Vertical integration walmart

[Business](), [Company]()

Vertical integration is a business growth strategy for economics of scale. It is typified by one firm engaged in different parts of production example; growing raw materials, manufacturing, transporting, marketing, and/or retailing to expand business in existing market for the firm. It can function in two directions both forward integration and backward integration. In Forward integration involves company to develop strategy to control the firm product distribution either through distribution centers or retailers.

It is a necessary action when companies have potential benefits from handling, shipping of their own products directly to customers, or the retail selling their own products in brand stores. In backward integration involves company to develop strategy to control its supply of raw material by acquiring its supplier firm or setting up its own facilities to produce the material to achieve cost efficiency and enjoy economic of scale.

Often it is learnt that the huge investment is required for firm to develop vertical integration, therefore, it is important for the firm to know beforehand whether vertical integration strategy add specific value to the company, and does it aligned with the overall strategy of the company, customer needs and wants. For Wal-Mart, it is better to develop vertical integration based on the firm establishment in the market and the firm is always looking into expansion.

Walmart is a well-known hypermarket with 8500 stores across 15 different countries. It is in business of selling everything to customers' needs in their everyday lives. Wal-Mart practices vertical integration strategy where it has developed its own name brand to sell products called Sam's Choice Today; Sam's Choice extended its products like soft drinks, cereal, and dogfood.

While they still don't grow their own crops or raise their own livestock, it is still a form of vertical integration.

In 2010, the company expanded to cater home entertainment by buying over Vudu that provides online streaming service offering users to purchase movies that is compatible to any internet capable device. Having strong presence in the retail industry, the firm expanded business to offer second hand car. The firm leverage on its competencies to provide its own product to consumer. Also, Wal-Mart works heavily with its suppliers. This symbiotic relationship can be seen as vertical integration due to the level at which Wal-Mart analyses its suppliers and improves their manufacturing processes.

Wal-Mart definitely has the business strategy of Low CostLeadership. They do nothing to really differentiate themselves from competitors and provide no-frills self-service stores that always provide the lowest prices. Wal-Mart has built enough clout with suppliers that they can dictate the prices and go in and change suppliers manufacturing processes in order to wring out more and more savings for the consumer. However, it is not always the case that all firms should develop vertical integration strategy to enjoy economic of scale.

Firm like boutique or niche items that produces on a small scale are not suitable to implement as it will benefit less from vertically integrated mainly because the input demand for grow is small and due to exclusive nature their prices are inelastic as compare to industry like Oil and Gas Industry, Telecom, Media, automobile developed vertical integration strategy . The main advantage of the vertical integration is the increased control. For instance, Wal-Mart with large market share is attractive to supplier.

Though Wal-Mart does not own asset specificity to produce product internally but there is a large market input outside and therefore Walmart is benefited by having bargaining power and gaining control over price and manufacturing process in order to wring out more and more saving consumer. On the other hand Walmart, performs distribution and retailing activities, it has more control over the way the product is presented and at what prices it is sold in the market In relative to firm like oil and gas industry Esso mobile, it gain control through Asset specificity to produce internally.

Developing a vertical integration strategy solely increase advantages over competition and able to block competitors from gaining access to scarce resources or important markets. A retailer might buy a manufacturing company, for instance, to gain access to proprietarytechnology, patents or resources only available in the firm's local area. For instance Walmart acquired VuVu to gain access to the home entertainment business. Integrate an organisation the work done by previous suppliers or costumers are also introducing or expanding the core competencies of your workers.

That way you can be enriching some of your organisation jobs, leading to increasing satisfaction andmotivationof your workers, which is an important benefit. For instance, Walmart employee is rotated to different work function that enable employee to acquired new skill and value add to their growth. Vertical integration offers the opportunity to go even further. With specialized assets and having more control over inputs, it is possible that you can differentiate from your competitors, and gain competitive advantage.

This is a way to increase your share in the market, which can lead to increased profits. For exam No doubt vertical integration boosts profit revenue but it required huge capital injection to produce excess goods for retail distribution and to ensure having adequate storage space. When goods are sold Walmart makes a lot ofmoneybut if its unsold, they have to bear the cost and at times dispose away as product have life p. Its resulting in losses. It results in fixed sources of supply and less flexibility in accommodating buyer demands for product variety.

It extends firm's scope of activity, locking it deeper into the industry Vertical integration poses problems of balancing capacity at each stage of value chain. It can reduce a firm's manufacturing flexibility, lengthening design time and ability to introduce new products. For example, Walmart to increase capacity, they have to make sure that they generate the additional sales corresponding to that increased capacity. Though their businesses acquire a bigger space, new equipment but there’s not a plan for bringing in the sales to take advantage of that increased capacity capability, it’s just increased overhead; a fixed cost.

When you integrate more work that is different in your organisation, you are developing new core competencies, which is, as seen before, a positive effect. Nevertheless, this can represent a drawback when these new competencies affect existing competencies in a negative way, making people uncomfortable in performing their functions, which can end in less satisfaction and motivation of the workers and in less productivity of the enterprise. Although vertical integration should lead to lower costs, in fact in some cases you can obtain quite the opposite.

It is possible that you increase your organisations bureaucratic costs by the fact that you are integrating different jobs in the same organisation. Another issue is that if you integrate backwards, you may reduce or eliminate competition amongst suppliers, which can result in low efficiencies and, consequently, higher costs In conclusion, whether to develop vertical integration strategy the organisation will need ensure that its cash flow are able to sustain as the risk is high due huge capital injection and also to have careful study onenvironmentto ensure that the demand for input is high before developing the strategy.