(R,Q) Parameters

- **Set Q as the EOQ solution**
- **Set R as the newsboy solution:**

$$P(DDLT < R) = \alpha$$

where α is a desired service level (e.g. 95%)
DDLT = Demand During Lead Time

<u>Example (cont'd):</u> if weekly demand for 128Mb chips is in fact N(400,80) and delivery time is 2 weeks, for a 95% service level:

Q = 1,013 units (as before),
R = E[DDLT] + 1.65 x σ[DDLT] = 800 + 1.65 x sqrt(2) x 80 = 986

(S,T) Parameters
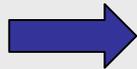
"order back to S every T time units"

- **Set T as the EOQ solution divided by the demand rate**
- **Set S as the newsboy solution:**

$$P(DDLTRP < S) = \alpha$$

where: - α is the desired service level (e.g. 95%)

- DDLTRP = Demand During Lead-Time and Review Period

<u>**Example (cont'd):**</u> **For the 128Mb chips example (from slides 12 & 23):**

T = Q / D = 1,013 / 400 = 2.5 weeks,
S = E[DDLTRP] + 1.65 x σ[DDLTRP]
= (400 x 4.5) + 1.65 x sqrt(4.5) x 80 = 2080 units