Five Competitive Forces: Bargaining Power of Suppliers (Nonprofit)

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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 suppliers. Students will read "CHIP's Katherina Rosqueta: 'India and China Will Leapfrog Past the U.S. in Impact Investing'." Then students will create a funding plan from a donor's perspective supplying a nonprofit with funds.

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 nonprofit business operation.

Knowledge@Wharton Article: "CHIP's Katherina Rosqueta: 'India and China Will Leapfrog Past the U.S. in Impact Investing'"

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 (5 mins): Class discussion opener:

Introduce to students the *bargaining power of suppliers* function of the five competitive forces of management. Discuss with them that bargaining power of suppliers is the relative number of buyers to suppliers and that threats from substitutes and new entrants affect the buyer-supplier relationship. (i.e., When more people in the world want oil, the suppliers of oil hold more bargaining power. As more alternative forms of energy enter the marketplace, buyers have more bargaining power because there is a greater diversity of suppliers of energy and thus switching costs are low.)

Have students think of bargaining powers of suppliers in terms of nonprofits. In a nonprofit world, who would be the suppliers? (i.e., funders supplying grants and donations and non-profits supplying social services and/or research). Lead them to realize that the bargaining power of suppliers looks different in the nonprofit space than it does in the for-profit space. In other words, the relationship of nonprofits to sources of revenue is one in which the "supplier" is the source of revenue (funder) and the "buyer" is the nonprofit.

***Note:* For the purpose of the assignments in this lesson plan, we will focus on the funder as the "supplier."**

Whereas in the for-profit world the supplier is usually the company and the buyer is usually the customer. In the non-profit world "suppliers" supply funds and donations to the non-profits. In this light, students should brainstorm as a class ways in which the non-profit suppliers have increased bargaining power (i.e., a grantor who donates the greatest sum of money may have more influence on the non-profit's activity/investments, donors pulling together collectively to create a larger donation). Put this list on the board.

Then have students brainstorm as a class ways in which the bargaining power of nonprofit suppliers could be decreased (i.e., donating less money). Juxtapose this list next to the first list generated on the board so that students can see forces that affect the bargaining power of suppliers at the nonprofit level.

Against this backdrop, 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 bargaining power of suppliers. The full list of the five competitive forces includes:

1. Current Rivalry:
2. **Bargaining Power of Suppliers:** The relative number of buyers to suppliers and threats from substitutes and new entrants affect the buyer-supplier relationship
3. Bargaining Power of Buyers
4. Threat of New Entrants
5. Threat of Substitutes

Guided Reading (10 mins):

<u>Note</u>: Teacher should project article on projector for students to read, or if students have access to their own computers, they should visit the article at the link given below.

Now, have students read the K@W article with a partner: "CHIP's Katherina Rosqueta: 'India and China Will Leapfrog Past the U.S. in Impact Investing'"

Class Discussion *(5 mins):*

Discuss the following questions as a class:

1. What does the Center for High Impact Philanthropy do?
   <u>Answer:</u> They look at ways donors with large donations can make sure their dollars have the largest effect on the greatest good possible.
2. How do they help donors determine where, when, and how much they should give to philanthropic causes?
   <u>Answer:</u> CHIP uses academic research, grey literature such as program evaluations,

well-drawn case studies, policy analysis and nonprofit financial information, and the practical wisdom of practitioners on the ground to help donors determine where, when, and how much should be spent.

3. Explain how donors contributing to philanthropic causes affect the bargaining power of suppliers in the nonprofit?
   Answer: *Answers will vary* (possible responses include: The more often a donor contributes to a certain cause or non-profit, the more the nonprofit will rely on the funding source, therefore the donor will have more say).

Exploration Activity (20 mins): Bargaining Power

Have students break out into groups. In these groups, students will have $100,000 to donate to a philanthropic cause of their choice. Have groups answer the following questions (See Worksheet I):

1. *What cause do you want to donate to and why? (i.e., Red Cross, Local Nonprofit, Susan B. Coleman Foundation, etc.)*
2. *What criteria did you use to evaluate the nonprofit you picked?*
3. *How will you dispense funds to the nonprofit?*
4. *What do you hope to accomplish with your donation?*
5. *How will you evaluate the efficacy of your donation?*
6. *How will you supply funds to the nonprofit?*

Have students share their answers with the class. Discuss as a class how suppliers of funds affect nonprofits. (i.e., What happens when donors stop donating? Or if donors shift funds to other places? What must nonprofits do to ensure that their suppliers/donors continue to donate?)

Closing (5 mins):

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

Tying It All Together: Bargaining Power of Suppliers is an element of the "Five Competitive Forces" theory. The other four forces are: Current Rivalry, Bargaining Power of Buyers, Threat of New Entrants, and Threat of Substitutes. In terms of an overall strategic view, now that students understand *bargaining power of suppliers*, 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, 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 may want to research how large foundations such as the Bill and Melinda Gates Foundation are affecting policy in medicine and education and alleviating poverty by providing the supply of funds to a large number of nonprofits.