

Five Competitive Forces: Bargaining Power of Buyers (Non-Profit)

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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 the Knowledge@Wharton article: “Warm’ or ‘Competent’? What Happens When Consumers Stereotype Nonprofit and For-profit Firms.” Then students will role play the roles funders and non-profits have in order to understand the buying power of funders.

≡ NBEA STANDARD(S):

- Management, II. Management Theories

≡ RELATED ARTICLES:

- [“The Uncertainty Surrounding Your MoviePass Subscription”](#)
- [“Nonprofits Are Changing the World — With a Little Help from the Next Generations”](#)

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

Knowledge@Wharton Article: “Warm’ or ‘Competent’? What Happens When Consumers Stereotype Nonprofit and For-profit Firms”

Other Resources/Materials: For Teachers: Internet Access

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 students to the *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 non-profit level include the following:

1. Political campaigns, while they are not non-profits, operate very much like non-profits do in as much as they rely on donations in order to fund the campaign. Individuals or groups are able to use their dollars to contribute to a campaign they agree with. By doing this, buyers can use their negotiating power through their dollars to influence a campaign and its ability to be continued.
2. In a business which relies primarily on donations (i.e., non-profits) the buyer, or donor, plays such a significant role that his/her contribution alone can (and often does)

determine if the non-profit is able to continue to provide services. Therefore, the buyer has more leverage to negotiate/establish conditions under which the money may be given to the non-profit (i.e., under a Bill and Melinda Gates Foundation Grant, a non-profit must work within the rules and parameters outlined in the Grant).

Have students get into groups to list other examples of the bargaining power of buyers/donors in the non-profit space. If the teacher wants to help students to relate to the topic, their lists may include examples of situations that may not necessarily be non-profits but are subject to the same buyer/donor circumstances as a non-profit, as long as the group differentiates this. When completed, allow the groups to share their lists with the whole class. Discuss.

Guided Reading (10 mins):

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

Now, have students read the article with a partner.

Focus on the section, “A Key to Customer Credibility.”

Class Discussion (5 mins):

Let the whole class answer the following questions based on the article.

1. How do reviews of a non-profit increase the credibility of a non-profit?

Answer: Positive reviews from credible sources can cause the consumer to believe that non-profit is more competent (i.e., a positive review from the Wall Street Journal creates more consumer confidence than a positive review in the Detroit Free Press).

2. How can a “needy or less competent” stereotype effect a non-profit?

Answer: When companies are admired, the customers are more loyal. (i.e., more willing to give funds). If a non-profit is seen as less competent, people are less willing to give donations because they are concerned that their money will be wasted or mismanaged.

3. How do you think buyers or donors use the stereotypes of non-profits when deciding where to donate their funds?

Answer: Answers may vary. Possible answers include: Negative stereotypes may mean that donors do not donate to a cause (i.e., ACRON, a non-profit, was put out of business by negative media attention). Positive stereotypes may mean that donors want to donate to a cause (i.e., Volunteers ringing bells in front of department stores is now part of the Christmas season tradition of the Salvation Army. With this positive association, people are very likely to donate money to the Salvation Army.)

Exploration Activity (15 mins):

Bargaining Power.

Brainstorming (5 mins):

Have students split into four groups. Three groups will assume the role of a non-profit and one group will assume the role of the donor group. In this exploration activity, the three non-profits will try to solicit funds from the donor group.

Role of the Non-Profits: Each of the three groups will assume the role of a non-profit that they are familiar with (i.e., Red Cross, Local Pet Adoption Agency, United Way, etc). Make sure that each group is a different non-profit. Each group will assume that they need funds from the donor. Have each group devise a pitch to solicit funds from the donor group. Make sure to include your strengths as an organization, what you will use the money for, and why the funders need to support your organization.

Role of the Funder Group: Devise a way to decide how you will choose which group(s) you will select. Discuss what is important to you and what each group must do in order receive funds.

Presentations (7 mins):

After the brainstorming, have each group make their presentation to the funding group. The funding group can ask questions of the non-profit. Encourage the funding group to press the non-profit to see what concessions they will be willing to make. After the presentations, have the funding group explain how and who they chose to allocate their funds to.

Whole Class Questions:

1. How much bargaining power did the funders have?
2. How did they use that power?
3. How much bargaining power did the non-profits have?

4. How did they use that power?

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 the 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 four remaining forces. Each force can be analyzed at various levels of scale (small business/local, national, multi-national, non-profit, etc.), and at each level there is insight into 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 include other Knowledge@WhartonHighSchool 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 may wish to further extend this lesson by researching how the power of the buyer affects political campaign non-profits.

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