_{22}+0.40 y_{23}+0.38 y_{24}+0.72 y_{25}
\end{aligned}
$$

- Constraints -

Supply: at each factory


Demand: at each warehouse


$$
\begin{aligned}
& x_{11}+x_{12} \leq 2,500 \\
& x_{21}+x_{22} \leq 2,500 \\
& x_{31}+x_{32} \leq 2,500 \\
& y_{11}+y_{21} \geq 1,200 \\
& y_{12}+y_{22} \geq 1,300 \\
& y_{13}+y_{23} \geq 1,400 \\
& y_{14}+y_{24} \geq 1,500 \\
& y_{15}+y_{25} \geq 1,600
\end{aligned}
$$



$$
\begin{aligned}
& y_{11}+y_{12}+y_{13}+y_{14}+y_{15}-x_{11}-x_{21}-x_{31}=0 \\
& y_{21}+y_{22}+y_{23}+y_{24}+y_{25}-x_{12}-x_{22}-x_{32}=0
\end{aligned}
$$

## FrontlineSolvers

## Network Models for Process Industries



- Delta Oil company - Page 281 - Powell \& Baker.
- Refining process separates crude oil into components that eventually yield gasoline, heating oil, lubricating oil, other petroleum products.
- Distillation tower uses 5 barrels of crude oil to produce 3 barrels of distillate and 2 barrels of lowend by products.
- Some distillate is blended into gasoline products. Rest is feedstock form the catalytic cracker.
- Catalytic cracker produces catalytic gasoline.
- Distillate is blended with catalytic to make regular gasoline and premium gasoline.


## Network Models for Process Industries

- Variables:
- CR: amount of catalytic that is combined into regular gasoline.
- Crude, Dist, Low, Blend, Feed, Cat, High, BR, BP, CR, CP, Reg, and Prem.
- Balance Equation at T:

$$
\begin{aligned}
& \text { Dist - 0.60 Crude }=0 \\
& \text { Low }-0.40 \text { Crude }=0
\end{aligned}
$$

- Balance Equation at C:

$$
\begin{gathered}
\text { Cat }-0.64 \text { Feed }=0 \\
\text { High }-0.40 \text { Feed }=0
\end{gathered}
$$

- Balance Equation at 1:

$$
\text { Feed }+ \text { Blend }- \text { Dist }=0
$$



## Network Models for Process Industries



- Balance Equation at 2,3:

$$
\begin{gathered}
B P+B R-\text { Blend }=0 \\
C P+C R-\text { Cat }=0
\end{gathered}
$$

- Balance Equation at 4,5:

$$
\begin{gathered}
\text { Prem }-B R-C P=0 \\
\text { Reg }-B R-C R=0
\end{gathered}
$$

- Tower Capacity: 50,000
- Cracker Capacity: 20,000
- Sale potential Reg and Prem: 16,000
- Blending floor: Reg 50\% catalytic, Prem 70\%
- Objective Function:
- Crude oil: \$28 per barrel
- Cost of operating the tower: $\$ 5$ per barrel
- Cost of operating the cracker: \$6 per barrel
- Revenue for high-end and low-end byproducts: $\$ 44$ and $\$ 36$ per barrel
- Revenue for regular and premium gasoline: \$50 and \$55 per barrel


# Building Integer Programming Models 



Binary Variables and Logical Relationships

## Uses of Integer Variables



- Discrete quantities: number of airplanes, cars, houses, or people.
- Yes/No decisions: zero-one (0-1) (or binary) variables. $\left\{\begin{array}{l}\delta=1 \\ \delta=0\end{array}\right.$
- $\delta=1$ indicates that a depot should be build.
- $\delta=0$ indicates that a depot should not be build.
- Indicator variables - to impose extra conditions:
- Use a variable to distinguish between the state where $x=0$ and $x>0$.
- Extra constraints enforce the conditions.
- Threshold levels.


## Capital Budgeting Problem



- Allocating a capital budget, invested in multi-year projects.
- Maximize the value of projects selected, subject to the budget constraint.
- Marr Corporation - Page 292 - Powell \& Baker.
- Each project has a required expenditure and a value (NPV of its cash flows over the project life).

|  | Projects |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | P1 | P2 | P3 | P4 | P5 |  |
|  | 10 | 17 | 16 | 8 | 14 |  |
| Expenditure | 48 | 96 | 80 | 32 | 64 |  |

## Capital Budgeting Problem

- Decision variables: $y_{j}=1$ if project $j$ is accepted; 0 otherwise.
- Objective function: Maximize $10 y_{1}+17 y_{2}+16 y_{3}+8 y_{4}+14 y_{5}$
- Constraints: subject to:
- Budget limit $48 y_{1}+96 y_{2}+80 y_{3}+32 y_{4}+64 y_{5} \leq 160$
- Integer constraint $y_{j}$ binary

|  | Projects |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | P1 | P2 | P3 | P4 | P5 |  |
|  | 10 | 17 | 16 | 8 | 14 |  |
| Expenditure | 48 | 96 | 80 | 32 | 64 |  |

## Relationship Among Variables



- Projects can be related in number of ways:
- At least m projects must be selected.
- At most $n$ projects must be selected.
- Exactly k projects must be selected.
- Some projects are mutually exclusive.
- Some projects have contingency relationships.
- Capital budgeting policy constraint:
- Need to select at least one international project.
- Projects P2 and P5 are international and others are domestic.
- Add $y_{2}+y_{5} \geq 1$ which ensures that combination $y_{2}=y_{5}=0$ is not allowed.


## Relationship Among Variables



Capital budgeting policy constraints:

- P4 and P5 are mutually exclusive ( they could require same staff resources). $y_{4}+y_{5} \leq 1$ which ensures that combination $y_{4}=y_{5}=1$ is not allowed.
- Special case of "at most $n$ out of $m$ ". Here it is 1 out of 2 .
- P5 is contingent on P3: P5 requires that P3 be selected. $y_{3}-y_{5} \geq 0$

| P5 | P3 | Consistent? |
| :--- | :--- | :--- |
| 0 | 0 | Yes |
| 1 | 0 | Yes |
| 0 | 1 | No |
| 1 | 1 | Yes |

## Fixed Charge Example

- Example: machine has a start up cost if used at all.
- $x$ represents the quantity of a product to be manufactured at a marginal cost $C_{1}$ per unit. If product is manufactured at all, there is a set up cost $C_{2}$ to prepare the machine.
- $x=0$ total cost $=0$
- $x>0$ total cost $=C_{1} x+C_{2}$
- Total cost is not a linear function of $x$. It is a discontinuous function.
- Introduce indicator (binary) variable $y$.

- If any of product manufactured $y=1$.
- Add $x-M y \leq 0$
- Total cost: $C_{1} x+C_{2} y$


## Fixed Charge Example



- Allocating capacity, to produce a mix of products.
- Mayhugh Manufacturing - Page 299 - Powell \& Baker.
- Maximize the production profit (there is a variable profit and a fixed cost for each product family ) subject to demand and production constraints.

|  | Projects |  |  | Hours <br> Available |
| :---: | :---: | :---: | :---: | :---: |
|  | F1 | F2 | F3 |  |
| Profit per unit | $\$ 1.20$ | $\$ 1.80$ | $\$ 2.20$ |  |
|  | Hours Required Per Thousand Units |  |  |  |
| Department A | 3 | 4 | 8 | 2,000 |
| Department B | 3 | 5 | 6 | 2,000 |
| Department C | 2 | 3 | 9 | 2,000 |
| Sales Cost (\$000) | 60 | 200 | 100 |  |
| Demand (000) | 400 | 300 | 50 |  |

## Fixed Charge Example



- Decision variables $x_{1}, x_{2}, x_{3}$, binary variables $y_{1}, y_{2}, y_{3}$
- Objective function Maximize the total profit.
- Constraints -
- Department A capacity
- Department B capacity
- Department C capacity
- Linking constraints
- Integer constraint

$$
\operatorname{Max} 1.2 x_{1}-60 y_{1}+1.80 x_{2}-200 y_{2}+2.20 x_{3}-100 y_{3}
$$

$$
\begin{aligned}
& 3 x_{1}+4 x_{2}+8 x_{3} \leq 2000 \\
& 3 x_{1}+5 x_{2}+6 x_{3} \leq 2000 \\
& 2 x_{1}+3 x_{2}+9 x_{3} \leq 2000
\end{aligned}
$$

$$
\begin{gathered}
x_{1}-M y_{1} \leq 0 \\
x_{2}-M y_{2} \leq 0 \\
x_{3}-M y_{3} \leq 0
\end{gathered}
$$

$$
\begin{gathered}
x_{1}-400 y_{1} \leq 0 \\
x_{2}-300 y_{2} \leq 0 \\
x_{3}-50 y_{3} \leq 0
\end{gathered}
$$

$y_{j}$ binary

## Threshold Levels



- A common requirement: a decision variable $x$ is either 0 , or $\geq$ a specified minimum.
- This is sometimes called a semi-continuous variable.
- Introduce a 0-1 indicator variable $y$.
- $m$ is the minimum feasible value of $x$ if it is nonzero. $M$ is an upper limit for $x$.

$$
\begin{aligned}
& x-M y \leq 0 \\
& x-m y \geq 0
\end{aligned}
$$

Therefore:

$$
\begin{aligned}
& y=1 \rightarrow m \leq x \leq M \\
& y=0 \rightarrow x=0
\end{aligned}
$$

- Mayhugh Manufacturing - Page 303 - Powell \& Baker. $250 \leq x_{2} \leq 300$
$x_{2}-250 y_{2} \geq 0$


## Non-Smooth Models: Hardest to Solve

Linear: =SUM(A1:A10)
Easiest/Fastest


Non-linear: =A1*A1
Slower


FrontlineSolvers

Non-smooth: $=\mathrm{IF}(\mathrm{A} 1>25, \mathrm{~A} 1,0)$
Hardest/Slowest


## Non-Smooth Transformation

- Applies to the following functions:
- IF, nested IF, AND, OR, NOT
- ABS, MIN, MAX
- CHOOSE, LOOKUP (up to 100 levels)
- Will be used only if result is a linear function.


## IF Functions in Spreadsheet



- $=\operatorname{IF}(\mathrm{J} 5>500, \mathrm{~L} 5, \mathrm{M} 5)$, where only J5 depends on the decision variables.
- Introducing a binary integer variable (say H5) that is 1 if the conditional argument of the IF is TRUE, and 0 otherwise.
- Add the constraints:
- J5-500 <= M*H5
- 500 - J5 <= M ${ }^{*}(1-\mathrm{H} 5)$
- Replace IF function with L5*H5 + M5*(1-H5).


## IF Functions in Spreadsheet



- $\operatorname{IF}(f(x)>0, h(x), g(x))$
- We introduce 2 new variables: a binary $Y$, indicating if $f(x)>0$, and a new variable $r$, which will replace the if function completely.
- Then add the constraints:
- $-M * Y+h(x)<=r<=h(x)+M * Y$
- $-M *(1-Y)+g(x)<=r<=g(x)+M *(1-Y)$
- To make sure $Y$ has the right value, add:
- $M * Y+f(x)>=0$ (this forces $Y=1$ when $f(x)<0$, and is always true otherwise)
- $-M *(1-Y)+f(x)<=0$ (this forces $Y=0$ when $f(x)>=0$, and is always true otherwise)


## Absolute Value (ABS)



- A 1 is a product tolerance and C 1 is the desired value.
- $A B S(A 1-C 1)$ is the deviation from the desired value.
- Objective function: $\operatorname{Min} \operatorname{ABS}(\boldsymbol{A 1}-\boldsymbol{C 1})+\cdots$
- Introduce $X=A 1-C 1$. So we want: $\operatorname{Min} A B S(X)$
- Add a new variable $Y$; Add constraints:

$$
\begin{array}{r}
X<=Y \\
-X<=Y
\end{array}
$$

- We replace in objective Min Y.


## $\operatorname{MAX}() / \mathrm{MIN}()$

- Minimize $\operatorname{MAX}\left(x_{1}, x_{2}\right)$
- Introduce a new variable Z equivalent to $\operatorname{Max}\left\{x_{1}, x_{2}\right\}$
- Add constraints:
- $\mathrm{Z} \geq x_{1}, \mathrm{Z} \geq x_{2}$
- We replace in objective Minimize Z
- Maximize $\operatorname{MIN}\left(x_{1}, x_{2}\right)$
- Introduce a new variable Z equivalent to $\operatorname{Min}\left\{x_{1}, x_{2}\right\}$
- Add constraints:
- $\mathrm{Z} \leq x_{1}, \mathrm{Z} \leq x_{2}$
- We replace in objective Maximize Z


## Benefits of Optimization



- A properly formulated model will give you the benefits of an optimal solution.
- Most common business situations can be modeled using the techniques we discussed today.
- Ideally, start the modeling process with these techniques in mind.
- For existing models, Frontline's Solvers can automatically transform IF, CHOOSE, LOOKUP, and other functions into linear integer form.


## Further Benefits of Modeling



- Building a model often reveals relationships and yields a greater understanding of the situation being modeled.
- Having built a model, it is possible to apply analytic methods to suggest courses of action that might not otherwise be apparent.
- Experimentation is possible with a model, whereas it is often not possible, or desirable, to experiment with the situation being modeled.
- Analytic Solver Platform is a complete toolset for descriptive, predictive and prescriptive analytics.


## Contact Info



- Dr. Sima Maleki
- Best way to contact me: Consulting@Solver.com
- You may also download this presentation from our website at www.solver.com/training/premsolver-2.
- You can download a free trial version of Analytic Solver Platform at Solver.com.


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- Spreadsheet Modeling and Decision Analysis: A Practical Introduction to Business Analytics, $7^{\text {th }}$ Edition
http://www.cengage.com/us/
- Essentials of Business Analytics, $1^{\text {st }}$ Edition
http://www.cengage.com/us/
- Model Building in Mathematical Programming
http://www.wiley.com/WileyCDA/WileyTitle/productCd-1118443330.html
- Absolute Value Cases
http://lpsolve.sourceforge.net/5.1/absolute.htm
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## Thank You!

