



Attaining Bargaining Power over the Intermediate Firm from Supplier-Buyer Alliance: A Case from the Motion Picture Industry

Shufan Yuan

School of General Studies, Columbia University in the City of New York, New York, NY
10027, US

chris.y@columbia.edu

Abstract. This paper focuses on a proactive approach to bargaining power attainment via supplier-buyer alliance in a Five Forces framework. The case study first comprehensively analyzes the motion picture industry with the Five Forces Model, and incorporates the Resource Based View to illustrate the bargaining power of suppliers. An empirical case from the industry is discussed to exemplify the supplier-buyer alliance as a potential strategy to attain bargaining power in the supply chain. The foundation of the alliance is established on the heterogeneity of the bargaining power of buyers and suppliers. The process of bargaining power borrowing from the buyers to the suppliers can be observed in this relationship. This paper also proposes social media as a major form of the supplier-buyer alliance and points out the importance of a balanced social media presence. This study suggests that firms that play as suppliers in the supply chain should proactively seek sources of bargaining power by building the supplier-buyer alliance.

Keywords: The Five Forces Model, Bargaining power, Supplier-buyer alliance, Resource Based View, Motion picture industry

1 Introduction

The Five Forces Model has been a popular tool to conduct competitive analysis among scholars and business professionals since it was first introduced by Michael E. Porter in 1979 and later developed by Porter himself and numerous scholars [1][2]. While the theory extended the boundary of competition from narrowly defined industry rivalry to five competitive forces (customers, suppliers, existing rivals, potential entrants, & substitute products) as proposed by Porter [2], this theoretical tool is usually implemented with a passive posture. That is, the Five Forces Model tends to be used in the analysis of the profitability of an industry as a whole, from a rather static perspective. Thereby, the power of an individual player to shift the competition and gain bargaining power is somewhat marginalized in the process. Meanwhile, the premise that the competition is

determined by five separate forces limits the discussion on the interaction between different competitive forces.

This paper focuses on the interaction between the two forces, the suppliers and buyers, in a five forces model of the industry competition, and its strategic implication for gaining bargaining power as a player in the industry supply chain. A recent noteworthy case from the motion picture industry will be discussed to understand the potential form and influence of such interaction. A sophisticated five forces analysis of the motion picture industry will be conducted first to examine the competitive environment which allows the interaction to take place. This paper tries to provide a proactive approach for strategists and decision makers to actively increase bargaining power in the supply chain under the five forces framework.

As the supplier-buyer relationship has been a subject of study for many scholars over the years, it needs to be clarified here that the definition of the term “supplier-buyer relationship” in this paper is essentially different from the previous studies [3][4][5]. Rather than the direct seller-buyer relationship, which was referred to in the above-mentioned studies using the phrase “supplier-buyer relationship”, the word “supplier” and “buyer” in this paper are respect to the intermediate firm in the supply chain. They are equivalent to the suppliers and buyers in the Five Forces Model.

2 An Overview of the Motion Picture Industry: A Five Forces Perspective

2.1 Existing Rivalry, Threat of Entrants, Threat of Substitutes

The structure of the industry largely determines the intensity of rivalry among existing competitors. According to Watson [3], the motion picture industry is dominated by large film studios such as Warner Bros., Disney and Universal. These film studios tend to be business divisions of larger entertainment companies, as filmmaking is a capital-intensive business. This leads to rather an intense rivalry within the industry as these studios are all similarly sizable and powerful. As the demand for movies is highly seasonal, these firms often directly compete with one another during the same release window [3] The high exit barrier also contributes to the intense rivalry as firms incur a considerable fixed cost.

The threat of new entrants is generally low in the motion picture industry, but is increasing over recent years. First, each stage of the value chain requires intensive capital investment with an uncertain level of return on investment, which contributes to the high entry barrier. Second, film production requires specific assets such as machines, facilities, human resources, and production licenses, which are difficult and costly to acquire for newcomers [6]. Third, the strong existing firms, which have achieved economies of scale, can impose considerable competitive stress on the new entrants. Their relationship with major theater chains leads to unequal access to distribution channels, which is also a high entry barrier. However, the occurrence of alternative distribution channels moderates the high entry barrier. Movies can now be distributed virtually

online via video sharing platforms and streaming services, which is less costly compared with the traditional yet declining theater-release approach.

The threat of substitutes is high in the motion picture industry. The motion picture industry thrived during the Great Recession in the 1930s as the result of people seeking affordable leisure during the economic crisis [3]. The underlying implication of this counter-cyclical prosperity is that movies are essentially entertainment products. There currently are many alternatives for entertainment available that can substitute the movie-going experience. In addition, the technological development has driven down the cost of many leisure activities including TV and video streaming. With the marginal cost of watching TV or viewing a video online inclining to zero, movies are no longer the optimal choice of leisure that provides the best price-utility trade-off compared with other entertainment activities. Meanwhile, consumers can switch easily from movies to other substitute entertainment products or services without incurring many additional costs.

2.2 Bargaining Power of Suppliers and Buyers

A salient characteristic of the motion picture industry is its project-based nature, which can also be observed in other industries such as architecture, law and consultation [6]. This indicates that certain resources required for movie production are often temporarily integrated and combined when the production project initiates, and disintegrated when the project ends. This feature of the motion picture industry differentiates it from other industries, and also implies a different mechanism of bargaining power generation and acquisition within the industry. Therefore, a Resource Based View (RBV) will be simultaneously used to aid the breakdown of the bargaining powers [7]. Additionally, due to the project-based nature, the analysis will be on a project-by-project basis. A project refers to a movie going through its complete life cycle from idea generation to its market exit from its primary release platforms, which typically are movie theaters.

The production process of a movie can be divided into four stages: idea formation/acquisition; pre-production; principal shooting; post-production [3]. These different stages of film production incorporate the involvement of various groups of suppliers. The bargaining power of these suppliers should be discussed separately due to the difference in their function and nature. Suppliers can be divided into three groups: equipment suppliers; production crew; stars including actors, directors, composers, etcetera. Equipment suppliers provide hardware such as films, cameras, and lights to the studios. The industry for filmmaking hardware is quite concentrated. Meanwhile, some suppliers offer differentiated products such as IMAX's 70mm film and cameras. Consequently, the bargaining power of these suppliers can be high as they provide essential equipment in film production.

Stars are not categorized as the same type of suppliers as the production crew mainly because of the difference in the resources they possess. To differentiate these two types and evaluate their respective bargaining powers, the Resource Based view (RBV) is adopted. RBV suggests that firms gain competitive advantages based on the unique bundle of resources they possess [7]. The bargaining power of ordinary production crew ranges from low to medium, mainly because, first, there are many qualified suppliers

in the film project; second, existing companies face low supplier switching costs in the early stage of production; third, due to their asset specificity, the production staff are heavily dependent on the industry. The asset specificity refers to the suppliers' unique set of professional knowledge and skills which have significantly more value in the motion picture production than their other intended use [8][9]. They can increase their bargaining power through accumulating working experiences and excelling in professional skills, which differentiate their offerings.

On the other hand, the bargaining power of the stars is usually high as the result of the resources they possess. Based on the VRIO framework proposed by Barney[7], the star power, is first, valuable, as it helps the production company offset some uncertainty of demand[10]; second, rare, as only a handful of people from the top of the industry pyramid possess it; third, costly to imitate, as it heavily depends on the past experiences, sometimes causally ambiguous, and influenced by the interpersonal relations in the business; Last, organized to capture value, as stars usually have agents allowing them to deploy their star power in an effective and mature system. The stars bring their resources onboard in a movie project, which is perceived by the film studios as a contributive factor that increases the overall value of the project. In the meantime, some stars are able to forward integrate into the movie production industry, which further increases their bargaining power. In addition, one should recognize the connection between the production crew and the stars. In many cases, the stars started their career as members of the production crew. This implies a possible pathway for suppliers to attain more bargaining power.

The bargaining power of buyers are high in the motion picture industry. Although the large number of individual buyers is not favorable in terms of gaining bargaining power, as explained by Porter [2], the availability of many substitutes offsets the negative impact. The consumption for movies, as an entertainment, is also regarded as unnecessary purchases. This indicates the high bargaining power of buyers.

3 Supplier-Buyer Alliance

3.1 Case Background

On November 17th, 2017, the movie Justice League was released in theaters around the world. The movie was a failure at box office, if not a financial disaster, for the studio. According to IMDB.com, an online database for movie, TV show, and celebrity related information widely accepted in the marketing literature [8], the film's worldwide gross was only \$658 million, despite its estimated \$300 million budget. The direct reason for the poor quality and performance of Justice League was the inconsistency caused by the halfway step-out of the original director Zack Snyder and the takeover of director Joss Whedon, who was later brought onboard by the studio. While there were various correlated factors which led to the circumstance, the most prominent ones were the family tragedy suffered by Snyder, and the continuously growing mistrust from the studio executives [11]. In a word, it was a situation where a firm chose to switch to another supplier despite the switching cost and the possibility to compromise the product quality.

Following the release of Justice League, a social media campaign was launched by Snyder's fans to call for the release of Snyder's original version of the movie. As Snyder exited the project at the post-production stage, the last phase of film production process, although Snyder's movie was still a work-in-process by definition, it was near completion, which made the success of the campaign a possibility. Additionally, Snyder as a filmmaker with a distinctive cinematic style, has a long-term fan base rooted for his works. Over the course of three years the campaign had developed into a vocal community on multiple social media platforms under the banner of Release. The Snyder Cut (RTSC). On November 17th, 2019, in celebration of the two-year anniversary of Justice League's theatrical release, the campaign reached its climax when the hashtag Release. The Snyder Cut trended on the social media platform Twitter with over 770,000 tweets in 24 hours and a weekly total of over 1 million tweets [12]. A few months later, in May, 2020, the release of Snyder's original version of Justice League, which was officially titled Zack Snyder's Justice League, was announced by Snyder himself in a live stream event. On March 18th, 2021, Zack Snyder's Justice League was released on WarnerMedia's streaming platform HBO Max. The social media marketing campaign prior to the launch of the movie created 280.6 million engagements and reached 1.5 million unique social accounts, according to the report of Home Brew, the digital campaign company behind the social media marketing for Zack Snyder's Justice League [13].

3.2 Foundation, Form & Strategic Implication of Supplier-Buyer Alliance

In the case of Zack Snyder's Justice League, a form of alliance between the director himself and the fans was established. They all campaigned towards a shared goal of making the Snyder's cut of Justice League a reality by pressing the film studio. Under the Five Forces framework, this phenomenon can be described as an alliance between the supplier and buyer of the industry. The case of Zack Snyder's Justice League was not only a comeback story of Snyder finishing his vision after three years, but also a comeback story of the supplier bargaining power. According to Breznican [11], in big-budget Hollywood projects, it is rare for directors to have total creative control. The studio usually wields more power than the suppliers. There are even lesser precedents for an exiled director to be brought back to the project with total creative control. However, contrary to this industry convention, the establishment of the supplier-buyer alliance has given the director an unprecedented scale of bargaining power over the film studios, with which he managed to receive a greenlight for his second run of the project. To discover the reasons behind it, one should first examine the source of the supplier bargaining power in the motion picture industry. The major dilemma in the movie business is the uncertainty of demand, which directly relates to the movie's profitability [3]. The project-based nature also determines that the production organization breaks up before the strategic outcome starts to reveal [6]. Consequently, it is hard to predict a movie's revenue beforehand and adjust the strategy accordingly. What suppliers offer is essentially the power to reduce the demand uncertainty with their knowledge-based and property-based resources. According to Skilton [10], knowledge-based resources

include the technical skills and social knowledge possessed by the suppliers which can assist in ensuring the product quality; and property-based resources include the star power of the suppliers which brings readily available audience along with their involvement in the project. This also implies that by attaining these two types of resources, average production crew member can increase their bargaining power to the star level.

Although it is appropriate to argue that the bargaining power originates from the resources incorporated by the supplier, there is another possible interpretation of its nature and origin. Both knowledge-based and property-based resources absorb the demand uncertainty of movies. The better the quality is, more audiences may be attracted to pay for the ticket. The higher the star power, more readily available audiences will see the movie when it is released. The audiences, in the Five Forces framework, accord with the role of the buyer. The resources which grant the suppliers bargaining power and the bargaining power of buyers indicate some degree of homogeneity, which lays the foundation of supplier-buyer alliance. In the aforementioned case, the fans, which represent the buyers, demands the input of Snyder, which represents one specific supplier, in the final product. As discussed above, the bargaining power of buyers are high in the motion picture industry due to the variety of substitutes available. When buyers indicate a collective demand for one specific product, the demand uncertainty problem in the motion picture industry is substantially resolved. From the firm's perspective, it can produce and launch the movie knowing there will be a solid demand. This increases the supplier bargaining power and allows suppliers to choose and take full control of their projects in the case of the motion picture industry. This was exactly what Snyder did. In an interview with journalist and book author O'Connell, Snyder revealed that he did bring this to the negotiation table with the studio executives, saying "the biggest, the most volume for any social media campaign for any movie Warner Bros. has ever done is for a movie that you never released" [12]. In this sense, the star power the suppliers possess which gives them bargaining power as demonstrated by Skilton [10], comes from the bargaining power of buyers via the "bargaining power borrowing" which takes place in the supplier-buyer alliance. This paper defines "bargaining power borrowing" as the process of suppliers attaining increased bargaining power which originated from the buyers.

While supplier-buyer alliance can take various forms, in the modern society where information exchange and interpersonal connection largely take place on the Internet, one major form of alliance is through social media. In the case of the RTSC movement, the alliance was mainly based on social media platforms including Twitter and Vero, where the director would interact with the fan community and fans would voice their demand to see the Snyder's version. Social media has evolved into a valuable tool for suppliers to increase their attractiveness. However, it does not mean one should excessively count on social media to build attractiveness and gain bargaining power in the supply chain. Both deficient and excess intensity of social media activities can hamper the supplier attractiveness. Active social media engagement makes the suppliers more prone to negative exposure than inactive suppliers [4]. Locating the sweet spot of social media engagement as a supplier is vital for strategists and decision makers in the supply chain.

The proven feasibility of the supplier-buyer alliance also encourages the suppliers to adopt a proactive approach. A common misconception among the suppliers is that they tend to perceive social media as a platform to maintain existing relationships. Whereas their downstream buyers tend to view social media as an aid in supplier pre-selection process [4]. As a supplier, actively seeking an alliance with potential end buyers can significantly increase their bargaining power when negotiating with the intermediate firm.

4 Conclusion

In conclusion, this paper demonstrated that in an industry like the motion picture industry where the bargaining power of suppliers varies and the bargaining power of the buyers are high, suppliers can attain bargaining power over the intermediate firm via bargaining power borrowing from the buyers in a supplier-buyer alliance. The firms' ability to proactively leverage the power of the competitive forces without fundamentally changing the competition was emphasized, instead of reactively coping with the industry structure, or arduously reshaping the industry structure. The homogeneity of the supplier resources and bargaining power of buyers was revealed. The major form of alliance today is the social media alliance. On top of that, proper social media strategy is indispensable for the success of the alliance. In addition to this, other forms of alliance may be studied by future researchers. A reverse relationship where a buyer may borrow bargaining power from the suppliers in a supplier-buyer alliance can also be discovered in the future.

References

1. Porter, M. E. (1979). How competitive forces shape strategy. *Harvard Business Review*, 57(2), 137.
2. Porter, M. E. (2008). The five competitive forces that shape strategy. *Harvard Business Review*, 86(1), 78-137.
3. Watson, G. (2004). Uncertainty and contractual hazard in the film industry: managing adversarial collaboration with dominant suppliers. *Supply Chain Management*, 9(5), 402-409. <https://doi.org/10.1108/13598540410560784>
4. Tóth, Z., Liu, M., Luo, J., & Braziotis, C. (2019). The role of social media in managing supplier attractiveness. *International Journal of Operations & Production Management*, 40(5), 625-646. <https://doi.org/10.1108/ijopm-04-2019-0321>
5. Dowlatshahi, S. (1999). Bargaining power in buyer-supplier relationships. *Production and Inventory Management Journal*, 40(1), 27.
6. DeFillippi, R. J., & Arthur, M. B. (1998). Paradox in project-based enterprise: The case of film making. *California Management Review*, 40(2), 125-139. <https://doi.org/10.2307/41165936>
7. Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120. <https://doi.org/10.1177/014920639101700108>

8. Ma, J., Huang, D., Kumar, M. V., & Strijnev, A. (2014). The impact of supplier bargaining power on the advertising costs of movie sequels. *Journal of Cultural Economics*, 39(1), 43-64. <https://doi.org/10.1007/s10824-014-9223-4>
9. Williamson, O. E. (1971). The vertical integration of production: Market failure considerations. *The American Economic Review*, 61(2), 112-123. <https://www.jstor.org/stable/1816983>
10. Skilton, P. F. (2009). Knowledge based resources, property based resources and supplier bargaining power in Hollywood motion picture projects. *Journal of Business Research*, 62(8), 834-840. <https://doi.org/10.1016/j.jbusres.2008.05.001>
11. Breznican, A. (2021, February 22). *Justice League: The shocking, exhilarating, heartbreaking true story of #TheSnyderCut*. Vanity Fair. <https://www.vanityfair.com/hollywood/2021/02/the-true-story-of-justice-league-snyder-cut>
12. O'Connell, S. (2021). *Release the Snyder cut: The crazy true story behind the fight that save Zack Snyder's Justice League*. Applause Theatre & Cinema.
13. Home Brew Agency. (2021). *Zack Snyder's Justice League: Social campaign case study*. <https://homebrewagency.com/projects/case-study/zack-snyder-s-justice-league>

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

