Bargaining power of buyer

Business, Marketing

Bargaining power of buyer refers to the ability of individual customer to negotiate prices that extract profit from the seller. Buyers are more price sensitive when the product is undifferentiated and there are few switching costs. The buyer's bargaining power is determined by the number of buyers. In automotive industry, consumers do not have much buying power as they ever purchase huge volumes of cars and switching cost are relatively low (Palepu, K G. et al. , 2007).

Raw materials and input-labor are needed to complete the finish product of the organization (Gomez-Mejia et al. , 2008). Suppliers are important to an organization as they can affect the cost of input. Greater dependence on particular supplier increase the power that supplier to impose terms on the buyer (Gomez-Mejia et al. , 2008). However, bargaining Power of suppliers in car industry is weak because they have large suppliers spread all over the world and cannot easily forward integrate.

Suppliers are extremely susceptible. If large suppliers raise prices, Toyota may suffer in their profitability. To stay competitive in this area, Toyota keeps a large database of small business suppliers in their operations. Through this database, Toyota puts an emphasis on using smaller businesses for suppliers in order to gain a competitive advantage. Substitutes are moderately strong due to different and less-expensive transportation facilities. The Hybrid Synergy Drive of Toyota is the threat of substitute products.

Nissan and Honda have developed the same technologies for their car models. However, lower cost may induce consumers to shift preferences from higher cost of vehicle to another lower cost transportation such as mass transit, motorcycle and public transportation (Gomez-Mejia et al. , 2008). The number of substitute product for car is limited because in low pressure on the manufacturers. Within in automobile industry, normal cars cannot substitute the luxury cars, and vice versa.

The major players of the American big three: GM, Ford, and Chrysler, while the Japanese big three: Toyota, Honda and Nissan had caused the rivalry of global automotive manufacturing industry much more intense. In automotive industry, it is less price-based competition, but more recently the competition has intensified - rebates, interest free loans and long-term warranties have helped to lure in customers, but they also put pressure on the profit margins for vehicle sales.

For example, Malaysia is offering RM5k discount for owners of cars that were more than 10 years old to buy new Proton or Perodua cars (The Star Online). Thus, it maybe will directly affect the sales of Toyota Car in Malaysia market. Generally, competitive rivalry will be high if there is just a little differentiation opportunities, the competitors are nearly the same with each other, and the competitors all have similar strategies (Henry, 2008). For example, in automobile industry, all companies make cars, trucks or SUVs.

So, the key to win and keep the customers is to understand their needs and wants for buying something better than competitors do. Business success built on costleadershiprequires the business to be able to offer its product or service at lower price than its competitors with a good quality of the product (Pearce ll, J. ; Robinson, Jr. R. , 2009) and its lowest-cost base still allows it to earn a profits (Henry, 2008). Low-cost producers usually excel at cost reductions and efficiencies.

They maximize economies of scale, implement cost-cutting technologies, stressreduction in overhead and in administrative expenses, and use volume sales techniques to propel themselves up the earning curve (Pearce ll, J. ; Robinson, Jr. R. , 2009) and obtain the largest share of market so that its cost per unit is the lowest in the industry (Keegan, W. ; Green, M. , 2008). ; Toyota's production system is reportedly the most efficient in the world. This efficiency gives Toyota a low cost position within the automobile industry because it has developed considerable skills in efficient supply chain management and low-cost assembly capabilities.

Toyota is constantly searching for new suppliers that can provide industry leadership on cost, quality andtechnology. However, the company will choose only those suppliers that are willing to establish long-term partnerships with Toyota and that have the ability to be successful in such relationship (The Boston Consulting Group) Now, Toyota earns more revenue than the three largest American auto producers, General Motors, Ford, and DaimlerChrylers (Henry, 2008).

A company achieved competitive advantage by seeking to differentiate the company's product or service offering from rivals' in a broad market is called differentiation (Keegan, W. & Green, M. , 2008). A differentiation strategy requires an industry to continuously invest in the creation of new products or add new features to existing products and the difference must be sufficiently exist in the mind of customers to the extent that they are willing to pay a premium price and may not be a true distinction from competitive products (Henry, 2008).

Differentiation provides a defence against competitive rivalry that helps to protect the organization from price competition. > Toyota has succeeded in combining aspects of styling and image, performance economy and reliability with a very efficient, local supply chain (Doole, I & Lowe, R. , 2007). Toyota has differentiated its cars from those of rivals on the basis of superior design and quality. Toyota has this superiority, brand and marketing skills to use a premium pricing policy charge for many of its popular models.

For example: Toyota's Lexus- the pursuit of perfection with luxury brand. (Pearce ll, J. ; Robinson, Jr. R. , 2009). Thus Toyota seems to be simultaneously pursuing both a low cost and a differentiated business level strategy. By stressing the attribute above other product qualities, the firm attempts to build customerloyalty. Company translates such loyalty into a firm's ability to charge a premium price for its product. For example: another automobile industry, Porsche automobiles (Pearce ll, J. & Robinson, Jr. R. , 2009).