

Five Competitive Forces: Bargaining Power of Buyers (National)

SUBMITTED BY: Mustafa Abdul-Jabbar, University of Pennsylvania

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 “A ‘Blueprint for Profit’ in a Time of Growing Consumer Power.” Students will then work in groups and analyze the five sources of increased customer power.

≡ NBEA STANDARD(S):

- Management, II. Management Theories

≡ WHARTON GLOBAL YOUTH PROGRAM ARTICLE:

- [“The Uncertainty Surrounding Your MoviePass Subscription”](#)

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 national level. Students will be able to make connections at scale, understanding the organizational dynamics of a national business operation.

Knowledge@Wharton Article: [“A ‘Blueprint for Profit’ in a Time of Growing Consumer Power”](#)

Other Resources/Materials:

For Teachers:

1. Internet Access-if the teacher has internet and can project the screen to the class, this is fine.

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 national level include the following:

1. Buyers collectively decide your product is not durable and choose not to purchase (i.e., after a news report, many customers choose not to purchase cribs from Fisher Price due to a child having fallen out of a Fisher Price crib).
2. Buyers collectively can dictate prices if there are few buyers or if they purchase large volume (i.e., because of its size and consequent “purchasing weight” in the industry Wal-Mart can negotiate prices when purchasing products from suppliers).

3. If a certain brand of products in a certain industry can be easily switched for another brand of the same product (i.e., a buyer can easily switch from a Toyota to a Nissan depending on the price — and thus is able to negotiate price when purchasing a car).

Students should get into groups to list different situations where the buyers might hold sway over a national 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 K@W article: “[A ‘Blueprint for Profit’ in a Time of Growing Consumer Power](#)”

Class Discussion (5 mins):

With a partner, have students answer the following questions based on the section of the article, then discuss as a class (see [Worksheet 1](#)):

1. What are some ways that a company can strengthen its customer relationships?

Answer: Through emphasizing customer satisfaction metrics, creating consistency in customer interfaces, building better products through Total Quality Management and emphasizing more personalized service.

2. According to the article, how might a company use customer relationships to better tailor their product to the customers’ needs and wants?

Answer: one-to-one marketing and creating a consistent one-face-to-the-customer interface; seeking to understand each customer, delivering a consistent message or service to that customer; in using customer relationship management software – companies can use data to target their customers better and can deliver persuasive information and promotions more efficiently.

3. How does eBay generate trust in its product?

Answer: Ebay generates trust through feedback systems and fraud protection systems

Exploration Activity (15 mins): Bargaining Power

Have students get into groups. Each group will analyze one of the five proven sources of customer power in the article (see paragraph 5). Teacher should either allow groups to choose a *power* or should assign groups to a power.

Groups will answer the following questions about consumer power based on the article.

1. Summarize the assigned power. What is it? How does it work?
2. Explain how customers can use the power to force down prices, demand better quality, or better service from a business.
3. Have students think of a national company that they are familiar with. Have them brainstorm and list ways this company can use information from buyers' power to make their business stronger, better, and more competitive (i.e., A group assigned to power 1 may decide to analyze McDonald's through the lens of power 1. They may decide that McDonald's can provide information on the nutritional value of their products and offer more products that have more nutritional value.)
4. Have students share with the rest of the class the summarization of the power and the conclusions that they have drawn for a national company.

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 bargaining power when purchasing a product.

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