

Bargaining power of suppliers

Let's now look at the bargaining power of suppliers. Why are the margins of Microsoft or Intel so much higher than companies such as Dell in the pc industry that it sells to?

The bargaining power of suppliers increases when the supplier concentration is much higher than the industry's concentration. In this case, there is just one Microsoft and a few suppliers of microprocessors compared to the large number of firms in the pc industry.

Bargaining power of suppliers also increases when the supplier does not depend on the industry for revenues or it's easier for the supplier to switch between alternate players in the industry. If the products are highly differentiated with potentially strong impacts on cost of differentiation, the supplier tends to be powerful. When there are no substitutes to a supplier's inputs, they tend to be powerful.

Finally, if the supplier can threaten to forward integrate into your industry, they tend to have greater bargaining power.