"The conditions determining supplier power are frequently beyond a company's control. However, as with buyer power, the firm can sometimes improve its situation through strategy". Michael Porter
## Determinants of Supplier´s Power. Bargaining Leverage

<table>
<thead>
<tr>
<th>Determinants of Supplier´s Power</th>
<th>BARGAINING LEVERAGE or PRICE SENSITIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Differentiation of Inputs</td>
<td></td>
</tr>
<tr>
<td>2. Supplier Switching Costs relative to the firm switching costs</td>
<td></td>
</tr>
<tr>
<td>3. Presence of Substitute inputs</td>
<td></td>
</tr>
<tr>
<td>4. Supplier Concentration</td>
<td></td>
</tr>
<tr>
<td>5. Supplier Volume</td>
<td></td>
</tr>
<tr>
<td>6. Cost Relative/Total Purchases in the industry</td>
<td></td>
</tr>
<tr>
<td>7. Supplier’s information</td>
<td></td>
</tr>
<tr>
<td>8. Threat of forward integration relative to threat of backward integration by firms in the industry</td>
<td></td>
</tr>
<tr>
<td>9. Impact on costs or expenditures</td>
<td></td>
</tr>
<tr>
<td>10. Impact on quality/performance</td>
<td></td>
</tr>
</tbody>
</table>
The company’s success is defined by the choice of suppliers. Suppliers can exert bargaining power on the firm or an industry by:

1. Raising Prices
2. Reducing Quality of purchased goods or services

There are 4 type of suppliers:

- Goods and Services (raw material, machinery)
- Technology
- Labor Services
- Financial Capital
Key Determinant Factors Power from Suppliers. Bargaining Leverage

- Switching Costs
- Presence of Substitute Inputs
- Suppliers Volume
- Suppliers Concentration
- Suppliers Information
- Threat of Backward Integration
Key Determinant Factors Power from Suppliers. Bargaining Leverage

1. Switching Costs

The lower the cost of switching between suppliers

The more effective is the company’s bargain power

Examples
Switching Costs:

- Gillette razors and blades
- Overdraft Fees or penalties when switching a bank
- Penalties Early Cancellation Mobile provider
Key Determinant Factors: Power from Suppliers. Bargaining Leverage

2. Presence of Substitute Inputs

When there are substitutes

The firm can consider to replace the supplier

When there are no substitute suppliers, these may refuse to work with the firm or charge excessively high prices for unique resources.

Examples: Presence of Substitute Inputs

- Own Solar energy resources instead of buying from the distributor
- Robots substitutes for low wage personnel
- Expertise from highly skilled Tax or legal Consultants
Key Determinant Factors Power from Suppliers. Bargaining Leverage

3. Suppliers Volume

If the firm buys higher volume of inputs to the supplier

For the supplier, the greater the damage from losing that firm as a client

When a supplier doesn´t diversify its buyers, it has less bargaining power. Example: Mexican and CA Exports more than 80% only to US firms

Examples

Suppliers Volume

Maquileras total exports to a unique Wholesale retailer in the USA.

Total Fresh Salmon production to a unique Global Restaurant Chain

Bank Factoring account receivables from a dominant client
4. Suppliers Concentration

- The smaller the number of suppliers
- The easier is for a supplier to influence on prices, quality and terms

Examples
Suppliers Concentration

European Paper Towel Machinery Suppliers
Tritium Producers
Unique Excellent Specialized Doctors or Physicians

A supplier group is powerful if it is dominated by a few companies and is more concentrated than the industry it sells to.
Key Determinant Factors: Power from Suppliers. Bargaining Leverage

5. Suppliers Information

The more information has the firm about supplier’s products, services and costs

The better the firm is able to bargain with the supplier

Knowledge of price is of little value if the quality of the product is unknown

Examples Supplier’s information

Top Management Consulting fees

Investment advisors for Government Infrastructure projects

Artisan Leather Traders in Florence bazaars
Key Determinant Factors: Power from Suppliers. Bargaining Leverage

6. Threat of Backward Integration

If the firm refuses to deal with suppliers

There is higher threat for the firm to DIY their own supply

Examples
Threat of Backward Integration

- Restaurants doing their own fresh bread and pastries
- Ice cream makers buy the farms and cows to produce own milk
- Coffee roasters buying their own coffee fincas

DIY: Do it yourself