



International Journal of Systems Science >

Volume 45, 2014 - [Issue 12](#)

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# Supply chain coordination with defective items and quantity discount

Hsien-Jen Lin & Yu-Jen Lin

Pages 2529-2538 | Received 13 Feb 2012, Accepted 08 Sep 2012, Published online: 26 Feb 2013

Cite this article <https://doi.org/10.1080/00207721.2013.773468>

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## Abstract

This study develops an integrated inventory system involving defective items and quantity discount for optimal pricing and ordering strategies. The model analysed in this study is one in which the buyer orders a quantity, the vendor produces more than buyer's order quantity in order to reduce set-up cost, and then he/she offers an all-units quantity discount to the buyer. Our objective is to determine the optimal order quantity, retail price, mark-up rate, and the number of shipments per production run from the vendor to the buyer, so that the entire supply chain joint total profit incurred has a maximum value. Furthermore, an algorithm of finding the optimal solution is developed. Numerical examples are provided to illustrate the theoretical results.

## Keywords:

integrated inventory system

quantity discount

mark-up rate

defective items

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## Acknowledgements

The authors are grateful to the editor (Peter Fleming), the associate editor, and the anonymous referees for their valuable comments and suggestions.

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## Additional information

### Notes on contributors

Hsien-Jen Lin

Hsien-Jen Lin is Associate Professor of Applied Mathematics at Aletheia University in Taiwan. He received his MS in Applied Mathematics from Michigan State University, USA, and his PhD in Mathematics from National Central University in Taiwan. His current research interests are in the field of production/inventory control, mathematical finance, stochastic model, probability, and statistics. His research has appeared in journals such as Applied Mathematical Modelling, Mathematical Problems in Engineering, Stochastic Analysis and Applications, Statistics & Probability Letters, Journal of the Korean Statistical Society (An Official Journal of the Korean Statistical Society), Journal of the Chinese Statistical Association, International Journal of Systems Science, International Journal of Information and Management Sciences, Yugoslav Journal of Operations Research, Far East Journal of Mathematical Sciences, International journal of pure and applied mathematics. He is Managing Editor for Tamsui Oxford Journal of Information and Mathematical Sciences.



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Yu-Jen Lin

Yu-Jen Lin is a Professor in the Department of Industrial Engineering and Management at St. John's University in Taiwan. He earned his BS in Mathematics, MS in Mathematics, and PhD in Management Sciences from Tamkang University. His research interests are in the field of Production/Inventory Control. He has publications in Journal of the International Journal of Production Economics, Computers and Industrial Engineering, Applied Mathematics and Computation, TOP An Official Journal of the Spanish Society of Statistics and Operations Research, International Journal of Systems Science, 4OR - A Quarterly Journal of Operations Research, OR Spectrum, International Journal of Information and Management Sciences, Journal of the Chinese Institute of Industrial Engineers, Yugoslav Journal of Operations Research, Journal of Statistics & Management Systems.



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