

Five Competitive Forces: Bargaining Power of Buyers (Local)

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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 “Power to the People or Just a Fad? Forecasting the Future of Group Buying Sites.” Then students will participate in a roleplay where they will assume the roles of buyers and sellers in a buyers’ market to determine how market forces can affect a seller’s ability to sell products.

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

Knowledge@Wharton Article: “Power to the People or Just a Fad? Forecasting the Future of Group Buying Sites”

Other Resources/Materials:

For Teachers:

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

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 5 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 local level include the following:

1. The current housing market: if you are ready to buy a house, there are more houses for sale than buyers willing to buy. Therefore the buyer is able to dictate certain conditions

- of the sale (i.e., a lower price, repairs that the seller should make, closing costs, etc.).
2. A small factory that sells to few customers or a certain industry (i.e., A piston factory that makes pistons only for Ford cars).

Students should get into pairs to brainstorm different situations where the buyers might hold sway over local businesses. 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 with a partner “[Power to the People or Just a Fad? Forecasting the Future of Group Buying Sites](#)”

Class Discussion (5 mins):

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

1. How does Groupon use the buying power of customers to affect prices?
Answer: It organizes potential customers into groups to leverage their collective buying power.
2. How does Groupon help local businesses connect with customers?
Answer: Groupon connects local businesses to customers by utilizing a “foot in the door” technique. Meaning, by bargaining for steep discounts they entice customers who may not normally patronize certain stores, but now the opportunity is created for repeat business.
3. What benefit does a small business have in taking steep discounts in prices for its products?
Answer: It has the opportunity to obtain potential first-time customers and induce repeat business. Groupon also serves as an advertising outlet for local businesses.
4. How can customers use social networking to increase their buying power?
Answer: Social networking enables customers to organize into groups through which they are able to leverage their collective buying power to negotiate lower prices, etc.

Exploration Activity (15 mins): Bargaining Power

Split the class into two groups (buyers and sellers). Have two-thirds of the class be “buyers” and one-third of the class be “sellers.” Give all of the “buyers” monopoly money to spend on goods. Have each individual “seller” set up “stores” around the classroom. All sellers will have to sell the same products. The class can choose what “products” they will sell or the teacher can determine this (i.e., each seller will sell the same objects: pencils and paper, homework help, candy, etc. — but are free to “name their own price”). The goal of the seller will be to sell as many products as possible as evidenced by how much “money” they have at the end of the exercise. The goal of the buyers will be to get the best deal possible on the products so that they can buy more products with the same amount of money.

Give students 5-7 minutes to “wheel and deal” for products.

At the end of this exercise have students debrief as a class.

1. What types of deals did sellers have to make in order to sell products?
2. Did these deals make it more difficult or easier to sell products?
3. What types of deals were the customers able to make?
4. Did these deals make it more difficult or easier to buy products?
5. How did the seller who sold the most products sell those products? What strategies did he/she use?
6. How did the buyer who bought the most products buy those products? What strategies did he/she use?
7. How did a buyers’ market affect sales?
8. How do you think this affects local businesses? What can they do to compete?

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 notice when the customer has more buying power in their local context.