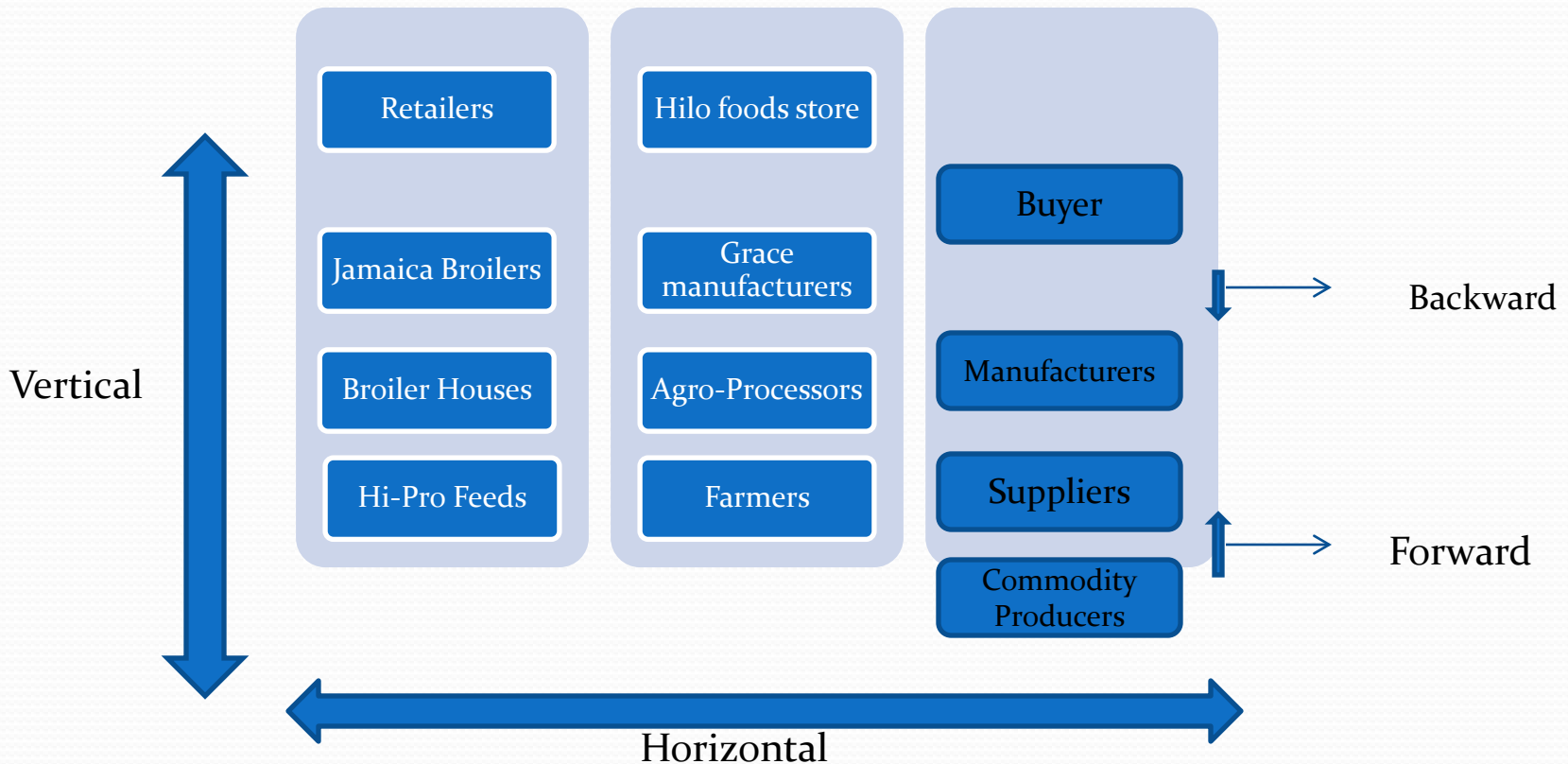


# Emerging Business Strategies and Implications for competition

"Vertical Integration:  
Is there a limit?"

# What is meant by vertical integration

- The degree to which a firm owns its upstream suppliers and its downstream buyers determines how vertically integrated it is.



# Key Drivers for Integration in Jamaica

- Lack of depth in the economy and companies are forced to drive more efficiency into their operations
- As an economy matures and grows, there is greater opportunity for profitable specialization in narrower segments of the value chain
- Supply chain management and reliability
- Desire to become more Consumer driven

# Types of Vertical Integration

- **Forward [downstream] Vertical Integration**
- **Backward [upstream] Vertical Integration**
- **Balanced [equal] Vertical Integration**

# Types of Vertical Integration

- **Forward Integration**

Company sets up subsidiaries that distribute or market products to the consumer or use the products themselves.

Control of these subsidiaries is intended to deliver value chain benefits and move them closer to the consumer

# Types of Vertical Integration

- **Backward Integration**

Company sets up subsidiaries that manufacture some of the inputs used in their final products.

Control of these subsidiaries is intended to create a stable supply chain of inputs with consistent quality.

# Types of Vertical Integration

- **Balanced Vertical Integration**

Company sets up subsidiaries that supply inputs and distribute their outputs to 3<sup>rd</sup> parties or their own retail stores.

Control means that the company controls all aspects of the supply chain from raw material to finished product at the point of purchase.

# Jamaica Broilers Integration Process





# Balanced Integration: Companies With Retail Outlets



Rainforest seafood



Continental Baking Company

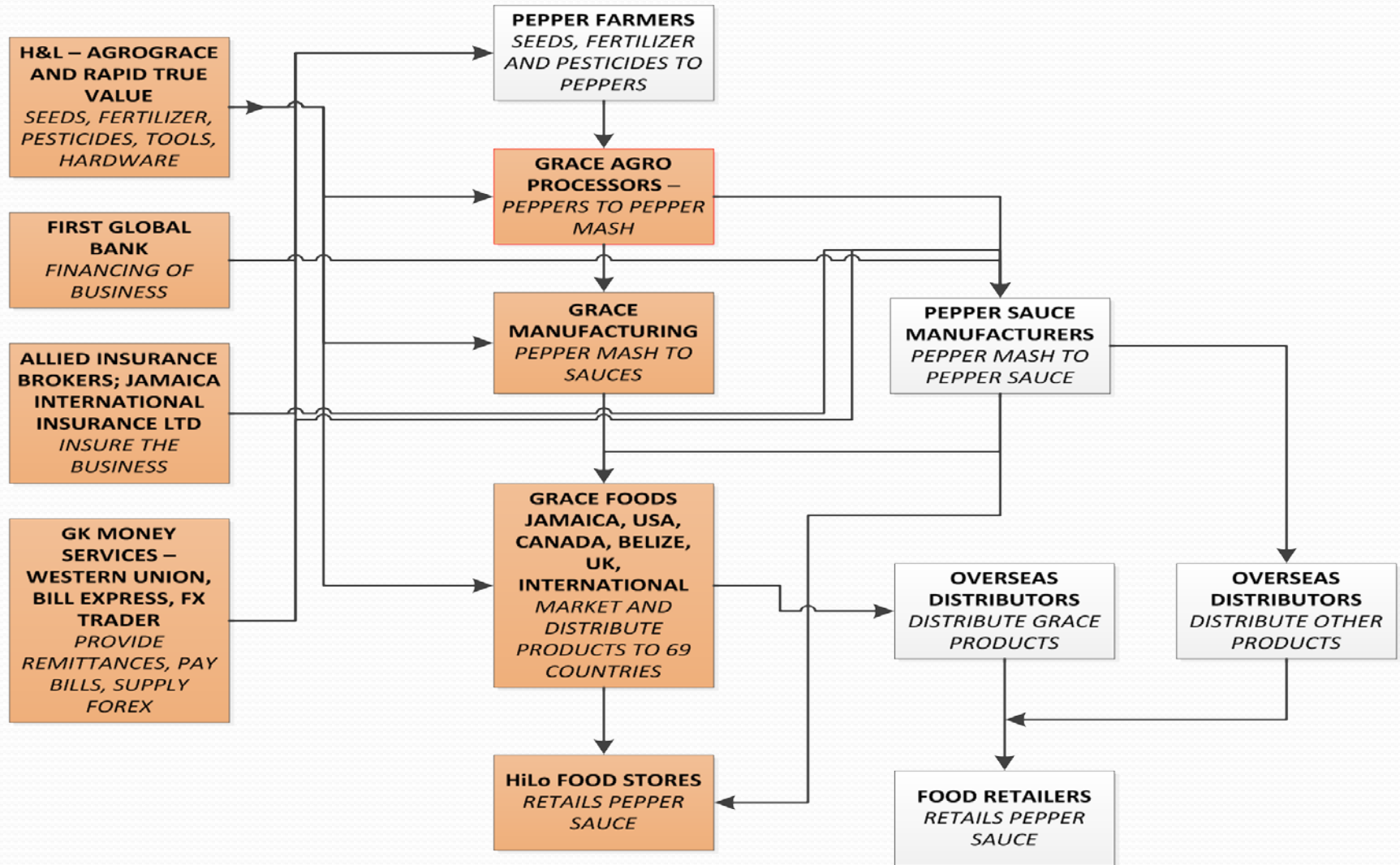


Grace Kennedy Limited

# Benefits of vertical integration?

- Competitive positioning
- Market & Supply chain expansion
- Expansion in core competencies
- Reduced transportation & distribution costs
- Opportunity for increased investments
- Barrier to entry through competitive strength

# Grace Foods Integreation Process



# Some risks to vertical integration?

- 1 Balancing capacity within the group
- 2 Internal complacency
- 3 Organizational bureaucracy
- 4 Monopolization

# Examples of vertical integration in Jamaica by manufacturers

- Continental Bakery; produce, distribute, retail
- Jamaica Producers; raw material, produce, retail
- Rainforest Seafood's; produce, distribute, retail
- Edgechem; produce, distribute, retail
- Red Stripe, Grace Kennedy, Ja Broilers, Wray & Nephew; raw material, produce, distribute, retail

# Example of an international company

- Apple computers made vertical integration work.
- Control of hardware & software
- Control of retail via stores & Internet
- Quality & consumer value
- Corporate profits
- All this was done without forcing other firms out of the market or preventing new entrants.

# "Vertical Integration: Is there a limit?"

- No, it has been proven that, what vertical integration actually does, is to allow specialization which gives rise to unique high quality products..
- Drives consumer value
- Opportunity to drive sectorial linkages
- In Jamaica the Fair Trading Commission has a major role to play.



THANK YOU !