Adoption of Internet of Things (IoT): A way of Increasing Consumer Bargaining Power

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Abstract: Buyer's bargaining power outlines novel set of expectations for the IoT customer experience and calls for continuous industrial innovation across organizational processes, products, and services. This paper explores how the buyer's bargaining power can be increased by the adoption of IoT.

Keyword: IoT, consumers, bargaining power

INTRODUCTION

The world is gradually becoming more interconnected, and now remote machines are connected with chips, allowing them to communicate with an individual or support office. A coffee vending machine can broadcast a replenishment signal to a fulfillment center in a nearby town. Memmori Business Intelligence argues that the adoption of IoT is rapidly disrupting the five competitive forces. Additional factors tend to shift the five forces; thus, causing the change in the structure of industry. These factors include new technology (IoT) and customer's needs and expectations. Among the five forces, the buyer's bargaining power is the primary force of the Porter's five forces that impacts competition in industry. The needs and expectations of consumers represent the key driver of digital business. As [1] points out, instant access to information has allowed customers and consumers have a collectively rich bargaining power. Insights from social media platforms enable customers to access both reviews and feedbacks. From Facebook or Twitter, a consumer can access substitute products and services with ease and convenience.

Who are the buyers?

According to [2], buyers in an industry can be, (a) individuals customers who in the long-run (end users) consume the industry's product, or (b) the companies that distribute the products of industry to the buyer. For example, Blue Band manufactured by Unilever Company is consumed be end users. However, the primary buyers of Blue Band are supermarkets chains and Wholesalers, which resell the product to end users. The buyers have the ability to force down prices [3]. Consumers bargain for higher quality products and services; thus, playing competitors off against each other. The bargaining power of consumers eventually reflects the extent to which their purchase accounts for a substantial proportion of the company's overall sales.

Buyer Bargain Power

Hill and Jones (2009) have outlined the circumstances under which a buyer is considered powerful. Buyer's bargaining power is the ability of buyers to bargain down prices charged by companies in the industry. Through bargaining, buyers can squeeze out profits of industry; thus, viewed as a threat. Porter and Heppelmann (2014) maintain that IT is revolutionizing products through the combination of hardware, sensors, data storage, microprocessors, software's, and connectivity. The IT revolution has unleashed a new epoch of competition among companies within an industry. Smart and connected products provide exponentially broad opportunities for new functionality. Connectivity has brought about greater product reliability, utilization, and capabilities cutting across conventional product boundaries. Food (2015) holds that IoT has introduced a platform that is "always on, always available, remotely powerful, and pervasive" [4].

How does IoT increase buyer bargain Power?

Presently, it is economically feasible for consumers to purchase products from several companies at once [2]. IoT has enabled the production of smart and connected products. Companies are now giving their consumers a better understanding of the true performance of the product. Besides, IoT companies such as Aria Systems, relate their services to monetization through customer care and relations [5]. IoT promotes an elevated level of awareness about the products and services produced. Consequently, buyer's switching cost to a competitor increases since they can access rich historical data and product usage data. IoT also allows companies to reduce the dependencies on small distribution networks. As a

result, companies can earn more profits, which mitigate the bargaining power of buyers. CNH Industrial is transforming its business by optimizing its IoT strategy. The policy aims at offering performance-enhancing technologies and increasing buyer participation [6].

IoT-enabled products take advantage of cloud services through connection to the internet at different locations [7]. Such products with such capabilities profoundly change the market they serve. Products such as consumer wearables, smartphones, and healthcare service are IoT-enabled. IoT major industries, for example, FMCG industry, can increase productivity and improve product differentiation. Product differentiation has enabled buyers to find the right supplies or manufactures. As Henry (2011) notes that differentiated products are standard; thus, allowing buyers to exert pressure on price rather than the features of the product. This is because consumers can play one competitor off against its rival.

IoT-enabled products allow companies to create much closer buyer relationships. Companies are in a position to understand how their customers use the product. Such an understanding enhances the company's ability to segment customers and extend value-added services. Closer relationships with the company grant the buyer the ability to integrate backward. This implies that buyers can supply the product or services without the need for the supply. Such a relationship pose a threat to the supplier; thus, strengthening the bargaining power of the buyer.

The IoT continues to penetrate the different industries at a much faster rate that IPhones or Android [8]. The technologies needed to develop and upgrade IoT are presently available. Historical data of consumer wearables, for example, FitBit products can be accessed quickly. As a result, buyers have full information on demands and product's cost. Therefore, buyers have a stronger position. IoT has significantly reduced the expenses of finding out the cost of a substitute product. Having access to product usage and historical data decreases the customer's reliance on the company for advice and support; thus, increasing their bargaining power.

CONCLUSION

Off the bat, companies may not be able to manage the influx from IoT. Companies are used to implementing strategic tools for endpoint devices, for example, mobile phones and tablets. The IoT world is gradually changing, and it will offer both exciting opportunities and challenges. IoT offer buyers a platform where network connectivity and computing capability extends to the product. IoT has allowed differentiation of products, reducing of switching costs, access to information, and create a closer relationship between buyers and companies. It is imperative that businesses embrace the opportunities brought about by IoT to prevent the buyers from identifying loopholes to increase their bargaining power.

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