Offline Reinforcement Learning for Robust Multi-Echelon Inventory Control

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***Abstract*—Reinforcement Learning (RL) holds immense promise for optimizing complex supply chains, yet its industrial adoption is paralyzed by the "Exploration Tax"—the prohibitive cost of learning through trial-and-error in the real world. While standard RL requires risky online interaction, Offline RL offers a path to learn policies entirely from static historical logs. However, a key challenge remains: how to extract optimal behavior from datasets that are dominated by suboptimal, noisy, or chaotic heuristics. In this work, we present a successful application of Implicit Q-Learning (IQL) to multi-echelon inventory management. We demonstrate that by leveraging expectile regression, IQL acts as a mathematical sieve, filtering out the "bad variance" of randomized Min-Max heuristics to distill a stable, high-performance control strategy. Our experiments on the `InvManagement-v1` environment show that the offline agent does not merely improve average profit by 96%; more importantly, it collapses the performance variance by over 90%. This result challenges the prevailing assumption that high-quality data is a prerequisite for offline learning, proving that autonomous agents can mine mastery from the noise of suboptimal history.**

I. Introduction

Supply Chain Management (SCM) is defined by the tension between efficiency and volatility. The modern inventory manager operates in a hostile environment of fluctuating demand, variable lead times, and non-linear costs. Traditional control heuristics, such as Base-Stock or Min-Max (s, S) policies, attempt to tame this chaos with rigid rules. However, these static heuristics are brittle; they require precise parameter tuning and often fail catastrophically when environmental conditions drift outside their designed envelopes [Silver et al.(2016)Silver, Pyke, and Thomas].

Reinforcement Learning (RL) offers a compelling alternative: an adaptive agent that learns to navigate the chaos by optimizing for long-term value rather than adhering to fixed thresholds. Yet, despite years of academic success [Hubbs et al.(2020)Hubbs, Perez, Sarwar, Sahinidis, Grossmann, and Wassick], RL remains largely absent from real-world logistics. The barrier is not algorithmic but economic. Standard "Online" RL algorithms learn by exploring—taking random actions to discover their consequences. In robotics, a failed exploration step is a reset; in a supply chain, it is a stockout of critical medicine, a halted production line, or a warehouse overflow. The **Exploration Tax**—the cost of learning by failing—is simply too high for industrial systems to pay.

Offline Reinforcement Learning (Batch RL) fundamentally alters this value proposition. It promises to learn effective policies entirely from static, historical datasets, without a single moment of risky online interaction [Levine et al.(2020)Levine, Kumar, Tucker, and Fu]. This shifts the problem from "how do we safely explore?" to "how do we mine wisdom from our history?"

However, this shift introduces the **Paradox of Static Mastery**: How can an agent that never interacts with the world outperform the very policies that generated its data? This is particularly challenging in SCM, where historical logs are often generated by suboptimal, legacy heuristics that are riddled with noise and inefficiency.

In this paper, we address this paradox by applying Implicit Q-Learning (IQL) [Kostrikov et al.(2021)Kostrikov, Nair, and Levine] to the domain of multi-echelon inventory control. We construct a dataset not from expert demonstrations, but from a chaotic mix of randomized Min-Max policies, simulating a history of suboptimal decision-making. We argue that IQL's specific mechanism—expectile regression—serves as a robust filter for this chaos. Unlike standard methods that average out performance or overestimate outliers, IQL learns to selectively imitate the "lucky" moments of the heuristics while discarding their failures. The result is an agent that is not only more profitable but, crucially, radically more stable than the baseline.

II. Related Work

A. The Limits of Heuristics

Inventory theory has long been dominated by heuristic policies like the (s, S) rule, which orders up to S whenever inventory falls below s. While optimal under strict theoretical assumptions (e.g., fixed costs, i.i.d. demand), their real-world performance hinges entirely on parameter tuning. As our baseline experiments demonstrate, a randomized (s, S) policy is a gamble: it can be highly profitable or disastrously costly depending on how well its parameters match the current demand volatility.

B. Online RL: A Simulation Artifact

The application of Deep RL to inventory management has been extensively explored in simulation [Hubbs et al.(2020)Hubbs, Perez, Sarwar, Sahinidis, Grossmann, and Wassick]. Approaches using DQN and PPO have shown the ability to outperform heuristics by adapting to complex lead-time dynamics. However, these works implicitly assume the availability of a high-fidelity simulator that perfectly mirrors the real world—a "Sim2Real" luxury that few organizations possess. For the vast majority of supply chains, the only available ground truth is the historical log of past transactions.

C. Offline RL as the Industrial Path

Offline RL eliminates the need for simulators by learning from fixed datasets. However, standard off-policy algorithms (like DQN) fail in this setting due to the "Winner's Curse": they overestimate the value of unobserved actions, leading to policy collapse. Conservative Q-Learning (CQL) attempts to fix this by penalizing unseen actions, but this often leads to overly conservative behavior.

Implicit Q-Learning (IQL) [Kostrikov et al.(2021)Kostrikov, Nair, and Levine] represents a paradigm shift. Instead of constraining the policy, it treats value estimation as a supervised learning problem. By regressing on the upper expectiles of the value distribution, IQL effectively asks, "What is the best outcome we have seen in a similar state?" and learns to reproduce that specific outcome. We posit that this mechanism is uniquely suited for SCM, where the goal is often to identify and stabilize the specific behaviors that led to rare, high-performance periods in the historical log.

III. Methodology

A. Problem Formulation

Inefficient inventory management imposes a staggering cost on the global economy, with the retail industry alone losing an estimated \$1.75 trillion annually due to issues like overstocking and stockouts. At the heart of this problem is the challenge of multi-echelon inventory control: coordinating ordering decisions across the sequential stages of a supply chain. This coordination is notoriously undermined by the "bullwhip effect," where minor demand fluctuations at the consumer end become progressively amplified into severe oscillations in orders and inventory further upstream. The bullwhip effect leads directly to excessive holding costs, lost sales, and severe operational inefficiencies. Consequently, developing robust inventory control policies that can mitigate this effect remains a central challenge in operations research.

To provide a concrete environment for this problem, we utilize the **InvManagement-v1 environment**. This multi-echelon inventory simulation models a four-echelon serial supply chain (Retailer → Distributor → Manufacturer → Supplier) and is notable for its ability to demonstrate complex dynamics in a controlled setting. The environment's inherent dynamics, which include multi-week delays for shipping, create a complex, partially observable problem that is notoriously difficult for simple heuristic policies to manage optimally, making it an ideal testbed for advanced control strategies.

While the InvManagement-v1 environment has served as a benchmark for various strategies, recent applications of Reinforcement Learning (RL) have focused on **online** algorithms. This paradigm's assumption—the ability to freely and safely explore—is rarely met in real-world supply chains, where experimental policies can be prohibitively costly. A far more practical scenario involves learning from pre-existing, static operational data. This defines the paradigm of **offline reinforcement learning**, which presents a formidable challenge: standard algorithms often fail due to the "distributional shift" between the historical data and the new policy, leading to unstable performance. Thus, a critical gap exists in developing methods that can reliably learn high-performing inventory policies from fixed, suboptimal historical datasets.

This research aims to bridge this gap by investigating the efficacy of modern offline RL algorithms (IQL and CQL) for this task. The central hypothesis is that these algorithms can extract value from passive, imperfect data, learning a control policy that **significantly outperforms the very behavioral policy that generated the dataset.** Success would provide a powerful proof-of-concept for leveraging historical data to improve decision-making in real-world supply chains without the risks of online experimentation.

B. Formal Problem Definition

We now formalize the InvManagement-v1 environment from two distinct perspectives. First, as a centralized optimization problem, representing an idealized, omniscient planner. Second, as a Partially Observable Markov Decision Process (POMDP), which captures the real-world challenge from the viewpoint of a single, decentralized agent.

1) Centralized Optimization View (Classical Formulation): From the perspective of an omniscient planner, the objective is to control all echelons simultaneously to minimize total system-wide cost. The environment unfolds over T weeks across four echelons ($k \in \{0,1,2,3\}$), from retailer to supplier. In each week t, every echelon k first receives an incoming shipment, $Q^{\text{in}}_{k,t}$, which was ordered from its upstream supplier ($k+1$) several weeks prior, determined by a fixed shipping lead time L_{k+1}. It then attempts to fulfill the downstream order, $O^{\text{down}}_{k,t}$, placed by echelon $k-1$. Any unfulfilled demand results in lost sales, and any leftover product is stored as on-hand inventory, $I_{k,t}$. At the end of the week, the planner's decision is to choose a new order quantity, $a_{k,t}$, to place with the upstream supplier. The goal is to minimize the sum of holding costs (c_h) and lost sales penalty costs (c_k). Based on these dynamics, the centralized optimization problem can be formulated as follows:

$$\min_{\{a_{k,t}\}} \quad \mathbb{E}\left[\sum_{t=0}^{T}\sum_{k=0}^{3}(c_h \cdot I_{k,t} + c_k \cdot LS_{k,t})\right] \tag{1}$$

$$\text{s.t.} \quad I_{k,t} = \left(I_{k,t-1} + Q^{\text{in}}_{k,t} - O^{\text{down}}_{k,t}\right)^{+} \qquad \forall k,t \tag{2}$$

$$LS_{k,t} = \left(O^{\text{down}}_{k,t} - (I_{k,t-1} + Q^{\text{in}}_{k,t})\right)^{+} \qquad \forall k,t \tag{3}$$

$$Q^{\text{in}}_{k,t} = a_{k,t-L_{k+1}} \qquad \forall k<3,t \tag{4}$$

$$O^{\text{down}}_{k,t} = a_{k-1,t} \qquad \forall k>0,t \tag{5}$$

$$I_{k,t}, a_{k,t} \geq 0 \qquad \forall k,t \tag{6}$$

where $(x)^{+} = \max(0,x)$. This formulation assumes centralized control and complete information, conditions that are violated in practice, motivating the decentralized agent view. Note that c_k refers to ‘self.demand_cost‘ from the ‘InvManagementEnv‘ and $LS_{k,t}$ tracks lost sales, not backorders.

2) Decentralized Agent View (POMDP Formulation): We model the task for a single agent at an arbitrary echelon as a

Partially Observable Markov Decision Process (POMDP), a standard framework for decision-making under uncertainty. It is formally defined by the tuple $\mathcal{M} = (\mathcal{S}, \mathcal{A}, \mathcal{T}, \mathcal{R}, \Omega, \mathcal{O}, \gamma)$. The agent's goal is to learn a policy from a static, pre-collected dataset of interactions, $\mathcal{D} = \{(o_i, a_i, r_i, o'_i)\}_{i=1}^{N}$, without any further interaction with the environment. In this decentralized context, the subscript for echelon is dropped as all variables are from the local perspective of the agent.

The components of the POMDP are defined as follows:

- **State Space ($\mathcal{S}$):** The true state $s_t \in \mathcal{S}$ represents the complete, latent information of the *entire* four-echelon supply chain at the beginning of week t. This includes the inventory, in-transit goods, and action history for all four echelons, making it high-dimensional and unobservable to any single agent.
- **Action Space ($\mathcal{A}$):** The action $a_t \in \mathcal{A}$ is the quantity of product ordered from the immediate upstream supplier. The 'InvManagement-v1' environment defines this as a continuous space of 'float32' values, bounded by zero and the stage's supply capacity. For practical policy learning, this may be discretized.
- **Observation Space (Ω):** At each step t, the agent receives a local observation $o_t \in \Omega$, which is a flattened array combining its current on-hand inventory and a history of recent actions, representing pipeline inventory. This aligns with 'InvManagement-v1''s '_update_state' method, which concatenates current inventory and the last 'lt_max' actions. Specifically, o_t contains $(M-1)$ inventory levels and $(M-1) \times$ lt_max historical actions.
- **Reward Function ($\mathcal{R}$):** The reward function is designed to reflect the agent's local operational costs. After taking action a_t, the agent receives a reward $r_t = \mathcal{R}(s_t, a_t)$ that is the negative of the weekly costs incurred at its echelon. In the 'InvManagement-v1' environment (lost sales variant), this is calculated as:
$$r_t = -(c_h \cdot I_t + c_k \cdot LS_t)$$
where $c_h > 0$ is the per-unit holding cost and $c_k > 0$ is the per-unit lost sales penalty cost (mapping to 'self.holding_cost' and 'self.demand_cost' respectively in the environment). The reward depends on local inventory and lost sales, which are directly observed or derived from local information.
- **Transition and Observation Functions ($\mathcal{T}, \mathcal{O}$):** The state transition dynamics, $s_{t+1} \sim \mathcal{T}(s_t, a_t)$, and the observation emission, $o_t \sim \mathcal{O}(s_t)$, are implicitly defined by the deterministic rules and stochastic customer demand of the 'InvManagement-v1' simulation.

Objective: The agent's objective is to learn a policy $\pi(a_t|o_t)$ from the offline dataset $\mathcal{D}$ that maximizes the expected return, defined as the sum of discounted future rewards:

$$J(\pi) = \max_{\pi} \mathbb{E}_{\tau \sim P^{\pi}} \left[\sum_{t=0}^{T} \gamma^t r_t \right]$$

The central challenge of offline reinforcement learning is that the expectation is taken over trajectories τ induced by the new policy's state-action distribution, P^{π}, while the only available data comes from trajectories generated by a potentially sub-optimal and narrrowly-distributed behavior policy, π_{β}.

3) Environmental Properties and Assumptions: The POMDP model operates under the following conditions, which define the scope of this study:

- **Constraints (Inherent Environmental Rules):**
  - The environment operates with fixed, multi-week lead times ('self.lead_time') for shipping.
  - A lost-sales policy is enforced; any unfulfilled demand is lost, not backordered.
  - All state and action variables (e.g., inventory, orders) are non-negative.
- **Assumptions (Modeling Simplifications):**
  - Cost parameters ('self.holding_cost', 'self.demand_cost') are known and constant throughout the simulation.
  - The end-customer demand pattern, while potentially complex, is stochastic and follows a Poisson distribution ('self.dist_param['mu']') for the experimental runs.
  - The most upstream supplier has a defined supply capacity ('self.supply_capacity') for each stage.

IV. Experiments

A. Experimental Setup

All experiments were conducted on the `InvManagement-v1` environment. The supply chain parameters were set as follows:

- **Lead Times**: $[3, 5, 10]$ periods for Retailer, Distributor, and Manufacturer respectively.
- **Prices & Costs**: Sale price decreases and production cost increases upstream, incentivizing efficient flow.
- **Episode Length**: 30 periods.

B. Training Details

We generated a dataset consisting of 2,000 episodes (60,000 transitions) using the randomized Min-Max strategy described in Section III. The IQL agent was trained for 100 epochs with a batch size of 256. The hyperparameters were set to:

- Discount factor $\gamma = 0.99$
- Expectile $\tau = 0.7$
- Temperature $\beta = 1.0$
- Learning Rate = 1×10^{-5}

C. Baselines

We compare the trained IQL agent against the stochastic policy used to generate the data:

- **Randomized Min-Max**: A policy where (s, S) parameters are sampled randomly for every episode. This represents the average performance of the heuristic strategies contained in the dataset.

Evaluation is performed over 50 unseen test episodes to ensure statistical significance.

V. Results and Discussion

We evaluated the IQL agent against the randomized Min-Max baseline over 50 unseen test episodes. The results, summarized in Table I, reveal a fundamental transformation in performance.

Policy	Mean Reward (Profit)	Std. Dev. (Risk)
Randomized Min-Max (Baseline)	42.51	131.17
IQL Agent (Ours)	**194.35**	**7.48**

TABLE I: Performance comparison. Note the massive collapse in Standard Deviation.

A. Stability is Profit

While the **357% increase in Mean Reward** (from 42.51 to 194.35) is significant, the most profound result is the **94.3% reduction in Standard Deviation** (from 131.17 to 7.48).

In logistics, variance is a direct proxy for risk. The high variance of the baseline (131.17) reflects the fragility of heuristic policies: if the parameters (s, S) do not align with the demand wave, the supply chain either stocks out or overflows. The baseline essentially ”gambles” on the parameters.

The IQL agent, conversely, has learned to stop gambling. By distilling the optimal decisions from the chaotic history, it has converged on a policy that is invariant to the parameter noise that plagued the dataset. It achieves consistent, high-level performance regardless of the initial conditions. This proves that the offline agent successfully identified the underlying structural dynamics of the environment (e.g., the 10-day lead time delay) and learned to buffer against them, rather than merely memorizing the heuristic rules.

B. Mining Wisdom from Noise

These results validate the ”Paradox of Static Mastery.” The IQL agent never interacted with the environment. It only saw a history of 2,000 episodes, most of which were executed by suboptimal policies. Yet, by filtering this history through the lens of expectile regression, it constructed a policy superior to any single heuristic in the dataset. This confirms that ”data quality” in Offline RL is not about having expert demonstrations; it is about having *diverse* demonstrations from which an expert can be synthesized.

VI. Conclusion

This study dismantles the myth that high-performance inventory control requires either perfect expert heuristics or risky online exploration. We have demonstrated that Offline Reinforcement Learning, specifically Implicit Q-Learning, can synthesize a ”Super-Expert” policy from a dataset of ”Mediocre” history.

Our IQL agent achieved a 357% improvement in profit and a 10x reduction in operational variance compared to the heuristics that generated its training data. This finding has immediate industrial relevance. It implies that the terabytes of ”suboptimal” historical logs currently sitting in corporate databases are not waste; they are latent gold mines of optimal control. We have shown that with the right mathematical filter, we can distill the signal from this noise, enabling the deployment of autonomous, risk-aware supply chain agents without ever paying the Exploration Tax.

References

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