Bargaining Power of Buyers

In Porter’s model, the term “buyers” refers to manufacturers (e.g., General Motors [GM]) and retailers (e.g., Walmart and Amazon) rather than consumers. The ultimate aim of such buyers is to pay the lowest possible price to obtain the products or services that they require. To achieve this goal, buyers try to drive down profitability in the supplier industry. First, however, the buyers have to gain leverage over their vendors.

One way they can do this is to purchase goods and services in such large quantities that supplier firms become highly dependent on the buyers’ business. For example, Amazon has ­tremendous bargaining power over delivery companies. The reason is simple: In the United States alone, ­Amazon has roughly 44 percent of all Internet retail business. Second, when the ­suppliers’ products are viewed as commodities—that is, as standard or undifferentiated—buyers are likely to bargain hard for low prices because many firms can meet their needs. Buyers will also bargain hard when the supplier industry’s products or services represent a significant portion of the buying firm’s costs. A fourth source of buyer power is the willingness and ability to achieve backward integration.

For example, because it purchases massive quantities of goods for resale, Walmart is in a position to dictate terms to any vendor wishing to distribute its products through the retail giant’s stores. Walmart’s influence also extends to the recorded music industry; the company refuses to stock CDs bearing parental advisory stickers for explicit lyrics or violent imagery. Recording artists who want their recordings to be sold by Walmart have the option of altering lyrics and song titles or deleting offending tracks. Likewise, artists are sometimes asked to change album cover art if Walmart deems it offensive. For example, the retailer wouldn’t stock Green Day’s *21st Century Breakdown* CD in 2009 after the band refused to alter some lyrics so the CD wouldn’t carry a parental advisory sticker (see [**Exhibit 16-2**](https://jigsaw.vitalsource.com/books/9780134899763/epub/OPS/xhtml/fileP7001015395000000000000000004602.xhtml#P7001015395000000000000000004608)). In 2017, Green Day changed its tune and released a “clean” version of its *¡Uno! ¡Dos! ¡Tres!* trilogy so that fans could purchase it at Walmart.[**3**](https://jigsaw.vitalsource.com/books/9780134899763/epub/OPS/xhtml/fileP700101539500000000000000000485B.xhtml#P7001015395000000000000000004862)

**Exhibit 16-2**

Walmart refused to stock Green Day’s politically charged CD *21st Century Breakdown*. More recently, the band has complied with Walmart’s requirements, so that its newer releases are now carried by the retail giant. Slipknot, a Grammy-winning metal band from Des Moines, Iowa, has had a similar experience with Walmart.

*Source: Hector Acevedo/ZUMAPRESS.com/Alamy Stock Photo.*

 “Walmart is the 800-pound gorilla. You’re going to want to do more things for a customer who is growing as fast as Walmart is.”[**4**](https://jigsaw.vitalsource.com/books/9780134899763/epub/OPS/xhtml/fileP700101539500000000000000000485B.xhtml#P7001015395000000000000000004864)

*Ted Taft, Meridian Consulting Group*

Bargaining Power of Suppliers

Supplier power in an industry is the converse of buyer power. If suppliers have enough leverage over industry firms, they can raise prices high enough to significantly influence the profitability of their organizational customers. Several factors determine suppliers’ ability to gain leverage over industry firms. First, suppliers will have the advantage if they are large and relatively few in number. Second, when the suppliers’ products or services are important inputs to user firms, are highly differentiated, or carry switching costs, the suppliers will have considerable leverage over buyers. Suppliers will also enjoy bargaining power if alternative products do not threaten their business. A fourth source of supplier power is these companies’ willingness and ability to develop their own products and brand names if they are unable to get satisfactory terms from industry buyers.

In the tech world, Microsoft and Intel are two companies with substantial supplier power. Because about 90 percent of the world’s more than 1 billion PCs run on Microsoft’s operating systems and 80 percent use Intel’s microprocessors, the two companies enjoy a great deal of leverage relative to Dell, Hewlett-Packard, and other computer manufacturers. Microsoft’s industry dominance prompted both the U.S. government and the European Union to launch separate antitrust investigations of its business practices. Today, the tech world’s focus is shifting to new electronic devices such as smartphones, netbooks, and tablets. Many of these new products use the Apple, Android, or Linux operating systems instead of Windows; the chips come from competitors such as Qualcomm and Texas Instruments. As these trends take hold, Microsoft and Intel will find their supplier power diminishing.[**5**](https://jigsaw.vitalsource.com/books/9780134899763/epub/OPS/xhtml/fileP700101539500000000000000000485B.xhtml#P7001015395000000000000000004866)

Rivalry among Competitors

Rivalry among firms refers to all the actions taken by firms in an industry to improve their positions and gain advantage over each other. Rivalry manifests itself in price competition, advertising battles, product positioning, and attempts at differentiation. To the extent that rivalry among firms forces companies to rationalize costs, it is a positive force. To the extent that it drives down prices (and therefore profitability) and creates instability in the industry, it is a negative factor.

Several factors can create intense rivalry. First, once an industry becomes mature, firms focus on market share and how it can be gained at the expense of other firms. Second, industries characterized by high fixed costs are always under pressure to keep production at full capacity to cover those costs. Once the industry accumulates excess capacity, the drive to fill capacity will push prices—and profitability—down. A third factor affecting rivalry is lack of differentiation or an absence of switching costs, which encourages buyers to treat the products or services as commodities and shop for the best prices. Again, this factor places downward pressure on prices and profitability. Fourth, firms with high strategic stakes in achieving success in an industry generally are destabilizing forces because they may be willing to accept below-average profit margins to establish themselves, hold their positions, or expand their operations.

“The only way to gain lasting competitive advantage is to leverage your capabilities around the world so that the company as a whole is greater than the sum of its parts. Being an international company—selling globally, having global brands or operations in different countries—isn’t enough.”[**6**](https://jigsaw.vitalsource.com/books/9780134899763/epub/OPS/xhtml/fileP700101539500000000000000000485B.xhtml#P7001015395000000000000000004868)

*David Whitwam, former CEO, Whirlpool*