

Topic 8 - A few examples of Vertical Integration

Identification: company owns several vertical components of the chain input – output - delivery.

- Company owns divisions that produce some of the inputs necessary to manufacture the final product

Example: Automobile company for tire or metal (production is centralized)

- Company owns the distribution units of the final product

Example: Fast food industry (company produces food and sells it to consumers)

- Company owns all divisions from input to delivery

Examples: Clothing, Oil.

Motivation:

- Reduce geographic distance between input and output to reduce transportation costs
- Capture upstream or downstream profits.
- Increase barriers to entry to potential competitors (highly valuable if the resource is scarce).

Other related topics:

- Market foreclosure: competitors lose access to inputs or distribution channels that are now integrated.
- Exclusive contracts: an alternative to vertical integration