Essay on bargaining power of suppliers

Business, Company

Summary

Introduction

The current paper relates Porter’s Five Forces analysis of two companies – Starbucks and Nordstrom. Starbucks is the global company involved in selling coffee beans. Nordstrom is an American upscale retailer selling clothing, handbags, accessories, cosmetics, jewelry, and fragrances.

Starbucks

Bargaining power of suppliers of Starbucks is low because coffee beans are a commodity. The price on coffee beans is affected by multiple factors including weather, natural disasters, political factor, inventory levels, and economic conditions. Besides, Starbucks is pressurized by the international community to be responsible for fair trade and ethical sourcing of the final products. These factors lower bargaining power of suppliers. In addition, Starbucks acquired its own coffee farm last year.

Nordstrom

The power of suppliers makes little impact on Nordstrom as well. The company buys supplies from a variety of domestic and foreign vendors. Thus, Nordstrom can switch from one supplier to another in the case if the first supplier decides to increase prices. Nordstrom carefully selects its partners using multiple criteria including legal and regulatory compliance and compliance with labor, health, and safety legislation. Also, Nordstrom is going to create privately owned label. This makes bargaining power of suppliers insufficient.

Bargaining Power of Customers

Starbucks

Bargaining power of customers is low because the amount of customers is large, the purchase amount is small, and Starbucks is presented globally as the largest coffee chain. Besides, Starbucks is positioned as a special brand since it offers coffee of good quality and unique experiences for the customers. Additionally to high quality products, the company offers free services as Wi-Fi and reward cards. Cozy and comforting environment is seen as additional bonus by the customers.

Nordstrom

On the contrary to Starbucks, bargaining power of Nordstrom's customer is medium because there are many competitive retail options offered in the market. Besides, retail stores similar to Nordstrom can derive benefits or suffer from brand image and reputation. The prices for Nordstrom's products are relatively high. In addition, customer service at retail stores takes a lot of efforts. At Nordstrom, it includes personalized sales, return policies, and membership sales. This entails increasing bargaining power of customers.

Threat of Substitutes

Starbucks

Threat of substitute product is medium because competitors are developing similar coffee products and offer beverages other than coffee and tea. Taking into account the current tendency to healthy style of life, coffee is more often substituted by smoothies, soda, and fruit juice. Sometimes coffee products are substituted by alcoholic or energy drinks. Besides, the customers' willingness to switch is high because of high prices for specialty coffee. Also, volatility of coffee price is a risk factor. All these factors increase threat of substitute product from low to medium.

Nordstrom

Threat of substitute product is low because the major competitors such as Wal-Mart and Target offer low cost clothing and accessories while Nordstrom offers high quality at high price.

Threat of New Entrants

Starbucks

Threat of new entrants in specialty coffee industry is high because of low barriers to entry, low startup costs, and low legal barriers. Minimum startup costs make up $100, 000. However, supply costs can be high in the case of failure of establishing the relationships with suppliers.

Nordstrom

On the contrary to Starbucks, threat of new entrants is low in the retail industry because startup costs are high. As well as in the specialty coffee industry, good relations with suppliers is important. It is difficult for new entrants to obtain a license for exclusive products similarly to Faconnable carried by Nordstrom. Besides, Nordstrom takes advantage of the credibility established for many years it was operating in the retail market. It is also difficult to reach brand loyalty at a brief period of time.

Existing Rivalry within the Industry

Starbucks

Existing rivalry in the specialty coffee industry is high. At the present time, Starbucks faces competition from Dunkin Donuts, Beans & Brew and McDonalds.

Nordstrom

Competition in retail business is high because a number of retail chains offer clothing and accessories. The major competitiveness comes from Wal-Mart and Target retail chain stores.

Financial Summary

Starbucks

Starbucks succeeded to generate higher sales from the same amount of assets available in comparison to Nordstrom. Obviously, financial position of Starbucks is better than that of Nordstrom because quick ratio, cash ratio, and cash flow ratio are higher that these financial ratios of Nordstrom meaning higher liquidity. On the contrary to Nordstrom, operating cash flow is increasing meaning that Starbucks has enough cash to finance its current operations.

Nordstrom

Nordstrom is currently using higher financial leverage that can pose a challenge in future. Operating profit margin is declining at Nordstrom while operating profit margin of Starbucks is growing. Gross profit margin is significantly lower than that of Starbucks meaning reduced opportunity to invest in future growth that is necessary for the company operating in a highly competitive environment. Debt equity ratio of Nordstrom is growing meaning increasing debt. It means that the ability of the company to generate value for its shareholders is declining.