

3 Control Freaks

Chinese Walls

Chinese Walls Ltd uses two small package shipping suppliers who are among the largest express delivery service providers in the world. Both suppliers have a sales office in Chinese Walls' corporate HQ. Chinese Walls' strategy is to prevent the suppliers from working together, to keep each guessing about the other and to instil competitive pressure between them. It believes its suppliers will be less responsive to its requests if they have long-term contracts. In practice the physical closeness of the suppliers makes talk between them inevitable. And, despite the efforts of Chinese Walls to prevent it, collusion is surreptitiously taking place. Amongst other things, they are sharing the bids for new contracts.

Secret Squirrel

Secret Squirrel Inc has a pool of ten suppliers. It carries out 9 month production runs for which it selects two suppliers in a competitive bid. It uses two suppliers to offset supply risks by building in redundancy. In order to control cost-competitiveness, it takes great pains to conceal the name of one supplier from the other to prevent collusion. It maintains this stance both during the bidding period and the manufacturing phase. However, the purchasing director at Secret Squirrel observes: *"it's not unusual to see suppliers drop in and out of the list for no apparent reason. They are clearly talking to each other!"*

Working collaboratively with partners brings stability of supply, innovation, trust and the benefit of real cost reductions. However, paranoid behaviour strategies to over-control suppliers are costly to operate and are likely to backfire on the customer.

(after Zhaohui Wu and Thomas Choi 2005, Journal of Operations Management)



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