

Centralizing Procurement: The Roles of Scale, Selection and Variety*

Claudia Allende[†]

Juan Pablo Atal[‡]

Rodrigo Carril^{*}

José Ignacio Cuesta[§]

Andrés González-Lira[°]

July, 2023

Abstract. Centralized procurement intends to increase efficiency by reducing upstream market power through “scale effects” but may decrease variety and thus fail to accommodate buyers with heterogeneous preferences. Moreover, buyers’ voluntary participation may result in adverse selection into intermediation when costs are heterogeneous, limiting its gains. We study these mechanisms in the context of public procurement for pharmaceuticals in Chile. Through a combination of reduced-form analyses and a structural model, we find large scale effects, substantial preference heterogeneity, and cost heterogeneity. We use our model to evaluate the desirability of introducing minimum centralized procurement mandates as recently introduced in the country.

Keywords: procurement, intermediation

We thank Liran Einav, Ali Hortaçsu and Shosh Vasserman for their valuable suggestions, and seminar participants at KU Leuven, PUC Chile, UAndes and University of Chile for comments. We also thank Jaime Espina, Héctor Hernández, and Felipe Bravo for useful conversations on institutional details and data access. And we thank Isabel Muñoz and Alejandra Valdés for excellent research assistance. Carril gratefully acknowledges financial support from the Spanish Agencia Estatal de Investigación (AEI) through the grants PID2020-115044GB-I00//AEI/10.13039/501100011033 and FJC2021-047328-I AEI/MCIN/EU/PRTR, and through the Severo Ochoa Programme for Centres of Excellence in R&D (CEX2019-000915-S). [†]Stanford University Graduate School of Business and NBER. Email: callende@stanford.edu. [‡]Department of Economics, University of Pennsylvania. Email: ataljp@econ.upenn.edu. ^{}Universitat Pompeu Fabra and Barcelona School of Economics. Email: rodrigo.carril@upf.edu. [§]Department of Economics, Stanford University and NBER. Email: jicuesta@stanford.edu. [°]Business School, PUC Chile. Email: andresgonzalezlira@uc.cl.