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Reconfigurable Manufacturing System for Facing  
Turbulent Manufacturing Environment

## PROCEEDING BOOK

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## FOREWORD FROM ORGANIZING COMMITTEE

Distinguished Rector of Universitas Islam Yogyakarta, Dean of Faculty of Industrial Technology, ITB, keynote speakers, participants of Asia Pacific Conference on Manufacturing Systems and National Seminar on Production Systems, Ladies and Gentleman,

Welcome!

This is the second conference for Asia Pacific Conference on Manufacturing Systems, known as APCOMS 2009 and the ninth conference for the National Seminar on Production Systems, known as SNSP. These joint conference is held biannually. At the beginning we start the conference for the national scope and strated from two years ago we extend this national seminar regionally to Asia and Pacific regions.

The conference main objectives are firstly to make a forum for exchanging research results on manufacturing systems; secondly to facilitate discussions among researchers and academicians for better understanding of current challenging issues on manufacturing system research as well as manufacturing practices; and lastly to strengthen the research network around Asia-Pacific.

Today and tomorrow, we will have 58 papers to be presented at APCOMS and 22 papers to be presented at SNSP. I'm expecting that all papers will stimulates critical discussion and provides interesting time for all of you during your stay in this joint conference.

Moreover, Yogyakarta is also an interesting historical city. As one of the main tourist destination in Indonesia, I do hope that besides of spending your time for discussion, you can spend your time to enjoy the Javanese food, traditional, and culture in Yogyakarta.

I would like to thanks to all of conference participants for your paper contribution. To both keynote speakers, I would also like to convey my gratitude for your interesting speech. Lastly, I think, we would not be able to make this conference happened without all hard works and extra efforts contribute by the reviewers and others member of organizing committee. May I take the opportunity to thanks you all for the efforts you shown.

Thank you and pleased to enjoy the conference.

Dr. Ir. Tika Ari Darmah

Prof. Dr. Ir. Dharna Satrio

Organizing Committee Chair

2<sup>nd</sup> Asia Pacific Conference on Manufacturing Systems

4<sup>th</sup> National Seminar for Production Systems

## Chapter 8: Product Development, Product Warranty

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# An Integrated Approach Involving Reliability Improvement and Servicing Strategy For Warranted Products

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*Abstract.* An additional cost caused by the product sold with warranty is significant and the cost is reported to be 2% to 10% of sales price. Reducing the warranty cost is of important to the manufacturer. There are three approaches that can be considered to reduce the warranty cost i.e. reliability improvement, preventive maintenance and warranty servicing strategy. Most models developed in the literature (called partial models) consider reliability improvement, preventive maintenance and warranty servicing strategy separately. As these approaches interact each other to influence the warranty cost, we need to consider them as an integrated one. In this paper we develop an integrated model considering two approaches i.e. reliability improvement and servicing strategy which minimizes the expected warranty cost. A numerical example is presented to show the optimal solution of the model developed and compares it with that of partial models.

*Keywords:* warranty cost, integrated model, reliability improvement and servicing strategy.

## 1. INTRODUCTION

Warranty offered by the manufacturer provides a competitive advantage but it causes an additional cost as well as a liability to satisfy all failures under warranty. The cost incurred to the manufacturer is significant (2% to 10% of sales price (Mustofa et al., 2008)). To find an effective way to reduce the warranty cost is of important to the manufacturer.

There are three approaches which can be considered to reduce the warranty cost i.e. reliability improvement (RI), preventive maintenance (PM) and servicing strategy (SS) (Mustofa et al., 2008). The costs depend on the product and the warranty policy. The cost of warranty is the number of failures and hence RI and PM reduce the number of failures and this in turn decreases the warranty cost. Mustofa and Richard (2006) studied RI for reducing the warranty cost. The number of failures can be reduced by a proper PM over the warranty period. While the warranted products has been repaired, Mustofa and Fah (1986), Chun and Lee (1994) and Mustofa (1994). For repairable items, the warranty cost and this topic has been

studied by Nguyen and Murthy (1986,1989), Jack and Schouten (2000) and Jack and Murthy (2001).

The studies of reducing the warranty cost in the literature consider approaches of RI, PM and SS independently. In fact, the approaches of RI, PM and SS interact each other in reducing the warranty cost. Reliability of a product influences PM required for the product and an optimal SS that minimizes the warranty cost. PM carried out also affects reliability of the product and this in turn determining a type of SS. SS which involves replacement and imperfect repair can also improve reliability of the product. As a result, one needs an integrated approach to reduce the warranty cost.

In this paper we develop an integrated model which considers RI and SS. The outline of this paper is organized as follows. Section 2 provides the notations to formulate the model. Section 3 explains the details of the integrated model. Section 4 analyzes the model to find the optimal solution. Section 5 gives a numerical example to illustrate the performance of the model and compares the results with that of partial models. Finally, Section 6 gives a brief conclusion and discussion for future work.

## 2. NOTATIONS

The following notations are used to formulate the mathematical models:

$\tau$	: parameter of SS as a decision variable ( $0 < \tau \leq W$ )
$\bar{\theta}$	: target of RI as decision variable where ( $\theta_0 < \bar{\theta} < \theta_1$ ) or ( $\theta_0 < \bar{\theta} < \theta_1$ )
$\theta$	: reliability parameter as the indicator of item reliability
$\theta_0$	: initial value of reliability parameter
$\theta_1$	: parameter value of the highest reliability can be achieved by improving the parameter
$W$	: warranty period (year)
$C_m$	: average cost of each minimal repair (\$)
$C_r$	: average cost of each replacement (\$, $C_r > C_m$ )
$r$	: cost ratio of replacement cost to minimal repair cost [ $= C_r / C_m$ ]
$F(t, \theta)$	: distribution function for time to first item failure as a function of time $t$ with parameter $\theta$
$f(t, \theta)$	: density function related to $F(t, \theta)$ [ $= dF(t, \theta) / dt$ ]
$r(t, \theta)$	: failure rate function related to $F(t, \theta)$ [ $= f(t, \theta) / \bar{F}(t, \theta)$ ]
$M(t, \theta)$	: Cumulative failure rate related to $r(t, \theta)$ [ $= \int_0^t r(t, \theta) dt$ ]
$J_p(\theta_0, \bar{\theta})$	: RI cost per unit sold for improving the parameter from $\theta_0$ to $\bar{\theta}$ (\$/unit)
$J_S(\tau, \bar{\theta})$	: expected warranty cost per unit sold as a function of $\tau$ and $\bar{\theta}$ (\$/unit)
$J_T(\tau, \bar{\theta})$	: expected warranty cost per unit sold as a function of $\tau$ and $\bar{\theta}$ (\$/unit)

## 3. MODEL FORMULATION

We consider repairable items sold with the warranty period  $W$ . Under this policy, the manufacturer has to rectify all claims at no cost to the buyer. We assumed that all failures within the warranty period are valid claims and the time to repair is small and hence can be treated as being zero.

### 3.1 Modeling Failures

The time to the first failure is modeled by a

distribution function  $F(t, \theta)$ . The time to failure depends on the type of the rectification policy. If the item is minimally repaired then the process of failure is modeled by a non-homogeneous Poisson process with failure rate function  $r(t, \theta)$ .

### 3.2 Servicing Strategy

SS can be defined as a strategy to service failures occurred within the warranty period. The manufacturer considers minimal repair whereas most of the strategies involve repair and replacement. The SS with minimal replacement in the literature divides the warranty period into two intervals to three intervals for service. The SS with two intervals is considered by Murthy (1981) and Nguyen and Murthy (1989). The SS with three intervals has been studied by Nguyen and Murthy (1989), Jack and Schouten (2000) and Jack and Murthy (2000). Nguyen and Murthy (1989) considered minimal repair in the first interval. SS where replacement is considered early or close to the warranty period is considered by Jack and Schouten (2000) considered minimal repair in the first and third interval. In the second interval, the item is replaced by a new item depending on the number of failed item. Although the SS yields the optimal cost, it is difficult to implement. Then Jack and Murthy (2000) simplified it and only the first failure is considered which results in replacement. The resulting SS is simple and easy to implement (Jack et al. 2000).

We describe the SS of Jack and Murthy (2000) as follows:

- The warranty period is divided into two intervals with parameter  $\tau_1$  and  $\tau_2$  where  $0 < \tau_1 < \tau_2 < W$  and  $(\tau_1, \tau_2)$  and  $[\tau_2, W]$ .
- All failures in  $[0, \tau_1]$  and  $[\tau_2, W]$  are considered minimal repair.
- The first failure occurs in  $(\tau_1, \tau_2)$  is considered replacement and subsequent failures are considered minimal repair.

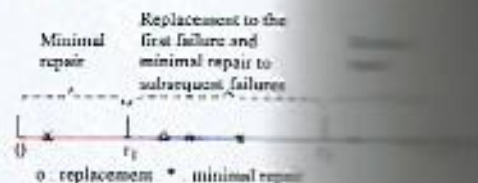


Figure 1: The SS of Jack and Murthy (2000)

Suppose that  $J_s(\tau_1, \tau_2, \theta)$  is the expected warranty cost per unit sold. Jack and Murthy (2000) showed that  $J_s(\tau_1, \tau_2, \theta)$  and it is given in Equation (1).

$$C_p = c_n \left\{ R(\tau; \theta) + \int_0^\tau (c_0 + R(W-x; \theta)) \frac{f(x; \theta)}{F(\tau; \theta)} dx + [R(W; \theta) - R(\tau; \theta)] \frac{\bar{F}(\tau; \theta)}{F(\tau; \theta)} \right\} \quad (1)$$

Consider the SS of Jack and Murthy (2001) in the integrated model. Furthermore, we set  $\tau = \tau_1$ . Hence, the warranty period is divided into two intervals  $[0, \tau]$  and  $(\tau, W]$ . Let  $\bar{\theta}$  denote the reliability parameter. Then, the expected warranty cost is a function of  $\tau$  and  $\bar{\theta}$  and it is given by

$$J_T(\tau, \bar{\theta}) = c_n \int_0^\tau (c_0 + R(W-x; \bar{\theta})) \frac{f(x; \bar{\theta})}{F(\tau; \bar{\theta})} dx + [R(W; \bar{\theta}) - R(\tau; \bar{\theta})] \frac{\bar{F}(\tau; \bar{\theta})}{F(\tau; \bar{\theta})} \quad (2)$$

#### Reliability Improvement

RI is defined as an effort to improve the reliability of a product so that it can minimize the warranty cost. Let  $\theta_0$  denote the initial reliability parameter. The RI can be performed by changing the reliability parameter from  $\theta_0$  to  $\bar{\theta}$ . The RI can be done by either increasing or decreasing of the reliability parameter depending on the characteristic of the failure rate parameter. If failure distribution is given by Weibull distribution,  $\bar{\theta} > \theta_0$  for the scale parameter and  $\bar{\theta} < \theta_0$  for the shape parameter.

RI requires cost which is called the RI cost. For a certain amount, the RI is considered only if the reduction of warranty cost exceeds the RI cost. Various models of the cost of RI have been proposed by Vintz (1999), Murthy and Shumar (2000), Kleyner et. al. (2004) and Murthy et al. (2007). We consider the cost model of Huang (2007) where the RI cost increases exponentially as the improvement of reliability increases. Suppose that the RI cost is given by:

$$C_{RI} = \begin{cases} k \frac{\theta_0 - \bar{\theta}}{\bar{\theta} - \theta_0} & \text{for } \theta_0 < \bar{\theta} < \theta_1 \\ k \frac{\bar{\theta} - \theta_0}{\theta_1 - \bar{\theta}} & \text{for } \theta_1 < \bar{\theta} < \theta_0 \end{cases} \quad (3)$$

where  $k$  is the fixed cost per unit,  $b$  is a coefficient cost of reliability parameter value per unit and  $k$  is a technology parameter.

#### Integrating RI and SS

We describe an integrated model involving RI and SS as follows. The performance measure of the integrated model is the total cost which is defined as sum of the warranty cost and the RI cost. Suppose that the total cost per unit sold is  $J_T(\tau, \bar{\theta})$  given by:

$$J_T(\tau, \bar{\theta}) = J_S(\tau, \bar{\theta}) + J_p(\theta_0, \bar{\theta}) \quad (4)$$

where  $J_S(\tau, \bar{\theta})$  is given by Equation (2) and  $J_p(\theta_0, \bar{\theta})$  is given by Equation (3). The decision variables of the model are  $\tau$  and  $\bar{\theta}$ .

#### 4. MODEL ANALYSIS

We obtain  $\tau^*$  and  $\bar{\theta}^*$  which minimize  $J_T(\tau, \bar{\theta})$  subject to  $0 < \tau \leq W$  and  $\theta_1 < \bar{\theta} < \theta_0$ . Theorem 1 and 2 give the characteristics of  $\tau^*$  and  $\bar{\theta}^*$ . Theorem 1 is adopted from the theorem of Jack and Murthy (2001).

##### Theorem 1

If a repairable item has the increasing failure rate with  $t$  then:

- If  $1 < \rho < 1 + R(W; \bar{\theta}) - 2R(W/2; \bar{\theta})$  then there is  $\tau^* = d$  where  $d \in [0, W/2)$  hence  $J_T(d, \bar{\theta}) < c_n R(W; \bar{\theta})$
- If  $\rho > 1 + R(W; \bar{\theta}) - 2R(W/2; \bar{\theta})$  then  $\tau^* = W$  and the optimal servicing strategy is always minimally repaired for all failures and hence  $J_T(W, \bar{\theta}) = c_n R(W; \bar{\theta})$

The proof of the Theorem 1 is given in Jack and Murthy (2001).

We will show that  $J_T(\tau, \bar{\theta})$  is a convex function of  $\bar{\theta}$ . By differentiating  $J_T(\tau, \bar{\theta})$  with respect to  $\bar{\theta}$ , we have

$$\frac{\partial J_T(\tau, \bar{\theta})}{\partial \bar{\theta}} = c_n \left( \frac{\partial}{\partial \bar{\theta}} (J_S(\tau, \bar{\theta})) - \eta \psi(\bar{\theta}) \right) \quad (5)$$

and

$$\frac{\partial^2 J_T(\tau, \bar{\theta})}{\partial \bar{\theta}^2} = c_n \left( \frac{\partial^2}{\partial \bar{\theta}^2} (J_S(\tau, \bar{\theta})) + \eta \psi'(\bar{\theta}) \phi(\bar{\theta}) \right)$$

where  $\eta = b/c_n$ ,  $\phi(\bar{\theta}) = k \frac{\theta_0 - \theta_1}{(\bar{\theta} - \theta_1)^2} \exp\left(k \frac{\theta_0 - \bar{\theta}}{\bar{\theta} - \theta_1}\right)$

$$\text{and } \psi(\bar{\theta}) = \frac{1}{(\bar{\theta} - \theta_1)} \left( 1 + k \frac{\theta_0 - \bar{\theta}}{\bar{\theta} - \theta_1} \right)$$

Since  $\phi(\bar{\theta}) > 0$  and  $\psi'(\bar{\theta}) > 0$ , we conclude that the

parameter  $\bar{\theta}^*$  is obtained if and only if  $\frac{\partial J_r(\tau, \bar{\theta})}{\partial \theta} = 0$  or  $\frac{\partial}{\partial \theta} J_r(\tau, \bar{\theta}) > 0$ . We find  $\bar{\theta}^*$  by using Theorem 2 as follows:

**Theorem 2**  
 If the larger (smaller) of  $\bar{\theta}$  produces the worse (better) reliability of an item then:  
 If  $\bar{\theta}_2 > \bar{\theta}_1 \Leftrightarrow f(\tau, \bar{\theta}_2) > f(\tau, \bar{\theta}_1)$  then  $J_r(\tau, \bar{\theta}_2) > J_r(\tau, \bar{\theta}_1)$  and hence  $\frac{\partial}{\partial \theta} J_r(\tau, \bar{\theta}) > 0$ . As a result, there exists  $\bar{\theta} \in (\bar{\theta}_1, \bar{\theta}_2)$  hence  $J_r(\tau, \bar{\theta})$  is a convex function of  $\bar{\theta}$ .

**Proof:**

If  $\bar{\theta}_2 > \bar{\theta}_1$  then from Equation (2) we have

$$R(\tau, \bar{\theta}_2) = \int_0^{\tau} (\sigma + RW - x, \bar{\theta}_2) \frac{f(x, \bar{\theta}_2)}{F(x, \bar{\theta}_2)} dx > R(\tau, \bar{\theta}_1) = \int_0^{\tau} (\sigma + RW - x, \bar{\theta}_1) \frac{f(x, \bar{\theta}_1)}{F(x, \bar{\theta}_1)} dx \quad (7)$$

Equation (7) can be rewritten as (8).

$$R(\tau, \bar{\theta}_2) - R(\tau, \bar{\theta}_1) = \int_0^{\tau} (\sigma + RW - x, \bar{\theta}_2) \frac{f(x, \bar{\theta}_2)}{F(x, \bar{\theta}_2)} dx - \int_0^{\tau} (\sigma + RW - x, \bar{\theta}_1) \frac{f(x, \bar{\theta}_1)}{F(x, \bar{\theta}_1)} dx > 0 \quad (8)$$

Since  $R(\tau, \bar{\theta}_2) - R(\tau, \bar{\theta}_1) > 0$  then Equation (8) is satisfied by

$$\int_0^{\tau} (\sigma + RW - x, \bar{\theta}_2) \frac{f(x, \bar{\theta}_2)}{F(x, \bar{\theta}_2)} dx - \int_0^{\tau} (\sigma + RW - x, \bar{\theta}_1) \frac{f(x, \bar{\theta}_1)}{F(x, \bar{\theta}_1)} dx > 0 \quad (9)$$

Equation (9) holds when  $x = c$ ,  $c$  is a constant and  $c \in (\tau, W]$ . Then we have

$$(\sigma + RW - c, \bar{\theta}_2) \frac{f(c, \bar{\theta}_2)}{F(c, \bar{\theta}_2)} - (\sigma + RW - c, \bar{\theta}_1) \frac{f(c, \bar{\theta}_1)}{F(c, \bar{\theta}_1)} > 0 \quad (10)$$

or

$$\left( \frac{\sigma + RW - c, \bar{\theta}_2}{\sigma + RW - c, \bar{\theta}_1} \right) \left( \frac{f(c, \bar{\theta}_2)}{F(c, \bar{\theta}_2)} \right) > \left( \frac{f(c, \bar{\theta}_1)}{F(c, \bar{\theta}_1)} \right) \quad (11)$$

Since  $RW - c, \bar{\theta}_2 > RW - c, \bar{\theta}_1$  and  $F(\tau, \bar{\theta}_2) < F(\tau, \bar{\theta}_1)$  then Equation (11) is satisfied if and only if  $f(c, \bar{\theta}_2) > f(c, \bar{\theta}_1)$ .

**5. NUMERICAL EXAMPLES**

We consider that  $f(\tau)$  is Weibull with scale and shape parameter,  $\alpha$  and  $\beta$  respectively. We consider the shape parameter for improving the reliability with  $\theta = \beta$  at  $\theta_0 = 2$  and  $\alpha = 1$  and hence the distribution function is given by  $F(\tau, 2) = 1 - \exp(-\tau^2)$ . We assume that  $c_m = \$100$ ,  $\theta_m = 1.5$ ,

$\delta = 0.05$  and  $k = 1.1$ . To show the performance of the integrated model we consider four strategies:

**Strategy Q:** All failures under warranty are repaired.

In this strategy, the value of the warranty cost is equal to the initial value  $\theta = \theta_0$ , and the total cost of this strategy is given by

$$J_r(\tau, \bar{\theta}) = C_m R(W, \theta_0)$$

**Strategy 1:** Using the SS of Jack and Murthy (2001) as we discussed it in Section 3.1.

In this strategy, we use the SS of Murthy (2001) as a function of variable  $\tau$  at  $\theta = \theta_0$ , and the total cost of this strategy is given by

**Strategy 2:** Improving the reliability and the warranty are minimally repaired.

In this strategy, we use the approach of Murthy (2001) decreasing the parameter from  $\theta_0$  to  $\bar{\theta}$ . The total cost function of  $\bar{\theta}$  at  $\tau = W$  and it is given by

$$J_r(W, \bar{\theta}) = c_m \left[ \bar{\theta} + \eta \exp\left(k \frac{\bar{\theta} - \theta_0}{\theta_0}\right) + RW - \bar{\theta} \right]$$

where  $\bar{\theta} = \omega / C_m$ .

**Strategy 3:** Integrating the RI and the SS of Murthy (2001)

In this strategy, RI and the SS of Murthy (2001) simultaneously as discussed in Section 3.2. The total cost function of variables  $\tau$  and  $\bar{\theta}$  and it is given by

Table 1 shows the total cost of the Strategy 3 with  $\rho = 2, \eta = 0.1$ .

Table 1: The total cost of Strategy 3 with  $\rho = 2, \eta = 0.1, \theta_0 = 2$  and  $\tau = 3$

Strategy	$\tau$ (year)	$\bar{\theta}$
0	3	2
1	1,212	2
2	3	1.79
3	1,146	1.79

In Table 1, the Strategy 3 gives the lowest total cost. The integrated model (Strategy 3) is better than those of other strategies in reducing the total cost. Strategy 2 gives the total cost of the Strategy 3.

and  $\eta = (2,3,5)$  and  $\eta = (0,1,0,3)$ .

Table 2. The total cost of the Strategy 3  
for  $\rho = (2,3,5)$ ,  $\eta = (0,1,0,3)$ ,  $q_0 = 2$  and  $W = 3$

$t^*$ (year)	$\hat{\theta}^*$	$J_1(\hat{r}^*, \hat{\theta}^*)$
1.146	1.778	556.2
1.149	1.776	655.8
3	1.700	704.4
1.175	1.870	592.3
1.178	1.870	692.2
3	1.753	778.9

Table 2 indicates that the optimal value of parameters  $t^*$  and  $\hat{\theta}^*$  are affected by the values of  $\rho$  and  $\eta$ . The total cost  $J_1$  increases as the value of  $\rho$  or  $\eta$  increases.

## CONCLUSION

In this paper, we have studied an integrated strategy for reliability improvement and servicing strategy which minimizes the total cost i.e. the sum of the RI cost and warranty cost. From the numerical examples, the proposed model provides the least total cost than those of the other models.

The integrated model which considers preventive maintenance is interesting to research and this topic needs further developing.

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