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The Bargaining Power of Customers – part 4 in a series looking into Porter's Five Forces

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Bargaining Power of Customers is another one of the five forces in Porter's Five Forces framework – a business tool used to analyze the competitive environment of an industry. Buyer power refers to the pressure that customers can exert on businesses to get them to provide higher quality products, offer better customer service, and/or lower prices. Tribes are involved in numerous business enterprises, both as owner/operators and as investors. Understanding the customers' purchasing power is important in evaluating on-going business strategies and in identifying future investment opportunities.

The bargaining power of customers is determined by several factors, including the number of customers, the customer's dependence on purchase of that product, switching costs, and backward integration.

<u>Number of customers</u> - If there are fewer customers relative to that of suppliers of the product, the customers' power will be stronger. A concentration of buyers will exert more influence on the industry and have more ability to change price and quality characteristics in

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IN THE NEWS

Government shutdown avoided for now
10/1/23 – ictnews.org

Future of tribal gaming on the G2E agenda
10/4/23 – cdcgaming.com

G2E: Indigenous women defy odds in Tribal leadership
10/10/23 – cdcgaming.com

Former Navajo Nation President Jonathan Nez is running for Congress
10/16/23 – ictnews.org

Wilton Rancheria buys 20 acres of land near Sky River Casino
10/26/23 – cbsnews.com

October 30: 5 Things You Need To Know This Week
10/30/23 – nafoa.org

Alabama-Coushatta Tribe of Texas Secure 100th Resolution of Support
10/30/23 – pechanga.net

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their buying decision.

Customer dependence on a product/service – This relates to the product/service itself. If it is specialized, or customized, typically there is less buyer power. If a buyer can get similar products/services from other suppliers, customers depend less on a particular supplier and therefore, the power of the buyer would be greater. Necessities such as medical services or housing typically command more customer dependence than non-necessary goods and services.

Switching costs – If customers have many choices for a product or service and it is easy to substitute one for another, the customer has relatively more power, resulting in a more competitive industry with less pricing power.

Ease of backward integration – Backward integration refers to the ability of the buyer to replicate the product or service of the seller themselves. Home meal prep companies like Hello Fresh and Blue Apron are two examples of companies in an industry that has suffered largely from significant backward integration. Why pay a premium for delivery of ingredients if for a fraction of the cost, a customer can drive a short distance to the supermarket and directly purchase the goods themselves? Both companies, and the industry generally, have taken a nose-dive since the end of the pandemic lockdowns.

When the customers' power is high, it can lead to lower prices and / or decreased purchase volume resulting in reduced revenues and profit margins for businesses. On the other hand, when customers' power is low, businesses have more control over pricing, employee staffing and marketing costs, which can help to maintain higher profit margins.

In two industries that many Tribes own, gaming and C-stores, customers' bargaining power is usually dictated by the geographic proximity to customers' locations and nearby competitive casinos, other entertainment options or gas stations/C-stores. If there are little, or poor quality, alternatives in the local area, the businesses may be able to achieve higher profitability due to less customer power.

In conclusion, understanding the bargaining power of customers is essential for understanding industry profitability. By analyzing this force using Porter's framework, investors can identify areas where providers of a product or service have relatively more power than their customers. Effectively monitoring changes in this attribute, and leveraging this advantage, can lead to higher profits and a lasting business model.

TFA stands ready to assist you as you evaluate opportunities – give us a call anytime.

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