

Information Firewall and Component Procurement

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Abstract

We study the optimal way to procure components of two competing OEMs that rely on a joint contract manufacturer to produce two partially substitutable products. The contract manufacturer, in turn, needs to procure its components from a supplier. We investigate whether the OEMs should delegate component procurement to the contract manufacturer (indirect procurement) or control it (direct procurement) when the contract manufacturer can strategically implement information firewall to protect its contracting terms with these OEMs. We provide theoretical support to explain different procurement strategies adopted by OEMs to procure components in these three-tier supply chains. We uncover the crucial role of information firewall.

Keywords

OEM, Firewall, Procurement