We consider a supply chain with one buyer and multiple suppliers, who are subject to disruptions and whose likelihoods of disruptions are their private information. Research question we investigate is: should the buyer procure directly from the suppliers or engage services of a better-informed procurement service provider (PSP). Conventional wisdom says that hiring a PSP is always the right choice because PSP’s knowledge of the supply base improves supplier selection and management, and reduces informational costs of procurement. However, on the other hand, when using a PSP, the buyer adds another layer to its supply chain, potentially introducing double-marginalization costs and relinquishing control over procurement and supply-risk management. In fact, earlier studies prove that using a PSP purely for its superior knowledge about supply costs is always, unequivocally worse for a buyer than contracting with the suppliers directly. We show that the answer to our research question is more nuanced. We identify, quantify, and explain all of the benefits and the costs of using a PSP in our setting and describe conditions under which benefits exceed the costs.

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FOR MORE INFORMATION ON PROFESSOR BABICH’S RESEARCH, PLEASE VISIT: http://explore.georgetown.edu/people/vob2/?PageTemplateID=319