

Effects of the Existence and Identity of Major Customers on Supplier Profitability: Is Wal-Mart Different?

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ABSTRACT: We investigate how buyer power in the retail market affects suppliers' profitability. Buyer power exists when suppliers depend on a concentrated set of retailers. Further, Wal-Mart, the world's largest retailer, possesses additional buyer power because it has a dominant position in many product supply chains, advanced inventory management practices, and cutting edge technology. We form a sample of firms that supply retailers and utilize the major customer disclosure (SFAS No. 131) to proxy for dependence on major customers and the incremental Wal-Mart effect associated with buyer power. We find that as sales to major customers increase, supplier gross margins and return on assets decrease while their inventory and payables management improves. Wal-Mart is incrementally associated with increasing gross margins, improving cash collections, and extended payment terms with its vendors. Supplier power offsets some of the adverse effects. Our findings provide insight on financial implications of supply-chain dynamics where (1) one firm has an economic dependence upon a major customer, and (2) the major customer is a leading channel member.

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