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Tactical planning of domestic supply chains

Replecel'v' ev'ec'f g'ru'ecf gpcu'f g'
abastecimiento domésticas

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Abstract

This paper presents a single-period mathematical programming model NLMIP of a 5-stage supply chain with multiple possibilities of organizational ownership that allows several distribution channel links. The objective of economies of scale, agreements between agents, demand and inventory issues, among other relevant aspects, specially in an idealised domestic environments. Finally, a solution procedure is presented for the problem associated with the NLMIP mathematical programming model proposed, that gives an optimal solution in satisfactory computational time. The model was

----- **Keywords:** Supply chain management, integer programming, non-linear programming, logistics

Resumen

Este artículo presenta un modelo de programación matemática NLMIP de un periodo simple para una cadena de abastecimiento de 5 etapas con múltiples posibilidades organizacionales de propiedad en los canales de distribución. El objetivo del modelo es optimizar la utilidad después de impuestos, contemplando entre otras consideraciones, precios de transferencia, economías de escala, acuerdos entre agentes, demanda, inventario, en un ambiente

, "Cwqf"fg"eqttgr qpfgpekl<gfg hppq<:- "79"- "3"- "88: "58"22"gz<49:/49; "hcz<:- "79"- "3"- "898"45"62."eqttgq"ggew>pleq<rafael.garcia@escuelalain.edu.co (R. García)

doméstico de decisión. Finalmente, presenta un procedimiento de solución del NLMIP que proporciona soluciones óptimas en tiempos razonables. El o qf grq'hwg'xcrlf cf q'r qt'o gf kq'f'g'wp'g'zr gtlo gpvq'eqo r wcekpqr

----- *Palabras clave:* Administración de la cadena de abastecimiento, programación NLMIP, logística

Introduction

Recent progress made in supply chains has been focused on global environments. It emerged as the logical consequence of initial developments in domestic environments. J qy gxgt. "kp" ur kg" qh" vj g" uk pkecpv' r tqi tguu" made in global environments, a great part of this background has not been transferred to domestic environments, and additionally many important aspects have been ignored or have not been considered simultaneously for decision making. Consequently, the aim of this paper is to incorporate several considerations omitted or not incorporated in the tactical and domestic supply chain bibliography into one single idealised model.

To achieve this goal, a review of work on tactical supply chain decision-making is presented, which describes relevant aspects for both modelling and solution procedures. The work presented here aims to establish a model that takes into ceeqwpv' uqo g" eqpukf gtcvqpu" k' gpvkgf "kp" vj g" literature review that are relevant for domestic environments. A mathematical programming o qf grn' pqp" rkpget" o kz" kpvi gt" *PNO RR+ "ku" presented, along with a solution procedure that intends to satisfy such needs.

Background

The following review is focused on the description of some topics considered relevant on tactical decision making in domestic supply chains and that have been treated by means of mathematical programming models.

Qpg'Ltuvtgxkgy 'y cu'f'gxgrq' gf 'd{ 'J3_OVj g'bwj qt' makes a description of the relevant aspects on

supply chain modeling of single echelon systems with deterministic demand. The fundamental tactical aspects were associated with distribution qh'tcy "o cvgtkcn"cpf "Lpcn'r tqf wewu'Vj g'uk' g'qh" the problems was limited by the absence of a computationally adequate MIP optimizer. The evolution of the investigation in tactical supply chains has been developed in several ways. On the one hand, as was indicated by the author, towards dynamic modeling considerations and handling of inventories associated with an one member of c'ur gekle'gej grnp'y kj kp'vj g'uwr r n'ej clp"ci gpv" J4_O'Qp"vj g"qvj gt"j cpf "vj gtg'y cu'cp"kpctgculpi " tendency towards a greater satisfaction of the Lpcn' eqpuwo gt" J5_ "vq" eqpukf gt" f'gxgrq' o gpv" of information and communication systems ukpeg"vj g" gpf "qh" vj g" plpgvku"cpf "gki j vku" J6_ "vj g"lphqto cvkqp'utvewt" J7_ "cpf "rcvt"qvj ctf u" better coordination of the logistics operations between the different stages of the supply chain, procurement, production and distribution J8_O'Vj g" cur geu' eqpukf gtgf "y gtg< rcf "vko gu" capacities of the procurement and distribution channels, economies of scale, bill of materials, among others. Towards the end of the twentieth century the increased pressure by the economic internationalization, and new developments in computational processing created global supply ej clp" J9_ "pgy "cur geu'j cf "vq'dg'eqpukf gtgf "vj gug" included: demand uncertain considerations, vtcpuht"r tlegu."czgu"cpf "f wkgu."gzej cpi g'tcvgu." among others, but not the modelling of alliances. Solutions were developed incorporating solution procedures supported in commercial software J: _"vj cv'tguwngf "kp"ucvkuhcevt{ "r tcevkcn'tguwuu" J9_O'Qj gtu"vqr leu'tgrvqf "y kj "qwt'uwf {. "lpenf g" procurement uncertainty in the demand for r tqf wewu"]; . "32_ "cpf "tcpuht"r tlegu" J33. "34_O'

Supply chain considerations

The pertinent literature allows to development of multi-stage supply chains has been limited to the eqpvz qh'f j {ulecnpw qtn'j j g'g'j g'f k'w'k'w'k'p" ku' qti c'p'k' g' " d' " f'k'w'k'w'k'p" egp'v'tu" *F E+"]6_0' However, although this is quite common in global environments, it can not be found in most practical cases in domestic environments, where plants can for instance, supply demand zones (DZ) directly. It ku'eqo o qp"lp'j'j g'g'k'g'c'w'w't.g. "q' L'p'f "eqpuk' g'c'v'k'p'u" with respect to the capacity in strategic rather than v'c'v'c'c'ri' eqpvz w'u' P g'x'g't'j' g'g'u'u. "j' g' " r' t'q'd'g'o " qh' capacity in tactical decision-making is important, and it is associated with the handling of throughput of product families. Finally, the simultaneous g'z'r' d'ek' " l'p'en'w'k'p" qh' 't'c'p'u'g't " r't'g'u" *VR+" c'p'f " economies of scale (SE) in supply chain models is conspicuous through absence in the literature. On the other hand, mathematical programming o q'f g'm'p'i "lp' "j' g' "u'w'r' n' " "ej' c'k'p' "eqpvz'j' cu' "d'g'g'p" limited to problems having few logistics echelons.]35_0' F'w'g' " q' " j' g'k' " eqo d'k'p'c'v'k'k'r' " p'c'w't'g' " j' g' " treatment of supply chains has been limited to relate to production inside plants, without taking into account that transformation processes can be carried out in sales points associated with DZs (a L'h'j' "l'w'c'i' g'p'q'v'eqpuk' g'g'f' "lp' "j' g' "w't't'g'p'v'k'g'c'w'w't.g'-0' On the other hand, when a company has integrated F' \ u.'j' g' "r' q'u'k'd'k'k'k' "qh' "u'w'r' n'u. "q't' "f' go c'p'f "f' g' L'ek' " should also be considered, due to the demand variability.

kp" eqpenwukp." gzeqr v" hqt" uqo g" s wercvkg" epf kkp" vj cv" o c{ "gzku" kp" ur gekkf" uwr r n" chains situations, that require application of kpgi tcn/Cpenku" O gj qf "oKO/"J36_ "y g"clo " to include those aspects that are considered most relevant to making tactical decisions, particularly kp"fqo gule"gpukqpo gpwOY kj kp"vj ku"eqpvzv"c" proposed model and solution process can be used as a reference for future studies.

Economies of scale and expandable capacities

The typical behaviour of SE is represented by the

cost decreases up to a point where production capacity is fully used, and increases again when or the use of stocks become necessary to satisfy demand. SE can be achieved through technological, organizational and pecuniary

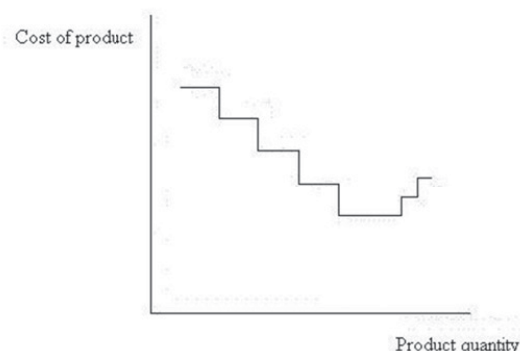


Figure 1 Average cost of production

Transfer pricing

A TP is the price that a selling department, division or subsidiary of a company charges for a product or service supplied to a buying department, division or subsidiary of the same company. This paper proposed in this paper the approach suggested by [33] to calculate the TP for a product or service.

Distribution

Figure 2 shows a network with a wide range of possibilities for distribution and various forms of ownership organization in the domestic supply chain. Dotted lines represent subcontracted suppliers already established in the market, while continuous lines represent agents who are vertically integrated or are associated through alliances. In order to facilitate the reading of the article, we will denominate with the word “integrated” those business units that are owned by the organization or associated with it through alliances. A global possibility that can be modeled

Where: I = Integrated plants that supply goods to subsidiary plants. J = Integrated plants that do not supply goods to subsidiary plants. A = Integrated plants that do not supply goods to subsidiary plants. Q = Integrated distribution centers (DC). K = Integrated demand zones (DZ). L = Non integrated demand zones (DZ).

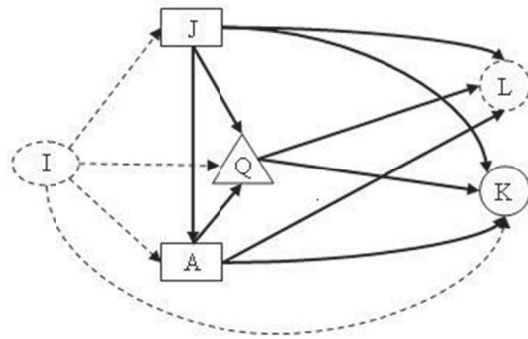


Figure 2 The Multi-stage supply chain network

Finally, one single distribution channel managed by the salesperson was assumed, since this is the condition most frequently found in domestic environments.

Demand

The model is based on the assumption that it is possible to satisfy the demand for goods in non-integrated DZs. In the case of integrated DZs, $u_{r,n}$ is the average demand for item r in demand zone n . In the case of integrated DZs, $u_{r,n}$ is the average demand for item r in demand zone n . In the case of integrated DZs, $u_{r,n}$ is the average demand for item r in demand zone n .

Storage

V_j is the inventory of item j at facility j . V_j is the inventory of item j at facility j . V_j is the inventory of item j at facility j . V_j is the inventory of item j at facility j . V_j is the inventory of item j at facility j .

Capacity

The model includes constraints on throughput capacity for each associated stock family in each one of the stages of the supply chain, since this is the condition usually found in real cases.

Bill of materials

The model includes constraints on bills of materials (BOM) for each facility where a transformation activity takes place, and for each raw material or input used in that activity. This constraint set. In the case of DCs, a unique mass balance set constraint is caused by each case, because no transformation processes take place in them.

Model

The associated model (P1) is show below:

Indices and Sets:

In addition to the sets presented to illustrate the $u_{r,n}$ are included:

D : Nodes of supply chain network

E : Operation scales. $E_{i,j}$: Operation scales of item j supplied by facility type i , where $i \in D$.

F : Item families. $F_{i,j}$: Item families of facility type i , where $i \in D$. $H_{i,j}$: Item families transported between the facility i and the facility j , where $i, j \in D$.

M : Handled products and input material. $M(q)$: Items handled by DC q . $M_{i,q}$: Items handled by DC q and supplied by supplier i , where $i \in D$.

N : Arcs of supply chain network.

P : Products. $P_{i,j}$: Products supplied by supplier i , where $i \in D$. $R_{i,j}$: Products of the facility i that use item j as input, where $i, j \in D$. $P(k,bl)$: Goods produced in integrated DZ k that use item bl as input

R : Raw materials or input. $R(i)$: Raw materials used by facility type i , where $i \in D$. $T(i)$: Raw material group i belongs to, where $i \in D$. N : Number of facilities.

$i \in D$: Facility type i who supplies raw material group i . where $i \in D$. $i \in D$: Facilities type i belongs to, where $i \in D$.

where $i \in D$. $i \in D$: Facility type i supplied by raw material group i with item b , where $i \in D$.

In order to facilitate the reading of the paper, the following notations are used: $i \in D$: Facility type i who supplies raw material group i . where $i \in D$. $i \in D$: Facilities type i belongs to, where $i \in D$.

Objective Function: Minimize the total cost

Where: $u_{i,b}$: Inventory cycle factor (percentage). $FIS_{i,b}$: Security stock factor for item b in facility type i (Item units / Planning period), where $i \in D$. F_b : Frequency of trips between facility type i and facility type j (Time units / Planning period), where $i, j \in D$. H : Fraction of inventory keeping in one period. Holding cost given in \$/(\$ units of time) (units of time consistent with those of the average transportation time $t_{i,j}$). OL_b : Lead time taken by facility type i to deliver item b (units / item), where $i \in D$. CF_i : Cost of facility type i in the planning period (\$ / planning period), where $i \in D$. $CF_{i,b}$:

Constraints:

Raw material group i belongs to, where $i \in D$.

Parameters: FCI = Inventory cycle factor (percentage). $FIS_{i,b}$ = Security stock factor for item b in facility type i (Item units / Planning period), where $i \in D$. F_b = Frequency of trips between facility type i and facility type j (Time units / Planning period), where $i, j \in D$. H = Fraction of inventory keeping in one period. Holding cost given in \$/(\$ units of time) (units of time consistent with those of the average transportation time $t_{i,j}$). OL_b = Lead time taken by facility type i to deliver item b (units / item), where $i \in D$. CF_i = Cost of facility type i in the planning period (\$ / planning period), where $i \in D$. $CF_{i,b}$ =

Equivalently, $u_{i,b}$ in integrated DZ k (\$ / item). $CI_{i,b}$ = Inventory cost for item b in facility type i in the planning period (\$ / item). $CSO_{i,b}$ = Cost of surplus of item b in integrated DZ k (\$ / item). CT_b = Initial unit transportation cost of item b from facility type i to facility type j (Time units / Planning period). $CV_{i,b}^e$ = Cost of item b provided by supplier i at operation scale e (\$ / item). $P_{i,b}$ = Sale price of item b in DZ k (\$ / product unit).

Variables: $x_{i,b}^e$ = Item b used to satisfy the demand of DZ k in the time period. $x_{i,b}^e$ = Item b supplied by supplier i to facility type j at scale e per planning period, where $i, j \in D$. $y_{i,b}^e$ = Item b supplied by facility type i to facility type j at scale e per planning period, where $i, j \in D$. $z_{i,b}^e$ = Item b supplied by the DC q to facility type j at scale e per planning period, where $i, j \in D$. $w_{i,b}^e$ = binary variable that takes a value 1 if the item b from facility type i is used at scale e , where $i \in D$, and 0 in otherwise.

v_j = pgz v'gzr tguakp'vngu'lpv'cee qwpv'v'g'rtg/vcz'pgv'peqo'g'ht'v'g'eqo'rtg'ugv'qhr'npw'v'cv' supply integrated plants.

Expression for integrated DC's net income:

Expression for DZ's net income:

Where: g_{kb}^+ = Surplus of item b in DZ k , g_{kb}^- = Deficit of item b in DZ k , pt_{*b}^e = TP of item b from facility type $*$ in scale e per planning period, where $*$ = (D), d_{*b} = Demand for item b in DZ

type $*$ per planning period (Item units / Planning period), where, d_{*b} = Demand in non-integrated DZ:

Mass balance at distribution center:

Production and handling capacity per item are modeled by the following type of constraints.

In this case for plant supplying subsidiary plants:

T_{db} = Capacity units used by facility type d to produce one unit of item b (Resource units / item). Where $d = D$. T_b = Capacity units used in the transportation of item b between facility type d and k . $CAPP_{*b}$ = Production capacity of plant type $*$

for item b per planning period (Resource units / Planning period), where $d = D$.

Bill of materials is modeled by the following type of constraints. In this case for plants supplying subsidiary ones:

where Q_{b1b2} = Quantity of item $b1$ used in the production of item $b2$ (Volume or weight units of item $b1$ / item $b2$)

Item-family inventory capacity is modeled by the following type of constraints. In this case for plants supplying subsidiary ones:

CAP_{*f} = Finished-product inventory capacity of family f in facility type $*$ in the planning period (Volume or weight / Planning period), where $*$

V_{fb} = Volume or weight of item b in the stock place associated with family f in the planning period (Volume or weight / item)

qh' r tqL'v' qdlge'xg' dqwpf u' qd'cl'p'g' " h'qo " y' g' previous step are included. Additionally, from the v'cp'uh'q'to c'v'k'p' "r' t'g'ug'p'y'g' "d{ "J42_"q' "cr' r' t'q'z'k'o' c'v'g' the nonlinearity of the problem, new variables ctg' " t'g'f' g'L'p'g'f' " c'p'f' " p'g'y' " e'q'p'ut'c'k'p'u' " ctg' " c'f'f' g'f' " to previous constraints of P3. Finally, a binary search algorithm is proposed.

T'g'f' g'L'p'k'p' " qh' 'x'c't'k'd'ig'u' (in this point is necessary to have as reference the model NLMIP presented above with equations A)*

These are the new non negatives variables:

....

....

....

Alternatively for equation 9

....

And affect the equations (2 to 5), and the equation (9) as:

.....

Also it affects the constraints associated to the TP. In order to illustrate it, the constraints associated

v'q' "y' g' "dqwpf u' qh' "t' q'y' u' "y' c'v' "g'c'x'g' "y' g' "l'p'v'g'i' t'c'v'g'f' " plants that supply goods to subsidiary plants are used (equation 17):

.....

Constraints associated with the previous equations are included. And Alternatively: Equation (8):

....

.....

8 YÜbJhcb'cZVci bXg

The two bilinear models, P2, are based on model P1 as follows:

H'k'u'v' "R4" "O' q'f' g'n' "V'R" "c'p'f' "t' q'y' "e'q'u'u' "c't'g' "L'z'g'f' "c'u' follows:

.....

.....

.....

.....

Ugeqpf "R4"O qf gn"VR"cpf "f qy "equu"ctg"Łzgf "cu" follows:

Scale summations and their associated binary variables are eliminated in equations 2 to 5, cpf "f qy u" dqwpf u" eqpwtckpw" ctg" o qf Łzgf "

kp"qtf gt"vq" guvdrkuj "f qy "dqwpf u"kp"v g"pgy " variables. In order to illustrate it, equation 2 (below) is used:

Flow constraints are replaced by the following gzrtguukpu"v cv'guvdrkuj "f qy "dqwpf u"dgw ggp" each echelon of the supply chain, as was

o gpvkqpgf "gctrkgt0Cu"cp"gzco r rg."v g'eqpwtckpw" cuuqekcvgf "y kj "v g"i qy u"qh'kpvi tcvgf "FEu"vq" integrated DZs are used:

Where I^{emin} represents the minimum bound of f qy "cuuqekcvgf "y kj "v g"uo cnrt"uecrg"dgw ggp" two echelons, and I^{emax} tgr tgugpu"v g'o czko wo " dqwpf "qh"i qy "cuuqekcvgf "y kj "v g"rti gt"uecrg" associated in the original problem (P1).

qdlgevŁg'r tqŁv'dqwpf u"qh'gcej "dwukpguu'wplv'cpf " objective solution obtained in this step are used as virtual upper and lower bounds of P3.

P3 solution procedure

Finally, the constraints of TP are eliminated.

In order to solve P3, the bilinear nature of equations 2 to 5 associated with each unit business ctg"tgcvgf "d{ "ugwłpi "rtg/vcz"rtqŁw0Vj gug'xcnŁgu" ctg'ecrewnvŁgf "Łtqo "v g'o czko wo "cpf "o kłko wo " bounds obtained from P2 as:

Vj g'r tqdrgo "R4"ku'ghŁekgpwŁ "uqrxgf "d{ "o gcpu"qh" the successive LP solution procedure introduced d{ "XŁf cn'cpf "I qgwŁej crenz"J33_ "cpf "tgr tgugpu"v c" tgrczgf "Łgtukp'qh'v kuŁ tqdrgo 0Cu'y cuŁ gpvkqpgf " rŁgxŁqwuŁ."v g"uqrxwŁpu"Łqt"rtg/vcz"rtqŁv"cpf "

The process also affects the constraints associated with the TP. In order to illustrate the previous assertion, the constraints associated with bounds

do not supply goods to subsidiary plants, are used:

Constraints associated with the equation $\div \Omega T$ $\text{ctg}'\text{lpenwf gf } \text{OCu'cp'gzco r ng.}'\text{y g'eqputckpw''}$

cuuqekcvgf "y kj "y g"l qy "qh" lpgi tcvgf "FEu"vq" lpgi tcvgf "F\ u'ctg'wugf OUqo g'gzco r ngu'ctg<

Constraints associated with the equation $\div \Omega Y M_Y$ $\text{ctg}'\text{lpenwf gf } \text{OUqo g'gzco r ngu'ctg<}$

Constraints associated with the equation $\div \emptyset T - (1 - Y)M_T$ are included. In order to $\text{knwutcvg'kw'uqo g'gzco r ngu'ctg'r tguqpwgf <}$

Finally, in order to make the procedure of solution of problem P1 below is used. The above P3 solution process, as already mentioned, leads to the solution of the original problem P1.

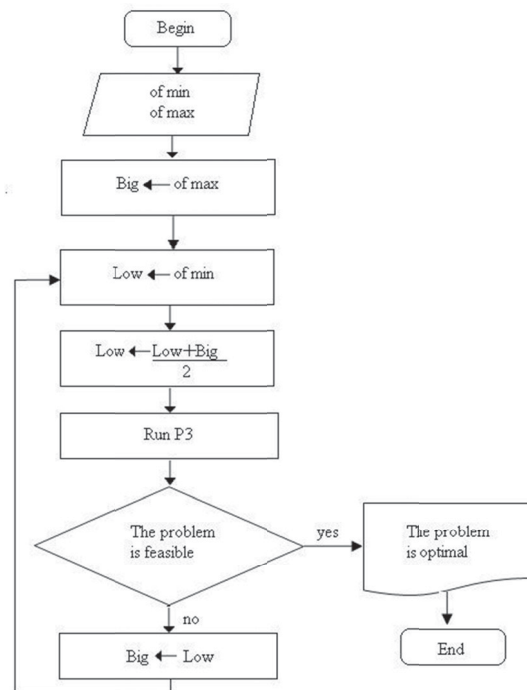


Figure 3 Binary search algorithm

Computational experience

The Table 1 below shows the instances of the problem. They are divided in twelve simulated

instances of P3 to determine its respective equilibrium. Their physical and computational characteristics are described in order to analyze its performance (see table 1).

The solution process was supported by MIP commercial software LINGO™. In the computations of the instances, Pentium-4 2.8 Ghz, 1 GB RAM and Win XP-SP2 operative system was used. The solutions presented are optimum. The total CPU time is in (min:sec) format.

Conclusions

The design of a mathematical programming model that can be used as a paradigm in the tactical planning of domestic supply chains, and the description of the procedure followed to solve it. An advantage of the solution process proposed is required to achieve the fast solution times for the instances studied.

Among the new research possibilities opened up by this paper are the development of new solution procedures (e.g., decomposition methods) that allow the application of the model in larger scales of optimization, and the consideration of qualitative aspects that can be relevant in these types of organizations, such as transaction costs, of the supply chain.

Table 1 Summary of the performance of the procedure

Instances characteristics	Instance 1			Instance 2			Instance 3		
	P1	P1-P2	P3	P1	P1-P2	P3	P1	P1-P2	P3
Plant J	2	2	2	3	3	3	3	3	3
Plant A	1	1	1	2	2	2	2	2	2
Suppliers	2	2	2	6	6	6	8	8	8
Distribution Centers	2	2	2	3	3	3	4	4	4
Integrated Demand Zones	1	1	1	3	3	3	6	6	6

Continuación Tabla 1

Instances characteristics	Instance 1			Instance 2			Instance 3		
	P1	P1-P2	P3	P1	P1-P2	P3	P1	P1-P2	P3
Subcontracted Demand Zones	1	1	1	3	3	3	4	4	4
Final products	5	5	5	8	8	8	10	10	10
Products	5	5	5	8	8	8	10	10	10
Raw material	6	6	6	9	9	9	12	12	12
Economy Scales for agent-item combination	2	2	2	2	2	2	3	3	3
Iterations	52.652	36.356	1.215	38.345	37.074	17.770	198.187	103.474	101.892
All variables	1.727	1.727	2.031	12.649	12.649	15.197	41.450	41.450	50.138
No linear products	394	394	-	3.383	3.383	-	10.616	10.616	-
Binary variables	180	180	180	1.670	1.670	1.670	5.784	5.784	5.784
All constrains	902	916	1.510	7.107	7.131	12.203	21.836	21.868	39.212
No linear constrains	254	254	-	1.767	1.767	-	5.823	5.823	-
CPU time	4:03	1:54	0:08	4:57	1:12	0:39	2 h 56:19	22:50	2:56
Memory (K)	672	681	789	3.462	3.473	4.252	9.650	9.669	12.216
Objective percent gap		0%			0%			0%	

P1-P2: P1 es resuelto utilizando las cotas de P2.

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