

Five Competitive Forces: Bargaining Power of Buyers (Multinational)

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SUBJECT(S): Management

GRADE LEVEL(S): 9, 10, 11, 12

≡ OVERVIEW:

In this lesson, the teacher will address a sub-element of the “five competitive forces” management theory: Bargaining Power of Buyers. Students will read “Social Marketing: How Companies Are Generating Value from Customer Input.” Students will then work in groups and analyze how consumer groups organize in order to increase the buying power of multinationals.

≡ NBEA STANDARD(S):

- Management, II. Management Theories

≡ RELATED ARTICLES:

- [“The Uncertainty Surrounding Your MoviePass Subscription”](#)
- [“5 Things You Should Know About a British Exit from the European Union”](#)

Objectives/Purposes: The purpose of this lesson is for students to comprehend elements of the Five Competitive Forces management theory, specifically in the context of business management/competition at the multinational level. Students will be able to make connections at scale, understanding the organizational dynamics of a multinational business operation.

Knowledge@Wharton Articles: “Social Marketing: How Companies Are Generating Value from Customer Input”

Other Resources/Materials:

1. Internet Access (students will need access to Internet)
2. Projector (teacher can project article onto screen for students)

Activity:

Introduction (10 mins): Class discussion opener:

The teacher should introduce the “Five Competitive Forces” management theory:

- Simply mention to students that there are five competitive forces in the theory, but that the focus of today is threats that arise from the bargaining power of buyers. The full list of the five competitive forces includes:

1. Current Rivalry
2. Bargaining Power of Suppliers
3. **Bargaining Power of Buyers**
4. Threat of New Entrants
5. Threat of Substitutes

Introduce to students *bargaining power of buyers*. Discuss with them the following definition:

- **Bargaining Power of Buyers** — The degree to which buyers have the market strength to hold sway over and influence competitors in an industry.

Examples of the bargaining power of buyers at the multinational level include the following:

1. World-wide recession: If the global economy retracts, customers will buy less goods and the lack of purchasing will cause the multinational business to court the buyer more (i.e., lowering prices, sales on goods, etc.).
2. Increasingly, buyers around the world are able to communicate with each other and decide how they collectively want to do business with the multinational (i.e., Customers

deciding to boycott shoes from Nike because of child labor abuses).

Students should get into groups to list different situations where the buyers might hold sway over a multinational business. Once students have done this, have them share the examples with the whole class.

Guided Reading (10 mins):

Note: Teacher should project article on projector for students to read.

Now, have students read the Knowledge@Wharton article: [“Social Marketing: How Companies Are Generating Value from Customer Input”](#)

Class Discussion (5 mins):

As a whole class, answer the following questions based on the article (Discuss).

1. What are different ways social marketing affects multinational companies as they seek to sell products to consumers?

Answer: *Customers are better able to speak and reach out to each other through virtual media and explain to each other what they personally think of a product. Because of this contact customers have with each other, multinationals have to understand that the individual voices of a customer can have a larger effect on the overall customer base.*

2. What elements help a social marketing campaign “go viral (i.e., when people are talking outside and inside the virtual space, lets buyers communicate openly and honestly about a product even if the feedback is negative, the discussion generated must be authentic)?

Answer: *The campaign must have some or all of the elements that follow: some visual snippet so funny or compelling that people pass it on to one another electronically and/or, the event happens both online and in the real world, and/or it must have some form of genuineness to it.*

3. Name some examples of successful viral campaigns.

Answer: *Dove YouTube, Webisodes from Sprint and Nextel — (both mentioned in article)*

Note: *students will probably be able to mention tones of viral videos, try to keep them focused on videos that speak to the buying power of consumers (i.e., something that praises a citizen, a company, or product).*

Exploration Activity (15 mins): Bargaining Power

Social networking has evolved to include electronic modes of communicating, but is essentially the same word-of-mouth advertising that it has always been. This exercise helps students understand the power of the buyers' recommendation as the most powerful tool that can hold sway over a company or industry.

Have students get into groups. Each group should get online and look for customer-based websites that discuss one of the following multinational corporations: Wal-Mart, Toyota, Apple, or McDonald's. Each group should use one of the corporations to search for consumer-based groups. Groups should list the different types of consumer groups they find (i.e. blog, tweet, social networking site, website, etc.)

- Are these groups tied together in a physical location or are they purely a virtual coalition?
- What do they say about the company?
- How do they organize their comments to create more buying power?
- How does the company respond to these customer groups?
- Are these groups effective in increasing the power of buyers?
- If so, how are they effective? If not, why are they not effective and what could they do to become more effective?

Have students share their research with the other groups.

As a class, compare and contrast the consumer groups for each company.

Compare and Contrast: Methods of organization, Reasons for organization, Efficacy of organization, etc

Closing (5 mins):

Use this time to answer questions and clarify points of confusion.

Tying It All Together: The Bargaining Power of Buyers is one element of the “Five Competitive Forces” theory. The other four forces are: Current Rivalry, Threats of new entrants, Threats from substitutes, and Bargaining Power of Suppliers. In terms of an overall strategic view, now that students understand *the bargaining power of buyers*, the teacher may wish to contextualize this function vis-à-vis the other three remaining forces. Each force can be analyzed at various levels

of scale (small business/local, national, multinational, nonprofit, etc.), and at each level there is insight as to a variety of strategic approaches to business management in the face of market competition.

This lesson plan can stand alone or the teacher may wish to visit other Wharton Global Youth Program lesson plans that highlight the other “Competitive Forces.” Bear in mind that each force represents a unique element of competition and when the five are taken together, they collectively promote a comprehensive view of the dynamics of market competition as experienced in any specific context/market space.

The “Five Competitive Forces” are subsumed within the greater umbrella of Business Management, including but not limited to:

- Theories of Management
- Five Management Functions
- Business Organization
- Personal Management Skills
- Business Ethics and Social Responsibility
- Human Resource Management
- Technology and Information Management
- Financial Decision Making
- Operations Management

Practice Outside of the Classroom: Students can be called to use these consumer-based sites in order to independently research a product next time they make a purchase. Notice how helpful/hurtful these groups were in making your purchase.