

Five Competitive Forces: Bargaining Power of Suppliers (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. Students will read “Winning in Two Worlds: Supply Chain Flexibility.”

≡ NBEA STANDARD(S):

- Management, II. Management Theories

≡ RELATED ARTICLES:

- [“What Is Disrupting the Food Supply Chain?”](#)
- [“To Your Doorstep: The Logistics Journey from Container to Customer”](#)
- [“The Uncertainty Surrounding Your MoviePass Subscription”](#)
- [“The Supply Chain: Who Knew that Every Oreo Makes a Journey?”](#)
- [“The Mask Challenge: Lessons from the Pandemic’s PPE Shortage”](#)
- [“Show Me the Money: Analyzing Porter’s Five Forces”](#)
- [“A Student Draws Inspiration from the Dabbawalas of Mumbai”](#)
- [“A Look at Amazon, Walmart and How Your Shopping Experience Is Changing”](#)

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: [“Winning in Two Worlds: Supply Chain Flexibility”](#)

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. [Worksheet](#)

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 relative to the number of buyers to suppliers. As the number of buyers goes up, the power of the supplier goes up. As the number of buyers goes down, the power of the supplier goes down. Threats from substitutes affect the buyer-seller relationship to the extent to which switching costs and brand loyalty affect the likelihood of customers adopting substitute products and services. Threats from new entrants affect the buyer-seller relationship to the extent it is easy or difficult for new competitors to enter an industry.

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:** As supply goes down, the bargaining power of suppliers goes up and vice-versa
3. Bargaining Power of Buyers
4. Threat of New Entrants
5. Threat of Substitutes

After presenting the five forces, students should get into group arrangements to discuss how local suppliers (typically smaller operations) are often vulnerable to competition from larger national-scale/multinational scale suppliers (i.e., local steel industry versus overseas steel, local food suppliers versus overseas food imported in, etc.). Have student groups discuss government subsidies in the face of such competition. Are subsidies “fair competition?” Students should share their ideas with the class and the class should briefly discuss these ideas as a whole. The teacher should write student suggestions on the board for student reflection.

Guided Reading (10 mins):

Note: Teacher should project article on the 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 Knowledge@Wharton article with a partner “[Winning in Two Worlds: Supply Chain Flexibility.](#)”

Discussion:

Make sure students are in their groups. Have student groups list five observations about high-growth economies and low-growth economies (total of 10 observations). Why do local suppliers in high-growth countries stand poised to impact the market space so significantly? Have student groups share and discuss their findings with class.

Exploration Activity (10 mins): Bargaining Power of Suppliers

Have students answer the following questions (see [Worksheet I](#)):

1. What are some examples of high-growth countries?
 - a. Answer: China, India, Brazil
2. What are some examples of low-growth countries?
 - a. Answer: Economies of Western Europe, United States, Japan

3. Which kind of economy, high-growth or low-growth has “mom and pop” stores as a huge part of its economy?
 - a. Answer: High-growth economies

4. How can investing in a local supplier help foreign companies cut costs?
 - a. Answer: Local suppliers pay less for raw materials, labor and other inputs and thus can charge less for their goods and services (The foreign companies/the buyer can pay *less* for the product).

5. How is this indicative of the “bargaining power of suppliers” element above?
 - a. Answer: With the local supplier as vendor, supply increases (through availability/ready access) and prices go down — in this scenario, the local supplier has higher bargaining power with foreign companies.

Group Reports/Class Discussion:

Have students share their ideas with the class. Remind students that the goal of any business is to create more demand for their products and to keep customers wanting and needing more of your product.

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 be encouraged see how local small businesses in the area use social networking to increase demand for their product.

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