

Buyer Power

Would you sell to Walmart? The answer is yes or no. While you will love it for the volume that Walmart provides you, you would be very worried about the downward pressure on prices they would exert on you.

What makes buyer such as Walmart very powerful? Two factors drive buyer power:

1. The Intrinsic leverage they exercise over you and
2. The price sensitivity

Intrinsic leverage increases when the buyer industry has a higher concentration vis-à-vis your industry. For instance, Walmart, Intel, Microsoft exercise huge power over their supplying industries. If the buyer purchases in large volumes or in other words, the industry is dependent on the buyer for a majority of its sales, the intrinsic leverage increases.

Intrinsic leverage also increases when it is relatively easy for the buyer to switch between competitors' products such as in the case of a customer switching between alternate airline companies. If the buyer is well-informed or an expert, there leverage increases. Or if the buyer can credibly threaten to integrate backwards or if the industry's products are undifferentiated, under all these conditions, intrinsic leverage can be very high.

What increases the price sensitivity of the buyer?

Buyers' price sensitivity would increase if the purchase is a high percentage of the total expenditure. Or if the buyer industry itself earns very low profits.

If the industry's products do not significantly contribute to the quality or performance of the buyer and if the industry's products have low brand identity and have low product differences.