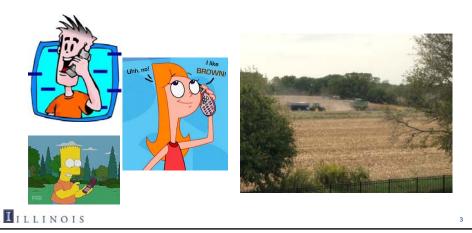
Complex Systems Analytics: a Promising Enabler for Sustainable Design and Manufacturing Harrison M. Kim hmkim@illinois.edu Associate Professor Department of Industrial & Enterprise Systems Engineering University of Illinois at Urbana-Champaign



Let's envision

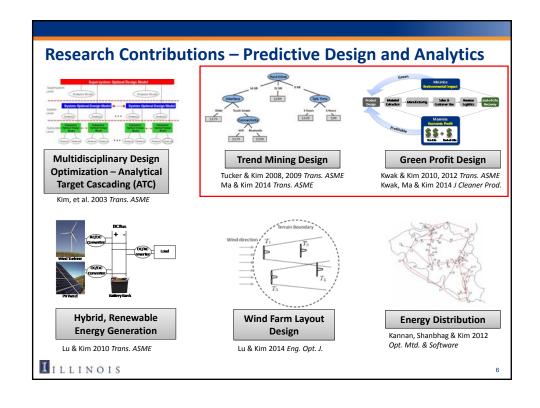
- Manufacturers can predict when a product will reach its end of life and the condition of the returned product based on the product attributes and customer demographic data at the moment a consumer purchases a product.
- Is it better to keep my phone as long as it lasts?
- "I am a green farmer. I would like to keep my harvester as long as I can."

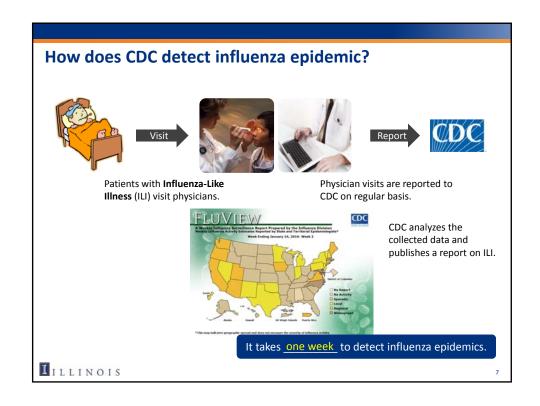


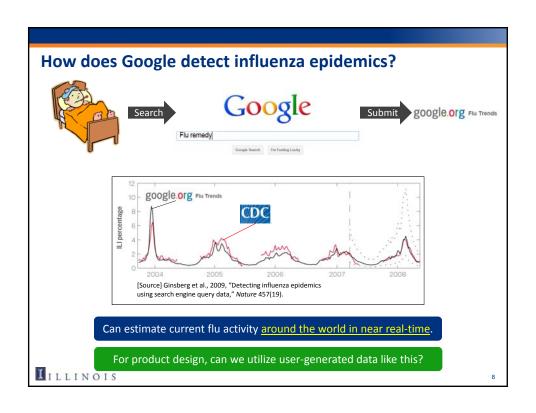
Let's envision

• Even at the early stages of product design, the manufacturer can predict which component will be reused, recycled, remanufactured, or replaced with a new component; and, in turn, modularize platforms (i.e., better design) for easy, profitable end-of-life recovery operations.

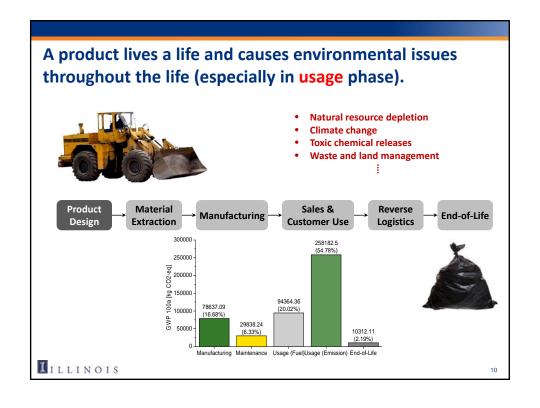


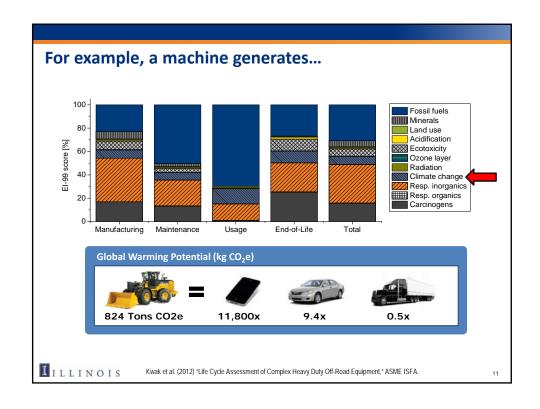


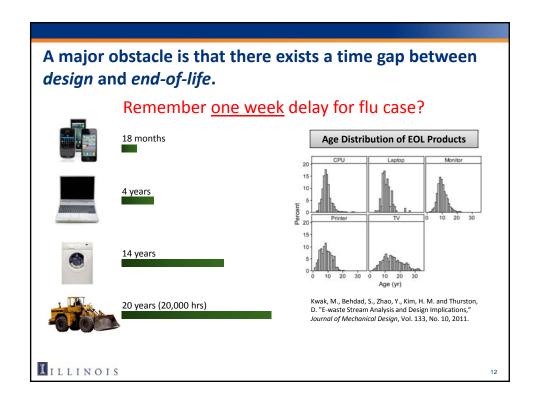


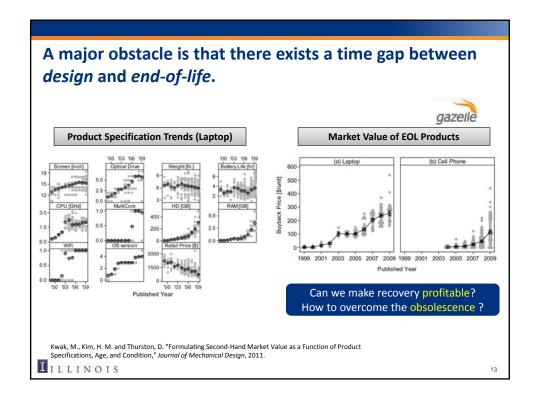


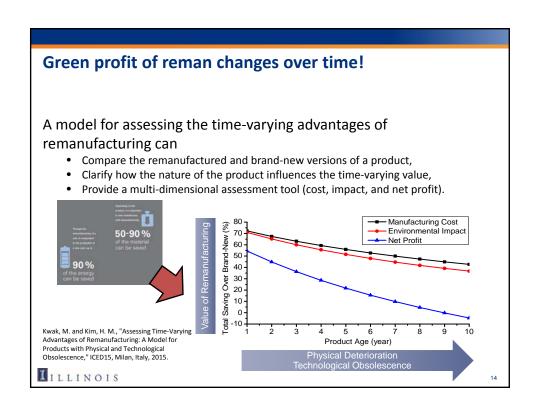


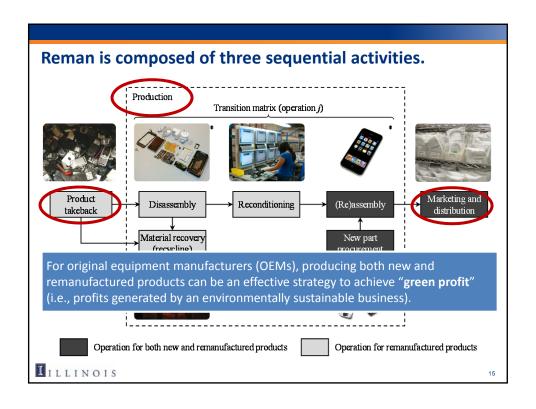


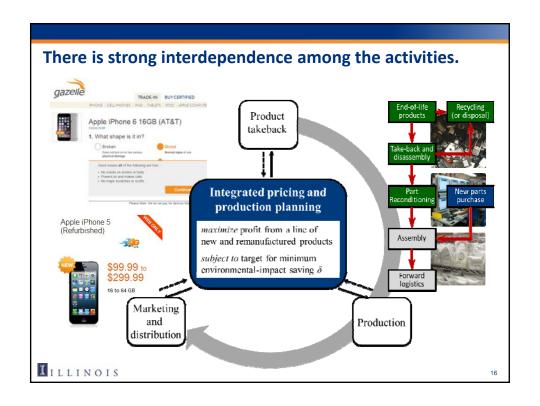


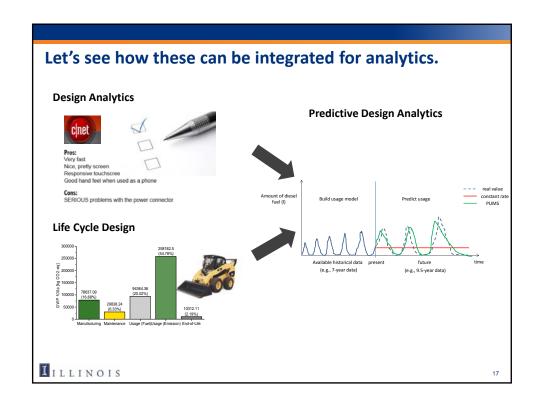


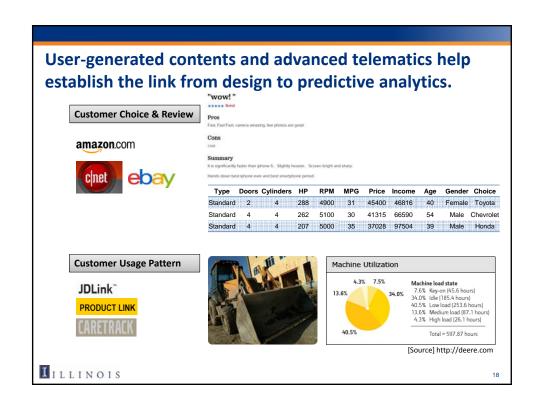




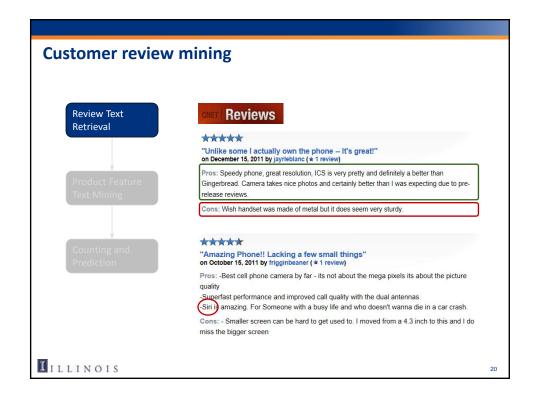


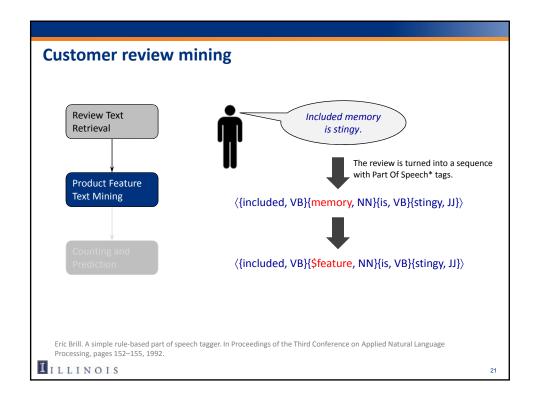


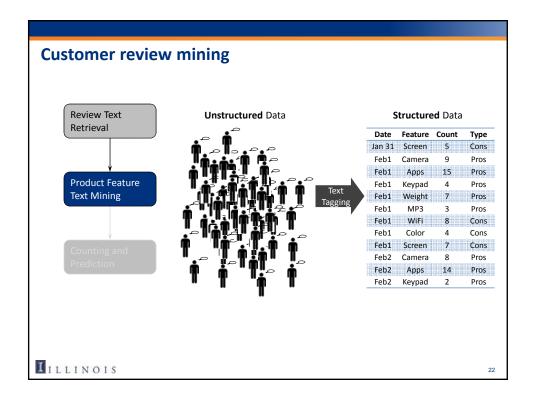


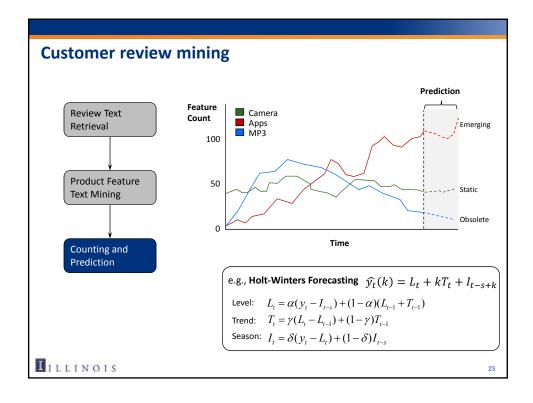












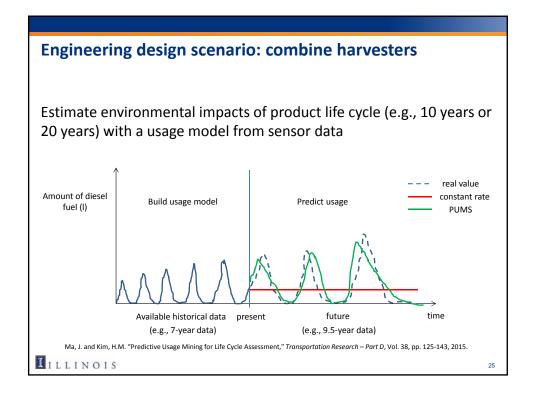
Large-scale sensor data from telematics system

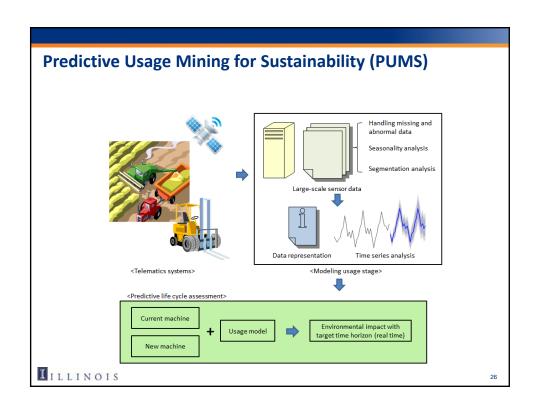
- Companies such as Caterpillar (PRODUCT Link[™]) and John Deere (JD LinkTM) have developed telematics systems for their machinery.
- Operational data can be gathered in real time for various purposes: asset utilization monitoring, location tracking, fleet management, machine health prognostics, etc.

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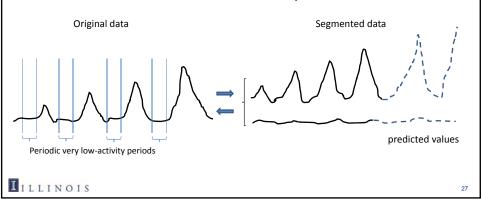
source : http://www.equipmentworld.com/





(Infrequent) Usage modeling

- Automatic segmentation
 - Detect periodic low-activity periods and group them separately
 - Magnify important patterns and make predictions
 - Combine the results and maintain the time stamp



Usage modeling

- Time series models
 - Smoothing factor, 0 <α <1
 - PUMS-ets

$$\hat{y}_{t+1} = \hat{y}_t + \alpha(y_t - \hat{y}_t)$$
 observed time series

forecast error

$$\begin{split} \hat{y}_{t+1} &= \alpha y_t + (1-\alpha)[\alpha y_{t-1} + (1-\alpha)\hat{y}_{t-1}] \\ &= \alpha y_t + \alpha (1-\alpha)y_{t-1} + (1-\alpha)^2\hat{y}_{t-1}. \end{split}$$

			Seasonal Component		
	Trend	N	A	M	
	Component	(None)	(Additive)	(Multiplicative)	
N	(None)	N,N	N,A	N,M	
A	(Additive)	A,N	A,A	A,M	
A_d	(Additive damped)	A_d ,N	A_d,A	A_d,M	
M	(Multiplicative)	M,N	M,A	$_{M,M}$	
M_d	(Multiplicative damped)	M_d,N	M_d,A	M_d,M	

- PUMS-arima

autoregressive model, AR(p) integration, I(d) $(1-\phi_1B-\cdots-\phi_pB^p)(1-\Phi_1B^m-\cdots-\Phi_PB^{Pm})(1-B)^d(1-B^m)^D \ \mathcal{Y}_t$ $=c+(1+\theta_1B+\cdots+\theta_qB^q)(1+\Theta_1B^m+\cdots+\Theta_QB^{Qm})e_t$ observed time series

moving average model, MA(q)

[Ref.] Hyndman et al. (2008)

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Being green can be profitable?

Obstacles to making green profit

- OEM remanufacturer's concerns:
 - Unbalance b/w supply of cores and demand for reman products
 - · Unproven environmental sustainability of remanufacturing
 - Cannibalization of new product sales
- Relevant literature:

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- Pricing: Focused on pricing from the economic perspective w/ little design and process consideration.
 Guide et al. (2003), Ferrer et al. (2010), Vadde et al. (2011)
- Production planning: Pricing was separated from production planning.
 Mangun and Thurston (2002), Kwak and Kim (2010), Jayaraman (2006), Franke et al. (2006)
- Environmental assessment of remanufacturing: Mostly Life Cycle
 Assessments (LCAs) comparing new and reman products for the sake of
 product evaluation not decision-making.
 Smith and Keoleian (2004), Goldey et al. (2010)



Let's consider economics together with environment.

- For OEM remanufacturers, the new model considers joint pricing and production planning to develop an optimal portfolio of new and remanufactured products.
- Two objectives:

Maximize [total profit f_1 , total environmental saving f_2]

- Decision variables:
 - P_u, X_u : buy-back price and take-back quantity of the end-of-life product
 - p_n, x_n : selling price and the production quantity of the new product
 - p_r, x_r : selling price and the production quantity of the reman product

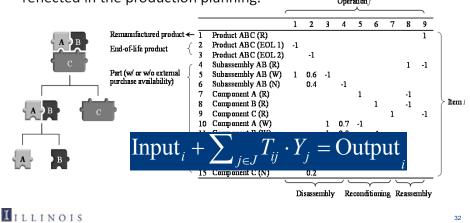
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Transition matrix

Transition matrix represents the **relationship between product design and remanufacturing operations** in a matrix form, such that the impact of product design can be mathematically reflected in the production planning.

Operation



Mathematical model (1/2)

The objective is to maximize the total profit from the sales of new and remanufactured products, while achieving environmental-impact saving δ .

Profit from the new product

Profit from the remanufactured product

$$\max. (P_n - C_n) \cdot Z_n + P_r \cdot Z_r - (\sum_{i \in I} c_i^M \cdot M_i + \sum_{k \in K} P_k \cdot X_k + \sum_{j \in J} c_j \cdot Y_j + \sum_{i \in I} c_i^N \cdot N_i + c_d \cdot Z_r) \\ \downarrow \qquad \qquad \downarrow \qquad \downarrow$$

 $g_1: X_k \leq A_k \cdot s_k(P_k) \qquad \forall k \in K \quad \text{Take-back availability of end-of-life products, given buy-back price}$

$$\begin{aligned} &g_2: Z_n \leq \sum\nolimits_{l \in L} Q_l \cdot d_{n,l}(P_n, P_r) \\ &g_3: Z_r \leq \sum\nolimits_{l \in L} Q_l \cdot d_{r,l}(P_n, P_r) \end{aligned} \end{aligned} \text{Production quantity not exceeding the demand, given selling price}$$

 $\mathbf{g_4}: Z_r \leq X_k \qquad \text{Upper limit for remanufacturing}$

$$g_5: \sum\nolimits_{k \in K} (e_w - e_k) \cdot X_k + \{E_n \cdot Z_r - (\sum\nolimits_{i \in I} e_i^M \cdot M_i + \sum\nolimits_{j \in J} e_j \cdot Y_j + \sum\nolimits_{i \in I} e_i^M \cdot N_i + e_d \cdot Z_r)\} \geq \delta$$

Environmental-impact saving exceeding the target $\boldsymbol{\delta}$

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Mathematical model (2/2)

Constraints for the Input-output flow balance

 $h_1: X_k + \sum_{i \in J} T_{ij} \cdot Y_j - M_i = 0$ $\forall i$ corresponding to the end-of-life product $k(\forall k \in K)$

 $h_2: N_i + \sum_{j \in J} T_{ij} \cdot Y_j - M_i = 0$ $\forall i$ corresponding to a part with external purchase availability

 $h_3: \sum_{j \in J} T_{ij} \cdot Y_j - M_i = 0$ $\forall i$ corresponding to a part without external purchase availability

 $h_4: \sum_{j \in J} T_{ij} \cdot Y_j - Z_r = 0$ $\forall i$ corresponding to the remanufactured product

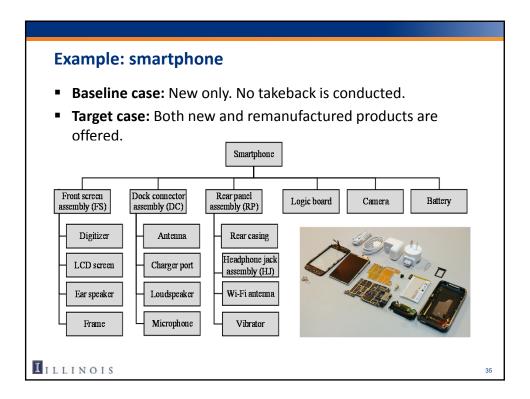
 $h_5: N_i = 0 \quad \forall i \notin \text{part with external purchase availability}$

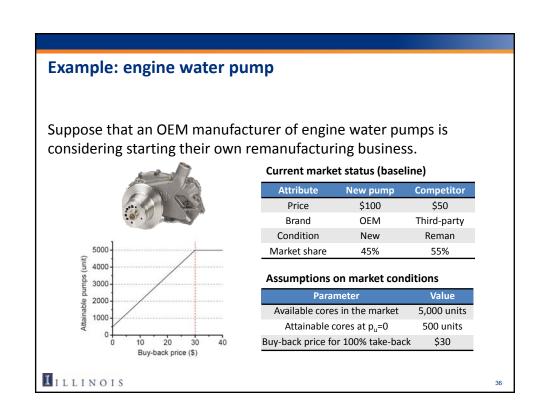
 $h_6: M_i = 0 \quad \forall i$ corresponding to the remanufactured product

Variable conditions

$$X_k, Y_j, Z_n, Z_r, N_i \ge 0$$
 and integer $\forall i \in I, \forall j \in J, \forall k \in K$
 $P_k, P_n, P_r, M_i \ge 0$ $\forall i \in I, \forall k \in K$

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Customer preference in the market

- Total market size: 3,000 units
- Customers prefer a new product w/ lower price and OEM brand.
 Customer preference assumption

Attribute	Utility factor (β)	Ideal	Critical
Price	0.8	\$0	\$100
Brand	0.2	OEM	Third-party
Condition	0.45	New	Reman

```
\begin{aligned} & \text{Utility of product } j: \quad U_j = [1 - \beta_{cond} \cdot (1 - y_{j,cond})] \cdot (\beta_{price} \cdot y_{j,price} + \beta_{brand} \cdot y_{j,brand}) \\ & \text{where} \\ & y_{j,cond} = \begin{cases} 0 & \textit{if } \text{ remanufactured product} \\ 1 & \textit{else} \text{ (new product)} \end{cases} \\ & y_{j,brand} = \begin{cases} 0 & \textit{if } \text{ remanufactured by third-party} \\ 1 & \textit{else} \text{ (OEM)} \end{cases} \\ & y_{j,price} = 1 - p_j / p_j^{\textit{critical}} \end{aligned}
```

Bi-objective problem: ε -constraint approach

Using the ε -constraint approach, the model can incorporate the trade-offs between profit and environmental saving.

 $\max [f_1(x), f_2(x)]$

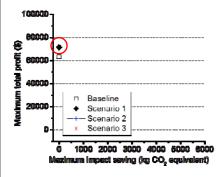
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subject to g_{l}(x) \leq 0 \quad l = 1, 2, \cdots, L h_{m}(x) = 0 \quad m = 1, 2, \cdots, M \max_{x} f_{1}(x) subject to g_{l}(x) \leq 0 \quad l = 1, 2, \cdots, L h_{m}(x) = 0 \quad m = 1, 2, \cdots, M f_{2}(x) \geq \varepsilon \varepsilon = f_{2}(x_{1}^{*}) + (f_{2}(x_{2}^{*}) - f_{2}(x_{1}^{*})) \cdot \delta Lower bound for f_{2} (f_{2} \text{ under max } f_{1}) 0 \leq \delta \leq 1
```

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Case study: Scenario 1 (new production only)

The company optimizes the selling price and quantity of the new pump. No remanufacturing is conducted.



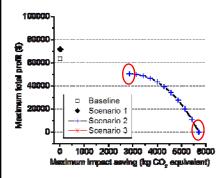
	Baseline	Scenario 1
Selling price (\$)	100.00	89.40
Market share	45%	66%
Pumps collected (unit)	0	0
Total cost (\$)	71676.42	104831.41
Total profit (\$)	63223.58	71547.25
Impact saving (kg CO2e)	0.00	0.00

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Case study: Scenario 2 (remanufacturing only)

■ For this period, closed-loop production is conducted. The company produces only remanufactured pumps. The selling price and production quantity for the remanufactured pump are optimized.

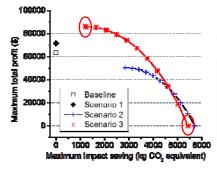


	Max. profit	Max. impact saving
Selling price (\$)	86.82	50.85
Market share	37%	74%
Buyback price (\$)	4.93	13.23
Pumps collected (unit)	1240	2482
Total cost (\$)	46761.31	114209.64
Total profit (\$)	50440.20	6.24
Impact saving (kg CO2e)	2853.18	5710.96

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Case study: Scenario 3 (new and reman together)

The company optimizes and sells both the new and remanufactured products.



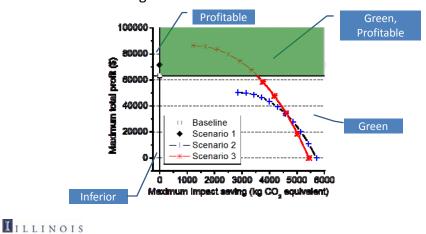
	Max profit		Max impact saving	
	New	Reman	New	Reman
Selling price (\$)	93.46	91.77	99.99	41.34
Market share	48%	17%	13%	71%
Buyback price (\$)	0.64		12.44	
Pumps collected (unit)	596		2366	
Total cost (\$)	95553.02		127796.32	
Total profit (\$)	86130.97		0.00	
Impact saving (kg CO2e)	1226.70		5442.50	

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Efficient frontier: Pareto-optimal solutions

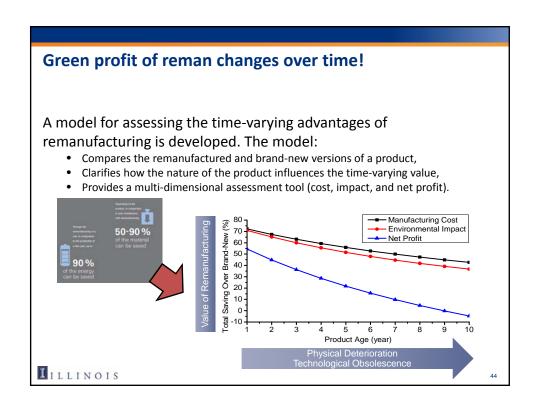
The results shows an opportunity to increase profit and environmental saving at the same time.



Reman product should be cheaper.

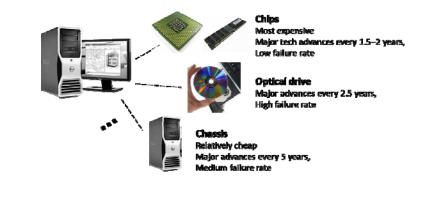
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Products w/ physical and technological obsolescence

Each part has its own lifecycle characteristics, in terms of cost, technological obsolescence, and physical deterioration.



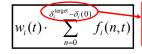
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Products w/ physical and technological obsolescence

Each part has its own lifecycle characteristics, in terms of cost, technological obsolescence, and physical deterioration.

Probability that a part is reusable both **physically** and **technologically** can be modeled as:



the maximum change in part generation allowed for *t* years to satisfy customer requirement

where

w(t) : reusability of part i after t years of use
 n : change in the part generation over t years

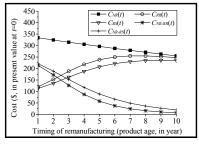
- $f_i(n,t)$: the probability that a total of n generations of part i will appear in [0,t]

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Cost advantage of a remanufactured product

Proposition 1. The **cost advantage** of remanufacturing over producing the equivalent brand-new product is formulated as $C_{NR-RR}(t)$.

$$C_{\mathit{NR-RR}}(t) = \sum_{i \in I} \left[w_i(t) \cdot \sum_{n=0}^{S_i^{\mathsf{singel}} - \mathcal{S}_i(0)} f_i(n,t) \cdot \left(C_{i,\mathsf{target}}^{\mathit{new}}(t) - C_i^{\mathit{recond}}(t) - V_i^{\mathit{mail}}(t) \right) \right]$$
Probability that a part is reusable both **physically** and **technologically** reusing a part





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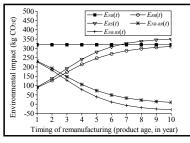
NR: Production of brand-new products w/ responsible take-back and recycling
 RR: Remanufacturing w/ recycling; RS: Remanufacturing w/ part resale and recycling

Environmental advantage of a reman product

Proposition 2. The **environmental advantage** of a remanufactured product over its equivalent brand-new is formulated as $E_{NR-RR}(t)$.

$$E_{\mathit{NR-RR}}(t) = \sum_{i \in I} \left[w_i(t) \cdot \sum_{n=0}^{\delta_i^{\mathsf{target}} - \delta_i(0)} f_i(n,t) \cdot \left(E_{i,\mathsf{target}}^{\mathit{new}}(t) - E_i^{\mathit{recond}}(t) + E_i^{\mathit{matl}}(t) \right) \right]$$

Probability that a part is reusable both **physically** and **technologically** Avoided impact by reusing a part





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NR: Production of brand-new products w/ responsible take-back and recycling
 RR: Remanufacturing w/ recycling; RS: Remanufacturing w/ part resale and recycling

Net profit advantage of a reman product

Proposition 3. Let β be the price ratio of the remanufactured product to the equivalent brand-new. Then, the advantage of remanufacturing from the **net-profit** perspective is given as $\Pi_{RR-NR}(t)$.

$$\Pi_{RR-NR}(t) = (P_R - C_{RR}) - (P_N - C_{NR})$$

$$= (\beta - 1) \cdot P_N + \sum_{i \in I} \left[w_i(t) \cdot \sum_{n=0}^{S_i^{ungd} - S_i(0)} f_i(n,t) \cdot \left(C_{i,\text{target}}^{new}(t) - C_i^{recond}(t) - V_i^{matl}(t) \right) \right]$$

$$= \prod_{i \in I} \prod_{j \in I} \prod_{n \in I} \prod_{j \in I} \prod_{i \in I} \prod_{j \in I} \prod_{j \in I} \prod_{n \in I} \prod_{j \in I} \prod_$$

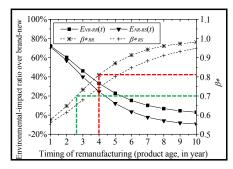
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NR: Production of brand-new products w/ responsible take-back and recycling
 RR: Remanufacturing w/ recycling; RS: Remanufacturing w/ part resale and recycling

Net profit advantage of a reman product

Corollary 1. The range of β where the remanufacture product becomes more profitable than the brand-new is $\beta \ge \beta^*$, where β^* is:

$$\beta_{\mathit{RR}-\mathit{NR}}^* = 1 - (1 \, / \, P_{\scriptscriptstyle N}) \cdot \sum_{i \in I} \left[w_i(t) \cdot \sum_{n=0}^{\delta_{\scriptscriptstyle \mathsf{target}} - \hat{\mathcal{O}}_i(0)} \left(C_{i, \mathsf{target}}^{\mathit{new}}(t) - C_i^{\mathit{recond}}(t) - V_i^{\mathit{mail}}(t) \right) \cdot f_i(n, t) \right]$$



consumers are willing to pay more than eta^*

Let t=4. Remanufacturing (RR) makes sense if consumers are willing to pay more than 81% of new price on a REMAN product.

If beta is known as 0.7, a reasonable strategy is to remanufacture (RR) until t=2.5 and to choose new production afterwards.

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- NR: Production of brand-new products w/ responsible take-back and recycling
 RR: Remanufacturing w/ recycling; RS: Remanufacturing w/ part resale and recycling

