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PROCEEDING

9th ISIEM

The 9th International Seminar on
Industrial Engineering and Management

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Organized by :

Industrial Engineering Department of

- Trisakti University• Al Azhar Indonesia University•
- Esa Unggul University•Telkom University•
- Tarumanagara University •Pasundan University •
- Atma Jaya Catholic University of Indonesia •
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PREFACE

Dear Presenters and Delegates,

On behalf of the Organizing Committee, I am honored to welcome you to the 9th International Seminar on Industrial Engineering and Management (ISIEM). This seminar is organized by the Industrial Engineering Department from eight Universities, namely Trisakti University, Telkom University, Tarumanagara University, Atma Jaya Catholic University of Indonesia, Al Azhar Indonesia University, Esa Unggul University, Pasundan University, and Bung Hatta University.

The theme “**Collaborative Innovation Towards Borderless Industrial and Economic System**” which in accordance with the current economic era, we hope that through the exchange of ideas, experiences and recent progress in Industrial Engineering and Management from academicians, engineers, professionals and practitioners from Universities, research institutions, government agencies and industries be able to help us to deal with future challenges.

We hope that our presenter and delegates will gain many shared ideas and great experiences from this conference and also acquire additional insights from our honorable speakers, **Gursel Ilipinar, PhD** from ESADE Business School – Barcelona, **Profesor Emeritus Dato’ Ir. Dr. Zainai Bin Mohamed** from UTM Razak School of Engineering and Advance Technology – Malaysia, **Milko-Pierre Papazoff** from Vice President of French External Trade Counsellor (Malaysian Chapter).

The success of this seminar is due to the hard efforts of many people who we gratefully acknowledge. Special thank to all reviewers, speakers, and presenters, also highly appreciate to the committee for mutual effort and invaluable contribution.

Finally, we hope you will enjoy this conference and the natural beauty of Padang city – Indonesia and see you in the next ISIEM.

Best wishes,

Chair of the 9th ISIEM 2016

Dr. Wisnu Sakti Dewobroto, M.Sc

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KEYNOTE SPEECH

#1

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UTM Razak School of Engineering and Advanced Technology
UTM International Campus



#2

Gursel Ilipinar, PhD
Innovation Management Expert
ESADE Business School - Barcelona



#3

Milko-Pierre Papazoff
VP of French External Trade Counsellor (Malaysian Chapter)



TABLE OF CONTENT

Preface
Committee
Reviewer
Agenda
Parallel Session
Table of Content

DSS – Decision Support System and Artificial Intelligence			
No	Paper	Title and Author	Page
1	3	MANAGEMENT INFORMATION SYSTEM FOR ORDER FULFILLMENT: A CASE STUDY Johanes Fernandes Andry, Halim Agung, Yana Erlyana	Paper_3
2	8	SYSTEM DYNAMICS BASED BALANCED SCORECARD TO SUPPORT DECISION MAKING IN STRATEGY OF PERFORMANCE IMPROVEMENT (A CASE STUDY IN THE UNIVERSITY) Linda Theresia, Yenny Widianty, Dawi Karomati Baroroh	Paper_8
3	10	PURCHASING CONSORTIUM SYSTEM USING COMMON REPLENISHMENT EPOCH (CRE) MODEL BY DESIGNING MOBILE INFORMATION SYSTEM FOR SMALL and MEDIUM ENTERPRISES (SMEs) Yudha Prasetyawan, Imam Baihaqi, Shinta Dewi	Paper_10
4	25	CONCEPTUAL FRAMEWORK IN PRINTING PRESS MAINTENANCE DESIGN BY USING DATA MINING Meldi Rendra	Paper_25
5	51	DEVELOPMENT OF ONLINE KNOWLEDGE MANAGEMENT CYCLE INDICATORS USING SECI APPROACH: CASE STUDY IN AN ENERGY COMPANY Aldio Fikri Siddik, Amelia Kurniawati, Umar Yunan Kurnia Septo Hedyanto	Paper_51
6	59	IMPLEMENTATION OF CRISP-DM MODEL IN ORDER TO DEFINE THE SALES PIPE LINES OF PT X Dadan Umar Daihani, Dina Feblian	Paper_59
7	66	INFORMATION SYSTEM STRATEGIC PLANNING BASED ON TOGAF ADM FRAMEWORK IN 1ST REVENUE FUNCTIONS DEPARTMENT OF REVENUE AND FINANCIAL MANAGEMENT BANDUNG REGENCY Theresia Yudith Dwi Prisila, Yuli Adam Prasetyo, Ridha Hanafi	Paper_66
8	68	DESIGN AND ANALYSIS PHYSICAL AND LOGICAL SECURITY USING TIA-942 AND ISO/IEC 27000 SERIES IN DATA CENTER OF PDII-LIPI Mukhlis Anugrah Pratama, Mochammad Teguh Kurniawan	Paper_68
9	69	ANALYSIS AND DESIGN ENTERPRISE ARCHITECTURE OF DEVELOPMENT ANALYSIS BUSINESS FUNCTION AT BADAN PERENCANAAN DAN PEMBANGUNAN DAERAH (BAPPEDA) WEST JAVA PROVINCE USING TOGAF ADM FRAMEWORK Anida Shafa, Yuli Adam Prasetyo, Rahmat Mulyana	Paper_69
10	70	GREEN DATA CENTER POWER MANAGEMENT DESIGN AND ANALYSIS IN PDII-LIPI USING TIA-942 STANDARD Algadilan Susanto, Mochammad Teguh Kurniawan	Paper_70
11	71	DEVELOPING INFORMATION SYSTEM OF LIBRARY ON E-SCHOOL QR-CODE BASED IN 13 NATIONAL HIGH SCHOOL USING EXTREME PROGRAMMING METHODOLOGY Timbul Prawira Gultom, Nia Ambarsari, Muhammad Azani H.	Paper_71

DSS – Decision Support System and Artificial Intelligence			
No	Paper	Title and Author	Page
12	88	FEEDBACK FROM USERS ON A DESIGN OF WEB-BASED INVENTORY AND PRODUCT ORDERING SYSTEM FOR A UNIFORM MAKER Gamma Habie Azzaky, Endang Chumaidiyah, Wawan Tripiawan	Paper_88
13	90	DETERMINATION OF FAILURE RISK FOR TRANSFORMER SYSTEM BASED ON CLASSIFICATION TECHNIQUE Iveline Anne Marie, Anung B Ariwibowo, Docki Saraswati, Amal Witonohadi	Paper_90

ER – Ergonomics			
No	Paper	Title and Author	Page
1	1	WORKLOAD ANALYSIS OF THE CONTAINER UNLOADING PROCESS WORKER Lamto Widodo, I Wayan Sukania, Cynthia Kristiani	Paper_1
2	4	WORK RISK ASSESSMENT TOWARDS WOOD FURNITURE PRODUCTION ACTIVITIES USING MANUAL TASK RISK ASSESSMENT METHOD AND RODGERS MUSCLE FATIGUE ANALYSIS METHOD Cindy Wibisono, Vivi Triyanti	Paper_4
3	6	SHELVES RE-DESIGN TO CONSIDER ASPECTS OF ERGONOMICS IN KOPETRI MINI MARKET, KARAWANG Dene Herwanto, Sukanta	Paper_6
4	13	COGNITIVE ERGONOMIC ANALYSIS OF PROFESSIONALS IN INDUSTRIAL DESIGNER APPAREL (Case Study: Designer at PT. Kurnia ASTASURYA) Erwin M Pribadi, Ari Robiana Rijalah	Paper_13
5	30	DESIGN IMPROVEMENT FOR POTATOES CULTERY TOOLS “POTTY” USING PRODUCT ARCHITECTURE ANALYSIS Rahmat Ramadhani Bayu, Dicha Keci Barakin, Rendra Gilang Yuniarto, Muhammad Iqbal	Paper_30
6	32	Experimental Design of Class Characteristic Factors against Energy Expenditure, Mental Fatigue and Performance Using Anova Method Albertus Steven, Vivi Triyanti	Paper_32
7	55	DEVELOPMENT DETAIL DESIGN GALLON WASHER USING DESIGN FOR ASSEMBLY (DFA) Mohamad Walid Anshar Ichsan Shahib, Mira Rahayu, Teddy Syafrizal	Paper_55
8	56	DESIGN CONCEPT OF WASHING GALLON USING DESIGN METHOD RATIONAL Antonio Bennarivo Nainggolan, Mira Rahayu, Teddy Syafrizal	Paper_56
9	57	DESIGN GALLON WASHING TOOLS USING ERGONOMIC FUNCTION DEPLOYMENT METHOD Bintang Sri Perdana, Mira Rahayu, Teddy Syafrizal	Paper_57
10	61	DESIGNING ERGONOMIC CONVEYANCE TOOLS FOR SULFUR MINERS IN THE IJEN CRATER Anny Maryani, Dyah Santhi Dewi, Elsa Camelia Harmadi, Pamungkas Dwi Admaja	Paper_61
11	89	DESIGNING A PERSONAL SURVIVAL KIT IN FLOOD DISASTERS THROUGH PARTICIPATORY DESIGN APPROACH Grace Novelia, Johanna Renny Octavia	Paper_89
12	91	Ergonomic Analysis for the Armoured Personnel Carrier Driver Halim Mahfudh, Lilik Zulaihah, Reda Rizal	Paper_91
13	102	MAKING A PLYWOOD BOAT CATAMARANS MODEL FOR HANDLING OF FLOOD EMERGENCY IN AREAS OF DURI KEPA Indra Gunara Rochyat, Asnawati, Wahyu Albin Tabrani	Paper_102

ER – Ergonomics			
No	Paper	Title and Author	Page
14	104	PROPOSED DESIGN OF TABLE AND SEAT WORK IN AFBRAMEN WORKSTATION USING ULRICH-EPPINGER Rino Andias Anugraha, Yusuf Nugroho Doyoyekti	Paper_104

IM – Industrial Management			
No	Paper	Title and Author	Page
1	9	MEASURING LABORATORY ADMINISTRATION SYSTEM SATISFACTION : A CASE STUDY Rayinda Pramuditya Soesanto, Amelia Kurniawati, Muhammad Iqbal	Paper_9
2	16	POSITIONING ANALYSIS FOR HIGHER EDUCATION BASED ON PERCEPTUAL MAPPING USING MULTIDIMENSIONAL SCALING Hafizh Suharja, Yati Rohayati, Rio Aurachman	Paper_16
3	17	OPERATIONAL RISK IDENTIFICATION IN ADMINISTRATION SERVICES OF HIGHER EDUCATION Robby Anzil Firdaus, Rahmat Nurcahyo, Anafi Yuan Septiari, Supriadi	Paper_17
4	23	USING EDUQUAL AND KANO'S MODEL TO IMPROVE THE SERVICE QUALITY OF TRAINING AND CERTIFICATION PROGRAM Iffitah Pratomo, Yati Rohayati, Sari Wulandari	Paper_23
5	37	A BRIEF REVIEW IN SOME DISSERTATIONS ABOUT BUSINESS INCUBATOR PROCESS FRAMEWORK AND PERFORMANCE IN SOME COUNTRIES Lina Gozali	Paper_37
6	42	INCREASING PRODUCTIVITY WITH OBJECTIVE MATRIX METHOD CASE STUDY ON BUILDING MAINTENANCE MANAGEMENT PIO PT. XXX R Bagus Yosan, Muhammad Kholil, Winny Soraya	Paper_42
7	45	THE DEVELOPMENT OF TECHNOLOGY READINESS ASSESSMENT FOR COMMERCIALIZATION INNOVATION AND PRODUCT DEVELOPMENT BASED ON DIGITAL BUSINESS ECOSYSTEM Elfira Febriani, Taufik Djatna	Paper_45
8	48	HOW ICT ADOPTION COULD AFFECT INDONESIAN SMEs ORGANIZATIONAL PERFORMANCE Lucy Chairoel, Fuad Salleh, Setyawan Widyarto, Vera Pujani	Paper_48
9	60	STUDY OF LIFT MARKET THROUGH GAP ANALYSIS Niken Parwati, Nurhanisa Maysa, Aprilia Tri Purwandari	Paper_60
10	62	STRUCTURAL MODEL FOR SUSTAINABLE CAMPUS ASSESSMENT: A CASE OF ANDALAS UNIVERSITY Elita Amrina, Insannul Kamil, Nilda Tri Putri, Yunessa Astari	Paper_62
11	64	PAYROLL ADMINISTRATION SYSTEM IMPLEMENTATION USING ODOO AT PT.PRIMARINDO ASIA INFRASTRUCTURE,TBK WITH RAPID APPLICATION METHOD Kevin Rohni Goklas Sinaga, Wahjoe Witjaksono, Faishal Mufied Al-Anshary	Paper_64
12	65	DESIGN E-COMMERCE ANGON BASED ON MARKETPLACE TO INCREASE REVENUE FOR LIVESTOCK'S ACTORS (SELLING MODULE) Atika Elysia, Irfan Darmawan, Muhammad Azani Hasibuan	Paper_65
13	67	DESIGN E-COMMERCE ANGON BASED ON MARKETPLACE TO INCREASE PURCHASING EFFICIENCY FOR LIVESTOCK'S ACTOR (PURCHASE MODULE) Pratiwi Galuh Putri, Irfan Darmawan, Muhammad Azani	Paper_67
14	72	THE IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY OF STARBUCKS COMPANY Charly Hongdiyanto	Paper_72

IM – Industrial Management			
No	Paper	Title and Author	Page
15	73	ANALYSIS OF EARNINGS PER SHARE BEFORE AND AFTER IPO AND THE STRATEGY (CASE STUDY: COMPANIES PERFORM IPO IN INDONESIA STOCK EXCHANGE YEAR 2013) Dewa Ayu Jessica Putri, Endang Chumaidiyah, Rita Zulbetti	Paper_73
16	81	PERCEIVED BARRIERS TO INNOVATION FOR START-UP BUSINESSES Liliani	Paper_81
17	83	APPLICATION OF ANALYTICAL HIERARCHY PROCESS TO CHOOSE CRITERIA FOR MOBILE PHONES Dessi Mufti, Yesmizarti Muchtiar, Iswanto	Paper_83
18	85	ANALYSIS OF LOCAL ELEVATOR COMPANY CORPORATE CULTURE Syarif Hidayat, Ainun Jariah	Paper_85
19	87	DEFINING THE CORPORATE METRICS MarsellinusBachtiar	Paper_87
20	93	STUDY OF LIFT MARKET THROUGH GAP ANALYSIS Niken Parwati, Nurhanisa Maysa, Aprilia Tri Purwandari	Paper_93
21	96	FEASIBILITY STUDY OF BUSINESS DEVELOPMENT PT NUSAPATI PRATAMA WITH LEAN STARTUP Agung Sasongko, Wisnu S Dewobroto, Said Saleh Al-Amry	Paper_96
22	97	VALUE PROPOSITION DESIGN AND BUSINESS MODEL GENERATION METHOD USE FOR BUSINESS INNOVATION FEASIBILITY ON THE MICROBIAL FERTILIZER – LAPTIAP BPPT Wisnu Dewobroto, Bernard Marthin	Paper_97
23	98	THE RELATIONSHIP BETWEEN TEACHING PROCESS AND QUALITY USING THE LINEAR STRUCTURE (LISREL) MODEL IN INDUSTRIAL ENGINEERING DEPARTMENT Tiena Gustina Amran	Paper_98
24	100	INCREASING PRODUCTIVITY OF PT. XYZ THROUGH THE UTILIZATION OF STANDARD TIME AND THE TWO HANDED PROCESS FOR PANEL BOX PRODUCTION Arnolt Kristian Pakpahan; Didien Suhardini; Arum Tri Astuti	Paper_100
25	107	DEFINING TECHNOLOGY STRATEGY FOR SMALL TO MEDIUM ENTERPRISE WITHIN LEAN AND GREEN MANUFACTURING FRAMEWORK Yudha Prasetyawan	Paper_107
26	110	MAINTENANCE PERFORMANCE MEASUREMENT TRANSJAKARTA BUS AT PERUM DAMRI SBU BUSWAY CORRIDOR I & VIII USING MAINTENANCE SCORECARD Didien Suhardini, Iveline Anne Marie, Amal Witonohadi, Auliandi Fahriditya Putra	Paper_110
27	112	FACTORS INFLUENCING INNOVATION MANAGEMENT PRACTICES IN NIGERIA TEXTILE MANUFACTURING FIRM'S Mohammed Ndaliman Abubakar	Paper_112

OR – Operation Research			
No	Paper	Title and Author	Page
1	18	DYNAMIC SIMULATION SYSTEM FOR MAIZE COMMODITIES (CASE STUDY: TUBAN, EAST JAVA) Christine Natalia, Agustinus Silalahi, Andre Sugioko, Trifenaus Prabu Hidayat, Cavin Natalio Simanjuntak	Paper_18

OR – Operation Research

No	Paper	Title and Author	Page
2	21	DETERMINING THE ROUTE FOR SOLID WASTE TRANSPORTATION FROM TPS TO SPA USING VRP – NEAREST NEIGHBOR FOR 10m ³ VEHICLE ON SERVICE AREA SOUTHERN BANDUNG AND EASTERN BANDUNG Wahyukaton, Anni Rochaeni, Sunarya	Paper_21
3	29	A Simple Mathematical Model of Technological Transfer with Two Competing Followers (A Preliminary Result) Hennie Husniah, Asep K. Supriatna	Paper_29
4	34	CAPACITATED VEHICLE ROUTING PROBLEM WITH TIME WINDOWS FOR MILK COLLECTION AT KPBS PANGALENGAN Tjutju Tarliah Dimiyati	Paper_34
5	49	ENHANCING PENDULUM NUSANTARA MODEL IN INDONESIAN MARITIME LOGISTICS NETWORK Komarudin, Muhammad Reza, Armand Omar Moeis	Paper_49
6	63	GROUP TECHNOLOGY AND DYNAMIC MODIFIED SPANNING TREE (DMoST) IMPLEMENTATION FOR DYNAMIC CELLULAR LAYOUT PROBLEM Yogi Yogaswara, Sri Wahyuni	Paper_63

PS – Production System

No	Paper	Title and Author	Page
1	7	DETERMINING THE INVENTORY POLICY FOR V-BELT USING PROBABILISTIC METHOD Sukanta, Dene Herwanto	Paper_7
2	11	APPLICATION OF LEAN MANUFACTURING IN THE PRODUCTION OF SPUN PILE USING WASTE ASSESMENT MODEL AND VALUE STREAM ANALYSIS Syarif Hidayat and Siti Nurlina	Paper-11
3	20	PRODUCTION SCHEDULING OF BIG PART AT MACHINING DEPARTMENT IN PT. XYZ Rizki Wahyuniardi, Wahyukaton, Moch Rifqi Fathoni	Paper_20
4	22	WAREHOUSE LAYOUT DESIGN USING SHARED STORAGE METHOD Alan Dwi Wibowo, Rahmat Nurcahyo, Cut Khairunnisa	Paper_22
5	28	OPTIMAL PREVENTIVE MAINTENANCE OF TWO-PHASE MAINTENANCE POLICY FOR LEASED PRODUCT Hennie Husniah, Andi Cakravastia, Bermawi P. Iskandar	Paper_28
6	31	CONTROL SYSTEMS DESIGN FOR AUTO JUDGEMENT CHECK MACHINE IN ROTOR ASSEMBLY LINE USING PROGRAMMABLE LOGIC CONTROLLER Syahril Ardi, Moh Faiza Abu Rizal	Paper_31
7	33	AN AUTOMATED GUIDED VEHICLE SIMULATION THROUGH ROBOTINO TO HELP LEARNING COURSE INDUSTRIAL AUTOMATION Tatang Mulyana, Haris Rachmat, Prasetia Pramudita Yuliarso	Paper_33
8	41	DESIGNING PRODUCTION SCHEDULING WITH FUZZY PERT TO SOLVE RESOURCE CONSTRAINTS THROUGH LANG'S ALGORITHM N. Nurhasanah, W.N. Tanjung, E. Ripmiatin, A. Supriyanto, S.A. Wulandari, C.A. Nurpraja, Meliantika, M. Qibtiyah	Paper_41
9	44	A MODIFIED ECONOMIC PRODUCTION QUANTITY (EPQ) WITH SYNCHRONIZING DISCRETE AND CONTINUOUS DEMAND UNDER FINITE HORIZON PERIOD AND LIMITED CAPACITY OF STORAGE Jonrinaldi, Henmaid, Nurike Oktavia	Paper_44

PS – Production System			
No	Paper	Title and Author	Page
10	54	RELIABILITY ANALYSIS AND MAINTENANCE MANAGEMENT EVALUATION OF FLASH BUTT WELDING MACHINE WITH RCM II Arief Suwandi, Ulia Rahma	Paper_54
11	58	ANALYSIS & EVALUATION OF PLANT PRODUCTION LAYOUT PT ARKHA JAYANTI PERSADA USING GROUP OF TECHNOLOGY CONCEPT WITH GENETIC ALGORITHM APPROACH Agung Yugo Ngumboro, Budi Aribowo	Paper_58
12	74	DRUG INVENTORY POLICY PROPOSAL USING PROBABILISTIC METHODS TO INCREASE THE SERVICE LEVEL Sabila Syafitri Pambudi, Dida Diah Damayanti, Budi Santosa Chulasoh	Paper_74
13	75	PROPOSED MAINTENANCE POLICY AND SPARE PART MANAGEMENT OF GOSS UNIVERSAL PRINTING MACHINE WITH RELIABILITY CENTERED MAINTENANCE, RELIABILITY CENTERED SPARES, AND PROBABILISTIC INVENTORY MODEL Valinouski Aulia, Judi Alhilman, Nurdinintya Athari S.	Paper_75
14	80	CABLE CLAMP PRODUCTION CAPACITY PLANNING USING ROUGH CUT CAPACITY PLANNING (RCCP) METHOD (A CASE STUDY IN PT FAJAR CAHAYA CEMERLANG) M. Hudori	Paper_80
15	84	MAXIMUM PROFIT CALCULATION BASED ON THE QUANTITY OF DEMAND VEGATABLES WITH THE SINGLE ORDER QUANTITY METHOD Annura Minar Gayatri, Nunung Nurhasanah, Ahmad Juang Pratama	Paper_84
16	99	JOB SHOP SCHEDULING AT IN-HOUSE REPAIR DEPARTMENT IN COLD SECTION MODULE CT7 ENGINE TO MINIMIZE MAKESPAN USING GENETIC ALGORITHM AT PT XYZ Michael Whizo Mayto, Praty Poeri Suryadhini, Murni Dwi Astuti	Paper_99
17	103	USING FUZZY INFERENCE SYSTEM ON PRODUCTION PLANNING CASE STUDY : PANDANUS HANDICRAFT INDUSTRY Nofi Erni, Iphov Kumala S., Roesfiansjah R., Riya Widayanti	Paper_103
18	105	STUDY OF SHAFT POSITION IN GAS TURBINE JOURNAL BEARING Rizky Arman, Iman Satria	Paper_105
19	111	AGGREGATE PRODUCTION PLANNING OF WOODEN TOYS USING MODIFIED PARTICLE SWARM OPTIMIZATION Adri Fajar Jenie, Syarif Hidayat	Paper_111

QM – Quality Engineering & Management			
No	Paper	Title and Author	Page
1	15	VARIABLE ANALYSIS OF IMPROVING THE QUALITY OF SERVICE DELIVERY PACKAGE BY USING IMPORTANCE PERFORMANCE MATRIX METHOD AND KANO MODEL Dwi Novirani, Abu Bakar, Janet ApongTinamba	Paper_15
2	35	RELIABILITY BASED PERFORMANCE ANALYSIS OF BASE TRANSCIEVER STATION (BTS) USING RELIABILITY, AVAILABILITY, AND MAINTAINABILITY (RAM) METHOD Judi Alhilman, Rd. Rohmat Saedudin	Paper_35
3	38	LEAN PROJECT MANAGEMENT TO MINIMIZE WASTE, CASE STUDY : INDARUNGVI PROJECT, PT SEMEN PADANG Nilda Tri Putri, Sarvina	Paper_38
4	40	IMPROVING THE SERVICE QUALITY OF DISTANCE EDUCATION USING INTEGRATION SERVICE QUALITY FOR HIGHER EDUCATION AND KANO Istianah Nedia, Yati Rohayati, Maria Dellarosawati Idawicasakti	Paper_40

QM – Quality Engineering & Management

No	Paper	Title and Author	Page
5	52	DESIGN OF STANDARD OPERATING PROCEDURE (SOP) OF DESIGN AND DEVELOPMENT OF PRODUCT ACCORDING TO ISO 9001:2015 CLAUSE 8.3 BASED ON RISK BASED THINKING BY BUSINESS PROCESS IMPROVEMENT METHOD AT CV. XYZ Rindy Aprilina Gita Prastyanti, Sri Widaningrum, Heriyono Lalu	Paper_52
6	53	DESIGN OF NONCONFORMITY AND CORRECTIVE ACTION STANDARD OPERATING PROCEDURE BASED ON INTEGRATED REQUIREMENTS FROM ISO 9001 AND ISO 14001 Rahmah Fadhilah, Sri Widaningrum, Heriyono Lalu	Paper_53
7	76	APPLICATION OF VALUE STREAM MAPPING IN THE NVOCC FCL SERVICE PROCESS TO MINIMIZE DELAY IN SUBMISSION OF THE DOCUMENT (A CASE STUDY IN PT YUSEN LOGISTICS INDONESIA) M. Hudori, Nismah Panjaitan	Paper_76
8	78	APPLICATION METHODS P-C-P TO IMPROVE QUEUE SERVICE QUALITY IN SUPERMARKET CASHIER AT THE PEAK DEMAND CONDITION Yesmizarti Muchtiar, Muhibbullah Azfa Manik, Emil Endrivot	Paper_78
9	79	IMPROVEMENT TO QUALITY OF TELECOMMUNICATION SERVICE BY MINIMIZE FAILURE OF SIMKARI APPLICATION DEVICE (A CASE STUDY IN PT DATALINK SOLUTION) M. Hudori	Paper_79
10	86	Business Intelligence System Model Proposals to Improve the Quality of Service at PT GIA Rina Fitriana, Johnson Saragih, M. Andika Firmansyah	Paper_86

SCM – Supply Chain Management

No	Paper	Title and Author	Page
1	14	RISK FACTOR ANALYSIS OF LIQUIFIED NATURAL GAS (LNG) SUPPLY PROCESS CHAIN IN INDONESIA Rahmat Nurcahyo, Farid Akbar, Yadrifil	Paper_14
2	26	IDENTIFICATION OF SUPPLY CHAIN PERFORMANCE INDICATORS AND STRATEGIC OBJECTIVES USING THE BALANCED SCORECARD Dwi Kurniawan, Adela Anggun Pertiwi, Lisye Fitria	Paper_26
3	27	THE IMPLEMENTATION OF ANALYTIC HIERARCHY PROCESS ON THE SELECTION OF SUPPLIER IN START-UP BUSINESS: A CASE STUDY Ahmad Setyo Irawan, Liliani	Paper_27
4	77	ENHANCING COMPETITIVENESS OF TEXTILE AND CLOTHING SMALL-MEDIUM INDUSTRIES THROUGH PERFORMANCE MEASUREMENT OF MATERIAL PLANNING USING SCOR METHOD Nunung Nurhasanah, Widya Tanjung Nurcahayanti, Meliantika, Endang Ripmiatin, Mariyatul Qibtiyah, Shifa Aini Wulandari	Paper_77
5	94	SUPPLY CHAIN ANALYSIS OF CASSAVA AGROINDUSTRY TO IMPROVE NATIONAL FOOD SECURITY Iphov Kumala Sriwana, Nofi Erni	Paper_94
6	101	CRITICALLY ASSESS THE DEVELOPMENT OF GREEN SUPPLY CHAIN MANAGEMENT IN THE FAST MOVING CONSUMER GOODS INDUSTRY Ilhamsyah Mahendra, Elizabeth Williamson	Paper_101
7	105	CONCEPTUAL MODEL OF SUPPLY CHAIN MANAGEMENT FOR HIGHER EDUCATION Fajar Kurniawan	Paper_105
8	109	AN APPLICATION OF DIFFERENTIAL EVOLUTION ALGORITHM IN SPARE PART LOGISTICS Said Badrul Nahar, Sakesun Suthummanon, Wanatchapong Kongkaew	Paper_109

DRUG INVENTORY POLICY PROPOSAL USING PROBABILISTIC METHODS TO INCREASE THE SERVICE LEVEL

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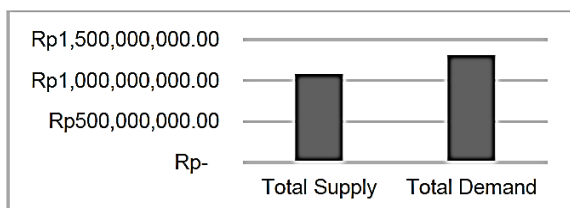
ABSTRACT

XYZ Bandung Hospital has a pharmaceutical depot that provides pharmaceutical goods such as medicine. The depot has 216 drugs SKU that still active. XYZ Bandung Hospital has not inventory policy based on standardizing calculation yet. It caused stockout that resulted in losing sales and decreasing in service level. This research aims to give advice about the drug inventory policy to improve the service level. The demand data is probabilistic so that to determine the policy proposals use probabilistic methods continuous review (s, S) system for first inventory policy proposal and periodic review (R, s, S) system for second inventory policy proposal. For determining the drugs priority is used both ABC analysis and VED analysis that resulted in two priority group of drugs. But this research only focuses on first priority category. The results of this research are inventory control variables which are the optimal order quantity, reorder point and safety stock. Based on the calculation, using the first inventory policy proposal can reduce the total inventory up to Rp54.227.661,27 and increase the service level up to 7.93% and using the second inventory policy proposal can reduce the total inventory cost up to Rp41.145.751,49 and increase the service level up to 1.90%.

Key words: Inventory Policy, Stockout, Continuous Review (s,S) System, Periodic Review (R,s,S) System.

1. INTRODUCTION

Pharmaceutical depot of XYZ Bandung Hospital has 216 stock keeping unit (SKU) for drugs that are still active. In the pharmaceutical depot is found in conditions where there are inventory and demand differs. The total inventory is smaller than the total demand that shown in Figure 1.

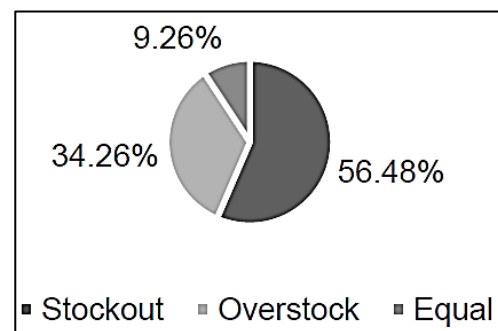


Source : XYZ Bandung Hospital

Figure 1. Comparison of Total Supply and Total Demand

Figure 1 shows that the total demand is higher than the total inventory. It indicates exist demand that can not be fulfilled which will decrease the service level to consumers. The inability to fulfill consumer's demand caused by there is not available inventory of

the desired item on the pharmaceutical depot XYZ Hospital Bandung.



Source : XYZ Bandung Hospital

Figure 2. Percentage of Total Stock out, Overstock, and Equal Item

Figure 2 shows that the difference that arises between the total inventory and total demand is dominated by under stock out condition items that are about 56.48%. This stock out condition caused lost sales resulting from hospital inability to fulfill the demand that occurred. Stock out condition also caused lost sales costs that to be borne by the hospital. Figure 2 also shows that

there is overstock condition caused stack inventory asset costs that also to be borne by the hospital. It caused by inventories which not sold.



Source : XYZ Bandung Hospital

Figure 3. Comparison between Total Lost Sales Cost and Total Stack Inventory Asset Cost

Figure 3 shows the costs that borne by the hospital. The high cost of lost sales will affect the high of total inventory cost that borne by the hospital. Therefore, it will be proposed the inventory control planning for first priority of drug in the pharmaceutical depot of XYZ Bandung Hospital using probabilistic methods continuous review (s, S) and periodic review (R, S, S) system.

2. THEORETICAL BACKGROUND

Probabilistic inventory control method is a method of inventory control where the phenomenon is not known, but the expectation value, variance and pattern distribusi likely predictable (Bahagia, 2006).

2.1. Continuous Review (s, S) System

In continuous review (s, S) system, every order quantity is fixed. Order will be done if the inventory level has reached at reorder point (s) and the inventory will be filled until the point of maximum inventory (S). S value obtained from the addition reorder point and order quantity (Silver, Pyke, & Peterson, 1998).

Total Inventory Cost and Service Level Formulation (Bahagia, 2006).

1. Order Cost

$$Op = \frac{A \cdot D}{q_0} \quad (1)$$

2. Holding Cost (for lost sales case)

$$Os = h \left(\frac{q_0}{2} + s - DL + N \right) \quad (2)$$

3. Shortage Cost

$$Ok = \frac{C_u \cdot D}{q_0} N \quad (3)$$

4. Total Inventory Cost

$$OT = Op + Os + Ok \quad (4)$$

5. Service Level

$$\eta = \frac{N}{q_0^*} \times 100\% \quad (5)$$

Hadley Within Model Formulation for Continuous Review System Inventory Policy (Bahagia, 2006).

1. Calculate value of q_{01}^* with Wilson formula

$$q_{01}^* = q_{0w}^* = \sqrt{\frac{2 \cdot A \cdot D}{h}} \quad (6)$$

2. Find the value of shortage inventory probability

$$\alpha = \frac{h \cdot q_{01}^*}{h \cdot q_{01}^* + C_u \cdot D} \quad (7)$$

3. Find the value of reorder point

$$s_1^* = D \cdot L + Z_\alpha \cdot \sigma \sqrt{L} \quad (8)$$

4. Find N (expected shortage inventory) to find q_{02}^*

$$N = \sigma_L [f(Z_\alpha) - (Z_\alpha) \Psi(Z_\alpha)] \quad (9)$$

$$q_{02}^* = \sqrt{\frac{2 \cdot D [A + C_u \int_{s_1^*}^{\infty} (x - s_1^*) f(x) dx]}{h}} \quad (10)$$

5. Recalculate the value of α to find

$$\alpha = \frac{h \cdot q_{02}^*}{h \cdot q_{02}^* + C_u \cdot D} \quad (11)$$

$$s_2^* = D \cdot L + Z_\alpha \cdot \sigma \sqrt{L} \quad (12)$$

6. Compare the value of s_1^* and s_2^* . If $s_1^* = s_2^*$, iteration finish and the result is $s^* = s_2^*$ and $q_0^* = q_{02}^*$. But, if $s_1^* \neq s_2^*$, back to the third step with replace the value $s_1^* = s_2^*$ and $q_1^* = q_2^*$

7. Calculate the value of safety stock

$$ss = Z_\alpha \cdot \sigma \sqrt{L} \quad (13)$$

8. Calculate the value of maximum inventory level (S)

$$S = q_0^* + s^* \quad (14)$$

where,

q_{01}^* = order quantity (unit)

A = order cost (Rp/order)

D = demand (unit)

h = holding cost (Rp/unit/period)

α = shortage inventory probability (unit)

C_u = shortage cost per unit (Rp/unit)

s_i^* = reorder point (unit)

L = lead time (day or year)

Z_α = normal deviation

σ = standard deviation

$f(Z_\alpha)$ = ordinate

$\Psi(Z_\alpha)$ = partial expectation
 N = shortage inventory (unit)
 η = service level (%)

determine the optimum of R can be decided by compare its total inventory cost that is produced by each value of R.

2.2. Continuous Review (s, S) System

In periodic review (R, s, S) system, every order is not fixed. At any time R unit, an review of the inventory will be done. If the stock is at or below reorder point (s), then the order is made until it reaches the point of maximum inventory (S). But if the stock is above s, the order will not be done until next inventory review (Silver, Pyke, & Peterson, 1998).

Total Inventory Cost Formulation

(Bahagia, 2006).

1. Order Cost

$$Op = \frac{A}{R} \quad (15)$$

2. Holding Cost (for lost sales case)

$$Os = h \left(R - D_L + \frac{D.R}{2} \right) \quad (16)$$

3. Shortage Cost

$$Ok = \left(\frac{C_u}{R} + h \right) x N \quad (17)$$

4. Total Inventory Cost

$$OT = Op + Os + Ok \quad (18)$$

5. Service Level

$$\eta = (1 - \alpha) \times 100\% \quad (19)$$

Hadley Within Model Formulation for find The Value of Order Interval on Periodic Review System Inventory Policy (Bahagia, 2006).

1. Calculate value of R_0

$$R_0 = \sqrt{\frac{2.A}{D.h}} \quad (20)$$

2. Find the value of shortage inventory probability

$$\alpha = \frac{R_0.h}{R_0^1.h + C_u} \quad (21)$$

3. Find the value of reorder point

$$S^* = D(R_0 + L) + Z_\alpha \sqrt{R_0 + L} \quad (22)$$

4. Find N (expected shortage inventory) to find q_{02}^*

$$N = \sigma \sqrt{(R_0 + L)} [f(Z_\alpha) - (Z_\alpha)\Psi(Z_\alpha)] q_{02}^* \quad (23)$$

5. Find the expected value of total inventory cost

6. After calculate the total inventory cost for first priority group, the next step is determine the value of order interval (R) by recalculate with the same calculation but with different value of R_0 . So, to

Silver Model Formulation for Periodic Review System Inventory Policy

(Silver, Pyke, & Peterson, 1998).

1. Determine the value of order interval (R)

2. Calculate the value of X_R and X_{R+L}

$$X_R = D.R \quad (24)$$

and,

$$X_{R+L} = D(R + L) \quad (25)$$

3. Calculate the value of (r) and σ_{R+L}

$$r = hxR \quad (26)$$

and,

$$\sigma_{R+L} = \sigma(R + L) \quad (27)$$

4. Find Q_p value

$$Q_p = (1,30xX_R^{0,494})x \left(\frac{A}{p.r} \right)^{0,506} x \left(1 + \frac{\sigma_{R+L}^2}{X_R^2} \right)^{0,116} \quad (28)$$

5. Calculate the value of z and s

$$z = \frac{Q_p.r}{\sigma_{R+L}.C_u} \quad (29)$$

and,

$$s = (0,937xX_{R+L}) + \sigma_{R+L} \left(\frac{0,183}{z} + 1,063 - 2,192z \right) \quad (30)$$

6. Find S value

$$S = Q_p + s \quad (31)$$

7. Find safety stock value

$$ss = Z_\alpha \sqrt{L} \quad (32)$$

8. Calculate the value of total inventory cost and service level.

where,

X_R = expected demand along order interval (unit)

X_{R+L} = expected demand along order interval and lead time (unit)

D = demand (unit)

R = interval review (day or year)

r = holding cost per unit per order interval (Rp)

σ_{R+L} = standard deviation of demand along order interval and lead time (unit)

h = holding cost per unit per periode (Rp/unit)

Q_p = expected optimal order quantity (unit)

p = price per unit (Rp/unit)

s = reorder point (unit)

S = maximum inventory level (unit)

ss = safety stock (unit)

- Z_{α} = normal deviation
- σ = standard deviation
- L = lead time (day or year)
- N = shortage inventory (unit)
- A = order cost (Rp/order)
- α = shortage inventory probability (unit)
- C_u = shortage cost per unit (Rp/unit)
- η = service level (%)

3. RESEARCH METHOD

The conceptual model is the framework of formula solution plan that explains the relevance of variables in this research to produce an output by the research purpose.

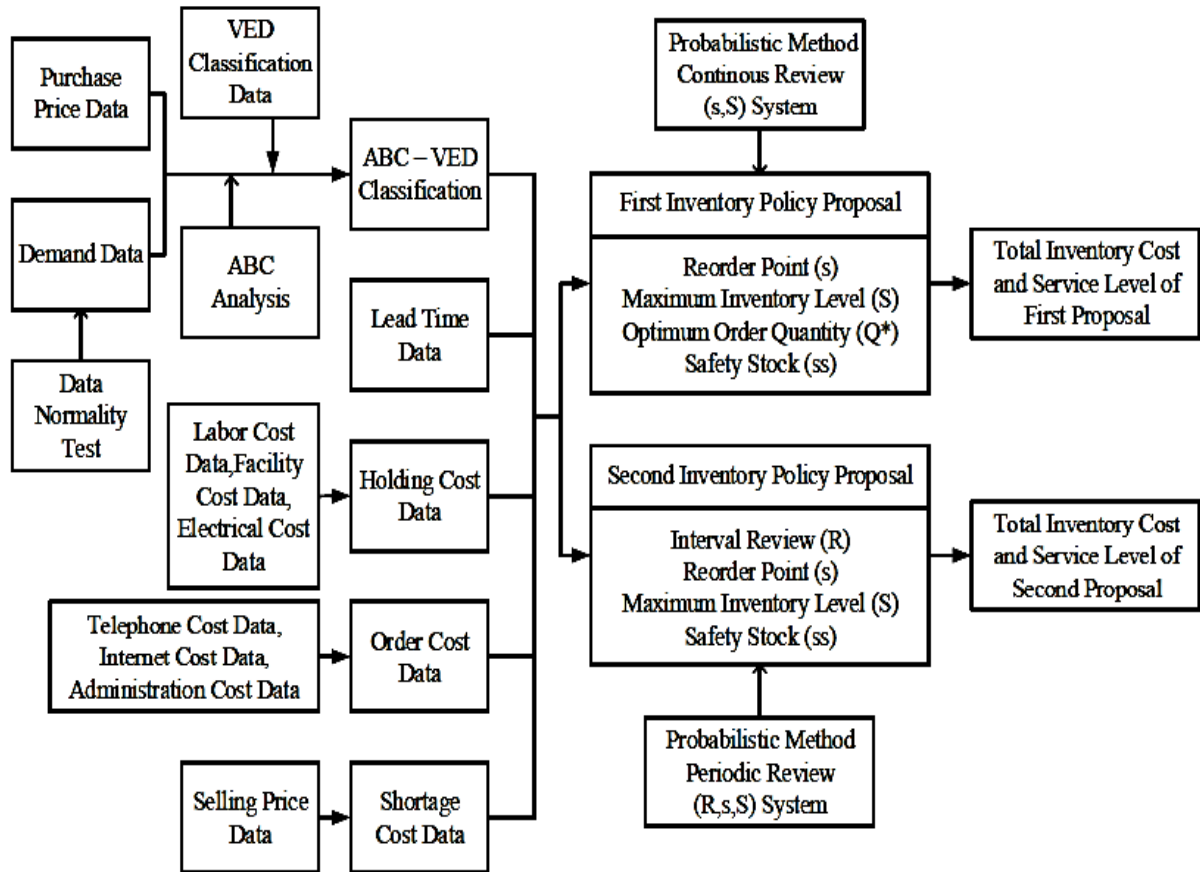


Figure 4. Conceptual Model

4. RESULT AND DISCUSSION

4.1. ABC-VED Classification

Merging ABC-VED classification produce 9 combinations, namely AV with 14 SKUs, AE with 19 SKUs, AD with 28 SKUs, BV with 7 SKUs, and CV with 21 SKUs which became first priority group of drug and BE with 19 SKUs, BD with 37 SKUs, CE with 22 SKUs, and CD with 49 SKUs which became second priority group of drug. So the number of SKU in the first priority group of drug that will be the object of this research is as much as 89 SKUs.

4.2. Existing Total Inventory Cost and Service Level

ACTRAPID HM 100UI

Total Inventory Cost

$$\begin{aligned}
 OT &= \text{Holding cost} + \text{Order cost} + \text{Shortage cost} \\
 &= (h \times m) + (f \times A) + (N \times C_u) \\
 &= (0 \times \text{Rp } 306.93) + (0 \times \text{Rp } 6,735.30) + \\
 &\quad (600 \times \text{Rp } 58,483.33) \\
 &= \text{Rp } 0,00 + \text{Rp } 0,00 + \text{Rp } 35.090.000,00 \\
 &= \text{Rp } 35.090.000,00
 \end{aligned}$$

Service Level

$$\eta = \frac{\text{Demand that can be fulfilled immediately}}{\text{Demand that come on the period}} \times 100\%$$

$$\eta = \frac{0}{600} \times 100\% = 0\%$$

4.3. Total Inventory Cost and Service Level Result Calculation for Proposed Condition

ACTRAPID HM 100IU

- Total Demand (D) = 600 unit
- Standard Deviasi (σ) = 63,96
- Holding Cost (h)/unit = Rp 306,93
- Ordr Cost (A)/order = Rp 6.735,30
- Shortage Cost (Cu)/unit = Rp 58.483,33
- Lead time (L) = 0,0082 year

4.3.1. First Proposed Inventory Policy Calculation Result using Probabilistic Method Continuous Review (s, S) System

Table 1. Inventory Policy for ACTRAPID HM 100IU using Continuous Review

Policy	Value
Optimum order quantity	505 unit
Reorder point	21 unit
Maximum order quantity	526 unit
Safety stock	16 unit

Based on Tabel 1, service level for ACTRAPID HM 100IU is about 99,80% and service level for first priority of drug on first proposed inventory policy is about 99,11%.

Table 2. Total Inventory Cost Exoectation for ACTRAPID HM 100IU using Continuous Review

Cost Component	Cost
Order Cost	Rp 13.470,60
Holding Cost	Rp 82.432,93
Shortage Cost	Rp 165.388,68
Total Inventory Cost	Rp 165.388,68

Total inventory cost for first priority of drug on first proposed inventory cost is about Rp7.159.960,34.

4.3.2. Second Proposed Inventory Policy Calculation Result using Probabilistic Method Periodic Review (R, s, S) System

Table 3. Inventory Policy for ACTRAPID HM 100IU using Periodic Review

Policy	Value
Interval order	99 days
Reorder point	886 unit
Maximum order quantity	887 unit
Safety stock	18 unit

Based on Tabel 3, service level for ACTRAPID HM 100IU is about 99,86% and service level for first priority of drug on first proposed inventory policy is about 93,07%.

Table 4. Total Inventory Cost Exoectation for ACTRAPID HM 100IU using Periodic Review

Cost Component	Total
Order Cost	Rp26.941,20
Holding Cost	Rp295.640,82
Shortage Cost	Rp216.547,47
Total Inventory Cost	Rp539.129,49

Total inventory cost for second priority of drug on second proposed inventory cost is about Rp17.513.501,45

4.4. Calculation Result Comparison of Existing and Proposed Condition

Table 5. Order Cost Comparison

Condition	Order Cost	Difference
Existing	Rp 4.209.562,50	
Continuous Review (s,S)	Rp 2.606.561,10	Reduce Rp 1.603.001,40
Periodic Review (R,s,S)	Rp 2.943.326,10	Reduce Rp 1.266.236,40

Order cost reduce on proposed condition occurs since there is a reorder point policy on proposed condition for each SKU, so the ordering frequency is fewer than existing condition.

Table 6. Holding Cost Comparison

Condition	Holding Cost	Difference
Existing	Rp 1.123.994,04	
Continuous Review (s,S)	Rp 3.613.616,92	Increase Rp 2.489.622,88
Periodic Review (R,s,S)	Rp 12.009.114,60	Increase Rp 10.885.120,56

Holding cost rising on proposed condition occurs since there is the rising level of inventory at the proposed conditions. It causes a rise in the holding cost that also indicates a reduction risk of inventory shortages that lead to lost sales.

Table 7. Shortage Cost Comparison

Condition	Order Cost	Difference
Existing	Rp 55.614.741,83	
Continuous Review (s,S)	Rp 939.782,32	Reduce Rp 54.674.959,51
Periodic Review (R,s,S)	Rp 2.561.060,75	Reduce Rp 53.053.681,08

Shortage cost reduces on proposed condition related to the increase in holding cost. This reduction also indicates a reduction risk of shortages inventory were followed by increase in inventories.

Table 8. Total Inventory Cost Comparison

Condition	Order Cost	Difference
Existing	Rp 60.948.298,37	
Continuous Review (s,S)	Rp 7.159.960,34	Reduce Rp 53.788.338,03
Periodic Review (R,s,S)	Rp 17.513.501,45	Reduce Rp 43.434.796,92

Total inventory cost reduces on proposed condition showed the improvement made from existing conditions. It occurs since there is inventory policy based on standardizing calculation on proposed conditions.

Table 9. Service Level Comparison

Condition	Holding Cost	Difference
Existing	90,59%	
Continuous Review (s,S)	99,11%	Increase 8,52%
Periodic Review (R,s,S)	93,07%	Increase 2,48%

Service level rising on proposed conditions caused by rising levels of inventories on the proposed conditions. So that demand was coming can be fulfilled by the hospital.

5. CONCLUSION

1. In this research produced two inventory policy proposals. First inventory policy proposal is using probabilistic method continuous review (s, S) system, while second inventory policy proposal is using probabilistic methods periodic review (R, s, S) system. By using continuous review (s, S) system on the first proposal, then the drug ACTRAPID HM 100IU have reorder point when inventory level is at the level of 21 units, the number of optimum order quantity are about 505 units, its safety stock as much as 16 units and its maximum inventory level are 526 units. While using periodic review (R, s, S) system on the second proposal, then the drug ACTRAPID HM 100IU has inventory review interval per 99 days, safety stock as much as 18 units, reorder point when inventory level are at the level of 886 units and its maximum inventory level are 887 units.
2. The first proposed total inventory cost produced was at Rp7.159.960,34. While the second proposed total inventory cost produced was Rp17.513.501,45. The total inventory cost resulting from both these proposals has a smaller value of the total cost of inventory on existing condition that has a total inventory cost by Rp60.948.298,37. The first proposed condition reduces the total inventory up to 88,25% less than the existing total inventory cost while the second proposed condition reduces the total inventory up to 71,26% less than the existing total inventory cost.

3. The service level that is produced on the first proposed condition amounted to 99.11% while the service level on the second proposed condition amounted to 93.07%. The service level resulting from both these proposals have a higher value than the service level on the existing condition that has a service level amounted to 90.59%. Increased service level in both conditions, this proposal shows the increasing availability of drugs on the pharmaceutical depot of XYZ Bandung Hospital, so stockout problems that occur can be improved.

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