Structures of the technology sector and its changes report example

Business, Company

Vertical and Horizontal Integration

Technology Sector and Structural Changes

Technology, by any measure, is the most competitive and fast moving industry, and businesses have to develop new structural strategies to maintain their competitive sustainability. The survival of business in the industry is dependent, in part, to innovation and new product development, and as well, structural reinvention and strategies. Actions and strategic decisions of top management executives are essential in the determination of the future of many organizations and in enabling these organizations to avoid becoming obsolete. Traditionally, business organizations in the IT industry have used integration to enhance their developmental and operational activities. For instance, IBM has managed to stand the test of time by becoming successful for extended periods despite the challenges associated with the fast-moving technological field (The Economist, June 11 2011). The success of IBM can be attributed to the fact that IBM’s strategic and operational activities revolved around developing products based on ideas rather than basing the development on the development of a specific technological product. Concentrating on an idea made it easy for IBM to adapt to different industry situations such as shifts in technological platforms. Currently, majority of technology giants are adopting similar strategies of focusing on particular ideas as opposed to focusing on a particular technological product (The Economist, June 11 2011).

The growth challenges facing HP, the world’s biggest PC maker, can be attributed to the fact that it concentrated majority of its operational activities in the manufacture of particular technology-PCs. A shift in diversification of strategy could enable HP to expand its idea portfolio and hence, sustain the changing operational factors in the technology industry (The Economist, August 27, 2011). Other firms in the IT industry that have learnt the strategy of capitalizing on ideas include Apple Inc., Amazon, and Facebook. Innovation and iconic leadership have enabled Apple Inc. to innovate new ideas and develop new products that not only satisfy the needs of the market but also products that are packaged in an elegant an appealing manner to sustain the competitive environment in the industry. Sadly, the Apple’s founder might be gone but his legacy still lives on. The current management will keep on innovating new ideas to enhance the competitive edge of products developed by the Company. Similarly, Facebook and Amazon are other technological players that continue to utilize ideas in the advancement of their operational activities. Interestingly, firms such as Microsoft, Oracle, Google, and Dell have managed to survive in the industry despite using traditional technologies and single products (The Economist, June 11 2011). Even though there is a hidden secret behind the continued survival, these firms must restructure and reinvent their strategies in order to strengthen their competitive edges.

Business Integration

This process entails putting the focus in the improvement of effectiveness and efficiency of strategic processes of running business organizations.

Although the process might seem complex, major activities in business organizations are concerned with the improvement quality, provision of timely information, and rapid implementation of business strategies. The vital thing is the identification of an enterprise integration strategy that encompass different types of technologies. Integration strategies have an effect of enabling firms to enhance their business abilities and deliver success in projects (Barkley, 2006). Reducing costs in the end and maximizing profits should form the basis for the majority of business enterprises.

An examination of the technological industry reveals that the majority of organizations in the industry have focused on strategic changed for different strategic reasons. Firms are adopting a mixture of vertical integration and horizontal integration strategies to enhance their competitive advantages and as well, increase growth levels (Jones, and Hill, 2009). Overall, diversification and integration have increased value for most business organizations. Many an organization have operated using basis strategies that have evolved over time. Equally important have been the effects of the management structures of such organizations and the actions of management have had an impact of adjusting internal strategies. The most difficult part among such organizations is the management of strategic shifts during business integration (Helmy, 2006). The type of adopted integration strategy should be formulated to address new problems, challenges, and opportunities that are currently facing the organization in question. As such, the formation and initial structure of many firms in the Technology industry have had an effect of influencing the strategic structures of firms. For instance, vertical integration was adopted due to the need to provide solutions to challenges and news of the new markets (Badinger, and Egger, 2008). As the market continued to diversify, there was the need to combine new strategies and as such, organizations made structural changes cater for other emerging organizational responsibilities. This channeled the need for the adoption of horizontal integrations among organizations.

Horizontal Integration

This form of business integration entails the expansion of business located in the same value or supply chain (Gaughan, 2010). Examples of vertical integration include a situation whereby an automobile manufacturer purchases a SUV vehicle manufacturer, a TV station that owns a radio, and newspaper company, and Oil Company purchasing refineries. Growth in such a situation is obtained through external and internal expansion activities. For instance, mergers and acquisitions between firms that offer similar services and products e. g. the merger between HP and Compaq is a good real life example of Horizontal Integration. The acquisition of You Tube by Google Inc. is another example of Horizontal Integration.

Advantages of Horizontal Integration

Firms with horizontal structures are associated enjoy certain advantages when compared to those with vertical structures. First, Horizontally integrated firms have focused resources such that technological, managerial, functional, and financial resources are channeled into the enhancement of competitive advantage in one particular area (Grossman, and Hart, 2006).

Focusing on a particular resource or area enables such firms to add value to their products. Second, horizontally merged firms have the ability to increase their profit generating capabilities. For instance, lowering the cost structure can enable a horizontally integrated firm to increase the economies of scale and minimize the duplication of resources between the two companies (Grossman, and Hart, 2006). Additionally, the merged firm is capable of enhancing product differentiation through strategies such as cross-selling, offering total solutions to customers, and product bundling. Third, horizontally integrated firm is capable of reducing rivalry among industries through the elimination of excessive capacity within the industry and the implementation of tacit price coordination among rivals. Last, these firms are capable of increasing their market power when compared to the power of buyers and suppliers. It also helps in gaining greater market control.

Other benefits related to Horizontal Integration include increased economies of scale given that the merged firm or the parent company would register more sales from the sale of increased volume of the same commodity. This is possible because merged or acquired firms would benefit from the already developed distribution and marketing channels in different geographic locations. Cost reduction is also possible through horizontal integration. Another advantage that results from Horizontal Integration is the expansion of operational scope that can be achieved when resources are shared equally in the production of different products. The economies of scope are known as resource synergies. Horizontal Integration leads to increased market power of the organization thereby enabling it to control downstream distribution channels. Firms located in different locations can operate their activities from different locations. Other benefits associated with horizontal integration strategies include expansion of market share and attracting more customers through the sale of the developed brand. It also leads to strengthened negotiation power because the company will obtain more advantage when compared to other leading suppliers.

Challenges of horizontal Integration

Other than the increased competitive power of acquired or merged organizations, the concentration of firms in the market results to other challenges and products. First, responsibilities and workloads would increase significantly due to the increased size of the organization. Merging different cultures has an effect of altering the organizational culture, and managers have the tendency to overestimate or underestimate the problems resulting from merged or acquired operations. As such, it can result to a horizontal monopoly and monopolies are not good for the market. Anti-trust issues are some of the factors that under the operations of horizontally integrated firms because of the reduced competition or the creation of a monopoly. Other than the factors arising from these legal issues, it is often unlikely for horizontally integrated businesses to realize the projected economic gains.

Horizontal integration can be blamed for the many challenges that exist in the IT industry, particularly among computer firms. For instance, many firms in the computing industry adopted horizontal strategies thinking that there were many synergies between hardware and software. This believe was driven by the notion that the synergies between these two sets of products would enable such organizations to realize economic scopes. Even though horizontal integration holds huge benefits, the potential benefits do not occur spontaneously and, thus, the corporate management of horizontally integrated organizations must formulate strategies (Grossman, and Hart, 2006).

Vertical Integration

Firms in the IT industry adopted the Vertical Integration strategy due to the need for managing the expanded stream of downstream buyers and upstream suppliers. Examples are supermarkets and food manufacturers that are involved in different stages of production. Oil refineries and petrol stations are also other good examples. This strategy has an effect on enhancing the unit position of an industry in relation to differentiation, cost reduction, corporate strategies, and addressing strategic issues. Forward integration and backward integration are two forms of vertical integration. A third form of Vertical Integration (Balanced integration) exists when an IT company becomes responsible for setting up subsidiaries to supply in puts and at the same time market their own products. IT firms adopts forward integration in order to obtain ownership and more control in downstream distribution activities of retailers and distributors. This includes a situation whereby the organization’s distributors are expensive or unable to satisfy the distribution needs of an organization, when the competitive advantage in the industry is determined by firms practicing the forward integration strategy, and as well, when the industry grows at an increasing rate. The forward integration strategy enables such firms to diversify its capabilities in case the market becomes volatile. Other factors that make it ideal to adopt forward integration includes possession of capital and human resources, high but stable production, and high profit margins for retailers (Jones, and Hill, 2009).

Similarly, the need to gain increased control and ownership of the upstream suppliers calls for the adoption of the backward integration strategy. This entails the process where the IT company owns some of the subsidiaries responsible for the production of particular inputs. This is common in situations where unreliability among suppliers exist, the suppliers are very expensive, and as well, in situations whereby suppliers are unable to satisfy the needs of the organization. The increased global competition results to the need to minimize the number of suppliers, meet the demand for the need for high service delivery, and improve the quality of products distributed. Ideal situations for the backward integration strategy includes the capability of the organization in terms of human resources and capital in managing the firms' supply of raw materials, the competitive situation of the industry, and high profit margins for suppliers. This explains why Dell opted to supply personalized products directly to consumers.

Advantages

The major benefits associated with vertical integration are most concerned with control and cost minimization. The aspect of controlling costs is dependent on the prevailing costs of transactions between firms in the market and is often compared to the internal costs of administration within a single firm. In lieu of asset control, firms are capable of influencing entry barriers and obtain control of key-value adding aspects. Advantages obtained by firms that adopt vertical integration include the following. First, vertical integration leads to lower transaction costs. Reduction in costs comes because of inter transactions between subordinate companies that are managed using a central communication and management system. Second, vertical integration leads to high certainty of quality because of the central system of quality control and hence production of standardized products. Third, vertical integration enables firms to obtain monopoly of the market given that they control production and distribution activities. Other benefits of vertical integration include the ability of firms to capture downstream and upstream profits, increasing the entry barriers to potential competitors, and facilitating investment activities in highly specialized but profitable assets that downstream or upstream players might be unwilling to invest.

Disadvantages

Firms that adopt Vertical Integration structure are also associated faced with a number of challenges. The first drawback involves the need to balance the capacity of the organization to deliver balanced upstream and downstream operations. Second, vertical integration can lead to inefficiencies that result from higher costs and lack of competition among suppliers. The cost structures are generally increasing and therefore, suppliers owned by the company can develop higher cost structures than those from independent suppliers. Vertical integration can undermine the process of creating new competitions because it has an effect of compromising the already existing competencies. Third, given the changing nature of technology, vertical integration may make a firm to be locked in inefficient or old technologies. Vertical Integrations have been known to prevent firms from adopting new technological innovations that are critical in strengthening the business model. Last, vertical integration increases bureaucratic costs and other management costs such as costs associated with finding solutions to transaction difficulties.

Conclusion

An examination of the IT sector reveals that the industry is one of the most competitive and fast moving industries. Organizations within this industry are forced to develop new structural strategies to maintain their competitive sustainability. The survival of business in the industry is dependent, in part, to innovation and new product development, and as well, structural reinvention and strategies. Like in most organizations, actions and strategic decisions of top management executives are critical in determination of the future sustainability of many organizations. As such, managers must choose the best integration strategies to enable them remain competitive. Another critical thing in the technology industry is the ability of organizations to develop products from ideas as compared to developing products based on particular technologies. The success of IBM can be attributed to the fact that IBM’s strategic and operational activities revolved around developing products based on ideas rather than basing the development on the development of a specific technological product. Concentrating on an idea made it easy for IBM to adapt to different industry situations such as shifts in technological platforms. Similarly, the dwindling performance at HP can be attributed to adoption of the wrong integration strategy. Admittedly, technological products have specific life cycles and therefore, firms have to be innovative in order to keep on addition new products into their product portfolios. For this reason, business integration becomes an integral factor when deciding the type of structural changes. Managers and management executives have to examine the structures of their organizations critically before deciding adopt Horizontal or Vertical Integration or a combination of both (Badinger, and Egger, 2008). Each structure has its own benefits and setbacks and it is upon managers to conduct a thorough analysis of the situation before adopting the right integration strategy.

Bibliography

Badinger, H. and Egger, P. 2008. " Horizontal versus Vertical Interdependence in Multinational Activity," CESifo Working paper No. 2327, Category 9: Industrial Organization, June.

Barkley, B. 2006. Integrated Project Management. McGraw-Hill

Gaughan, P. A. 2010. Mergers, Acquisitions, and Corporate Restructurings. John Wiley and Sons

Grossman, S. and Hart, O. 2006. ' The costs and benefits of ownership: a theory of vertical and lateral integration'. Journal Of Political Economy, 4.

Helmy H. B., 2006. Organization Structures: Theory and Design, Analysis and

Prescription.

Jones, G. and Hill, C. 2009. Strategic Management Theory: An Integrated

Approach. Cengage

Learning

The Economist, August 2011. ‘ HP’s Grand Vision: Aping IBM. The Economist.

August 27th

2011

The Economist, June 2011. ‘ IBM’s centenary: The Test of Time’ The

Economist. June 11th

2011