



## Keio Business School

# Subcontractors' Behavior under Procurement Auctions

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### Questions

1. In the situation described in Subsection 1.1 of the text, each supplier decides on an estimate in anticipation of the estimates of the other competing suppliers in order to receive an order for the production of its part. Suppose that you are a supplier. Then, what estimate would you submit to the manufacturer for the cost of your own part production? Pay attention to the probability that you win and the profit when you win (the payment for the your from the manufacturer minus the the cost of your part production). (Hint: In Appendix 1, set five numerical values or more such as the cost of the part production of each supplier by yourself, and answer Q1 and Q3.) 10
2. In the situation described in Subsection 1.2 of the text, as a result of bid shopping, which supplier receives an order for part production and how much will be paid from Manufacturer 1? What is the relationship with the outcomes in the second-price reverse auctions shown in Appendix 2? 15
3. In the situation described in Subsection 1.2 of the text, does bid shopping increase the profit of Manufacturer 1? 20
4. In the situation described in Section 2 of the text, does bid shopping by manufacturers increase their profits? (Hint: In Appendix 1, set the numerical values such as the cost of part production for each supplier in Figure 1, and answer Q2 and Q4.) 25
5. Everlane is a D2C apparel company founded in San Francisco in 2010. It promises “radical transparency” and specifies the costs of every single piece of clothing made and sold, from materials, labor, transportation and taxes. Comment on Everlane’s management policy, referring to your answers to the above questions. 30

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