

Strategic Management

John D. Macomber

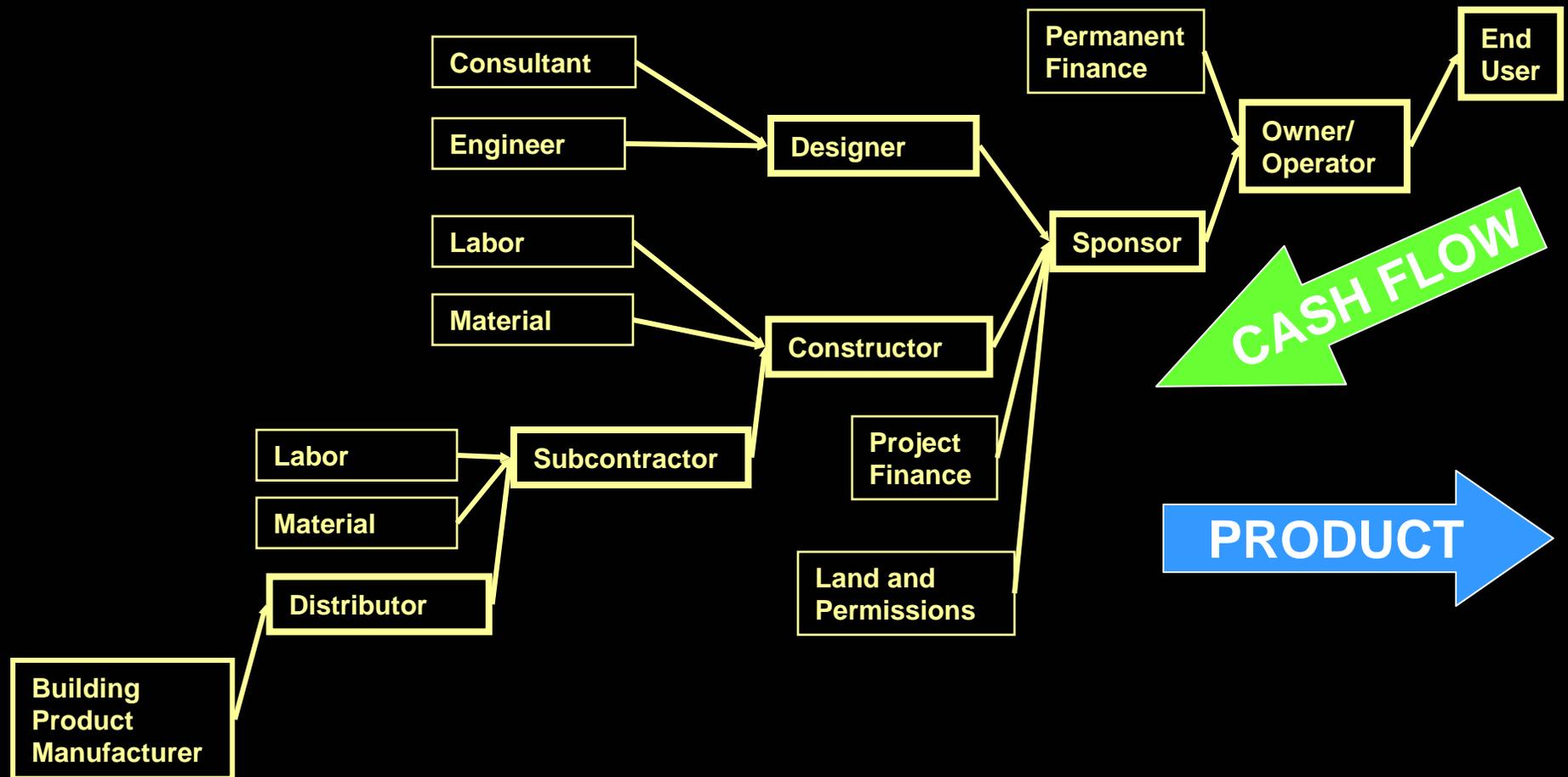
Lecture Notes:

Savannah West

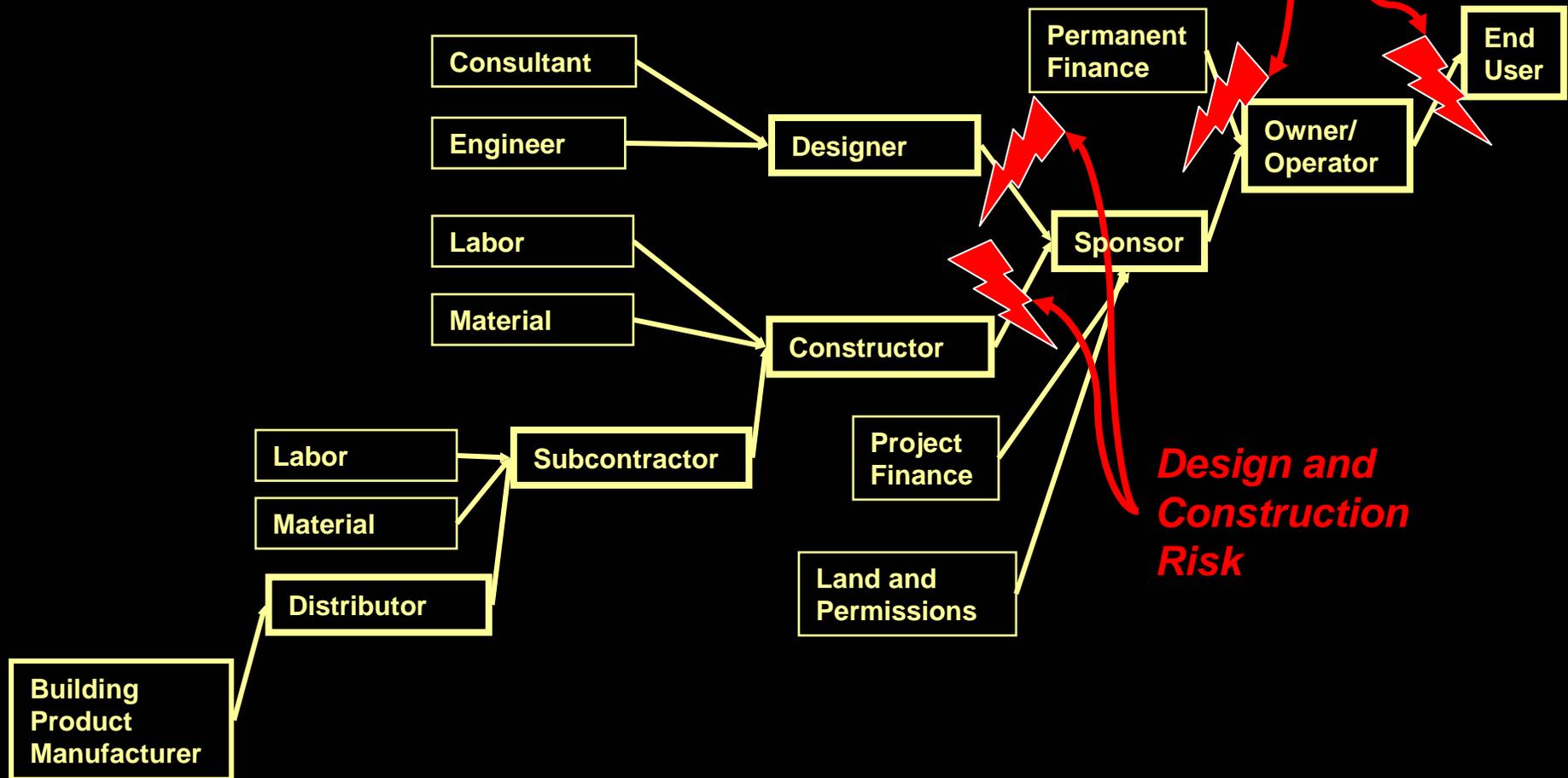
(HBS 9-381-081)

Vertical Integration

Analytical Framework # 1: The Real Estate Value System



AEC/EPC Supply Chain: Owner/Sponsor Isolating Risk



Vertical Integration:

Benefits *(Competitive Strategy, Ch. 14)*

- **Economies of combined operations**
- **Economies of internal control and coordination**
- **Economies of avoiding the market**
- **Economies of stable relationships**
- **Assure supply and/or demand**
- **Enhanced ability to differentiate**

Strategic Costs of Integration

- **Increased operating leverage (more fixed costs)**
- **Reduced flexibility to change partners**
- **Higher overall exit barriers**
- **Maintaining Balance (capacity and throughput)**
- **Dulled incentives**
- **Differing managerial requirements**

Illusions in Vertical Integration Decisions

- **A strong market position in one stage can automatically be extended to another**
- **It is always cheaper to do things internally**
- **It often makes sense to integrate into a competitive business**
- **Vertical integration can save a strategically sick business**
- **Experience in one part of the value chain automatically qualifies management to direct upstream or downstream units**

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