INTERNATIONAL JOURNAL OF LATEST TECHNOLOGY IN ENGINEERING, MANAGEMENT & APPLIED SCIENCE (IJLTEMAS)

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XIV, Issue XII, December 2025

Engineered Linear Algebra with AI to Optimize Supply Chain Coupling Linear Algebra and AI to Solve One of The Most Complex Real-Time Problems

Arav Bansal

Founder & CEO AVAUIRK (OPC) Private Limited

DOI : https://doi.org/10.51583/IJLTEMAS.2025.1412000012

Received: 13 December 2025; Accepted: 19 December 2025; Published: 26 December 2025

ABSTRACT

There are many real-time situations which can be effectively solved by optimizing the basics of linear algebra by infusing it through latest AI models. This research paper is intended to bring into use the basic concepts of linear algebra along with the nuances of AI/ML to bring about optimization for solving supply chain scenario across industry. The challenge lies in Modeling disruptions (e.g., geopolitical events, pandemics) across global supply chains in real time. Linear Algebra's Role lies in Matrix representations of supplier–buyer networks, eigenvalue analysis for systemic risk. The frontier lies in combining linear algebra with adaptive AI (reinforcement learning, quantum ML, and multi-agent systems).

Index Terms— Supply Chain, Linear Algebra, AI/ML, Models, Matrix, Vector, Artificial Intelligence, Analysis

INTRODUCTION

The modern supply chain is a complex, dynamic network that must respond rapidly to shifting market demands, disruptions, and operational constraints. As global commerce expands and digital transformation accelerates, supply chains are increasingly expected to deliver not only efficiency and cost savings but also resilience, transparency, and sustainability. Achieving these goals requires a robust analytical framework that can model the intricate relationships among suppliers, warehouses, distribution centers, and retailers, while also enabling real-time, data-driven decision-making.

Supply chains today are confronted with a range of real-time operational challenges that are well-suited to mathematical modeling and AI-driven optimization. The most prominent problem domains include:

- **Transportation and Logistics:** Real-time vehicle routing, last-mile delivery, dynamic scheduling, and route optimization under uncertain traffic and demand conditions.
- **Inventory Management:** Continuous monitoring and optimization of stock levels to minimize stockouts and overstocks, especially in multi-echelon and distributed networks.
- **Demand Forecasting:** Predicting short- and medium-term demand at granular levels (e.g., SKU-store-day) using historical data, external signals, and real-time inputs.
- **Network Design and Facility Location:** Strategic placement of warehouses, distribution centers, and manufacturing facilities to optimize cost, service level, and resilience.
- **Supplier Risk Management:** Assessing and mitigating risks associated with supplier performance, disruptions, and compliance.
- **Reverse Logistics and Circular Supply Chains:** Managing returns, recycling, and closed-loop flows, especially for products with end-of-life considerations.

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- **Digital Twins and Real-Time Simulation:** Creating virtual replicas of supply chain assets and processes for scenario analysis, monitoring, and predictive analytics.

These problems are characterized by high dimensionality, uncertainty, and the need for rapid, data-driven decision-making—making them ideal candidates for solutions grounded in linear algebra and AI.

Linear algebra provides the mathematical backbone for representing and optimizing flows, costs, and constraints in supply chain networks. By structuring the network as a graph of nodes (entities) and edges (interactions), and encoding flows, costs, and capacities as matrices and vectors, we can leverage powerful optimization techniques to solve for optimal operations.

Artificial intelligence (AI)—encompassing machine learning (ML), reinforcement learning (RL), and hybrid optimization pipelines—further augments this framework, enabling real-time forecasting, adaptive routing, and autonomous inventory management.

DESCRIPTION

Supply chain optimization heavily relies on **linear algebra and optimization techniques**. Matrix models represent supplier–buyer networks, transportation flows. Eigenvalue analysis identifies systemic risk points in global supply chains. Linear programming helps in optimizing routing, inventory, and production scheduling. Tensor decomposition handles multi-dimensional demand forecasting. Below are the typical activities performed in different phases:

Table 1: Key problem classes and supply chain use cases

Problem class	Supply chain use case	Objective	Typical constraints
Transportation	Plant-to-warehouse-to-retailer shipments	Min shipping cost	Capacity, demand fulfillment
Min-cost flow	Multi-echelon distribution with intermediate nodes	Min total operating cost	Capacity, balance, arc costs
Shortest path	Fastest route for expedited shipments	Min transit time	Path feasibility
Max-flow	Peak throughput in a lane/port	Max volume	Capacity only

- **Transportation problem** is a special case of min-cost flow with supply/demand at nodes and no intermediate transshipment; it is widely taught as a canonical logistics optimization model.
- **Shortest path** finds minimal-time or minimal-risk routes; useful for rush orders or disruption rerouting.
- **Max-flow** identifies bottlenecks by maximizing throughput from source to sink; informs capacity investments.

HOW DOES THIS WORK

Algebra (mathematical layer) provides the formal structure to represent supply-chain, while linear equations balance constraints at each node, optimizations can be reached through linear programming and matrix models represent entire supply chain. Artificial Intelligence (AI) builds on Algebra by adding Predictions, Adaptability, and learning, through the below:

- **Demand Forecasting:** Neural nets and transformers predict future demand.
- **Dynamic Routing:** Graph neural networks + reinforcement learning optimize transport in real time.

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- **Inventory Policies:** RL agents learn reorder strategies under uncertainty.
- **Supplier Risk Analysis:** NLP models detect risk signals in contracts/news.
- **Digital Twins:** AI simulates disruptions and re-optimizes flows instantly.

How both Algebra and AI work together:

- **Algebra:** Ensures feasibility and optimality (flows satisfy equations, costs minimized).
- **AI:** Provides foresight and adaptability (predicts shocks, learns from data).

For Example:

- Algebra solves the min-cost flow for today's shipments.
- AI predicts tomorrow's demand spike due to a festival, and adjusts the algebraic model by updating demands and costs.

Together, they yield a resilient, cost-efficient plan

Building a Network Model: In supply chain problems, nodes and elements (edges/flows) are the building blocks of the network model. AI leverages them to learn, predict, and optimize.

Nodes represent **entities** in the supply chain graph:

- Suppliers → raw material sources.
- Factories/Plants → production centers.
- Warehouses/Distribution Centers → storage and buffering points.
- Retailers/Customers → demand sinks.

AI Usage:

- Demand prediction at nodes: ML models forecast demand at retailer nodes.
- Capacity optimization: AI adjusts production schedules at plant nodes.
- Risk detection: NLP models flag supplier nodes with potential disruptions

Elements (or arcs) represent **connections** between nodes:

- Transportation lanes: trucks, ships, air freight.
- Information flows: orders, invoices, tracking data.
- Energy flows (in V2G or smart grids): electricity between vehicles and grid nodes.

AI Usage:

- Routing optimization: Graph neural networks learn optimal paths across edges.
- Cost prediction: AI models estimate dynamic costs (fuel, tariffs, congestion).
- Resilience modeling: Reinforcement learning adapts flows when edges fail (e.g., port closure).

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Nodes & Elements Together lead to:

- **Graph Neural Networks (GNNs):** Learn embeddings for nodes (suppliers, warehouses) and edges (routes).
- **Linear Algebra Backbone:**
  - Incidence matrix (A) encodes node–edge relationships.
  - Flow vector (x) represents shipments.
  - Constraint: (A x = b) ensures supply/demand balance.
- **AI Layer:** Predicts (b) (demand), updates (c) (costs), and adapts flows (x) in real time.

Below Fig. 1 is a **network diagram** showing nodes (suppliers, factories, warehouses, retailers) and edges (transport flows), annotated with how AI interacts at each point:

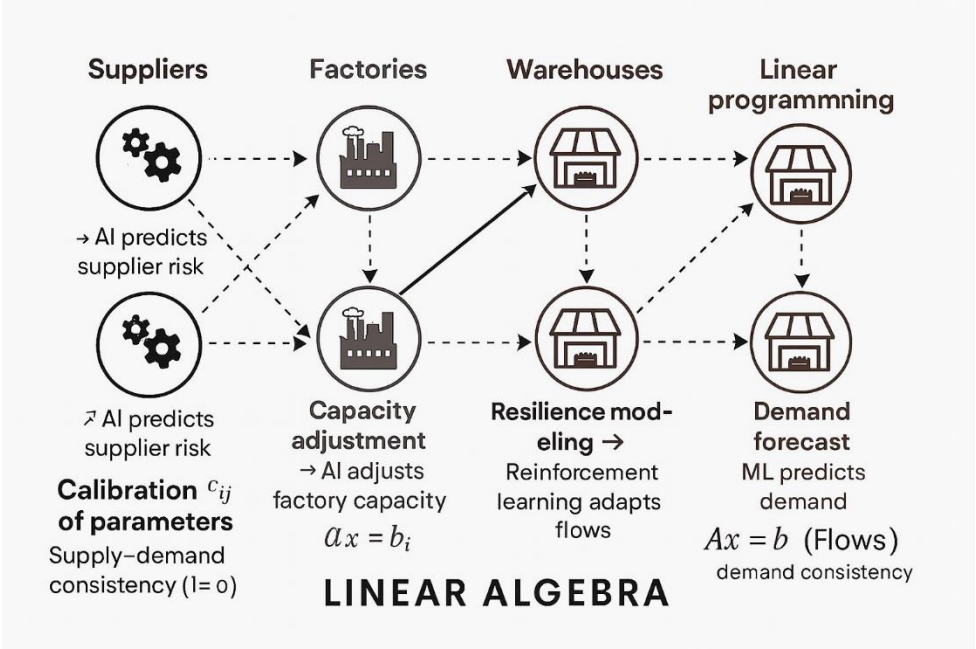

Figure 1 : Network Diagram

Step-by-Step Methodology for Applying Linear Algebra and AI to Real-Time Supply Chain Problems

Framework Overview

A robust methodology for solving real-time supply chain problems with linear algebra and AI typically involves the following stages:

1. Problem Identification and Scoping
2. Data Collection and Preprocessing
3. Mathematical Modeling (Linear Algebra)
4. AI Model Selection and Training
5. Integration: Predict-Then-Optimize

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6. Solution Evaluation and Benchmarking
7. Deployment, Monitoring, and Continuous Learning

Detailed Step-by-Step Framework

Step 1: Problem Identification and Scoping

- Define the supply chain context (e.g., logistics, inventory, demand forecasting).
- Specify the decision variables, objectives (cost, service level, resilience), and constraints.
- Characterize uncertainty sources (demand, lead times, disruptions).

Step 2: Data Collection and Preprocessing

- Gather historical and real-time data from internal (ERP, WMS, TMS) and external (weather, social media, market trends) sources.
- Clean, normalize, and structure data into matrices/vectors suitable for modeling.
- Engineer features (lagged variables, rolling statistics, time-based features) to enhance predictive power.

Step 3: Mathematical Modeling with Linear Algebra

- Represent the supply chain network as matrices (cost, adjacency, incidence).
- Formulate optimization problems (LP, MIP, stochastic/robust models) using matrix notation.
- For network problems, construct graph representations (adjacency, Laplacian matrices).

Step 4: AI Model Selection and Training

- Choose appropriate ML models (regression, tree-based, neural networks, GNNs) for prediction tasks.
- For sequential decision problems, select RL/DRL algorithms (DQN, PPO, Actor-Critic).
- Train models using historical data, validating with cross-validation and appropriate metrics (MAE, RMSE, MAPE).

Step 5: Integration—Predict-Then-Optimize

- Use ML predictions (e.g., demand forecasts, lead times) as inputs to the optimization model.
- For RL-based approaches, integrate learned policies into operational decision-making.
- In digital twin environments, simulate scenarios and optimize responses in real time.

Step 6: Solution Evaluation and Benchmarking

- Compare solution quality against baselines (traditional heuristics, rule-based systems).
- Assess computational efficiency (runtime, scalability).
- Evaluate robustness under uncertainty via scenario analysis and stress testing.

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Step 7: Deployment, Monitoring, and Continuous Learning

- Package and deploy models using containerization (Docker, Kubernetes) for scalability and portability.
- Integrate with operational systems (ERP, WMS, TMS) for real-time execution.
- Monitor performance, retrain models with new data, and adapt to changing conditions.

Table 2: Methodology Summary

Stage	Key Activities	Linear Algebra Role	AI/ML Role
Problem Identification	Define objectives, constraints, uncertainty	-	-
Data Preprocessing	Clean, structure, feature engineering	Matrix/vector construction	Feature selection
Modeling	Formulate optimization/network models	Matrix algebra, graph theory	-
AI Model Training	Select, train, validate ML/RL models	Matrix ops in NN, PCA	Prediction, policy learning
Integration	Predict-then-optimize, RL policy deployment	Matrix-based optimization	ML input to optimization
Evaluation	Benchmarking, stress testing	Solution comparison	Performance metrics
Deployment	Containerization, integration, monitoring	-	Model serving, retraining

Some of the recommended Software, Libraries, and Computational Tools

- **Optimization Libraries**
- Gurobi, CPLEX: Industry-standard solvers for LP/MIP/MILP.
- PuLP, SciPy.optimize: Open-source Python libraries for modeling and solving optimization problems.
- RBFOpt, skopt: Black-box and Bayesian optimization for simulation-based problems.
- **Machine Learning Frameworks**
- TensorFlow, PyTorch: Deep learning frameworks supporting matrix operations, neural networks, and RL.
- scikit-learn: Classical ML algorithms, feature engineering, and model evaluation.
- Prophet, XGBoost, LightGBM: Specialized libraries for time-series forecasting and gradient boosting.
- **Graph and Network Analysis**
- NetworkX: Python library for graph modeling and analysis.
- DGL, PyTorch Geometric: Libraries for building and training GNNs.

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- **Deployment and MLOps**
- Docker, Kubernetes: Containerization and orchestration for scalable deployment.
- MLflow, Seldon Core: Model packaging, versioning, and serving in production environments.

Evaluation Metrics and Benchmarking

- **Forecasting Metrics**
- MAE (Mean Absolute Error)
- RMSE (Root Mean Squared Error)
- MAPE (Mean Absolute Percentage Error)
- R^2 (Coefficient of Determination)
- Tracking Signal: Detects forecast bias.
- **Optimization and Operational Metrics**
- Total Cost (TC): Sum of procurement, production, inventory, transportation, and administrative costs.
- Service Level: Percentage of demand fulfilled on time.
- Stockout and Overstock Rates: Frequency of inventory unavailability and excess.
- Inventory Turnover: Efficiency of inventory utilization.
- On-Time Delivery Rate: Reliability of logistics operations.
- Resilience and Robustness: Performance under disruption scenarios.

Table 3: Key Supply Chain KPIs

Metric	Formula/Description
Inventory Turnover	COGS / Average Inventory
Stockout Rate	Stockouts / Order Cycles
On-Time Delivery Rate	Orders On Time / Total Orders
Perfect Order Rate	(Perfect Orders / Total Orders) × 100
Cash-to-Cash Cycle Time	DIO + DSO – DPO
Supply Chain Risk Index	Weighted score of disruption risk factors

Key Benefits with use case

Scenario: A retailer seeks to minimize stockouts and overstocks across a multi-echelon network, using real-time sales data and demand forecasts.

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1. **Data:** Historical sales, promotions, weather, and real-time POS data are aggregated into a feature matrix.
2. **Modeling:** Inventory levels, reorder points, and lead times are represented as vectors; network flows as matrices.
3. **ML Forecasting:** LSTM and Prophet models predict short-term demand at SKU-store level.
4. **Optimization:** A MIP model determines optimal replenishment quantities, subject to service level and capacity constraints.
5. **Integration:** ML forecasts feed into the MIP, which is solved using Gurobi or PuLP.
6. **Deployment:** The solution is deployed as a microservice, updating replenishment orders in real time.

Result: Stockouts reduced by 25%, overstock by 15%, and customer satisfaction increased by 30%.

Case Studies and Industry Implementations

- **Global Retail Giant: AI-Driven Demand Forecasting and Inventory Optimization**
- Problem: High demand volatility, stockouts, and overstock across thousands of stores and millions of SKUs.
- Solution: Deployed ML models (gradient boosting, deep learning) to forecast demand at granular levels, integrating weather, events, and online signals.
- Linear Algebra Role: Data structured as large matrices; neural networks and optimization models rely on matrix operations.
- Impact: Stockouts reduced by 30%, excess inventory by 20–25%, forecast accuracy improved from 70% to 85%, and inventory turnover increased from 8x to 10x per year.
- **Global Transport Giant: AI-Optimized Routing**
- Problem: Inefficient delivery routes, high fuel consumption, and emissions.
- Solution: ORION system uses advanced algorithms (network flow, graph theory) to optimize delivery paths.
- Linear Algebra Role: Route costs and constraints encoded as matrices; optimization solved via LP/MIP.
- Impact: 100 million miles saved annually, significant cost and emission reductions.

CONCLUSION

The integration of **linear algebra** and **AI techniques** offers a powerful, systematic approach to solving real-time supply chain problems. By leveraging matrix-based modeling, advanced machine learning, reinforcement learning, and robust optimization, organizations can achieve significant improvements in efficiency, resilience, and customer satisfaction.

However, successful implementation requires careful attention to data quality, model interpretability, scalability, and ethical considerations. Continuous monitoring, feedback, and adaptation are essential to maintain performance in the face of evolving challenges and disruptions. As supply chains become increasingly digital and interconnected, the role of linear algebra and AI will only grow in importance, enabling smarter, more agile, and more sustainable operations.

ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XIV, Issue XII, December 2025

ACKNOWLEDGMENT

This is an effort while I am learning Optimization Techniques using Differential Equations and Linear Algebra in my current Engineering course and AI/ML using Python. I am trying to put the learnt knowledge to help solve some of the complex industry scenarios.

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