



## Vertical Integration

Oracle, Pepsi, Apple, GM and others are going back to the future

### Everything You Need Under One Roof

A recent article in the Wall Street Journal says executives are "reviving 'vertical integration,' a 100-year-old strategy in which a company controls materials, manufacturing and distribution."

The article highlights co-founder and CEO of Oracle Corporation Larry Ellison and his plans to acquire Sun Microsystems Inc., a move that will make Oracle the only company that can offer enterprise-class hardware, middleware and packaged applications to its customer base.

As an end-to-end solution provider, Oracle will resemble an old school US conglomerate the likes of which we haven't seen since the 1960s. In fact, men and women "of a certain age," and those who majored in business, will likely jump to the analogy of "m-form organizations," like that of General Motors during the Alfred Sloan years.

### Who is on the Vertical Integrations Bandwagon?

What makes this so interesting is that Oracle isn't alone in its move toward vertical integration. Hewlett-Packard recently bought Electronic Data systems making it the world's second largest IT services company next to IBM. Xerox acquired Affiliated Computer Services, which quickly transformed Xerox into a global competitor on the document and business process management stage. ArcelorMittal, the world's largest steelmaker, has been acquiring mines to gain more control over raw materials. PepsiCo has acquired bottlers for more control over distribution. Boeing too, has jumped on the vertical integration bandwagon to ensure a steady supply of critical parts. Even General Motors has returned to its vertically integrated roots by investing in its largest supplier and purchasing factories.

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### Why the Sudden Shift?

Unlike conglomerates, vertically integrated firms are all about efficiency, and mergers and acquisitions are quick methods of streamlining industry supply chains. As the Wall Street Journal article pointed out, "Today's approach is more nuanced. Companies are buying key parts of their supply chains, but most don't want end-to-end control."

After years of specialization and outsourcing, why are companies suddenly shifting to vertical integration? Surely, the recession has played a major role as companies scramble to mitigate risk by taking more control. More control also affords more opportunities to identify and remedy inefficiencies in the supply chain.

As the saying goes, you have to spend money to make money, and it appears that is the strategy of companies like Apple, who last year re-entered the semi-conductor business after two decades of outsourcing, when it acquire chipmaker PA Semi. In the tech sector, this type of move might very well be a technology grab -- in other words, a way to prevent competitors from leap-frogging ahead by leveraging innovations developed by one of your suppliers.

What do you think? Is vertical integration good for business? What does it mean for the future of supply chain? What are the risks and what are the rewards?

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