



**VERTICAL INTEGRATION VIZ A VIZ HORIZONTAL INTEGRATION
LEADING CORE COMPETENCIES AND MARKET LEADERSHIP**

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ABSTRACT

Market leadership is supposed to be achieved through gaining core competencies or specializations. This concept of core competencies is tried to be based on the market integration. This paper reads and evaluates the consequences of the vertical integration as well as horizontal integration affecting and creating the core competencies and furthering in gaining the market share thereby ensuring the market leadership.

KEYWORDS: - Market Leadership, Business Policy, Business Integration, Core Competencies, Corporate Effectiveness.

VERTICAL INTEGRATION

The degree to that a firm owns its upstream suppliers and its downstream patrons is cited as vertical combination. as a result of it will have a major impact on a business unit's position in its trade with regard to price, differentiation, and different strategic problems, the vertical scope of the firm is a vital thought in company strategy.

Expansion of activities downstream is cited as forward integration and enlargement upstream is cited as backward integration.

The construct of vertical combination will be unreal mistreatment the worth chain. Take into account a firm whose merchandise is created via associate assembly method.

Two problems that ought to be thought-about once deciding whether or not to vertically integrate is price and management. The price facet depends on the price of market transactions between companies versus the price of administering identical activities internally inside one firm. The second issue is that the impact of plus management, which may impact barriers to entry and which may assure cooperation of key value-adding players.

The following advantages and disadvantages take into account these problems.

BENEFITS OF VERTICAL COMBINATION

Vertical integration doubtless offers the subsequent advantages:

- Scale back transportation prices if common possession ends up in nearer geographic proximity.
- Improve offer chain coordination.
- Offer additional opportunities to differentiate by mean that of augmented management over inputs.
- Capture upstream or downstream profit margins.
- Increase entry barriers to potential competitors, for instance, if the firm will gain sole access to a scarce resource.
- Gain access to downstream distribution channels that otherwise would be inaccessible.

- Facilitate investment in extremely specialised assets within which upstream or downstream players could also be reluctant to speculate.
- Cause enlargement of core competencies.

DRAWBACKS OF VERTICAL COMBINATION

While a number of the advantages of vertical combination will be quite enticing to the firm, the drawbacks might negate any potential gains. Vertical combination doubtless has the subsequent disadvantages:

- Capability leveling problems. For instance, the firm may have to create excess upstream capability to confirm that its downstream operations have ample offer below all demand conditions.
- Doubtless higher prices thanks to low efficiencies ensuing from lack of provider competition.
- Attenuated flexibility thanks to previous upstream or downstream investments. (Note but, that flexibility to coordinate vertically-related activities might increase.)
- Attenuated ability to extend product selection if vital in-house development is needed.
- Developing new core competencies might compromise existing competencies.
- Augmented functionary prices.

FACTORS PRO VERTICAL COMBINATION

The following situational factors tend to favor vertical integration:

- Taxes and rules on market transactions
- Obstacles to the formulation and observance of contracts.
- Strategic similarity between the vertically-related activities.
- Sufficiently giant production quantities so the firm will take pleasure in economies of scale.
- Reluctance of different companies to create investments specific to the group action.

FACTORS AGAINST VERTICAL COMBINATION

The following situational factors tend to create vertical combination less attractive:

- The amount needed from a provider is way but the minimum economical scale for manufacturing the merchandise.
- The merchandise could be a wide offered goods and its cost decreases considerably as additive amount will increase.
- The core competencies between the activities are terribly completely different.
- The vertically adjacent activities are in terribly differing kinds of industries. For instance, producing is incredibly completely different from selling.
- The addition of the new activity places the firm in competition with another player with that it must work. The firm then could also be viewed as a rival instead of a partner

ALTERNATIVES TO VERTICAL COMBINATION

There are alternatives to vertical combination which will offer a number of identical advantages with fewer drawbacks. The subsequent are a couple of those alternatives for relationships between vertically-related organizations:

- Semi permanent specific contracts
- Franchise agreements
- Joint ventures
- Co-location of facilities
- Implicit contracts (relying on firms' reputation)

HORIZONTAL INTEGRATION

The acquisition of further business activities at identical level of the worth chain is cited as integration. This kind of enlargement contrasts with vertical combination by that the firm expands into upstream or downstream activities. Horizontal growth will be achieved by internal enlargement or by external enlargement through mergers and acquisitions of companies giving

similar merchandise and services. A firm might diversify by growing horizontally into unrelated businesses.

Some samples of integration include:

- The quality Oil Company's acquisition of forty refineries.
- Associate automobile manufacturer's acquisition of a motorcar vehicle manufacturer.
- A media company's possession of radio, television, newspapers, books, and magazines.
- Advantages of integration
- The following are some advantages sought-after by companies that horizontally integrate:
 - Economies of scale - achieved by commerce additional of identical product, for instance, by geographic enlargement.
 - Economies of scope - achieved by sharing resources common to completely different merchandise. Unremarkably cited as "synergies."
 - Augmented market power (over suppliers and downstream channel members)
 - Reduction within the price of international trade by operational factories in foreign markets.

Sometimes advantages will be gained through client perceptions of linkages between merchandise. For instance, in some cases natural action will be achieved by mistreatment identical name to market multiple merchandises. However, such extensions will have drawbacks, as seen by Al Ries and Jack Trout in their promoting classic, Positioning.

PITFALLS OF INTEGRATION

Horizontal integration by acquisition of a rival can increase a firm's market share. However, if the trade concentration will increase considerably then anti-trust problems might arise.

Aside from legal problems, another concern is whether or not the anticipated economic gains can fall out. Before increasing the scope of the

firm through integration, management ought to make certain that the unreal advantages are real. Several blunders are created by companies that broadened their horizontal scope to attain synergies that didn't exist, for instance, hardware makers UN agency entered the code business on the premise that there have been synergies between hardware and code. However, an affiliation between 2 merchandise don't essentially imply realizable economies of scope.

Finally, even once the potential advantages of integration exist, they are doing not fall out ad lib. There should be a definite horizontal strategy in situ. Such ways typically don't arise from the bottom-up, but rather, should be developed by company management.

CORE COMPETENCIES

According to Prahalad and Hamel, core competencies cause the event of core merchandise. Core merchandise doesn't seem to be directly oversubscribed to finish users; rather, they're accustomed build a bigger range of end-user merchandise. For instance, motors are a core product that may be employed in big selection of finish merchandise. The business units of the corporation every faucet into the comparatively few core merchandise to develop a bigger range of user merchandise supported the core product technology.

DEVELOPING CORE COMPETENCIES

According to Prahalad and Hamel, core competencies arise from the combination of multiple technologies and also the coordination of numerous production skills. Some examples embrace Philip's experience in optical media and Sony's ability to shrink physics.

There are 3 tests helpful for characteristic core ability. Core ability should:

- Offer access to a good sort of markets, and
- Contribute considerably to the end-product advantages, and
- Be tough for competitors to imitate.

RESULT & CONCLUSION

Core competencies tend to be nonmoving within the ability to integrate and coordinate numerous teams within the organization. Whereas an organization could also be ready to rent a team of sensible scientists in a very explicit technology, in doing thus it doesn't mechanically gain core ability therein technology. It's the effective coordination among all the teams concerned in transportation a product to plug that ends up in core ability. Because companies might sell their core merchandise to different companies that use them because the basis for user merchandise, ancient measures of brand name market share are short for evaluating the success of core competencies. Prahalad and Hamel recommend that core product share is that the applicable metric. Whereas an organization might have a coffee complete share, it's going to have high core product share and it's this share that's necessary from a core competence point of view.

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