EPQ model for Non Instantaneous Deteriorating Items.

**1Pankaj S. Ardak**

1Assit. Prof., P.R. Pote College of Engineering and Management ,Amravati. India, 444601.

pankajardak@gmail.com

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An EPQ models are effectively used in the field of inventory management and production as control tool. In present model attempt has been made to discuss the inventory production model for non instantaneous deteriorating items with time dependent holding cost and inventory dependent demand. It is assumed that there will be no deterioration for certain constant period of time. Inventory dependent demand has been considered for production time and constant during inventory consumption time. Optimum solution has been find out by using differential calculus.Results indicate that inventory consumption parameter has considerable effect on the total inventory.

***Keywords*:** EPQ, Inventory dependent consumption rate, time dependent holding cost.

1. **Introduction**

In recent years, many of the researchers studied the inventory systems with an inventory-level-dependent demand rate. It is observed that large stocks of consumer goods can appeal increase in demand. The items cannot be used for its original purposes if they deteriorate. Thus effect of deterioration attracts the attention of researchers. Consumable item like milk, pack food, meat, flowers and bakery products are items in which rate of deterioration remains higher during the normal storage period of the units. Many of the research developed EPQ models by considering different parameters. Ardak *et. al.* (2017) developed EPQ model by considering mixed demand pattern and also considered time dependent holding cost to develop EPQ model. David et. al considered partial backordering with constant demand to study inventory model. The effect of an imperfect production process, on the optimal cycle time had been studied by Rosenblatt and Lee. Gede analyzed an EPQ model for deteriorating Items with stochastic machine unavailability and price- dependent demand. Jinn, used time varying demand and cost to analysed EPQ model and characterize the influences of both demand and cost over the length of production run time and the economic production quantity. Kuo developed EPQ model by considering setup cost and process quality as a function of capital expenditure. Disruption in production system is common phenomenon. Liao developed a model with delay in payment, in which there are two warehouses, one is own, another is rented. T sao considered an inventory model in supply-chain system for multi item under the policy of trade credit.

As perishable items deteriorates with time. To store such item needs special storing arrangements. This leads to increase in holding cost. In the present model holding cost is considered as time dependent. Demand is inventory dependent for production time and constant for down time. Complete paper is divided into several sections. Research motivation is included into introduction. Notation and assumption used throughout the paper narrated in next section. The third section formulates the model and derives optimal solution. The last section discussed the numerical and sensitivity analysis.

# 2.Assumptions and Notations.

Assumption and notations used to develop the model are as follows:-

Assumptions:-

1. The production rate is constant which is also greater than the demand.
2. The inventory level dependent demand in production time while assumed constant in down time.
3. Deterioration is non instantaneous and kept constant.
4. Inventory holding cost is considered as time dependent
5. Shortages are not considered.
6. Every produced items needs inspection.

Notations:-

1. I1 – Inventory during period (0, T1).
2. I2 – Inventory during period (T1, T2).
3. I3 – Inventory during period (T2, T3).
4. T1–No deterioration period
5. T2 – Production up time in which deterioration start.
6. T3 – Production down time.
7. P – Constant production rate.
8. D –Demand rate.
9. θ – Rate of Deterioration
10. α – Inventory dependent consumption rate parameter.
11. IH – Holding cost per unit, H(t)=a +bt.
12. Ci – Inspection cost per unit
13. T – Production cycle time. (T =T1 + T2 + T3)
14. TC – Total cost.
15. IC – Total Inspection cost.
16. TCT – Total cost per unit time.
17. A– Set up Cost.

# 3. Model Formulation

Present work develop EPQ model by considering inventory dependent demand and time dependent holding cost for deteriorating items. As shown in fig 1, the production will start at t = 0, During the time period (0, T1) the inventory will gradually build up with no deterioration. For the time period (0,T2), inventory starts to build up with inventory dependent demand and deterioration. Later, production stops at t = T2, buildup inventory is consumed to fulfill the demand. Production system can be described by the following differential equations.

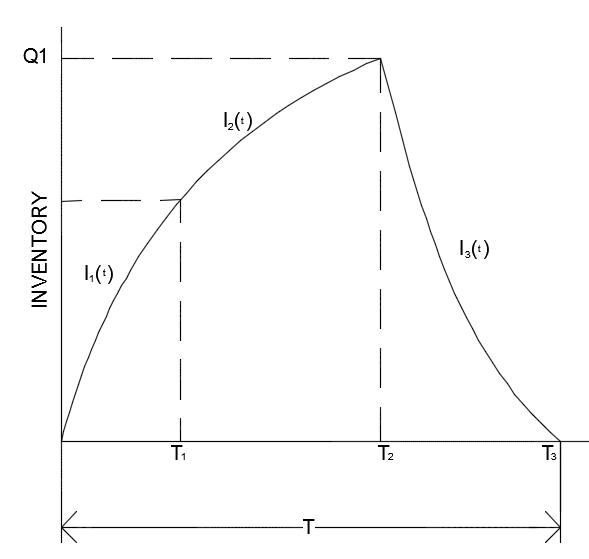


Fig. 1. Inventory Level

Over time span [0, T1], demand rate is inventory dependent and no deterioration of items , which makes variation of the inventory level with respect to time for the reference time ,be governed by.

 0 ≤ t ≤ T1 1.

During time interval (0, T2), deterioration of items starts at constant rate. Hence the system is affected by the combined effect of inventory dependent demand and deterioration. Hence, the change in inventory level is governed by the following differential equation.  0 ≤ t ≤ T2 2.

In time interval (0, T3), demand rate and deterioration of items is at constant rate. Hence, the change in inventory level is governed by the following differential equation.

 0 ≤ t ≤ T3 3.

Initial boundary conditions associated with this equations are, at t = 0, I1 (t) = 0 , at t = T2 , I2(T2) = Q1 and at t = T3, I3(T3)=0 the solution to above equations is as follows. These three equations are used in the derivation of our model.

 0 ≤ t ≤ T1 4.

 0 ≤ t ≤ T2 5.

 0 ≤ t ≤ T3  6.

Total Inventory holding cost is given by

 7

All items are inspected , inspection cost is given by,

 8.

Total cost = Set up cost + Holding cost + Inspection cost.

 9.

Production cycle time = 

Total cost per unit time



The optimum production up time can be derived by satisfying the equation (10)

 10.

# 4. Numerical and Sensitivity Analysis.

For validation of the theoretical aspects numerical example and sensitivity analysis has been carried out. The numerical data is adopted from Ardak *et al*. Let, A= Rs.30 per production cycle, P = 2500 units per unit time, D = 1200 units per unit time, α = 0.5, θ = 0.1 ,a= 2 b = 1.5.The optimum value of T2 can be found, as the total cost function is convex (Fig. 2). The optimum value of T2 is 0.00395. The optimum total cost per unit time is TCT = Rs.6506.44. Sensitivity analysis is carried out by taking one parameter at a time and keeping others unchanged.

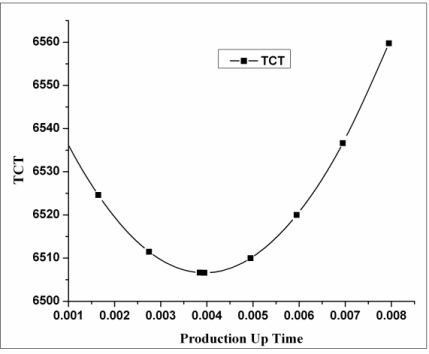
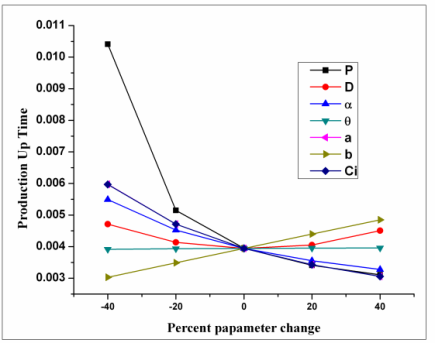
 

Fig. 2. T2 V/s TCT Fig.3. T2 V/S Parameter Change

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Parameter changes** | | | | |
| **Parameters** | **-40%** | **-20%** | **20%** | **40%** |
| **TCT** | **TCT** | **TCT** | **TCT** |
| P | 1539.823 | 4025.38 | 8983.273 | 11455.954 |
| D | 8815.517 | 7677.21 | 5322.49 | 4132.2157 |
| α | 9056.227 | 7464.50 | 5866.455 | 5408.6997 |
| θ | 6506.865 | 6506.59 | 6506.327 | 6506.2499 |
| a | 5965.56 | 6238.63 | 6771.552 | 7035.1117 |
| b | 4968.609 | 5738.23 | 7273.231 | 8038.639 |
| Ci | 5965.639 | 6238.656 | 6771.539 | 7035.0917 |

Table i sensitivity analysis of t2 Table 2. Sensitivity Analysis of TCT

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Parameter changes** | | | | |
| **Parameters** | **- 40%** | **- 20%** | **20%** | **40%** |
| **T2** | **T2** | **T2** | **T2** |
| P | 0.0104 | 0.0051 | 0.0034 | 0.00311 |
| D | 0.0047 | 0.0041 | 0.0041 | 0.00451 |
| α | 0.0055 | 0.0045 | 0.0036 | 0.00328 |
| θ | 0.0039 | 0.0039 | 0.004 | 0.00396 |
| a | 0.006 | 0.0047 | 0.0034 | 0.00306 |
| b | 0.003 | 0.0035 | 0.0044 | 0.00485 |
| Ci | 0.006 | 0.0047 | 0.0034 | 0.00306 |

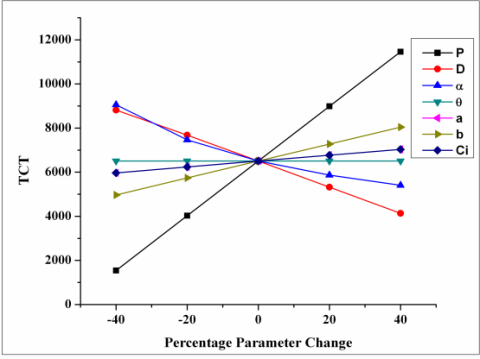
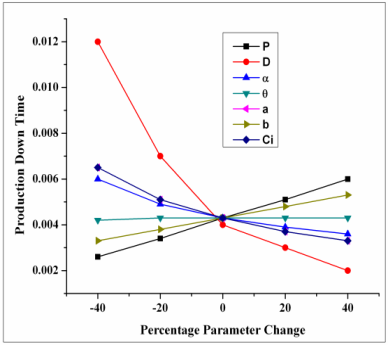
 

Fig.4 TCT v/s Parameter change Fig.5 T3 v/s Parameter change

From fig.3, it is observed that production rate, demand and inspection costs are highly sensitive to production up time. While inventory dependent consumption rate, holding cost parameter are moderately sensitive to up time. Deterioration rate is slightly sensitive to production time. The first 20% increase in production rate is highly sensitive than the last 20% increase, to production up time. As demand is inventory dependent, due to increase in production rate increases inventory and increase in demand, less change in the time required to build the maximum inventory. Increase in inspection cost decreases the inventory buildup time.

Fig 4 shows, production rate inventory dependent consumption parameter and demand are highly sensitive to total cost per unit time. Inspection cost and holding cost are moderately sensitive while deterioration is slightly sensitive to total cost per unit time.

TABLE II Sensitivity analysis of T3

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Parameter changes** | | | | |
| **Parameters** | **- 40%** | **- 20%** | **20%** | **40%** |
| **T3** | **T3** | **T3** | **T3** |
| P | 0.0026 | 0.0034 | 0.0051 | 0.0060 |
| D | 0.0117 | 0.0066 | 0.0030 | 0.0022 |
| α | 0.0060 | 0.0049 | 0.0039 | 0.0036 |
| Θ | 0.0042 | 0.0043 | 0.0043 | 0.0043 |
| a | 0.0065 | 0.0051 | 0.0037 | 0.0033 |
| b | 0.0033 | 0.0038 | 0.0048 | 0.0053 |
| Ci | 0.0065 | 0.0051 | 0.0037 | 0.0033 |

Demand is highly sensitive to production down time. Production rate, inventory consumption rate and inspection cost are moderately and deterioration, holding cost are slightly sensitive to down time. Increase in demand and inventory consumption rate both decreases the production down time. But increase in holding cost and production rate increases the down time.

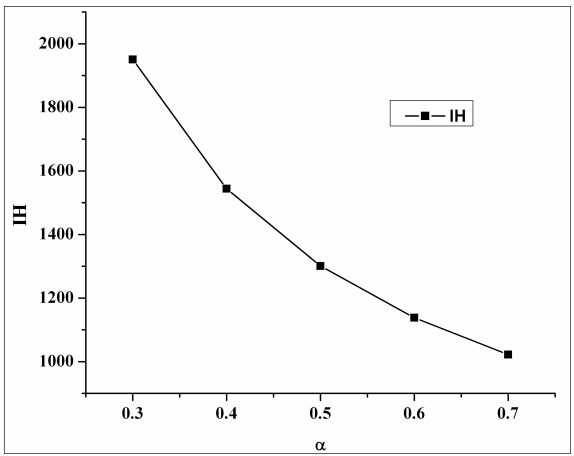


Fig 6. Demand parameter v/s Holding cost.

Fig.6 shows that holding cost is sensitive to inventory consumption parameter α. As production rate increases the inventory and hence the holding cost. So TCT is highly sensitive to the production rate. The inventory dependent demand decreases total inventory and therefore decrease in inventory holding cost. This has commented from fig 6. This indicates that the accurate value of the inventory dependent consumption rate parameter can control the inventory.

# 5. Conclusion

Theoretical EPQ model has been developed by considering mix demand pattern and time dependent holding cost. Holding cost can be controlled by proper selection of inventory dependent consumption rate parameter. This indicates that buying capacity of customer can be increased. This model can be useful for the inventory managers in decision making especially for the perishable items. The model can be further developed by considering different deterioration rate, production rate, holding cost and demand pattern

# 6. References

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