

Can everyone play the same tune?

by

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Consider the following scenario: you are a member of a large organisation and are responsible for procurement. Suppose you are considering a tender for a company-wide travel arrangement such as car rental. Your problem is that different constituencies within your organisation have different views as to the preferred provider might be.

Put simply, some functions of the organisation, may prefer different attributes of alternative suppliers. Your engineering function may look at the car rental companies that can offer cars with sufficient physical or engine capacity for their needs. On the other hand, marketing may be more concerned about the inside of the car and appearance because they are traveling with clients.

This is seemingly at direct odds with the advantage of such company-wide procurement deals: getting a single price for the whole lots.

A traditional way to deal with such matters is to ignore them. Those in charge of procurement will look at the cheapest deal amongst all car rental companies, regardless of the particular mix offered. Not surprisingly, this ultimately means that one or perhaps all of the constituencies with an interest in this particular supply arrangement are going to be upset with the outcome. As a procurement officer, internal complaints may run rampant.

An alternative would be to let individual constituencies handle their own procurement. But this would subvert any possibility of company-wide bargaining clout. Basically you are opting for complete decentralisation and so lose any benefits from centralisation.

But what if you did the following: prior to soliciting tenders, you obtained a list of interested suppliers in the contract. You then gathered together internal stakeholders and allowed them to have input as to who is their preferred supplier and why. For starters, this is a recognition that all suppliers are not the same and you, as an organisation may be willing to pay, say, \$500,000 more for car rental agency A rather than agency B. But, second, it may allow you to think carefully as to the trade-off between suppliers.

The idea is to work out where a trade-off, such as the \$500,000, comes from. It may come from quantifiable factors such as location or fuel efficiency. But it may also come from subjective factors. That subjective information could come from evaluations from different stakeholders as to how much more they value on supplier over another. The difficult part then becomes as to how you as a procurement officer weight those evaluations. This is not easy but at least by starting with input you have a way of 'handicapping' suppliers in your tender process. You could even give those suppliers early feedback regarding weaknesses.

For the record, lots of organisations do this but they do it after the bids are in. One firm I have run into, BOMweb, does it up-front for apparent gains in transparency and simplicity. The point is that there are ways between complete centralisation and complete delegation. Dealing with them may allow low cost outcomes with fewer internal tensions.

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