To be successful in any organisation, there is a real challenge for Procurement teams to obtain the best supply prices whilst also encouraging suppliers to support innovation. There are often barriers to success such as lack of competition, or lack of interest from suppliers.

Applying methods derived from research in the areas of game theory, industrial economics and contract theory can help to resolve these issues and to generate above average results.

A general and a real-life example from a health-tech company illustrate how success can be achieved by forward bundling projects and by breaking a supplier monopoly.
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Game theory enables uncertain future demands to be bundled together, creating extra supplier commitment and increasing bargaining power

The Background

In today’s global economy, many industries are faced with continually changing consumer preferences and evolving markets. This leads to uncertainty with future demands, specification and volumes which in turn renders negotiations ineffective with limited bargaining power.

The Challenge

Due to the evolving markets and associated uncertainties, Procurement organisations are forced to conduct numerous supplier negotiations each year. Added time pressures and limited access to cross-functional resources mean that Procurement becomes a purely reactive service. Companies need to break free and move Procurement to a much more proactive role, in order to secure the best products and prices so that they remain competitive and profitable.

The Solution

Future volumes and demands that are not known or specified today are bundled into one single negotiation, and an associated pricing model is also developed - thereby increasing the appetite of suppliers, the level of competition and ultimately the bargaining power of Procurement.

The Results

Uncertainty is transformed into increased commitment, thanks to game theory. Companies can increase their level of commitment to suppliers and healthy competition ensures that suppliers are innovative and price effective.

Game theory enables Procurement to move from a reactive service to a much more strategic and value-driven position.

Real-life example: A health-tech company uses game theory to break supplier monopolies and design high performing markets with increased competition

The Background

The healthcare industry can prove to be complex and risk averse when procuring specialist medical equipment, due to the differing and individual needs of each hospital. With previous service, knowledge and support rating highly in the procurement decision, supplier monopolies are often created, making competitive comparisons difficult.

The Challenge

A health-tech company wanted to broaden the market when procuring hardware for MRI scanners. Specific requirements in each hospital for magnetic shielding components coupled with suppliers strategically reducing supply, meant that Procurement was presented with strong regional supplier monopolies and a fait accompli situation with restricted choice and negotiation.
The Solution

Working in partnership with TWS Partners, the company bundled projects by using a specifically designed software tool which allowed a comprehensive bundling business case for a MRI scanner to be defined, including all cost factors. Cross-functional engagement with stakeholders was also designed so that long-term agreements were available for the chosen supplier to prove commitment.

The Results

Game theory has been a real game changer - supplier monopolies have been broken and high performing markets created, where competition is rife. Cross-functional collaboration has led to long-term agreements being available for suppliers, dramatically increasing the attractiveness of the business at stake.

**True competition exists for the first time and, by adopting a game theory approach, outstanding negotiation results have been achieved leading to significant cost savings and more innovative scanners being sourced.**