

STRATEGIES IN DECIDING WHEN TO SWITCH SUPPLIERS

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ABSTRACT

Corporate procurement managers face the tradeoff of saving purchase costs by switching suppliers versus incurring additional internal costs by making such supplier switches. In some cases, buyers know that such switches would be costly. However in most cases, the costs of switching may be low, though generally unknown. By holding most factors (quality, technology, productivity, quantity) constant, and using simulation, with random changes in prices, we will how the suppliers' price variances impact the buyers' costs. This research is designed to determine what might be typical amounts of savings that can be achieved by always switching to the lowest bidder. These amounts can then be set against the costs that must be overcome for such a switch to make economic sense.

Keywords: *Supplier switching costs, supplier selection, total cost of ownership*