Monopoly position: dealing with sole suppliers in strategic procurement

A monopoly position describes a market situation in which only a single supplier provides a particular product or service, making economic switching impossible. For technical procurement, this creates a particular dependency that significantly influences pricing, availability and contractual terms. In an industrial context, it frequently takes the form of manufacturer-imposed sole suppliers (sole source). This article explains the origins, risks and practical courses of action for buyers and supply chain managers.

As of October 2026 · amplifa-marketplace.ai/en/glossary/monopolstellung

Key facts at a glance

01 A monopoly position exists when only one supplier can provide a service and no economically sensible switching is possible.

02 In B2B procurement, manufacturer-imposed sole suppliers (sole source) are far more common than true competition-law monopolies.

03 Typical causes are patents, approvals, proprietary technologies or high switching costs.

04 Risks become apparent mainly through price increases, long requisition cycle time values and supply failures with no alternative source.

05 Countermeasures include dual strategies, alternative parts programmes, bundling levers and contractual safeguards such as price bands.

06 Regular market segmentation in procurement uncovers hidden monopoly positions before they become bottlenecks.

Definition: monopoly position

A monopoly position denotes the dominant market position of a single supplier who can offer a sought-after service without material competition. In the procurement context, this also includes the less strict concept of a unique position, where several suppliers formally exist but in practice only one is

able to deliver. A monopoly position must be distinguished from an oligopoly, in which a few suppliers shape the market and the buyer still retains negotiating room.

True monopolies versus sole-source situations

A true monopoly in the competition-law sense is rare in everyday industrial procurement. In practice, the sole-source situation dominates: the buyer needs a particular original part, a patented component or a certified special service for which only one supplier qualifies. These cases are an operational reality and frequently affect parts with high quality requirements or mandatory approvals.

- Manufacturer-imposed: original parts with patent-protected designs
- Approval-driven: only one supplier holds the required certification such as ISO 9001
- Historically grown: long-established single-supplier relationships without alternatives

Legal classification

From the perspective of the supplying company, a dominant market position can trigger competition-law obligations, such as abuse controls on prices and delivery terms. For the buyer, this means: individual pricing decisions can be examined and challenged, but there is generally no direct legal entitlement to more favourable terms. Specific assessments should always be coordinated with the legal or tax department on a case-by-case basis, for example as part of a substantive invoice review of conspicuous price structures.

Causes: how monopoly positions arise in procurement

Monopoly positions rarely arise overnight. Usually it is structural factors in design, standardisation or supplier strategy that build up a dependency over years. Those who understand the causes can specifically prevent future monopolies in procurement.

Technical and design-related causes

The most common cause is the specification: when the design prescribes a proprietary component, a particular material certificate or a protected process, only the rights holder remains as a supplier. Intellectual property rights (IPR) protect the supplier here and establish the unique position legally. Approvals in regulated industries such as automotive or medical technology also mean that a changeover takes years and incurs high costs for releases and supplier qualification.

Switching costs and sunk costs

High switching costs arise from customer-specific tooling, interfaces, parameterised production programmes or sunk initial investments. Such sunk costs bind the buyer economically to the existing supplier, even if alternatives formally exist. In addition, proprietary data formats without EDI connectivity or missing technical documentation prevent a supplier change. A properly maintained procurement manual with defined supplier standards helps to make such dependencies visible at an early stage.

Organisational causes

Internal processes also create monopoly positions: single-source strategies for cost reduction, a lack of dual-sourcing policy, or regional logistics considerations such as just-in-time delivery from a single plant. Those who consider only one site when bundling volumes create artificial dependencies that later have to be dismantled at great expense.

Risks and controls: dealing with sole suppliers

Monopoly positions concentrate supply and price risk on a single partner. A structured risk management approach with clear controls measurably and verifiably reduces this dependency.

Supply and price risks

The monopolistic supplier can raise prices without competitive pressure, reject short-term delivery schedules or allocate capacity preferentially to other customers. With just-in-time production, even a brief outage causes line stoppages. The dependency also carries a quality risk: if the parts per million (PPM) rate at the sole supplier exceeds the agreed limits for an extended period, there is no alternative source.

Contractual controls

Contracts are the central control instrument. An agreed price band or price corridor limits price fluctuations upwards and downwards. Further-made clauses such as a product liability clause, clear governing-law agreements for international contracts and defined Incoterms (for example CPT instead of EXW, in order to retain transport control) secure the buyer's position. A framework contract annex with index clauses, volume commitments and capacity commitments creates binding effect even without competition.

Operational controls

Operationally, monitoring tools accompany the dependency: consistent delivery date tracking makes delays visible at an early stage, while a supplier certificate keeps the sole supplier's documented approvals and qualifications continuously up to date. Engineering change notices (ECN) must be communicated in a binding manner so that design changes do not endanger supply without preparation.

Strategies and approach: reducing monopoly positions

Complete avoidance is rarely possible, but active management significantly reduces risks. Proven approaches range from second-source development to negotiation strategies and technical redesign.

Alternative parts and second-source strategies

Systematic alternative parts programmes identify critical parts with sole suppliers and gradually develop replacement solutions. This begins with alignment with engineering, proceeds through supplier

qualification and sample testing, and ends with release. In practice, this path typically takes several months to years – prioritisation should therefore be based on criticality and procurement volume. Contract manufacturing can serve as a bridge here, where a supplier produces the part under licence or as a replicated design.

Negotiation and bundling

Even without competitors, negotiating room remains. A bundling lever arises when several plants, sites or subsidiaries pool their volume through a central framework contract annex concept. In addition, a total cost of ownership perspective can be leveraged: the monopolist often values not only the unit price but the entire business including service, spare parts and follow-on products. Volume discounts in procurement can frequently be negotiated through long-term purchase commitments rather than short-term volume increases.

Market segmentation and competition reconstruction

Systematic market segmentation in procurement identifies potential new suppliers, including those from adjacent industries or technology fields. In some cases genuine competition can be reconstructed by retendering the service or splitting it into modules. Procurement process optimisation supports this by structuring tenders and establishing comparability.

Key KPIs for managing monopoly risks

Metrics make monopoly positions visible and their reduction measurable. Reporting at group and plant level reveals trends and priorities.

Key metrics

The key metric is the single-source share: the percentage of procurement volume or item numbers sourced without an alternative. Values above roughly 20% of volume are considered critical in practice and should be actively reduced. Supplementary KPIs measure requisition cycle time, as long lead times with sole suppliers often indicate dependency problems.

Delivery and quality metrics

On-time delivery (OTD), PPM rate and the number of shortage reports per quarter complete the picture. With monopolists, the combination of declining on-time delivery and a rising complaint rate is particularly alarming, because no alternative source exists. A price development curve against a reference index shows whether the sole supplier is exploiting the price corridor.

Current developments: resilience, transparency and sustainability

The focus in procurement has shifted: alongside cost, supply chain resilience is increasingly taking

centre stage. Monopoly positions are now assessed as a strategic risk and made visible in supply chain dashboards.

Resilience instead of pure cost optimisation

Experience from recent supply crises has heightened awareness of single-source risks. Companies are deliberately building up regional second sources, increasing safety stocks for monopolistic parts and examining nearshoring alternatives. Supply chain decarbonisation is becoming an additional criterion: new second sources must also meet emissions and sustainability requirements.

Digital transparency

Digital marketplaces and supplier databases now make the search for potential second sources considerably easier. EDI interfaces standardise data exchange and lower switching costs for new suppliers. As a result, the path from market segmentation in procurement to the first sample delivery is noticeably shorter.

Regulatory drivers

Supply chain legislation and sustainability reporting demand greater transparency along the supply chain. Monopolistic relationships are also subject to these requirements: documented audits, supplier certificates and evidence of supply chain decarbonisation are becoming standard even with sole suppliers.

Typical metrics

Metric	Typical value
Single-source share	< 20% of volume *customary guideline value; above this the portfolio is considered critical*
On-time delivery (OTD)	> 95% *particularly critical to monitor with monopolists, as no alternative source exists*
Parts per million (PPM)	< 500 PPM *industry-dependent; automotive typically demands significantly lower values*
Requisition cycle time	< 5 working days *long lead times with sole suppliers indicate dependency problems*
Price deviation from the reference index	within the price band *upward deviations indicate exploitation of market power*

Practical example

A medium-sized machinery manufacturer had been sourcing a patented hydraulic valve from a single European supplier for years. After two unsolicited price increases totalling more than 15% and several late deliveries that constrained production for days, the company launched a structured programme to reduce monopoly positions.

- Analysis of the entire procurement portfolio by single-source share and criticality
- Negotiation of a price band with an index clause and capacity commitment in the framework contract annex
- Design review with engineering to examine a licence-free replacement part, followed by supplier qualification of a second supplier
- Establishment of a risk dashboard covering on-time delivery, PPM rate and requisition cycle time for all sole suppliers

Conclusion

In industrial procurement, the monopoly position is less the exception than a structural challenge. What matters is recognising dependencies systematically, assessing their risk quantitatively and reducing them in a targeted manner – through second sources, contractual safeguards such as price bands and sound market segmentation in procurement. Where monopolies are unavoidable, negotiating power through bundling levers and clear KPIs substitutes for the missing competitive pressure. Those who address dependencies early avoid costly bottlenecks and keep their own value creation under control.

Frequently asked questions

? What is a monopoly position?

A monopoly position exists when only one supplier can provide a particular product or service and no economic switching is possible. In B2B procurement, the term frequently refers to the de facto sole-supplier situation (sole source). The buyer then has no direct competitive pressure to use as a negotiation lever.

? How do I recognise a monopoly position in procurement?

Typical signs include a lack of alternative suppliers in tenders, high switching costs due to tooling or approvals, and repeated unilateral price increases. An analysis of the procurement portfolio by single-source share makes the dependency quantifiable. In addition, long requisition cycle time values and frequent shortage reports indicate problematic dependencies.

? How do I negotiate with a sole supplier?

Even without competition, levers exist: bundling volume across multiple sites, long-term purchase commitments in return for a volume discount, and total cost of ownership analysis including service and spare parts. An agreed price band contractually limits price fluctuations. In addition, a

documented willingness to develop alternative parts sustainably strengthens the negotiating position.

? Is a monopoly position legally problematic?

From the perspective of the supplying company, dominant market positions may be subject to competition-law abuse controls, for example in cases of excessive prices or unfair terms. For buyers, this does not create an automatic entitlement to better terms. Specific assessments should always be clarified with the legal department on a case-by-case basis.

? How do I reduce single-source risks in the long term?

Proven approaches include alternative parts programmes involving design work, second-source development including supplier qualification, and splitting batch sizes across several suppliers. Where approvals are mandatory, buyers should plan for long release processes. In parallel, safety stocks and clear ECN processes secure supply during the transition phase.

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