Designing two-echelon distribution networks under demand uncertainty

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Abstract

Goods delivery from manufacturing platforms to demand zones is often managed through one or more intermediate locations where storage, transshipment and consolidation activities are performed. When distribution activities cover a large geographical area, depend on hierarchical inventory rules, or concern urban deployment, multi-echelon network configurations are more appropriate. In this work, a two echelon distribution network is considered, and the strategic problem of designing the network structure under demand uncertainty is tackled. It is modeled as a stochastic multi-period two-echelon location-routing problem integrating decisions on the location and the size of second echelon facilities, decisions on the flows assignment between the echelons, and on delivery routes to serve demand zones. Furthermore, a multi-year planning horizon is considered to design the distribution network, and the uncertain customers demand is characterized by a set of scenarios. To solve the problem for large scale instances, a solution method, using a decomposition approach, is developed. Computational experiments on several instances are performed to validate the approach and to derive insights from the results obtained.

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