

International Journal of Intelligent Enterprise 2020

by Petrus Setya Murdapa

Submission date: 20-Aug-2021 04:36PM (UTC+0700)

Submission ID: 1633596319

File name: 4._International_Journal_of_Intelligent_Enterprise_2020.docx (728.77K)

Word count: 6582

Character count: 34634

Incorporating carbon emissions in queuing models to determine lot sizes and inventory buffers in a supply chain¹

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Abstract: In this paper we present a supply chain model that considers both inventory related costs and emissions. We used the queueing-based performance model where emissions in three stages of supply chain activities are captured. The model was solved by the decomposition approach. For model validation, we have used a discrete event simulation. The computation results show that the two results, i.e., the decomposition approach and the simulation are very close indicating the accuracy the approach that we used. Experiments were conducted to test the applicability of the model. The numerical examples show that the change in parameter values is not always responded the same way by the total inventory-related costs and the emission costs, indicating the importance of including these two response variables in the model.

Keywords: Carbon emission; inventory buffering; lot sizing; performance model; supply chain

1 Introduction

¹This research was supported by LPDP-KemenkeuRI through the BUDI-DN Scholarship Program

Currently the world is facing the problem of greenhouse gasses (GHG) whose concentration in the atmosphere continues to rise due to the emission process from various sources. Because GHG is acidic and retains heat in the atmosphere (Carbonfootprint.com; Wang and Choi, 2015b), the high concentration of GHG leads to acid rain and global warming. The subsequent consequences are climate change, sea water flood due to polar ice melting, changes or even ecosystem extinction in the sea due to coral reef damage, as well as on land and air (U.S. Environmental Protection Agency, 2016). These damaging consequences have invited attention of world leaders to take actions in order to reduce the high concentrations of GHG or its rate of increase in the atmosphere. It began with the establishment of the Intergovernmental Panel on Climate Change (IPCC) in 1988 until the convening of world leaders meetings. Some of the most important were the Earth Summit in Rio de Janeiro in 1992, in Kyoto Japan that produced the Kyoto Protocol in 1997, and in Paris which produced the Paris Agreement in 2015.

The Kyoto Protocol is phenomenal with the proposed three emission reduction mechanisms, namely the international emission trading scheme (which includes Carbon tax, emission cap, cap and trade, etc.), joint implementation (JI), and clean development mechanism (CDM) (Ratnatunga *et al.*, 2012). The Paris Agreement, which has been signed by some 195 countries and ratified by some 170 countries in the world set ambitious targets, among others, is to seek global temperatures not to exceed 2 degrees Celsius above the pre-industrial temperature (1750) by reducing the amount of emissions. These countries declared their determination to take responsibility and participate in keeping Carbon emissions continuously reduced to zero emission by 2100.

The participation of countries to ratify both the Kyoto Protocol and the Paris Agreement brings the consequence that the industries in those countries must limit their emissions. Emission-induced industrial activities should be regulated so that the industry can support the objective of reducing the emissions while remain competitive in the market. Industrial supply chain activities such as production, shipment of materials and finished goods, as well as the storage and material handling are all associated with emissions. Emission restrictions by applying emission cap mechanisms, Carbon taxes, or cap and trade, will affect strategic decisions such as which factories or warehouses need to be opened or closed (Fahimnia *et al.*, 2015a) as well as operational decisions such as order quantity or production lot (Wang and Choi, 2015b; Fahimnia *et al.*, 2015b). An important implication is that all decisions pertinent to the supply chain should take into account the emission factors in addition to the financial aspects. Decision, design, or control variables should be chosen in such a way without violating emissions quota constraints and taking into account emissions tax or taking advantage of cap and trade mechanisms.

Academics have made a lot of attempt to include emissions as one of the factors when making supply chain decisions. However, there are still a lot of works to be done in this respect. According to Altioik (1997), there are in general two types of models related to production or supply chain systems, the first is the optimization models and the second is the performance models. The first one is mostly based on mathematical programming while the second one is mainly based on the queuing theory. While there are a lot of optimization-type models that take into account emissions, virtually no performance-type models does so. The optimization model is intended for the selection of the best control settings that involve emissions as an objective function or as a constraint. Most are mathematical programming like those published by Benjaafar *et al* (2012), Shaw *et al* (2013), Pan *et al* (2013), Fahimnia *et al* (2015b), Brandenburg (2015), Zakeri *et al* (2015). The other stream that has also taken emission into account is the economic order quantity (EOQ) model or its variations. Among others, papers in this category are Hua *et al* (2011), Chen *et al* (2013), Arslan and Turkay (2013), Toptal *et al* (2014), Toptal and Çetinkaya (2015).

Both types of models, the performance model and the optimization model, have advantages and disadvantages, but both are in different usage time windows. Logically, the

performance model will be used first, and then the optimization model can be developed using the structured performance model. This is seen in Karaman and Altiok (2009).

Almost all papers on performance models in both the production line and supply chain schemes have not paid attention to the emission aspect. To the best of our knowledge, only papers written by Wang and Choi (2015a) and Wang and Choi (2015b) that incorporates emissions in their performance, queuing based models. The models of Wang and Choi (2015a) and Wang and Choi (2015b) address the lot-sizing decisions of batch manufacturing systems in a make-to-order mechanism under stochastic demand conditions. These two papers discussed two systems of carbon emissions trading, namely cap and trade and tax policy. Recently, Murdapa *et al.* (2018) tried to add emission quantities to the classic model of single stage queue / manufacturing. Although still in a very simple way, the paper utilized an existing performance model for system analysis that takes into account emissions, under a Carbon tax mechanism.

A performance-based model that takes into account emissions should be developed, at least it must able to emphasize the concept of how to add emission quantities to a performance model. There have been many performance models for analyzing various types of production line systems, but there are still few that add the amount of emissions into the model. Given that a performance model is able to describe how a system behaves / processes, it is logical to observe how emissions emerge through that performance model. Given that the supply chain is essentially a gradual queuing system, this paper will use the performance model as the basis for inventory analysis along the supply chain. The objective is to obtain stock and replenishment decisions in a simple supply chain system that consists of a retailer ordering items from a manufacturer in order to satisfy demand from customers and the manufacturer orders materials from the supplier. As in previous papers on multi-stage production line and multi-echelon supply chain (Dallery and Gershwin, 1992; Karaman and Altiok, 2009; Saetta *et al.*, 2012), we employ a method of decomposition in the analysis. The original system is broken up into several 2M1B (two machines-one buffer) subsystems. Then, the subsystems are coupled back with a linking equation called the decomposition equation. This paper will accommodate the Dallery and Frein (1993) technique combined with the system structure at Karaman and Altiok (2009). Our major question would be to address the reordering and stocking decisions in the supply chain where emissions are taken into account.

This paper will deliberately simplify the performance model for the supply chain system developed by Karaman and Altiok (2009), which originally assumed that the duration of time in the system followed a phase-type distribution, becoming a simple exponential distribution. The decomposition techniques that were originally used in the context of production line systems (Dallery and Frein, 1993), will be extended into the case of the supply chain system of the study of Karaman and Altiok (2009). However, the main objective is to include the quantity of emissions that emerge, into the model when the system operates. The quantity of emissions can be accommodated into the model in the form of a response variable. The novelty of this paper is more about using performance models for supply chain systems with the decomposition techniques of Dallery and Frein (1993), while taking into account amount of emissions.

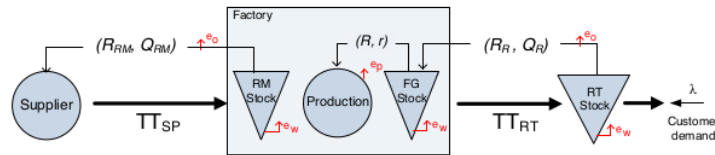
In the following sections we will describe the systems, the development and validation of the model, and numerical examples. Validation will be done by the use of simulation. The discussion of the results and then the conclusions will be presented.

2 System description

We address a simple supply chain system consisting of a supply company, a factory, and a retailer as shown in Figure 1. We modified the system in Karaman and Altiok (2009) where here we omit the echelon distribution center. The system operates under certain lot-sizes and

inventory buffer policies, which are represented by the combination of control variables $(R_{RM}, Q_{RM}), (R, r), (R_R, Q_R)$. Customer demand is fulfilled by retailers from stock available in RT Stock. Fulfillment of demand causes the stock to decrease gradually. Stock is controlled by (R_R, Q_R) mechanism where R_R and Q_R are reorder point and order quantity respectively. The order is submitted to the factory who maintains finished goods inventory in FG Stock. The time required for the delivery of products from the factory to the retailer is TT_{RT} .

Figure 1. Supply chain system prototype discussed in this paper



In the meantime, the manufacturer uses a (R, r) mechanism in controlling the inventory of finished product, where r is the reproduction point and R is the targeted inventory in FG Stock. It is assumed that there will be no set up cost at each production start when inventory is equal or less than r . The required raw materials are ordered to the supplier. The stock of raw materials at RM Stock is controlled using the (R_{RM}, Q_{RM}) mechanism. Every shipment of raw materials from supplier to factory takes TT_{SP} time unit.

As long as the supply chain system in Figure 1 operates, emissions appear to accompany the following processes. Procurement of raw materials begins with the submission of orders by the factory followed by the delivery of goods from the supplier. Similarly, the ordering of finished products by retailers to the factory. It is assumed that every order is always followed by one shipment. Therefore, every order will bring emissions due to transportation. The amount of emission is ϵ_o kg Carbon / order. Next, the storage of goods, both raw materials at RM Stock and finished products in FG Stock and RT Stock is assumed to use electrical energy to maintain the condition and quality of goods. Thus, there is an emission expressed in kg Carbon for each unit of goods stored for each period, ϵ_H kg Carbon / unit / time unit. Another activity that is very obvious to cause emissions is production. Emissions occur when production activities use electrical energy to drive the production machine. Or, it could be because the production process itself produces emissions. Production emissions are expressed in ϵ_p kg Carbon / unit. Each kilograms of Carbon causes the system to pay a tax (Carbon tax) of C_e Rp / kg Carbon. The values for each control variable: $R_{RM}, Q_{RM}, R, r, R_R,$ and Q_R must be decided, so that the cost of inventory and emissions can be as low as possible. Selection of those values will also determine the minimum required capacity of RM Stock, FG Stock, and RT Stock.

3 Model development

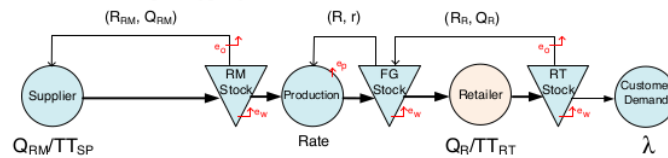
3.1 Dallery-Frein model adoption

In the queuing system we need to define the probability distribution of interarrival time of the jobs or customers as well as the service time. Most of the queuing models use the assumption of exponential distribution for both the interarrival time as well as the service time. As an example, Dallery and Frein (1993) used the assumption of exponential distribution for flowline system analysis. Certainly, other probability distribution have also been used. In the

discrete version, Gershwin (1984) and his subsequent papers and colleagues, used geometric distribution for the design of transfer line systems.

The paper adopts the Dallery and Frein (1993) technique, so that production time, transport time, and time between customer arrivals are assumed to be exponentially distributed. Table 1 below lists a brief overview of the basic differences in this paper with Dallery and Frein (1993), Karaman and Altioik (2009) and Saetta, *et al.* (2012). Since the Dallery and Frein (1993) model examines a serial flowline consisting of a machine-buffer-machine (2M1B) repeatedly, the supply chain system in this paper requires a small modification in order to be analogous to the Dallery-Frein system. First, the echelon supplier is considered to be a "machine" with an average cycle time of TT_{SP}/Q_{RM} (equivalently, the average rate is Q_{RM}/TT_{SP}). Second, a "machine" representing the echelon retailer needs to be added, where TT_{RT}/Q_R will be the cycle time (equivalently, Q_R/TT_{RT} is the retailer machine average rate). The result of the modification is shown in Figure 2.

Figure 2. The modified prototype system



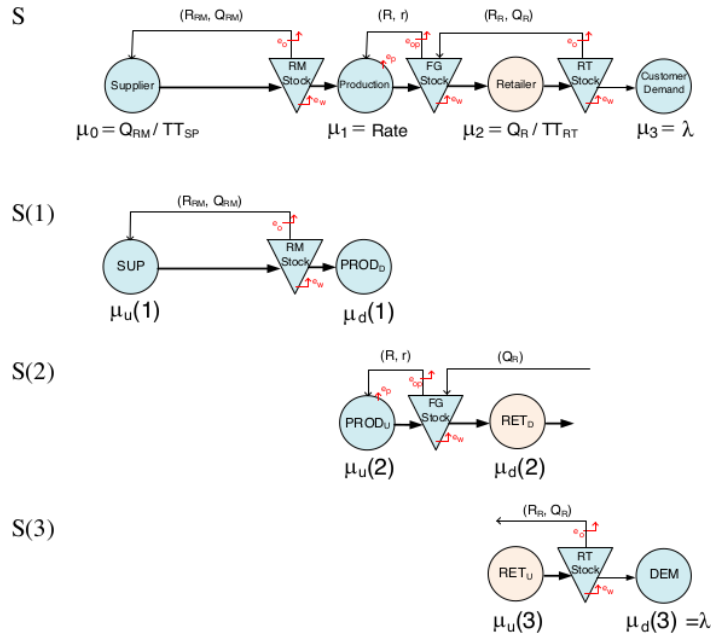
The system in Figure 2 is then decomposed into three subsystems as in Figure 3, with Figure 4 is the algorithm which will be used to aggregate them back to the original system. The original system is called S , and the i -th subsystem is called $S(i)$. Since S system has three buffers (RM Stock, FG Stock, and RT Stock), there will be three subsystems, i.e., $S(1)$, $S(2)$, and $S(3)$. Each subsystem consists of two machines and one interstage buffer (2M1B). One machine is an "upstream" machine which has average rate of $\mu_u(i)$, and the other is a "downstream" machine which has average rate of $\mu_d(i)$. The buffer in the subsystem $S(i)$ should exactly have the same characteristic as the corresponding buffer in the system S .

Following the decomposition method proposed by Gershwin (1987), Dallery and Gershwin (1992), or Dallery and Frein (1993), the upstream machine (or downstream machine) of each subsystem is actually an aggregate of the upstream (or downstream) part of the system S . The upstream machine $PROD_U$ on subsystem $S(2)$ for example, is an aggregate of the production machine together with RM Stock buffer and supplier machine. Meanwhile, the downstream machine $PROD_D$ on subsystem $S(1)$ is an aggregate of production machine, FG Stock buffer, retailer machine, RT Stock buffer, and customer demand machine.

The analysis is carried out by assuming that the system has reached the steady state. Therefore, a state transition diagram of the subsystem $S(i)$ can be constructed first so that a set of transition equations can then be generated, and completed to calculate the steady state probability of each state in the subsystem $S(i)$. In the model, it is assumed that there may be backorder on RM Stock, FG Stock and RT Stock buffer, hence the state transition diagram for each subsystem can be constructed as seen in Figure 5, Figure 6, and Figure 7 respectively. In all three figures, each state-transition diagram is truncated to a certain level of negative state to avoid infinity. Some deeper explanation of decomposition should be referred to the paper of Dallery and Frein (1993).

It turns out that the subsystems $S(1)$ and $S(3)$ are identical, in contrast to the $S(2)$ subsystem. The steady state solution for the subsystem $S(1)$ and $S(3)$ are quite simple. Meanwhile, the steady state solution for subsystem $S(2)$ is done by an approach, i.e. some states are combined into one so that it is imagined to operate in batches, as shown in Figure 6c. In this paper all solutions are searched numerically.

Figure 3. Decomposition of system S to subsystem-S (1), -S (2), and -S (3)



The system S performance formulation is obtained by reconnecting the subsystems S(i) to each other. The method given by Dallery and Frein (1993) is quite accurate though simple. Given that supply chain activity will only take place if there is demand to the retailer, then the demand rate, λ , will determine the system throughput. Thus, among several algorithms provided by Dallery and Frein (1993), the A1b-algorithm is chosen for the computation process. Only a small modification is needed, i.e., reversing the sequence of throughput calculation. Originally from upstream to downstream (push), it is now converted from downstream to upstream (pull). See Figure 4. Let $X(i)$ be the throughput of the subsystem i , in unit of entity per time unit.

4 Validation

Some validation is needed to ensure that the performance model, which is rearranged assuming an exponential distribution developed in this paper, is in line with the model in the reference. Thus the calculation of the response value can be quite reliable. It is not easy to compare the performance of the exponential model to the phase-type model of Karaman and Altioek (2009) because their number of parameters are different. Hence, the modified-A1b algorithm is validated using the available ARENA simulation model adopted from Altioek (1997). This Altioek simulation model was originally a simulation model for supply chain

system with four echelons, i.e., supplier - production - distribution center (DC) - retailer. For validation need, the simulation model is simplified and adapted for an exponential three-echelon system.

Figure 4. Dallery and Frein's algorithm (modified-A1b)

<p>(Initialization): Set the first upstream machine average rate $\mu_u(1) = \mu_0$ and the last downstream average rate $\mu_d(3) = \mu_3$ Set the last subsystem throughput $X(3)$ and the next upstream machine average rate $\mu_u(i)$ for $i = 2, 3$ to some initial values</p> <p>(Iteration): STEP-1. For $i = 3, 2$ 1.1 Calculate the instant probability $p(C_i + 1, i)$ and blocking probability $p_b(i)$ $p_b(i) = p_u(C_i, i) = \frac{p(C_i, i)}{1 - p(C_i + 1, i)}$ 1.2 Calculate the downstream machine average rate $\mu_d(i - 1)$ using: $\frac{1}{\mu_d(i)} = t_d(i) = t_i + p_b(i + 1) t_d(i + 1) \text{ for } i = 1, 2$ STEP-2. Calculate the last subsystem throughput, $X(3)$, using: $X(3) = \mu_u(3)(1 - p(C_3 + 1, 3))$ STEP-3. For $i = 2, 3$ 3.1 Set the subsystem throughput $X(i) = X(3)$ 3.2 Calculate the upstream machine average rate $\mu_u(i)$ using: $\mu_u(i) = \frac{X(i)}{(1 - p(C_i + 1, i))}$ and the newest value of the instant probability $p(C_i + 1, i)$ obtained from STEP 1.1 STEP-4. Return to STEP-1, until the value of unknown parameters have been converged.</p>
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Some steady state simulation runs give very small deviation results, hence they are said to be convergent. The comparison of the average inventory calculations on each buffer, based on the numerical model and simulation, is thus sufficiently expressed in its relative error value (as in Karaman and Altioek, 2009).

The comparison of the simulation results and those from the algorithm is presented in Table 1. The values of average stock at RM Stock and at RT Stock show not so good proximity between those obtained from the proposed model and from the simulation. And, much more apparent deviations were exhibited by the average stock in FG Stock. This is similar to the results obtained by Karaman and Altioek (2009). The state transition diagram in FG Stock buffer is much more complex than the diagram formulation in other buffers. Through the simulation results, it can be recognized that the related variances are very small, indicating that the incompatibility of the outcomes is systemic. Thus, we could propose a coefficient of multiplication in the algorithm. A multiplication of 94,73% for the RM Stock, of 112,87% for the FG Stock, and of 91,56% for the RT Stock provided a very close fit to

the simulation results. In most cases presented in Table 1, the relative error values are lower than 5%. Overall, we would say that, after correction, the algorithm could work well

Table 1. Validation

$R_{RM} = 10$	$Q_{RM} = 15$	$r = 10$	$R = 30$	$R_R = 5$	$Q_R = 10$
$TT_{SP} = 50$		$rate = 0.125$		$TT_{RT} = 50$	

(a) before adjustment				(b) after adjustment			
$\lambda = 0,03$	Average stock at			$\lambda = 0,03$	Average stock at		
	<i>RM Stock</i>	<i>FG Stock</i>	<i>RT Stock</i>		<i>RM Stock</i>	<i>FG Stock</i>	<i>RT Stock</i>
model	17,9	19,92	10,33	model	16,96	22,48	9,46
sim	16,5	22,57	9,02	sim	16,5	22,57	9,02
Rel. error	7,82%	-13,31%	12,68%	Rel. error	2,71%	-0,40%	4,65%
$\lambda = 0,025$	Average stock at			$\lambda = 0,025$	Average stock at		
	<i>RM Stock</i>	<i>FG Stock</i>	<i>RT Stock</i>		<i>RM Stock</i>	<i>FG Stock</i>	<i>RT Stock</i>
model	17,92	20,31	10,36	model	16,98	22,92	9,49
sim	16,75	22,95	9,27	sim	16,75	22,95	9,27
Rel. error	6,53%	-13,00%	10,52%	Rel. error	1,35%	-0,13%	2,32%
$\lambda = 0,02$	Average stock at			$\lambda = 0,02$	Average stock at		
	<i>RM Stock</i>	<i>FG Stock</i>	<i>RT Stock</i>		<i>RM Stock</i>	<i>FG Stock</i>	<i>RT Stock</i>
model	17,93	20,68	10,39	model	16,99	23,34	9,51
sim	16,96	23,28	9,53	sim	16,96	23,28	9,53
Rel. error	5,41%	-12,56%	8,28%	Rel. error	0,18%	0,26%	-0,21%
$\lambda = 0,015$	Average stock at			$\lambda = 0,015$	Average stock at		
	<i>RM Stock</i>	<i>FG Stock</i>	<i>RT Stock</i>		<i>RM Stock</i>	<i>FG Stock</i>	<i>RT Stock</i>
model	17,95	21,04	10,42	model	17	23,74	9,54
sim	17,29	23,72	9,78	sim	17,29	23,72	9,78
Rel. error	3,68%	-12,75%	6,14%	Rel. error	-1,71%	0,08%	-2,52%
$\lambda = 0,01$	Average stock at			$\lambda = 0,01$	Average stock at		
	<i>RM Stock</i>	<i>FG Stock</i>	<i>RT Stock</i>		<i>RM Stock</i>	<i>FG Stock</i>	<i>RT Stock</i>
model	17,97	21,37	10,45	model	17,02	24,12	9,57
sim	17,45	24,09	9,97	sim	17,45	24,09	9,97
Rel. error	2,89%	-12,71%	4,59%	Rel. error	-2,53%	0,12%	-4,18%

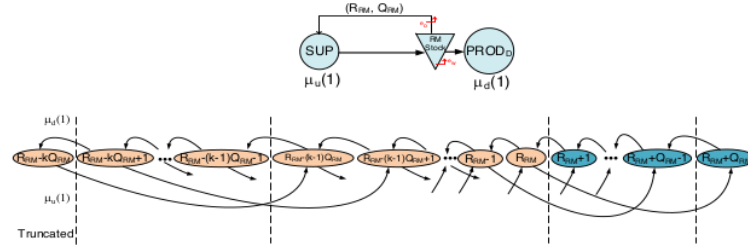
Based on briefly calculated case examples, it can be reported that the use of the model is only limited to the value of the average demand that is not more than +/- 50% of the shipping rate, whether shipping from suppliers to factories, or shipments from factories to retailers. Outside of that range, the calculation results show a higher error.

5 Incorporating emissions

In a dynamic system there are four types of variables namely state, control, nature, and response. In this study the emission quantity will be captured in the form of a response variable. As it is common in inventory models, the response variable could be in the form of

the average inventory level, the inventory value, or the throughput of the system. Here we combined both inventory related cost and emission cost as response variables. Inventory related costs are those incurred in the shipment of materials and finished goods, production, and storage. In this section we will model the total costs that consists of inventory related costs and emission costs for each stage of supply chain activity, i.e., the upstream side that concerns the material supply from supplier to factory, the internal stage which is production activity, and the downstream side that concerns the shipment of finish goods to the retailer.

Figure 5. State transition diagram for subsystem S(1)



5.1 Supply of raw materials from supplier to factory

State transition diagrams for supplying raw materials from suppliers to factory warehouses can be seen in Figure 5. Each time there is a state transition, emissions will occur. For example, a transition from state $R_{RM} - 1$ to state $R_{RM} + Q_{RM} - 1$ will generate order and hence transport emission of ϵ_O kg Carbon/order. Meanwhile, when the system is in a certain state, there will be storage emission ϵ_H kg Carbon / unit of product / time. When a transition occurs from state $R_{RM} + Q_{RM}$ to state $R_{RM} + Q_{RM} - 1$ there is a production emission ϵ_P kg Carbon / product unit.

Total emissions, E_{RM} , can be formulated as follows:

$$E_{RM} = \text{emissions due to raw material transport from supplier} + \text{emissions due to material storage at RM Stock} \quad (1)$$

With reference to Taha (2007), μ_d can be formulated that the ordering frequency is $\mu_d(1)/Q_{RM}$. Whereas, the average inventory can be calculated based on the steady state probability as $\sum_{n=1}^{R_{RM}+Q_{RM}} n P_n$ where P_n is the steady state probability that the subsystem is in state n . Therefore, the emissions formulation due to transportation and storage at RM Stock, E_{RM} , is:

$$E_{RM} = \frac{\epsilon_O \mu_d(1)}{Q_{RM}} + \epsilon_H \sum_{n=1}^{R_{RM}+Q_{RM}} n P_n \quad (2)$$

Total cost at RM Stock, TC_{RM} is given by:

$$TC_{RM} = (\text{cost of ordering} + \text{cost of holding} + \text{cost of stockout}) + \text{cost of emission} \quad (3)$$

Which can be formulated as:

$$TC_{RM} = \frac{\mu_d(1) K_{RM}}{Q_{RM}} + C_H \sum_1^{R_{RM}+Q_{RM}} n P_n + \left| \frac{\mu_d(1) C_S}{Q_{RM}} \sum_{-\infty}^0 n P_n \right| + C_\epsilon E_{RM}$$

Substituting E_{RM} from (2) yields:

$$TC_{RM} = \frac{\mu_d(1) K_{RM}}{Q_{RM}} + C_H \sum_1^{R_{RM}+Q_{RM}} n P_n + \left| \frac{\mu_d(1) C_S}{Q_{RM}} \sum_{-\infty}^0 n P_n \right| + C_\epsilon \left[\frac{\epsilon_O \mu_d(1)}{Q_{RM}} + \epsilon_H \sum_1^{R_{RM}+Q_{RM}} n P_n \right] \quad (4a)$$

Further manipulation gives (4b) which is the total costs incurred at the upstream side.

$$TC_{RM} = \frac{\mu_d(1)}{Q_{RM}} \left(K_{RM} + \left| C_S \sum_{-\infty}^0 n P_n \right| + C_\epsilon \epsilon_O \right) + (C_H + C_\epsilon \epsilon_H) \sum_1^{R_{RM}+Q_{RM}} n P_n \quad (4b)$$

5.2 Production process at factory

Here we model the costs at the production stage. Costs are incurred due to production, inventory holding, stockout, and emissions. Figure 6 shows the transition diagram for production activities in the factory subsystem S(2). Production emissions of ϵ_P kg Carbon/product unit, will occur at a time when there is a transition from state $R-1$ to state R . When the system is in a certain (positive) state, there is a storage emission ϵ_H kg Carbon/unit of product /time unit. Whereas, on transition from state R to state $N, R-Q_R$, for example, emissions will arise due to delivery to retailers of ϵ_O kg Carbon/shipment.

Total emissions in FG Stock, E_{FG} , can be expressed as follows:

$$E_{FG} = \text{emissions due to production} + \text{emissions due to storage} \quad (5)$$

Further manipulation gives:

$$E_{FG} = \epsilon_P \mu_u(2) + \epsilon_H \left(\sum_1^R n P_n + \sum_{N, R-Q_R}^{N, R-(m-1)Q_R} n P_n \right) \quad (6)$$

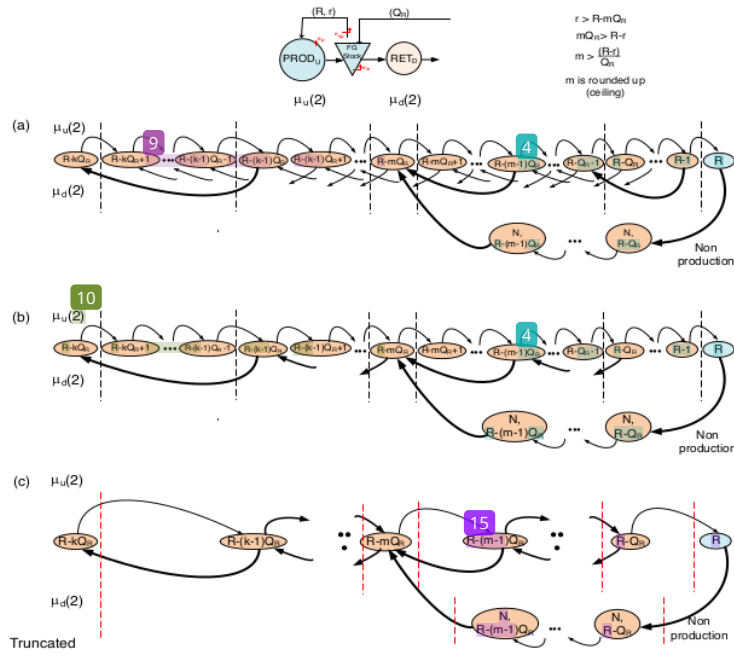
Total cost at FG Stock, TC_{FG} , is given by:

$$TC_{FG} = \text{cost of production} + \text{cost of holding} + \text{cost of stockout} + \text{cost of emission} \quad (7)$$

With reference to Taha (2007), then it can be formulated that:

$$TC_{FG} = C_P \mu_u(2) + C_H \left(\sum_1^R n P_n + \sum_{N,R-Q_R}^{N,R-(m-1)Q_R} n P_n \right) + \left| \frac{C_S \mu_d(2)}{1} \sum_{-\infty}^0 n P_n \right| + C_\epsilon E_{FG} \quad (8a)$$

Figure 6. State transition diagram for subsystem S (2): (a). complete transition diagram, (b). transition diagram where stock reductions occur only in batches, (c). transition diagrams where stock addition and stock reductions occur in batches



Substituting E_{FG} from (6) yields:

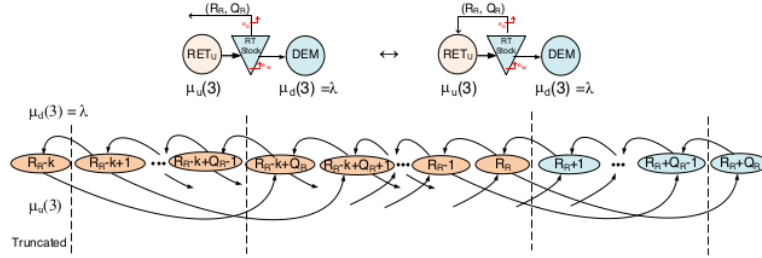
$$TC_{FG} = C_P \mu_u(2) + C_H \left(\sum_1^R n P_n + \sum_{N,R-Q_R}^{N,R-(m-1)Q_R} n P_n \right) + \left| \frac{C_S \mu_d(2)}{1} \sum_{-\infty}^0 n P_n \right| + C_\epsilon \left[\epsilon_P \mu_u(2) + \epsilon_H \left(\sum_1^R n P_n + \sum_{N,R-Q_R}^{N,R-(m-1)Q_R} n P_n \right) \right] \quad (8b)$$

Further manipulation gives:

$$TC_{FG} = (C_P + C_e \epsilon_P) \mu_d(2) + (C_H + C_e \epsilon_H) \left(\sum_1^R n P_n + \sum_{N,R-Q_R}^{N,R-(m-1)Q_R} n P_n \right) + \left| \frac{C_S \mu_d(2)}{1} \sum_{-\infty}^0 n P_n \right| \quad (9)$$

where $\frac{\mu_d(2)}{1}$ is the number of inventory cycles per unit of time. Number 1 (the denominator) is the production lot-size of this case.

Figure 7. State transition diagram for subsystem S(3)



5.3 Shipment of products to the retailer's warehouse

The state transition diagram for subsystem S(3) is shown in Figure 7. An ordering activity from the retailer to the factory causes the state to transition, for example from state R_R to state $R_R + Q_R$. Then, there will be emissions of $Q_R \epsilon_O$ kg Carbon / order. When the system is in a certain state, there is a storage emission of ϵ_H kg Carbon / unit of product / time. Emissions due to transition from state $R_R + Q_R$ to state $R_R + Q_R - 1$ and so on which represents the retail purchase process are not taken into account.

Total emission at RT Stock, E_{RT} , is therefore:

$$E_{RT} = \text{emissions due to transportation} + \text{emissions due to storage} \quad (10)$$

$$E_{RT} = \frac{\lambda \epsilon_O}{Q_R} + \epsilon_H \sum_1^{R_R+Q_R} n P_n \quad (11)$$

Where again here we assume that one delivery is for one order and hence the frequency of order is equal to the frequency of delivery.

The total cost at RT Stock, TC_{RT} :

$$TC_{RT} = \text{cost of ordering} + \text{cost of holding} + \text{cost of stockout} + \text{cost of emission} \quad (12)$$

$$TC_{RT} = \frac{\lambda K_{RT}}{Q_R} + C_H \sum_1^{R_R+Q_R} n P_n + \left| \frac{\lambda C_S}{Q_R} \sum_{-\infty}^0 n P_n \right| + C_e \left(\frac{\lambda \epsilon_O}{Q_R} + \epsilon_H \sum_1^{R_R+Q_R} n P_n \right) \quad (13a)$$

which then gives:

$$TC_{RT} = (K_{RT} + C_e \epsilon_O) \frac{\lambda}{Q_R} + (C_H + C_H \epsilon_H) \sum_1^{R_R+Q_R} n P_n + \left| \frac{\lambda C_S}{Q_R} \sum_{-\infty}^0 n P_n \right| \quad (13b)$$

6 Numerical examples

We consider a hypothetical case as follows. A supply chain system consists of one supplier, one factory, and one retailer as shown in Figure 1. Transportation of goods from supplier to factory takes 50 units of time. The same amount of time is needed to transport finish goods from the factory to the retailer. Production can take place at a rate of 0.125 units / unit time, without the need for setup. Demand to the retailer is 0.02 units / unit time.

Lot-sizes and inventory buffering parameters are as follows: $R_{RM} = 10$; $Q_{RM} = 15$; $r = 10$; $R = 30$; $R_R = 5$; $Q_R = 10$. In addition, the cost parameters are as follows. Ordering to supplier, $K_{RM} = 2$ millions IDR/order, storage at RM Stock, $C_{h,RM} = 1$ thousands IDR/unit/unit time, shortage at RM Stock, $C_{s,RM} = 5$ thousands IDR/unit, production, $C_p = 50$ thousands IDR/unit, storage in FG Stock, $C_{h,FG} = 1$ thousands IDR/unit /unit time, shortage in FG Stock, $C_{s,FG} = 5,000$ IDR / unit, order to factory, $K_{RT} = 2$ millions IDR/order, storage in RT Stock, $C_{h,RT} = 1$ thousands IDR/unit/unit of time, shortage in RT Stock, $C_{s,RT} = 5$ thousands IDR/unit.

We also assume that Carbon tax, $C_e = 270$ IDR/kg Carbon. The emission factor data are set as follows. Transport emissions from supplier to factory, $\epsilon_{O,RM} = 500$ kg Carbon, storage emission at RM Stock, $\epsilon_{H,RM} = 0.05$ kg Carbon/product unit/time unit, production emission $\epsilon_p = 0.5$ kg Carbon/product unit, storage emission at FG Stock, $\epsilon_{H,FG} = 0.05$ kg Carbon/product unit/time, shipping emission from factory to retailer, $\epsilon_{O,RT} = 300$ kg Carbon, and storage emissions at RT Stock, $\epsilon_{H,RT} = 0.05$ kg Carbon/product unit/time unit.

The following results are obtained: average inventory at RM Stock = 16.99 units, average inventory at FG Stock = 23.34 units, and average inventory at RT Stock = 9.51 units. The cost of emission at RM Stock = 4,221.00IDR / time unit, emission cost in FG Stock (production) = 3,015.44 IDR/time unit, and emission cost in RT Stock = 3,022.44 IDR/time unit. In addition, the total cost that includes inventory-related costs and emission cost in RM Stock = 24,821.00 IDR/time unit, in FG Stock (production) = 30,352.06 IDR /time unit, and in RT Stock = 17,410.06 IDR/time unit. This gives the total costs of 72,583.12 IDR/time unit.

7 Discussions

In this paper, emissions, as well as costs in this case, can only be accommodated in the form of a response variable. Hence, the cost curve pattern which includes inventory-related costs,

emissions costs, and total costs, are illustrated in the form of plot resulted from experiments using models.

For a particular configuration and decision, the system will operate by generating emission of a certain amount of kg Carbon per unit of time. The computation results for some values of decision variables in the hypothetical case above are summarized in Figure 8.

Varying the various values of decision variables R_{RM} , Q_{RM} , r , R , R_R and Q_R yield some interesting observations. First, the variation of reorder point values R_{RM} and R_R gives the effect of increasing total costs. This is logical because the increase in reorder point will lead to an increase in the level of stocks in the system and the frequency of ordering. As we assume that each order is associated with a single shipment, altering the frequency of orders is not only affecting the inventory related cost, but also the level of emissions. Interestingly, the increase in reproduction point r has no impact on the total cost. This is due to the assumption that there is no set up cost every time the production is restarted and the production cost only consists of variable cost.

Second, the increase of order quantity value, Q_{RM} and Q_R gives a similar effect, i.e., there is a certain order quantity value which will minimize the total cost. However, there is a different pattern of response between total cost and emission cost, when Q_{RM} increases (Figure 8b). The emission cost appears to reach the minimum value at a much higher Q_{RM} , indicating that considering emission costs is important as it cannot be represented by the total inventory related costs. In this example, the optimum $Q_{RM} = 12$ (based on total cost). It would have been 11 if the criterion is to minimize the inventory related costs only, but the value would have been 20 if the criterion is to minimize emission costs only.

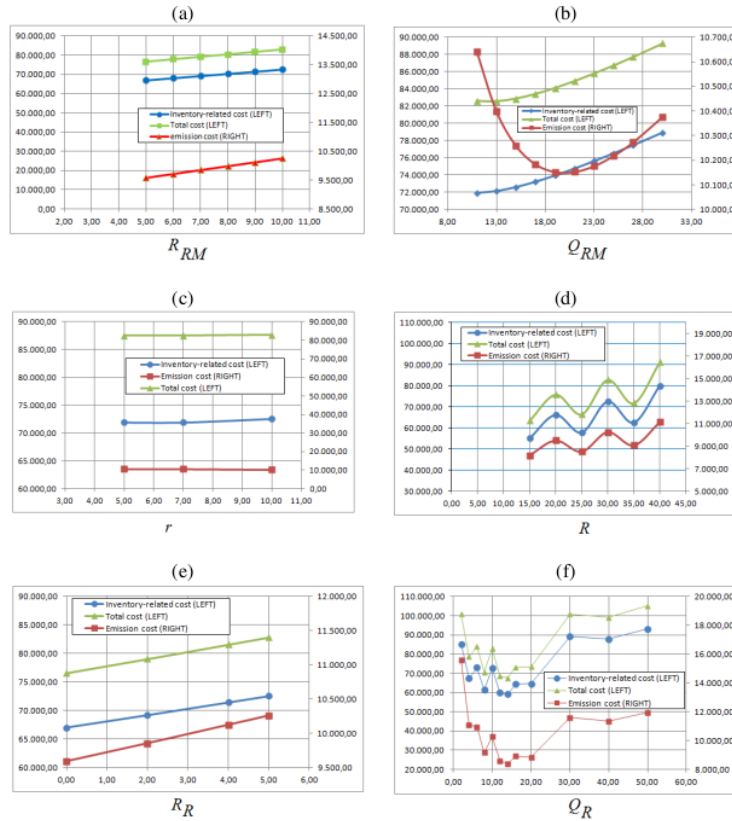
A large different thing happened to Q_R . Besides its fluctuating profile, the pattern of response of inventory-related and emission cost are almost similar. If the total cost is used as a reference, then $Q_R = 12$. If inventory-related cost is used then $Q_R = 12$ too, and if only emission cost is considered, then again $Q_R = 12$ (Figure 8f). This observation is certainly dependent on the relative values of the cost parameters. However, it is obvious to note here that considering emission as a response variable in addition to the inventory related costs would lead to a different decision.

Meanwhile, the increase of R value gives a quite unique impact, that is, there is a general trend of rising in the total inventory related cost as well as the emission costs, but a closer look shows that those two response variables oscillate with the increase of R . As R increases, the value of $(R - r)/Q_R$ gets larger, causing the ordering frequency of retailers within that range to expand. When the ordering frequency increases, the total cost will also increase. However, at a certain R value, the stock level target could be reached, causing inventory reduction at FG Stock occurs while there is no production and hence no production emissions for a certain period of time. When that happens, the total cost becomes lower.

8 Conclusions

Carbon emission issues should be accommodated as a criterion for decision making in industry or supply chain systems. Certain supply chain activities lead directly to Carbon emissions. Ordering activities are almost always related to the transport of goods from one location to another using various transportation modes. Since most of the current transportation still uses fossil fuels, Carbon emissions always occur. In addition, production and storage activities also create emissions when fossil fuel is used as their primary energy source and thus considering emissions in those activities would be important.

Figure 8. Result of calculation of total cost and emission cost, on various variation of decision value of: (a) R_{RM} (b) Q_{RM} (c) r (d) R (e) R_R (f) Q_R



1 In this paper we developed a supply chain model that considers both inventory related costs and emissions. We used the queuing-based performance model where emissions are captured in the delivery of materials from supplier to factory, at the production activity, and at the storage of goods both for raw materials as well as for finish goods. We contribute to the supply chain modelling works where only very few queuing-based performance models that have taken carbon emissions into account. In solving the model, in this paper we have used the decomposition approach following the works of Dallery and Frein (1993) and Karanikolaou and Altioek (2009). Experiments were conducted to test the applicability of the model. For model validation, we have used a discrete event simulation. The computation results show that the two results (the decomposition approach and the simulation) are very close indicating

1 the accuracy of the approach that we used. The numerical examples show that the change in parameter values is not always responded the same way by the total inventory-related costs and the emission costs, indicating the significance of the model that take into account both of these response variables.

Future work can be extended to supply chain systems consisting of multiple suppliers and some retailers. First, a more complex supply chain structure may be considered. For example, distribution centers can be added in order to reflect a more realistic situation. Second, it is interesting to consider a multi modal transportation decisions. Obviously there will a trade-offs between speed, cost, flexibility and emissions. For example, rail is normally creating less emissions compared to truck, but at the same time is less flexible and more costly if used for transporting over a relatively short period. Models considering multiple transportation modes may worth developing in order to guide the decision makers under a complex decision making situation.

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