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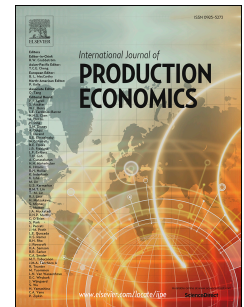
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Interaction of after-sales service provider and contract type in a supply chain

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Abstract

This paper investigates the interaction of provider of free after-sales service and contract type of either wholesale price contracts or consignment contracts with revenue sharing in a two-echelon supply chain with one manufacturer and one retailer facing random demand. We find that both firms' preferences towards the paradigms (defined as the combination of provider and contract type) are almost reverse, and each firm always prefers itself to provide after-sale service irrespective of the contract type, while the retailer always prefers a revenue sharing contract. The equilibrium paradigms depend only on whom provides after-sales service and on whom chooses a contract type, irrespective of firm powers in the supply chain and of whether demand is random or not. Moreover, compared to deterministic demand, randomness in demand results in a higher retail price and after-sales service level, less ordering quantity, and smaller profits for both firms and the chain. Finally, we apply our findings to interpret practices of several firms and make suggestions.

Keywords: supply chain management, after-sales service, wholesale price contract, consignment contract, power structure

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