Backward Integration

GLOBAL BUSINESS STRATEGY - 2


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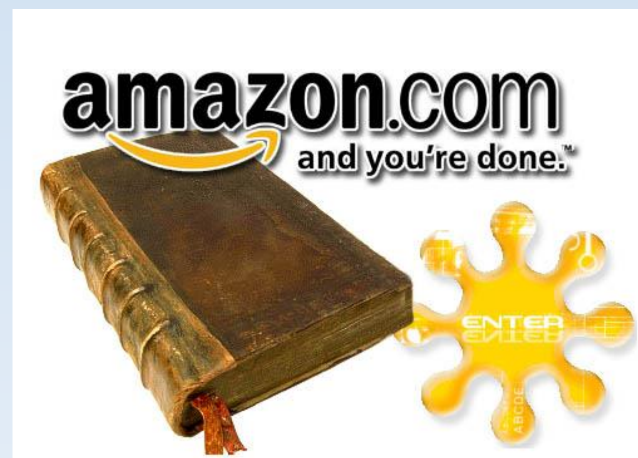
SUCCESS

- Not only a bookseller but also publisher
- Earlier:
  - Bookseller use to set the prices
  - Limits the amount Amazon can charge and thus profit
- Now:
  - Acquires books for cheaper
  - Can choose the booksellers or can sell only through Amazon.com
  - Can control competition and price – independent in pricing



- Buys coffee beans & customized mugs
- Bought a coffee farm in China
- Tremendous growth in number of coffee drinkers
- Increased competition
- Competition for high quality beans
- Starbucks ensured continuous beans supply at reasonable price

GAP

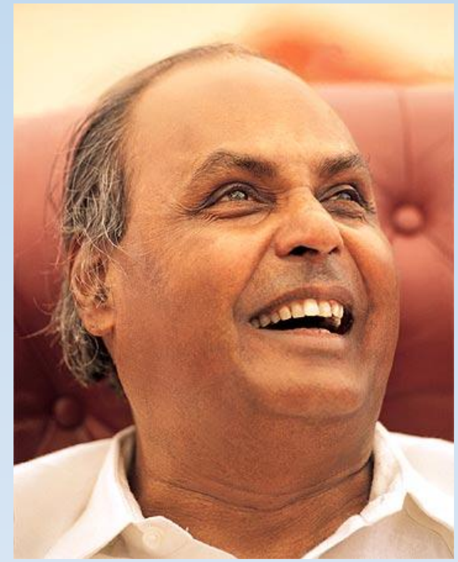
- Gap Inc. was started as a single store with just a few employees in 1969
- Gap started their operations by selling Levi’s products, records and tapes
- Gap adopted Backward Vertical Integration in 1982 by starting their own private label brand
- They stopped carrying other labels completely by 1991
- Gap’s growth and dominance began once it started to manufacture products under its own label
- Backward Integration also allowed Gap to lower transaction costs and reduce supply threats created by Levi’s
- Gap Inc. now has roughly four times the sales of Levi's. Gap has more than 3,000 store locations among its Gap, Old Navy and Banana Republic brands

NIRMA

- Dr. Karsanbhai Patel started Nirma in 1969
- He used to make detergent powder in the backyard of his house
- In the 1980s Nirma moved ahead of Surf, a detergent by HLL
- The company got listed on the stock exchanges in the year 1994
- Adopted the backward integration strategy to regularize the supply of raw materials
- Nirma had set up plants to produce LAB in 1997 and soda ash in 2000, as this accounted for more than 60% of the total cost
- They currently manufacture 90% of their raw materials
- As a result of the Backward Integration:
  - The operating margin increased by 3%
  - The bottom line increased by nearly 15%

Reliance
Industries Limited

- India's largest petrochemical firm
- With $58 billion revenues and $4.2 billion net income, Reliance is among the country's largest companies
- Accounting for more than 13% of India's total exports
- Backward vertical integration - Starting with textiles in the late seventies, moved into polyester, fiber intermediates, plastics, petrochemicals, petroleum refining and oil and gas exploration and production - (fully integrated along the materials and energy value chain)

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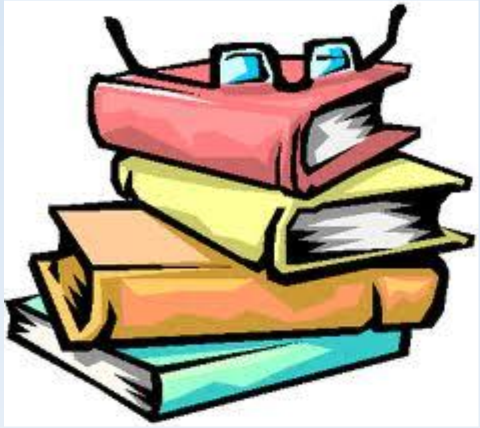
FAILURE



- On Jan 2000, America Online acquired Time Warner for $165 billion (Second-largest acquisition in history)
- American Online – Internet Services and Media company
- Time Warner – One of the world's largest media and content provider
- The merger, intended to "lead the convergence of the media, entertainment, communications and Internet industries, and provide wide-ranging, innovative benefits for consumers"
- 2001 dot-com bubble burst, significantly caused reduction in the value of AOL.
- $99 billion write off (Largest annual loss ever reported)
- Synergies between AOL and the other Time Warner divisions never materialized
- Finally demerged in May, 2009

- AT&T had a competitive advantage as it had 200 owned and operated points of presence (PoP) as an ISP
- Disadvantage was that only AT&T services could use AT&T PoPs
- Customers were not happy with the price they paid AT&T and they felt captive
- AT&T failed to leverage on being a pioneer; lost its monopoly by dictating terms to the market and an opportunity to be a supplier of local access
- UUNet – new and state of the art PoPs, which were even less costly
- It rented out to retail Internet Service Providers on minute basis and provided local access
- WorldNet (AT&T's large client) became UUNet's client to increase its geographic reach and control the rising costs
- Many customers started opting for UUNet as it was meeting their needs technologically and financially
- AT&T was left with only itself as a customer

- 1994 – General Motors formed Delphi Automotive Systems as an ancillary
- It was the sole supplier of automotive components and chassis systems to GM and Ford
- Delphi expanded worldwide, in 38 countries, to cater to the needs of the parent companies in those respective geographies
- GM and Ford were the top 2 automobile manufacturers worldwide till mid 2000's and they had temporary benefits on supplies from Delphi
- Recession – when GM and Ford went bankrupt, Delphi struggled
- Delphi automotive has closed 45 plants since 2005 in US and has filed to raise $100 million in an IPO in May 2011
- Backward integration by GM was not only harmful to the cash rich automobile giant, but also affected the ancillary industry negatively

- Lockheed Martin is one of the world's largest defense contractors
- 74% of Lockheed Martin's revenues came from military sales
- Northrop Grumman Corporation is an American global aerospace and defense technology company
- In 1998, LMT agreed to buy NOC for $ 8.3 billion dollars that would have given the new company control of 25% of the Defense Dept.'s procurement budget
- But The Justice Dept. put the kibosh on the plans, citing "serious concerns about the competitive effects of the transaction.“
- NOC is the manufacturer of B-2 bomber and other defense aircraft bought by the American Army
- LMT and NOC went their separate ways and couldn’t create an effective backward integrated.

- DLF Limited is India’s biggest real estate developer.
- The company is headed by Indian billionaire Kushal Pal Singh
- It incorporates its cement division, DLF Cement Limited in 1992
- The company failed due to low margin, high cost of production, higher distribution charges and also due to high financial charges.
- Gujarat Ambuja Cement Limited (GACL) bought the loss making company for INR 140 Cr.
- Crisil changed the rating of the company for ‘D’ to ‘A+’
- DLF India clearly failed in backward integration by getting into the Cement business


FAILURE
IS THE ROAD TO SUCCESS.
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THANK YOU!