

Key Determinants of Buyer's Power. Part I. Price Sensitivity.

"Buyers represent a competitive force because they can bid down prices, demand higher quality or more services, and play competitors off against each other - all at the expense of industry profitability." Michael Porter



→ Determinants of Supplier's Power. Bargaining Leverage

We have finished with the suppliers key determinant factors last week....

Determinants of Supplier's Power	
BARGAINING LEVERAGE or PRICE SENSITIVITY	
1. Differentiation of Inputs	<input checked="" type="checkbox"/>
2. Supplier Switching Costs relative to the firm switching costs	<input checked="" type="checkbox"/>
3. Presence of Substitute inputs	<input checked="" type="checkbox"/>
4. Supplier Concentration	<input checked="" type="checkbox"/>
5. Supplier Volume	<input checked="" type="checkbox"/>
6. Cost Relative/Total Purchases in the industry	<input checked="" type="checkbox"/>
7. Supplier's information	<input checked="" type="checkbox"/>
8. Threat of forward integration relative to threat of backward integration by firms in the industry	<input checked="" type="checkbox"/>
9. Impact on costs or expenditures	<input checked="" type="checkbox"/>
10. Impact on quality/performance	<input checked="" type="checkbox"/>



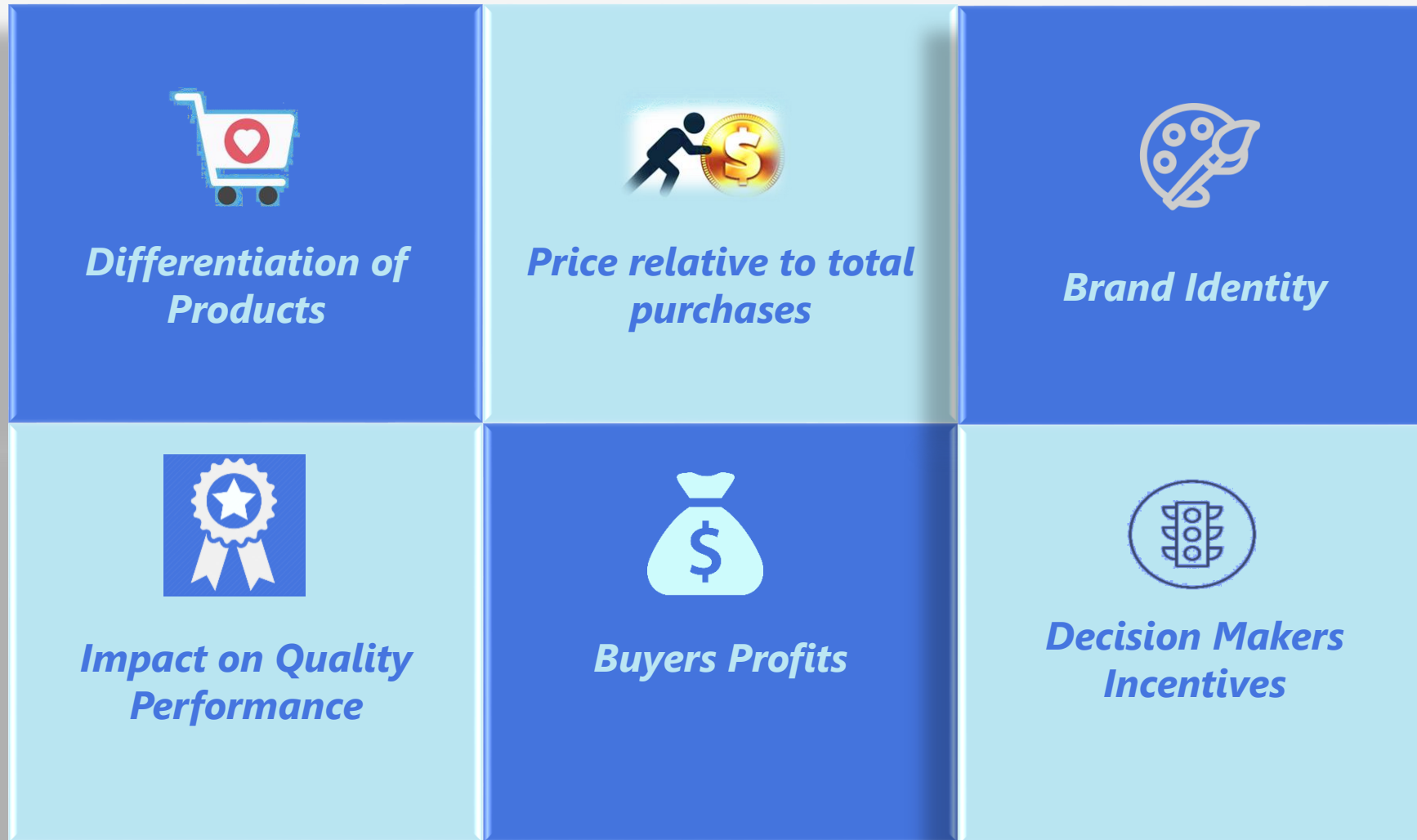
→ Key Determinants of Buyer's Power

Today we will continue with the Key determinants of Buyers power from the point of view of price sensitivity....

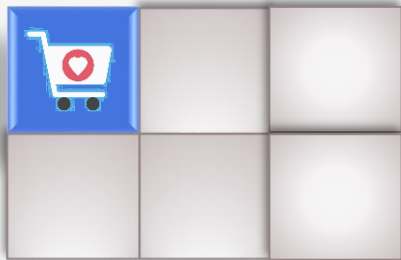
<i>Determinants of Buyer's Power</i>
<i>BARGAINING LEVERAGE or PRICE SENSITIVITY</i>
<i>1. Differentiation of Products</i>
<i>2. Buyer Switching costs relative to the firm switching costs</i>
<i>3. Presence of Substitute Products</i>
<i>4. Buyer Concentration vs. Firm Concentration</i>
<i>5. Buyer Volume</i>
<i>6. Price/Total Purchases</i>
<i>7. Buyer Information</i>
<i>8. Ability to backward integrate</i>
<i>9. Brand Identity</i>
<i>10. Impact on quality/performance</i>
<i>11. Buyer Profits</i>
<i>12. Decision makers' incentives</i>
<i>13. Pull-Through</i>



→ Buyers Key Determinant Factors. Price Sensitivity



→ Buyers Key Determinant Factors. Price Sensitivity



1. Differentiation of Products

The less differentiated the products of the industry



The more willing is the buyer to switch the company on the basis of Price.

Examples
Differentiation
Of products:



Cemex vs. Holcim



Dollar Tree vs.
Dollar General



Yogurts Danone
vs Nestlé



- **Differentiate your product not just by the product itself, but by the customer service, distribution channel and capital access.**



→ Buyers Key Determinant Factors. Price Sensitivity



Buyers tend to prioritize their negotiation efforts in the areas where they spend the most money. If your product or service is a large expense for your customer, then you are more likely to be the focus of their negotiations.

**Examples
Price relative
to total purchases**

2. Price relative to Total Input Purchases

The greater the importance of an item as a proportion of total purchases



The buyers are likely to shop for a favorable price and purchase selectively



Flour and Butter for pastries



Glass jars for marmalade producers



Interest Rates for Credit Card users

Helpful
Tips

- **Alternatively, where the product sold by the industry is a small fraction of the buyers' costs, buyers are usually much less price sensitive.**



→ Buyers Key Determinant Factors. Price Sensitivity



3. Brand Identity

The greater the loyalty of a customer to a brand



The less sensitive is the customer to price



- ***“A loyal customer to a brand can be nine times as profitable as a disloyal one”***

**Examples
Brand Identity**



Coca Cola



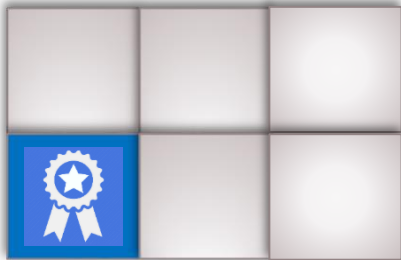
Hygienic towels as
Kotex



Hair Dressers



→ Key Determinant Factors Supplier's Price Sensitivity



4. Impact on Quality performance

If the quality of the product is important for the buyer



The buyer will stick to the firm for the sake of quality regardless the price



- **Alternatively consumers tend to be more price sensitive where quality is not particularly important.**

**Examples
Impact on Quality
Performance**



Oil field equipment for Royal Dutch Shell



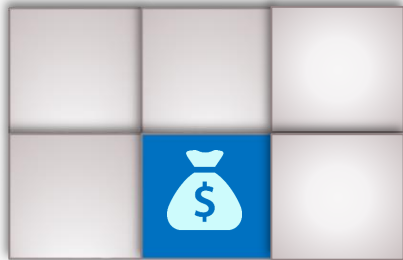
High quality equipment for hospitals



Esthetic Cementation resins
High Quality Material for Dental Specialists



→ Key Determinant Factors Supplier's. Price Sensitivity



5. Buyers Profits

A buyer with high profits



Has no incentive to lower purchasing prices.

"Highly profitable buyers are generally less price sensitive and more concerned about the quality (that is, unless the purchase represents a large fraction of their costs)"

**Examples
Buyers Profits**



Luxury wallets or bags



Visit the restaurant
Dinner by Heston
Blumenthal in London



A \$83,200/night at Royal
Penthouse Suite , Hotel
President Wilson, Geneva



- ***The more profitable your customers are, the less likely they are to be concerned with the amount you charge.***



→ Key Determinant Factors Supplier's. Price Sensitivity



6. Decision Makers Incentives

If the buyer decision maker receives incentives from the firm



The less sensitive are to price

"The decision maker of the purchase may be receiving incentives from you or your competitors. The presence of incentives influences the decision, with part of the decision based on something other than merit".



- **Incentives can be discounts per purchase, loyalty programs, fee reductions, other products.**

**Examples
Decision Makers
Incentives**



Airlines annual contract for Government Offices



Meeting rooms for your employees needs



Investment Banking entities

