

Contents

1	Introduction	1
1.1	Introduction	1
1.2	System Classification and Decomposition	2
1.2.1	Products	2
1.2.2	Plants	3
1.2.3	Infrastructures	4
1.2.4	System Decomposition	4
1.2.5	Some Examples	5
1.3	System Performance	6
1.3.1	Performance Degradation and Failure	6
1.3.2	Consequences of Failures	7
1.3.3	Performance Measures	7
1.4	Maintenance	8
1.4.1	Maintenance Outsourcing	9
1.5	Extended Warranties and Maintenance Service Contracts	9
1.5.1	Base Warranties	9
1.5.2	Extended Warranties	9
1.5.3	Maintenance Service Contracts	10
1.6	Lease Contracts	11
1.7	Decision Problems	12
1.7.1	Extended Warranty/Maintenance Service Contract	12
1.7.2	Lease Contract	13
1.8	Framework and Approach	14
1.8.1	Systems Approach	14
1.8.2	Game Theory	15
1.8.3	Agency Theory	16
1.9	Scope and Focus of the Book	16
1.10	Structure and Outline of the Book	17
	Reference	19

Part I Background Material

2	System Degradation and Maintenance	23
2.1	Introduction	23
2.2	System Life Cycle	23
2.2.1	Products	24
2.2.2	Plants and Infrastructures.	25
2.2.3	Salvage Value	25
2.3	Characterisation of System Performance	26
2.3.1	Characterisation of Component State	26
2.3.2	Characterisation of Product (Plant) State	28
2.3.3	Characterisation of Infrastructure State	30
2.4	Reliability	33
2.4.1	Linking Product and Component Reliabilities	34
2.4.2	PLC Perspective: Different Notions of Reliability	35
2.5	Maintenance of Products and Plants	37
2.5.1	Corrective Maintenance.	37
2.5.2	Preventive Maintenance.	38
2.5.3	Maintenance Costs	40
2.5.4	Some Maintenance Policies	41
2.5.5	Fleet Maintenance	42
2.6	Maintenance of Infrastructures	44
2.6.1	Road Infrastructure	45
	References	46
3	Modelling and Analysis of Degradation and Maintenance	47
3.1	Introduction	47
3.2	Models and Modelling Process.	48
3.2.1	Models	48
3.2.2	Modelling Process	48
3.2.3	Black-Box Approach to Modelling	48
3.2.4	Classification of Maintenance Models.	50
3.3	Modelling First Failure (1-D Formulations).	51
3.3.1	Distribution (Density) Functions for Modelling	52
3.3.2	Modelling the Effect of Usage and Environment	53
3.4	Modelling Maintenance Actions (1-D Formulations).	55
3.4.1	Corrective Maintenance Actions.	55
3.4.2	Preventive Maintenance Actions.	58
3.4.3	Repair Times and Downtimes	61
3.4.4	Modelling Maintenance Costs	62
3.5	Modelling Subsequent Failures (1-D Formulations)	64
3.5.1	One-Dimensional Point Processes.	65
3.6	Modelling and Analysis of Maintenance Actions	68

3.7	Two-Dimensional Formulations	73
3.7.1	First Failure	73
3.7.2	Subsequent Failures	75
3.8	Modelling Infrastructure Degradation and Maintenance.	75
	References	76
4	Introduction to Stochastic Optimisation and Game Theory	77
4.1	Introduction	77
4.2	Stochastic Optimisation	78
4.2.1	Static Optimisation	79
4.2.2	Dynamic Optimisation	79
4.3	Game Theory	80
4.4	Two-Player Games	81
4.4.1	Static Games	81
4.4.2	Nash Games.	82
4.4.3	Stackelberg Games	83
4.4.4	Dynamic Games	84
4.5	Multiplayer Games	84
4.6	Agency Theory	85
4.6.1	Principal–Agent Models	87
4.6.2	Extended Principal–Agent Problems	87
	References	87

Part II Extended Warranties and Maintenance Service Contracts

5	EWs/MSCs: An Overview.	91
5.1	Introduction	91
5.2	Base Warranty	91
5.2.1	Standard Products.	92
5.2.2	Custom Built and Complex Products	93
5.2.3	Study of BWs	93
5.3	Extended Warranty	97
5.3.1	Key Elements of an EW	97
5.3.2	Three Perspectives	99
5.3.3	Some Simple EW Policies.	101
5.3.4	Study of EWs	102
5.4	Outsourcing	106
5.4.1	Reasons for Outsourcing	107
5.4.2	Problems with Outsourcing	107
5.4.3	Issues in Outsourcing	108
5.5	Maintenance Outsourcing	108

5.5.1	Different Scenarios for Maintenance Outsourcing.	109
5.5.2	Maintenance Service Contracts.	110
5.5.3	Key Elements of a MSC	111
5.5.4	Two Perspectives	112
5.5.5	Classification of MSCs	112
5.5.6	Comparison of MSCs and EWs	113
5.5.7	Study of Maintenance Outsourcing and MSCs	113
5.6	Some Illustrative Examples of EWs and MSCs	115
5.6.1	EWs for Consumer Products	115
5.6.2	EWs and MSCs for Industrial Products	116
5.7	Infrastructure	117
5.7.1	Public Private Partnership	117
5.7.2	British Rail	119
5.7.3	Study of Infrastructure MSCs.	121
	References	122
6	EW/MSC Processes	127
6.1	Introduction	127
6.2	Systems Approach to Study EWs/MSCs	128
6.2.1	Decision Problems	128
6.2.2	EW/MSC Markets	129
6.2.3	System Characterisation	129
6.2.4	Informational Aspect.	130
6.3	Characterisation of the EW Process	130
6.3.1	Characterisation of the Key Elements and Interactions	130
6.3.2	Detailed EW Characterisation	138
6.4	System Characterisation of the MSC Process	139
6.4.1	MSC Process for Products	139
6.4.2	MSC Process for Complex Systems and Infrastructures	139
6.5	Game-Theoretic Characterisation of EW Decision-Making	143
6.5.1	Characterisation of the EW Market.	143
6.5.2	Illustrative GT Scenarios for EW Decision-Making	145
6.6	Game-Theoretic Characterisation of MSC Decision-Making	148
	References	150
7	EW and MSC Cost Analysis	151
7.1	Introduction	151
7.2	System Characterisation for Cost Analysis.	152
7.2.1	Cost per Unit Sale	153

- 7.2.2 Cost per Unit Time. 153
- 7.3 Modelling for Cost Analysis 153
 - 7.3.1 Assumptions 153
 - 7.3.2 Modelling Sales 155
- 7.4 Cost Analysis of BWs. 155
 - 7.4.1 1-D BWs. 156
 - 7.4.2 2-D BWs. 160
- 7.5 Cost Analysis of EWs. 162
 - 7.5.1 Identical EW and BW Terms. 163
 - 7.5.2 Non-identical EW and BW Terms 166
- 7.6 Cost Analysis of MSCs. 168
 - 7.6.1 No Uncertainty in Initial Condition. 170
 - 7.6.2 Uncertainty in Initial Condition 170
 - 7.6.3 Some Examples 171
- 7.7 Maintenance Outsourcing Decision Models 175
- References 178

- 8 Game-Theoretic Models for EW/MSD Decision-Making. 181**
 - 8.1 Introduction 181
 - 8.2 Framework for GT Modelling 181
 - 8.2.1 Key Elements and Their Characterisations. 181
 - 8.2.2 Different Scenarios 183
 - 8.2.3 Model Formulations 183
 - 8.3 Static GT Models for EW Decision-Making 184
 - 8.3.1 Single EW Provider (Scenarios A and B) 184
 - 8.3.2 Two EW Providers and Heterogeneous Customers (Scenario D) 210
 - 8.4 Dynamic GT Models for EW Decision-Making 214
 - 8.5 GT Models for MSD Decision-Making 225
 - References 235

Part III Lease Contracts

- 9 Leasing and Maintenance of Leased Assets 239**
 - 9.1 Introduction 239
 - 9.2 Leasing 240
 - 9.2.1 Key Elements of Leasing 240
 - 9.2.2 Reasons for Leasing 242
 - 9.2.3 Advantages and Disadvantages of Leasing. 242
 - 9.3 Leases: Classification and Contracts 243
 - 9.3.1 Accounting (Lessee) Perspective 244
 - 9.3.2 Lessor Perspective 244
 - 9.3.3 Terms of Lease Contract 246

- 9.3.4 Residual Value 248
- 9.4 Study of Leasing 248
 - 9.4.1 Legal 249
 - 9.4.2 Accounting and Finance 249
 - 9.4.3 Economics 249
 - 9.4.4 Marketing 250
 - 9.4.5 Management 251
- 9.5 Illustrative Examples of Lease Contracts 251
 - 9.5.1 Consumer Products 251
 - 9.5.2 Industrial and Commercial Products and Plants 254
- 9.6 Maintenance of Leased Assets 255
- 9.7 Decision Problems in Leasing 257
 - 9.7.1 Framework for Decision-Making 257
- 9.8 Game-Theoretic Approach to Decision Problems
in Leasing 257
 - 9.8.1 Characterisation of the Lease Market 258
 - 9.8.2 Illustrative GT Scenarios for Lease
Decision-Making 260
- References 262

10 Models for Lease and Maintenance Decisions 265

- 10.1 Introduction 265
- 10.2 Framework for Modelling 265
 - 10.2.1 Key Elements and Their Characterisations 266
 - 10.2.2 Different Scenarios 267
 - 10.2.3 Model Formulations 267
- 10.3 Models for Lease Versus Buy Decisions 268
 - 10.3.1 Single-Period Formulations
(Lease with No Option) 268
 - 10.3.2 Multiperiod Formulations (Leases with Options) 270
 - 10.3.3 Leasing in Different Industry Sectors 273
- 10.4 Game-Theoretic Models 273
 - 10.4.1 One-Period Models 274
 - 10.4.2 Two-Period Models 277
 - 10.4.3 Three-Period Models 291
 - 10.4.4 Other Leasing Models 295
- 10.5 Maintenance Decision Models 299
 - 10.5.1 New Equipment Lease 300
 - 10.5.2 Used Equipment Lease 305
 - 10.5.3 Other Maintenance Decision Models 306
- References 306

Part IV Management Issues

11	Management of EWs/MSCs and LCs	311
11.1	Introduction	311
11.2	Management	312
11.2.1	Maintenance Management	313
11.3	Customer Perspective	313
11.3.1	EWs	314
11.3.2	MSCs	315
11.3.3	LCs	316
11.3.4	The Analytical Hierarchy Process	316
11.4	Provider Perspective	318
11.4.1	EWs	319
11.4.2	MSCs	319
11.4.3	LCs	319
11.5	Customer Service	319
11.5.1	Customer Satisfaction/Dissatisfaction	319
11.5.2	Service Recovery	320
11.5.3	Dispute Resolution	320
11.6	Maintenance Logistics	321
11.6.1	Maintenance Logistics Management	322
11.7	Information Flow and Management	324
11.7.1	Information Flow for MSC Management	324
11.7.2	Information Flow for LC Management	326
11.7.3	Information Management System	326
11.7.4	IMS for Rail Infrastructure Maintenance Outsourcing	328
11.8	Risk Management	329
11.8.1	Some Basic Concepts	329
11.8.2	Risks in EWs/MSCs	332
11.8.3	Risks in Leasing	335
11.8.4	Infrastructures	336
	References	336
12	Epilogue	339
12.1	Introduction	339
12.2	Current Status	340
12.3	Future Research in EWs/MSCs	341
12.4	Future Research in LCs	342
12.5	Integrated Approach to EWs, LCs and MSCs	342
12.6	Conclusion	343
	References	343

Appendix A: Basic Concepts from Probability Theory 345

Appendix B: Introduction to Stochastic Processes. 353

Appendix C: Deterministic Optimisation 363

Appendix D: Illustrative EWs, MSCs and LCs. 371

Index 395



<http://www.springer.com/978-1-4471-6439-5>

Extended Warranties, Maintenance Service and Lease
Contracts

Modeling and Analysis for Decision-Making

Murthy, D.N.P.; Jack, N.

2014, XVIII, 399 p. 101 illus., Hardcover

ISBN: 978-1-4471-6439-5