

Optimization

Using Analytic Solver Platform

REVIEW BASED ON MANAGEMENT SCIENCE

FrontlineSolvers



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	Energy Chemical Manufacturing Transportation Finance Agriculture Health Mining Defense Forestry		 Staff planning Scheduling Routing Blending Capacity planning Media planning Supply chain Inventory optimization Vendor selection Portfolio optimization Product mix
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5/14/2014

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	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	



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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 ۲
 - Assembly ۲
 - Shipping •
 - Demand potential •
 - Non-negativity •

Max 15C + 24D + 18T

4C + 6D + 2D < 1850Limited Resources $3C + 5D + 7T \le 2400$ $3C + 2D + 4T \le 1500$ $C \leq 360$ $D \leq 300$ Limited Demand $T \leq 100$ $C \geq 0$ **Physical Constraints** $D \geq 0$ $T \ge 0$ **FrontlineSolvers**

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.

		Nutritional				
Component	Seeds	Raisins	Flakes	Pecans	Walnuts	Requirements
Vitamins	10	20	10	30	20	20
Minerals	5	7	4	9	2	10
Proteins	1	4	10	2	1	15
Calories	500	450	160	300	500	600
Cost	\$4	\$5	\$3	\$7	\$6	

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 $Min \ 4S + 5R + 3F + 7P + 6W$
- Constraints
 - Vitamins
 - Minerals
 - Protein
 - Calories
 - Non-negativity

Subject to

- $10S + 20R + 10F + 30P + 20W \ge 20$
 - $5S + 7R + 4F + 9P + 2W \ge 10$
 - $1S + 4R + 10F + 2P + 1W \ge 15$
- $500S + 450R + 160F + 300P + 500W \ge 600$
 - $S, R, F, P, and W \ge 0$

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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: $\frac{C}{C+D+T} \ge 0.25$
- This is not a linear constraint and will make the model nonlinear.



Add a Ratio Constraint



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



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:

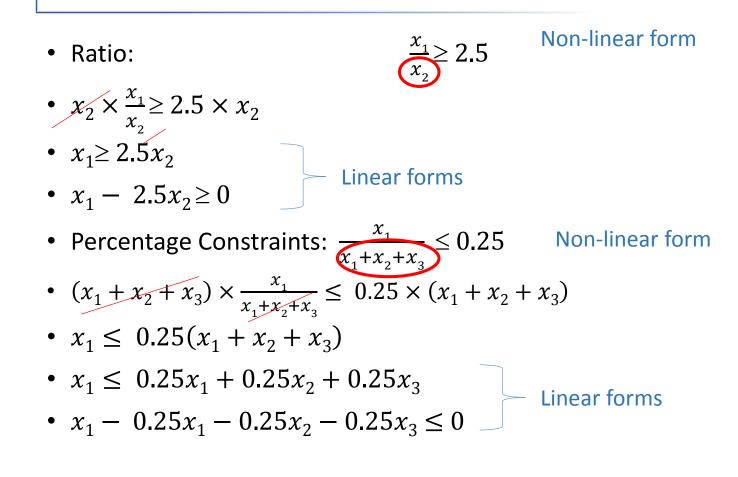
$$\frac{x_1}{x_2} \ge 2.5$$

- This constraint can occur when a certain product mix ratio is desired between two products.
- Percentage Constraints: $\frac{x_1}{x_1+x_2+x_3} \le 0.25$
 - 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:



Linearizing Ratio Constraints

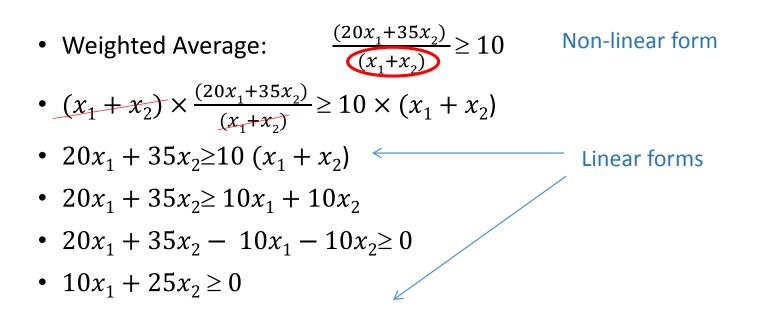






Linearizing Ratio Constraints



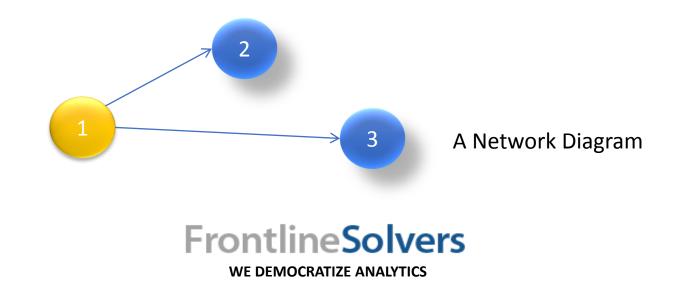




Network Models



- 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.

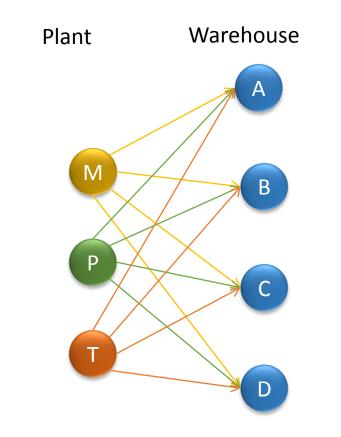


Transportation Model

- Transportation model includes:
 - Supply locations (known capacities)
 - Demand locations (known requirements)
 - Unit transportation cost between supply-demand pairs.
- Bonner Electronics Page 257 Powell & Baker.
- Planning next week shipment to satisfy supply and demand constraints at minimum cost.

	Warehouse				
Plant	Atlanta	Boston	Chicago	Denver	Capacity
Minneapolis	\$0.60	\$0.56	\$0.22	\$0.40	9,000
Pittsburgh	\$0.36	\$0.30	\$0.28	\$0.58	12,000
Tucson	\$0.65	\$0.68	\$0.55	\$0.42	13,000
Requirement	7,500	8,500	9,500	8,000	





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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

 $\begin{array}{l} Min \ \ 0.60MA + 0.56MB + 0.22MC + 0.40MD \\ + 0.36PA \ + 0.30PB \ \ + 0.28PC \ \ + 0.58PD \\ + 0.65TA \ \ + 0.68TB \ \ + 0.55TC \ \ + 0.42TD \end{array}$

 $\begin{array}{l} MA + MB + MC + MD \leq 9000 \\ PA + PB + PC + PD \leq 12000 \\ TA + TB + TC + TD \leq 13000 \end{array}$

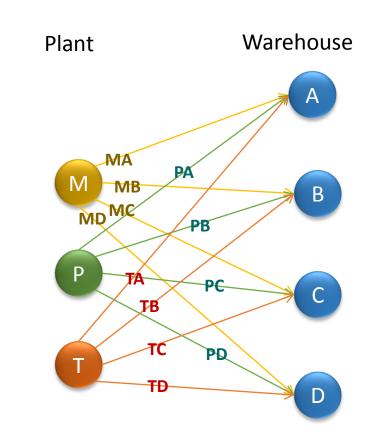
 $MA + PA + TA \ge 7500$ $MB + PB + TB \ge 8500$ $MC + PC + TC \ge 9500$ $MD + PD + TD \ge 8000$

 $MA, MB, MC, MD, PA, PB, PC, PD, TA, TB, TC, and TD \ge 0$



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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.

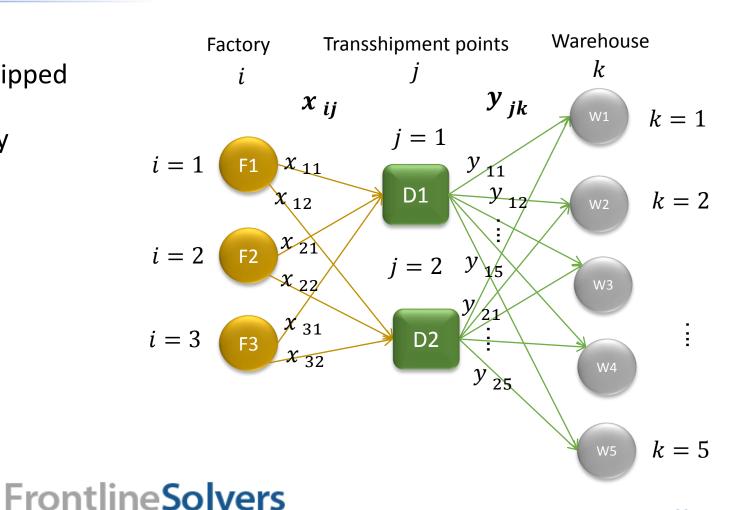
	De		
Factory	D1	D2	Capacity
F1	\$1.28	\$1.36	2,500
F2	\$1.33	\$1.38	2,500
F3	\$1.68	\$1.55	2,500

	Warehouse				
Depots	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

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Transshipment Model

- Decision variables
 - First stage x_{ij} : quantity shipped from factories to depots
 - Second stage y jk: quantity shipped from depots to warehouses
- Objective Minimize total cost
- Constraints
 - Balance
 - Supply
 - Demand
 - Non-negativity



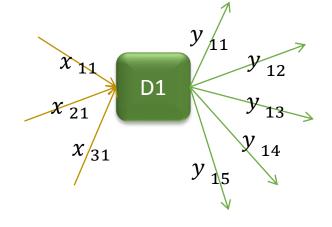


Balance constraints

- 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 In = 0

Depot 1: $y_{11} + y_{12} + y_{13} + y_{14} + y_{15} = x_{11} + x_{21} + x_{31}$ $y_{11} + y_{12} + y_{13} + y_{14} + y_{15} - x_{11} - x_{21} - x_{31} = 0$



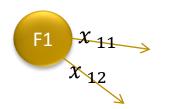


Transshipment Model

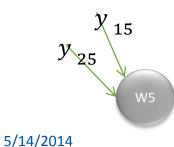


• Objective –

- $\begin{array}{rl} \textit{Min} & 1.28x_{11} + 1.36x_{12} + 1.33x_{21} + 1.38x_{22} + 1.68x_{31} + 1.55x_{32} \\ & + 0.60\,y_{11} + 0.42y_{12} + 0.32y_{13} + 0.44y_{14} + 0.68y_{15} \\ & + 0.57\,y_{21} + 0.30y_{22} + 0.40y_{23} + 0.38y_{24} + 0.72y_{25} \end{array}$
- Constraints –
 Supply: at each factory



Demand: at each warehouse



- $x_{11} + x_{12} \le 2,500$ $x_{21} + x_{22} \le 2,500$ $x_{31} + x_{32} \le 2,500$ $y_{11} + y_{21} \ge 1,200$ $y_{12} + y_{22} \ge 1,300$ $y_{13} + y_{23} \ge 1,400$ $y_{14} + y_{24} \ge 1,500$ $y_{15} + y_{25} \ge 1,600$ **FrontlineSolvers**
 - Balance: at each depot $y_{11} + y_{12} + y_{13} + y_{14} + y_{15} - x_{11} - x_{21} - x_{31} = 0$ $y_{21} + y_{22} + y_{23} + y_{24} + y_{25} - x_{12} - x_{22} - x_{32} = 0$

Network Models for Process Industries

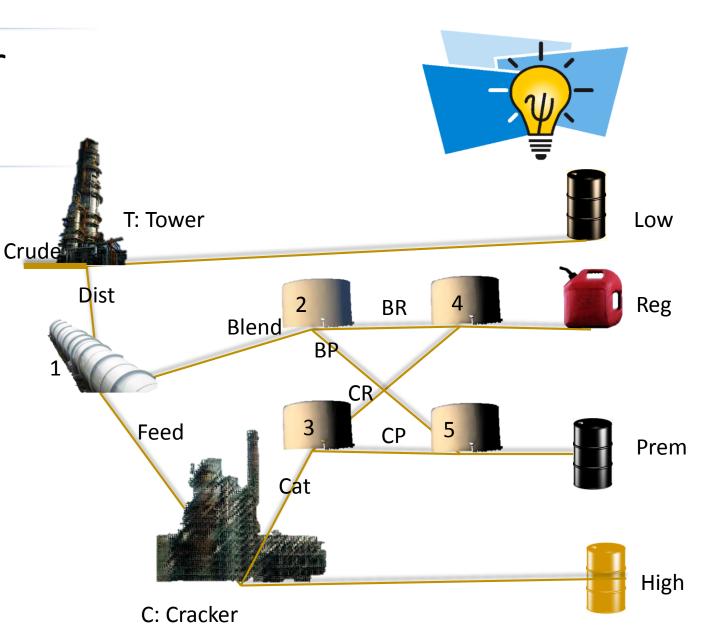


- Delta Oil company Page 281 Powell & Baker.
- Refining process separates crude oil into components that eventually yield gasoline, heating oil, lubricating oil, other petroleum products.
- Distillation tower uses 5 barrels of crude oil to produce 3 barrels of distillate and 2 barrels of lowend by products.
- 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: Dist - 0.60 Crude = 0Low - 0.40 Crude = 0
- Balance Equation at C: Cat - 0.64 Feed = 0High - 0.40 Feed = 0
- Balance Equation at 1:
 Feed + Blend Dist = 0



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Network Models for Process Industries

- Balance Equation at 2,3: BP + BR - Blend = 0CP + CR - Cat = 0
- Balance Equation at 4,5: Prem - BR - CP = 0 Reg - BR - CR = 0
- 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



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Uses of Integer Variables

- Discrete quantities: number of airplanes, cars, houses, or people.
- Yes/No decisions: zero-one (0-1) (or binary) variables. $\begin{cases} \delta = 1 \\ \delta = 0 \end{cases}$
 - $\delta = 1$ 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
NPV	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* $10y_1 + 17y_2 + 16y_3 + 8y_4 + 14y_5$
- Constraints: subject to:
 - Budget limit $48y_1 + 96y_2 + 80y_3 + 32y_4 + 64y_5 \le 160$
 - Integer constraint y_i binary

	Projects					
	P1	P1 P2 P3 P4 P5				
NPV	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 $y_2 + y_5 \ge 1$ which ensures that combination $y_2 = y_5 = 0$ is not allowed.

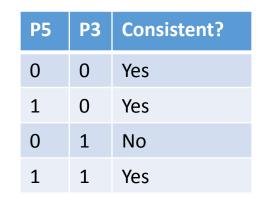


Relationship Among Variables



Capital budgeting policy constraints:

- P4 and P5 are mutually exclusive (they could require same staff resources). $y_4 + y_5 \le 1$ 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. $y_3 y_5 \ge 0$

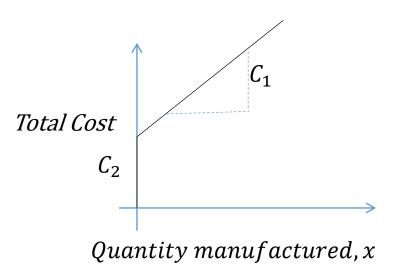


Fixed Charge Example

- 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 C₁per unit. If product is manufactured at all, there is a set up cost C₂ 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 $x My \le 0$
 - 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.

		Hours					
	F1	F2	F3	Available			
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 x₁, x₂, x₃, binary variables y₁, y₂, y₃
- Objective function Maximize the total profit.
- Constraints
 - Department A capacity
 - Department B capacity
 - Department C capacity
 - Linking constraints
 - Integer constraint

 $Max \ 1.2 \ x_1 - 60y_1 + 1.80x_2 - 200y_2 + 2.20 \ x_3 - 100y_3$

$$3 x_1 + 4 x_2 + 8 x_3 \le 2000$$

$$3 x_1 + 5 x_2 + 6 x_3 \le 2000$$

$$2 x_1 + 3 x_2 + 9 x_3 \le 2000$$

 y_i 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*.

$$\begin{array}{l} x - My \le 0\\ x - my \ge 0 \end{array}$$

Therefore:

 $y = 1 \rightarrow m \le x \le M$ $y = 0 \rightarrow x = 0$

• Mayhugh Manufacturing – Page 303 – Powell & Baker. 250 $\leq x_2 \leq$ 300 $x_2 - 250y_2 \geq 0$





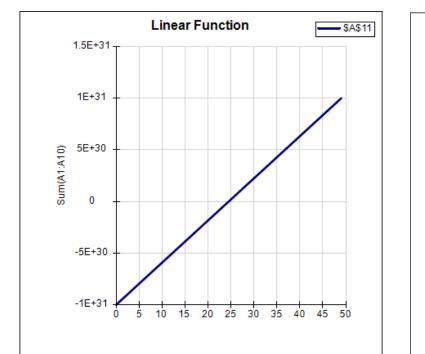
Linear: =SUM(A1:A10)

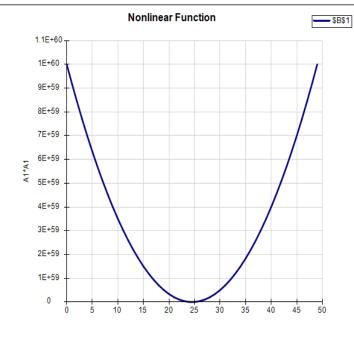
Easiest/Fastest

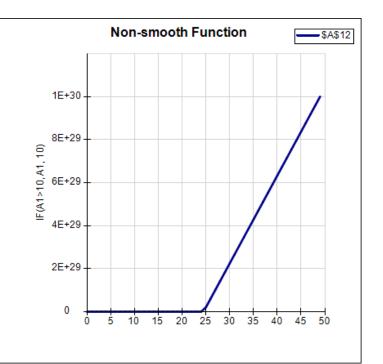
Non-linear: =A1*A1

Slower

Non-smooth: =IF(A1>25, A1, 0) Hardest/Slowest







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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



- =IF(J5> 500,L5,M5), 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–H5)
- Replace IF function with L5*H5 + M5*(1-H5).



IF Functions in Spreadsheet



- 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
 - $-M * (1 Y) + g(x) \le r \le g(x) + M * (1 Y)$
- To make sure Y has the right value, add:
 - $M * Y + f(x) \ge 0$ (this forces Y = 1 when f(x) < 0, and is always true otherwise)
 - $-M * (1 Y) + f(x) \le 0$ (this forces Y = 0 when $f(x) \ge 0$, and is always true otherwise)



Absolute Value (ABS)



- A1 is a product tolerance and C1 is the desired value.
- ABS(A1 C1) is the deviation from the desired value.
- Objective function: $Min \ ABS(A1 C1) + \cdots$
- Introduce X = A1 C1. So we want: Min ABS(X)
- Add a new variable Y; Add constraints: $X \le Y$ $-X \le Y$
- We replace in objective *Min* Y.



MAX()/MIN()



- Minimize $MAX(x_1, x_2)$
- Introduce a new variable Z equivalent to $Max\{x_1, x_2\}$
- Add constraints:
 - $Z \ge x_1$, $Z \ge x_2$
- We replace in objective Minimize Z
- Maximize $MIN(x_1, x_2)$
- Introduce a new variable Z equivalent to $Min\{x_1, x_2\}$
- Add constraints:
 - $Z \le x_1$, $Z \le x_2$
- We replace in objective Maximize \boldsymbol{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: <u>Consulting@Solver.com</u>
- You may also download this presentation from our website at <u>www.solver.com/training/premsolver-2</u>.
- You can download a free trial version of Analytic Solver Platform at <u>Solver.com</u>.



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• Absolute Value Cases

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Q&A



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Thank You!



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