

Digital Twins - Innovative Supply Chain for "What-If" Analysis powered by Data Analytics

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Abstract:

Modern supply chains are navigating an era of unprecedented volatility, marked by geopolitical instability, climate-related disruptions, and fluctuating consumer demand. Traditional planning systems, often siloed and reliant on historical data, are ill-equipped to provide the foresight necessary for resilient operations. This white paper introduces the concept of the Supply Chain Digital Twin as a transformative solution. A Digital Twin is a dynamic, virtual replica of the end-to-end supply chain, powered by real-time data from IoT, ERP, and other enterprise systems. By integrating advanced data analytics, simulation, and optimization engines, the Digital Twin enables organizations to conduct powerful "what-if" analyses. This allows decision-makers to model the impact of potential disruptions, test new strategies, and optimize performance proactively. This paper details the framework, capabilities, and implementation of a Supply Chain Digital Twin, demonstrating its critical role in building agile, intelligent, and sustainable supply chains for the future.

Keywords: Digital Twin, Supply Chain Management, What-If Analysis, Data Analytics, SAP Integrated Business Planning (IBP), Simulation, Optimization, Supply Chain Resilience.

1. Introduction

The complexity of global supply chains has evolved dramatically. Business are no longer managing simple, linear flows of goods but are orchestrating complex, interconnected networks of suppliers, manufacturers, distributors, and customers. This digital transformation, while unlocking efficiencies, has also introduced new vulnerabilities. A singular disruption be it a factory shutdown, a port closure, or a sudden spike in demand can trigger a costly ripple effect across the entire network [4]. Enterprise Resource Planning (ERP) systems, such as SAP S/4HANA, serve as the transactional backbone, but traditional advanced planning systems often lack the capability to dynamically model and respond to such complex, real-world variability.

This creates a critical need for a more advanced planning paradigm. The Supply Chain Digital Twin emerges as this solution. It is not merely a static model but a living, virtual environment that mirrors the physical supply chain in real-time [2]. By harnessing data from sources like IoT sensors on containers, transactional data from SAP S/4HANA, and partner data via collaboration platforms like SAP Ariba, the Digital Twin provides a complete and current view of the entire operation. Its core value lies in its ability to serve as a risk-free sandbox for "what-if" analysis. Planners can simulate various scenarios—from the imminent to "black swan" events—to understand their operational and financial impact before they occur, transforming the organization from a reactive to a proactive state (Mekler, 2021).

2. Problem Statement

The central challenge confronting today's supply chain leaders is the inability to make confident, data-driven decisions in the face of uncertainty. Current planning processes are often fragmented, with different teams managing demand, supply, and inventory in separate systems and spreadsheets. This leads to several critical problems including Data Silos and Latency. Data is often dispersed across legacy systems, creating an incomplete and outdated picture of the supply chain. Decisions are based on historical averages rather

than real-time conditions, diminishing accuracy and agility. Without the ability to simulate future scenarios, organizations are forced into a reactive mode. When a disruption occurs, planners scramble to assess the impact and formulate a response, losing valuable time and incurring significant costs from expediting freight, production overtime, and lost sales. Supply chain decisions involve constant trade-offs between service levels, inventory costs, and operational efficiency. Traditional tools lack the sophisticated optimization capabilities needed to evaluate these trade-offs holistically, often leading to sub-optimal outcomes where gains in one area create problems elsewhere. Lack of End-to-End Visibility prevails in most companies struggling to see beyond their own four walls. Visibility into multi-tiered supplier networks or downstream channel inventory is limited, making it impossible to anticipate and mitigate risks originating from partners.

These limitations prevent organizations from building truly resilient and adaptive supply chains, leaving them vulnerable to disruptions and unable to capitalize on dynamic market opportunities.

3. Capabilities and Literature Review

A Supply Chain Digital Twin is not a single technology but an integrated framework of capabilities. Its power is derived from the convergence of several industry technologies and advanced planning concepts.

Core Technological Pillars:

Internet of Things (IoT) and Real-Time Data - IoT sensors provide the real-time data stream that brings the Digital Twin to life. This includes GPS data from trucks, temperature sensors in warehouses, and machine status updates from the factory floor, enabling a live, dynamic representation of physical assets and processes [1]. Big Data Analytics and AI/Machine Learning algorithms can identify hidden patterns, predict future demand with greater accuracy, and forecast potential disruptions, such as predicting a supplier's delivery delay based on real-time port congestion data [3]. Simulation is the core of "what-if" analysis. Using tools like discrete-event simulation, planners can model complex processes and introduce variability to understand system behavior under different conditions. This allows them to test hypotheses without impacting the real world, such as simulating the effect of adding a new distribution center [6]. Once scenarios are simulated, optimization engines determine the best course of action. These algorithms can solve complex problems with multiple variables and constraints, such as generating a cost-optimized distribution plan that respects production capacity, transportation limits, and desired service levels.

The SAP ecosystem provides a powerful technology stack to build and operate a Supply Chain Digital Twin. SAP Integrated Business Planning (IBP) a cloud-based planning platform, SAP IBP is the ideal engine for a Digital Twin. It combines capabilities for demand planning, inventory optimization, and response & supply planning[5]. Its planning operators, such as the Time-Series-Based Supply Planning Heuristic and the Supply Planning Optimizer, are essential for running constrained "what-if" scenarios. SAP S/4HANA serves as the digital core, providing the foundational master data and real-time transactional data (e.g., sales orders, inventory levels, production orders) required for an accurate virtual model.

SAP Analytics Cloud (SAC) provides the visualization and business intelligence layer. With SAC, planners can create interactive dashboards to monitor KPIs and use features like sliders and value driver trees to perform simplified, user-friendly "what-if" simulations on key business drivers .SAP Ariba extends visibility and collaboration into the supplier network, allowing for the inclusion of supplier commitments and constraints within the Digital Twin model, making simulations more realistic and robust.

4. Discussions and Methods

The methodology for operationalizing a Supply Chain Digital Twin is multifaceted, integrating a structured architectural framework with a suite of advanced analytical methods. This approach is designed to transform static, historical data into dynamic, forward-looking intelligence, enabling robust "what-if" analysis.

Methodology: A Layered Architectural Framework

A robust Digital Twin is built upon a multi-layered architecture that ensures seamless data flow from the physical world to the virtual analysis environment and back. This framework can be conceptualized in several layers, each with a distinct function[6]:

- a) **The Physical Layer:** This is the foundation, comprising all the real-world assets in the supply chain: factories, warehouses, transportation fleets, and inventory. It is increasingly populated with IoT sensors (GPS, temperature, RFID) that capture real-time status and condition data as explained in Figure 1.
- b) **The Data & Communication Layer:** This layer acts as the nervous system. It is responsible for gathering data from the physical layer and from enterprise systems like SAP S/4HANA (transactional data) and SAP Ariba (supplier data). It includes IoT gateways and data integration platforms (like SAP Cloud Platform Integration - Data Services) to cleanse, aggregate, and transmit this data to the cloud.
- c) **The Modeling & Emulation Layer:** This is the core of the Digital Twin, where the virtual replica is constructed and maintained. In the SAP ecosystem, this is the role of SAP IBP. The platform houses the detailed model of the supply chain network, its constraints, and its logic.
- d) **The Analytics & Intelligence Layer:** This is the brain of the operation, where the "what-if" analysis occurs. It employs a combination of powerful methods:
 - o **Simulation:** Using discrete-event or agent-based models, planners can test the dynamic, time-based effects of variability and disruptions. This method answers the question: "What will happen if...?"
 - o **Optimization:** Mathematical algorithms, such as the SAP IBP Supply Planning Optimizer, are used to determine the best response to a given scenario. By defining objectives (e.g., minimize cost) and constraints (e.g., capacity), the optimizer provides a prescriptive course of action, answering: "What is the best way to respond?"
 - o **AI/Machine Learning:** AI/ML models are used for predictive tasks, like advanced demand forecasting, and are the foundation for evolving the twin's intelligence.
- e) **The Service & Application Layer:** This is the user interface through which planners interact with the Digital Twin. It includes dashboards for monitoring KPIs (e.g., on SAP Analytics Cloud), interactive scenario planning tools, and alerting systems that flag potential issues identified by the analytics layer.

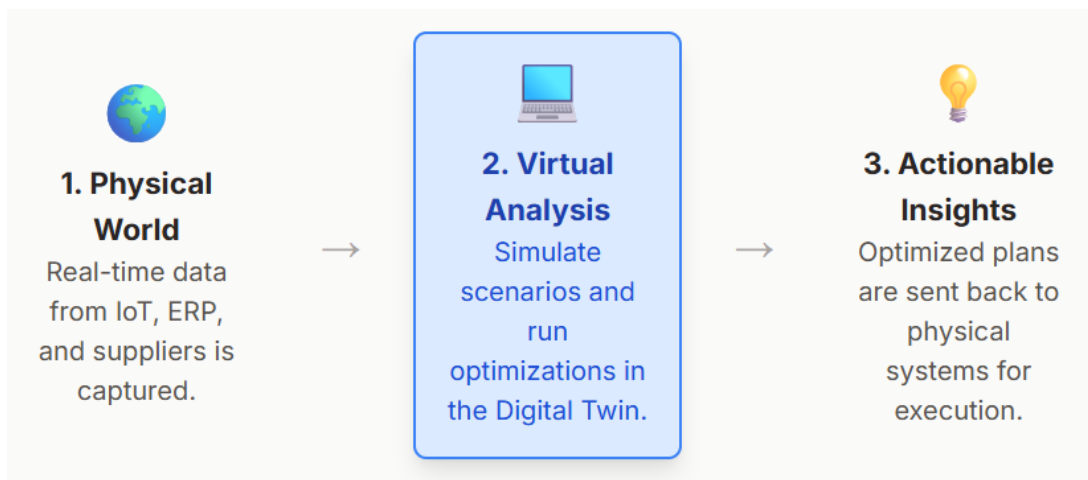


Figure 1 – Actionable insights of Digital Twin

5. Discussion: Evolving Towards an Intelligent, Autonomous Twin

The initial value of a Digital Twin lies in its function as a powerful decision-support tool. However, the discussion within the industry is rapidly shifting towards the concept of an intelligent twin. While simulation and optimization are foundational, the future lies in leveraging the Digital Twin as a training ground for AI and Machine Learning models.

The thousands of "what-if" scenarios run by planners create a rich dataset of potential problems and their

corresponding optimal solutions. This data can be used to train reinforced learning algorithms to automatically detect the signatures of a potential disruption and recommend, or in the future, even execute the best mitigation strategy without human intervention [1]. This evolution represents a paradigm shift: moving the Digital Twin from a tool that planners *use* to an intelligent engine that *assists* them, paving the way for a truly self-healing and self-optimizing supply chain. The integration of collaborative data from platforms like SAP Ariba further enriches this intelligence, allowing the twin to not only optimize its own network but also to anticipate and model the behavior of its partners, creating a truly end-to-end resilient ecosystem.

6. Detailed Explanation: The Digital Twin in Action

Building and utilizing a Supply Chain Digital Twin follows a logical, multi-stage process that integrates strategic and operational planning horizons.

Step 1: Creating the Virtual Model:

The process begins by creating a digital replica of the physical supply chain network within a platform like SAP IBP. This involves defining all master data elements: locations (suppliers, plants, DCs, customers), products, resources (production lines, trucks), and transportation lanes. This model establishes the structural foundation of the twin.

Step 2: Integrating Real-Time Data:

The static model is brought to life by feeding it with real-time data. This is achieved through integration with source systems with Transactional Data like Inventory levels, open purchase orders, in-transit stock, and sales orders are pulled from SAP S/4HANA. IoT Data like real-time location of shipments, warehouse capacity utilization, and machine uptime can be fed from IoT platforms. Also, the external data like weather forecasts, port congestion, and supplier alerts can be integrated to model external factors.

Step 3: Conducting "What-If" Analysis:

With a live, accurate model, planners can perform various types of "what-if" analysis using SAP IBP's scenario planning capabilities.

- Operational Scenarios (Short-Term):
 - *Scenario*: A key supplier's factory unexpectedly shuts down for a week.
 - *Analysis*: The planner creates a simulation version in IBP, reducing the supply capacity from that supplier to zero for that week. They run the supply planning optimizer to see the impact. The system immediately highlights which customer orders will be affected and recommends mitigation strategies, such as sourcing from an alternate supplier, pulling forward production of other items, or expediting shipments, all while showing the associated cost impact.
- Tactical Scenarios (Mid-Term):
 - *Scenario*: The sales team forecasts a 20% upside in demand for a key product line over the next quarter.
 - *Analysis*: A demand planner inputs this upside into a simulation version. The supply planner then runs a constrained forecast run using the heuristic or optimizer. The Digital Twin reveals potential capacity bottlenecks in production or warehousing and calculates the required pre-build of inventory needed to meet the surge, allowing the company to proactively prepare. Figure 2 shows with the simulated app.

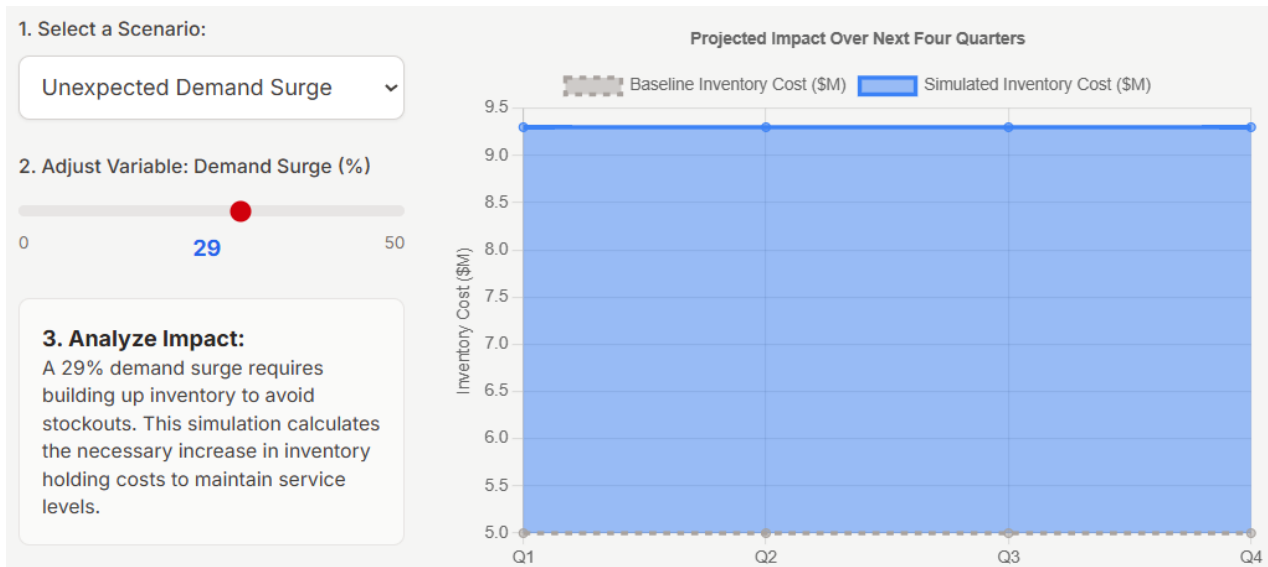


Figure 2 – Unexpected Demand Surge Scenario simulation app

- Strategic Scenarios (Long-Term):

- *Scenario:* The company is considering closing a distribution center in one region and opening a new, larger one in another.

- *Analysis:* Using the Digital Twin, strategists can model the proposed network change. They can simulate a full year of operations to analyze the impact on total logistics costs, customer lead times, and inventory holding costs. This data-driven analysis provides a clear business case for the strategic decision. Figure 3 shows with the simulated app.

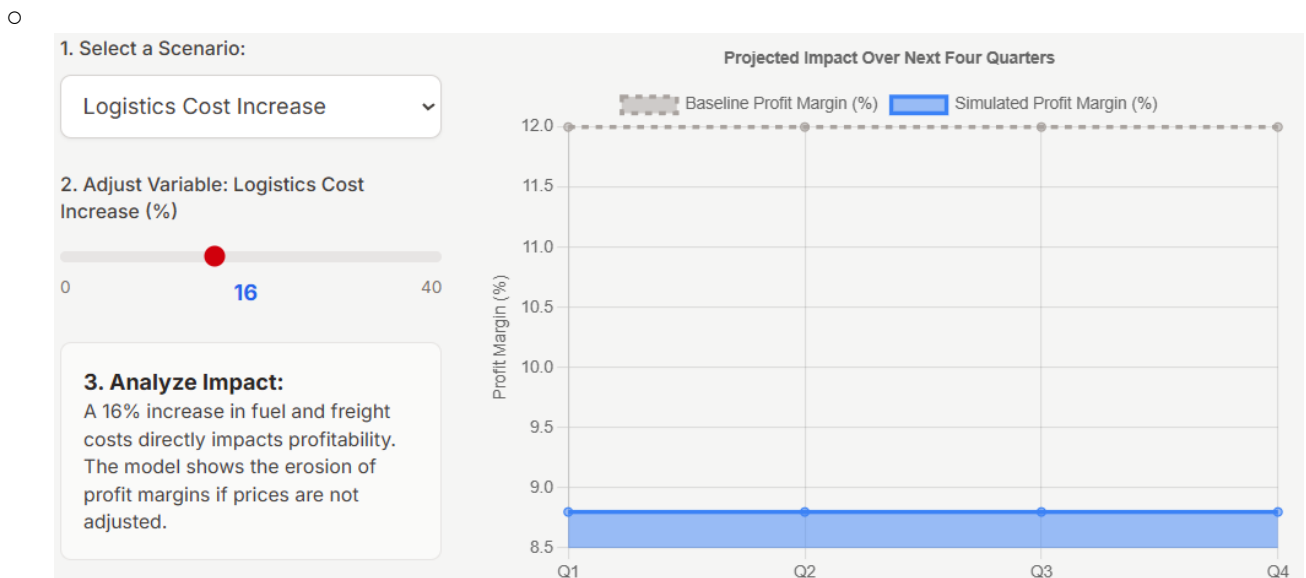


Figure 3 – Unexpected Demand Surge Scenario simulation app

7. Use Cases and Benefits

The application of a Supply Chain Digital Twin delivers tangible benefits across the organization, turning the supply chain into a competitive advantage.

Use Cases:

- **Disruption Response:** An automotive manufacturer uses its Digital Twin to simulate the impact of a semiconductor shortage. The model identifies which vehicle lines are most affected and runs scenarios to reallocate the limited supply to maximize margin, protecting profitability during a crisis.

- **Inventory Optimization:** A consumer goods company tests a new, more aggressive safety stock policy in its Digital Twin. The simulation reveals that while the policy improves service levels, it also increases inventory holding costs by 15%, allowing the company to find a more balanced policy before implementation.
- **Circular Supply Chain Management:** A mobile device company leverages its Digital Twin to manage reverse logistics. It simulates the inflow of returned devices and uses the optimizer to determine the most profitable disposition path for each device—repair, refurbishment, or parts procurement, turning a cost center into a revenue stream [5].

Benefits:

By identifying risks before they materialize, companies can develop contingency plans, reducing the impact of disruptions by up to 75% to achieve resilience. Proactive planning and optimized inventory placement ensure higher product availability, leading to fewer lost sales and improved customer satisfaction. Optimization of production, inventory, and logistics can lower overall supply chain costs by up to 30% by minimizing expedites, reducing excess inventory, and improving asset utilization. Provides a quantitative, data-driven foundation for long-term decisions like network design and capacity investments, ensuring a higher return on capital. A highly responsive and visible supply chain can be offered as a premium service. Furthermore, capabilities like those used in the circular supply chain can generate new revenue channels.

8. Implementation Considerations

Successfully implementing a Supply Chain Digital Twin requires more than just technology; it demands a strategic approach that addresses people, processes, and data. Begin by identifying a specific, high-impact business problem to solve, such as improving forecast accuracy for a key product line or reducing freight costs in a specific region. A successful pilot project will build momentum and secure buy-in for broader deployment. The success of the model depends on accurate, timely, and complete data. Establishing robust master data governance processes is a critical prerequisite. A Digital Twin is not an IT project; it is a business transformation initiative. Success requires active collaboration between supply chain planners, sales, finance, manufacturing, and IT [7]. A dedicated center of excellence can help drive alignment and best practices. The Digital Twin should evolve over time. Start with a foundational model and iteratively add more complexity and data sources. This agile approach allows the organization to realize value quickly and adapt the model as a whole. Transitioning to a data-driven, simulation-based planning process is a significant cultural shift. Planners need training not only on how to use the new tools but also on how to think more analytically and strategically. Executive sponsorship is crucial to championing this new way of working.

9. Conclusion

Operating a supply chain without the ability to anticipate and model the future is no longer a viable strategy. The Supply Chain Digital Twin, powered by real-time data and advanced analytics, provides the critical foresight that organizations need to thrive amidst constant change. By creating a virtual sandbox for "what-if" analysis, companies can move beyond reactive firefighting and begin to proactively shape their own outcomes. The implementation of a Digital Twin is a journey, but one that transforms the supply chain from a source of risk into a powerful engine for resilience, profitability, and sustainable growth. The technologies are mature, and the business case is clear; the time to build the future of supply chain management is now.

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