Title:
Supplier Diversity before the Time of Cholera

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Abstract:
Procurement programs often aim to rely on a diverse pool of suppliers, besides achieving cost effectiveness. We propose complementing a share auction for dual sourcing with affirmative action to create an endogenous set-aside for a high-cost supplier. In our model more intensive affirmative action strengthens the targeted provider. This has the potential to level the playing field, inducing more competitive procurement overall. Our main result provides a condition under which the endogenous set-aside not only guarantees a very substantial share for the high-cost supplier, but also reduces the buyer’s provision cost compared to a first-price auction. This result is robust to variations of our benchmark model, including the assumptions specifying what providers know about each other, and how affirmative action programs are implemented. We also illustrate how our approach can help to reduce the severity and likelihood of health product shortages, such as those that occurred during the recent COVID-19 outbreak.

Data Description: Theoretical Research, No data Used.

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