Using horizontal integration to find the best fast food restaurants

Business

Are you wondering what horizontal integration is and what it has to do with your favorite fast food chains? Chances are you may be a student and learning about this for the first time. You also might be someone who is working on a business idea. Maybe you've never heard of horizontal integration, but someone mentioned it and you just love fast food!

Either way, we want you to keep reading. We want to tell you something about all those great restaurants you love. They have a connection to horizontal integration. It's not because you bought fries from McDonald's, a burger from Burger King and your frosty from Wendy's – but you're close!

The exciting news is that horizontal integration is not as difficult as it might sound.

If you can visualize (see) a company like Blockbuster working with a company like Netflix then you already understand the concept. You can give yourself an ' A' and class is over! Well, sort of…

Horizontal integration is about merging together companies that have something in common. So now can you see why those fast food restaurants are using horizontal integration?

As it relates to macroeconomics and different areas of management that's why we give you the example of Blockbuster and Netflix. Don't worry, we didn't forget the fast food restaurants. We'll get to that shortly.

Scaling (Or expanding services)

When a company is trying to grow itself, it usually has so much money to invest in. It works on different types of deals that it has to strategize (think really hard until smoke comes out). The company is trying to figure out what is the best way is to sell products and merchandise. It wants to make more money and invest the money that they're making for the company to grow bigger. This process is considered scaling. So whenever you try to think of ways to make more money over the summer and get a bigger allowance, you guessed it, you're scaling yourself, or trying to!

Do you love Mac and Cheese?

As a company grows and expands, they seek ways that they can scale themselves. Remember, that means to expand in different areas. That's why you have a company like Kraft Foods that sells macaroni. Kraft doesn't just sell macaroni and cheese. They might sell cheese crackers, or they may sell frozen food dinners with you guessed it, cheese. That's scaling, too!

With horizontal integration though, a company may seek out similar companies that can help them to sell similar products. They do this by:

- buying out another company
- allowing themselves to be taken over or bought out by a company
- merging with a company

QUICK POP QUIZ: Can you think of a few examples of companies that might want to do this because they sell similar products? How about:

- Wal-Mart and Target
- Best buy and Radio Shack

- Office Depot and Staples
- Dominos and Pizza Hut
- Or what about Apple and Samsung? That one might not work and we'll tell you why in a second. Hint: It has to do with a popular board game where you pass ' Go'.

Benefits of horizontal integration

Now let's explain the benefits of horizontal integration. Some of the benefits are that when a company seeks to work on a deal of this type, they actually do it in a strategic way. They want to help to ensure that they can sell similar products because they may have similar:

- manufacturing abilities
- production abilities
- and they may be in the same industry

Strategic points about horizontal integration

Keep in mind when a company utilizes horizontal integration, they are doing it as a strategic manner. That's because they know they're going to benefit from it in some way.

Fast food example

Let's say, for example, you want to go to a top school. You also want to make sure that it's in an area where there are a lot of your favorite fast food restaurants. The reason that you want to do this is because you want a wide selection of all your favorite fast food restaurants. That way when you have your study breaks – that's what you call them, you have your choice of where to go to. That means all these restaurants are also similar fast food places you enjoy.

Horizontal integration is similar to this in that a company (that would be you in this example), wants to seek out different deals. They want to make sure they can benefit from them. Remember, it’s because they’re all selling similar products, (this would be you seeking out different restaurants because you want all your favorites within reach).

Quick Pop Quiz: Can you think of a top company that has done this successfully for a number of years?

Answer: A company that did this successfully for a number of years was Wal-Mart.

Wal-Mart started setting up their locations in various parts of the country. They also set up stores all over the world. Their goal was strategic because they sought out stores that already had the features set up that they needed such as:

- warehouses
- manufacturing plants close by
- and workers who lived in the area

They then bought the stores and changed the names. Some of the names were changed to Wal-Mart and brands that Wal-Mart owns. Some were under different names. What ended up happening was that Wal-Mart began to make money on all of the sales that would come in for that particular region. Because they strategized in this manner, it made them a global presence.

They began making money in and around different regions because of all of the strategies they set up ahead of time.

It also made them a horizontal monopoly which is a similar term – and the answer to your first quiz. The reason why Apple and Samsung can't merge is because it would make them a monopoly. That means they would be too strong as they would dominate the tablet, computer and phone industries. They wouldn't have any competition. We have laws against this so they don't overcharge the public with really high prices.

A horizontal monopoly is legal as long as the company doesn't become too big or the only competitor. It's basically when a company strategizes so much that they're the ones who benefit the most from it. Because they have so many stores set up, they would be able to literally eliminate the competition. You could see this happening with Samsung and Apple. That's why some mergers won't happen.

Back to the fast food restaurants…

Remember our example of you having all of the food restaurants around you? What if you found out that there was a McDonalds that was set up right next door to a McCafe? What if the following week another McDonalds entity moved in?

Let's say this one was under a different parent name, like McGriddles. Can you see how McDonalds might be trying to create a strategic form of a horizontal monopoly? They integrated into that area of fast food restaurants a little at a time. You might catch on eventually and want to switch to Burger King or Pizza Hut. That's because your brand equity has changed.

Because you may be studying horizontal integration, keep in mind that horizontal integration works to:

- increase market share based on customer revenue
- strategically look at the number of locations and pre existing stores
- examine existing marketing efforts and their strategic marketing base
- examine the existing image branding
- anticipate ways to raise prices to increase revenue and eliminate competitors
- look for the lack of another strong competitor in the area

If you didn't see a Burger King or Wendy's in that mix of fast food restaurants, they might have passed on having a restaurant there. Maybe they strategically (thought about it a lot in meetings) and came to the conclusion that the fast food market was too saturated (too many similar fast food places in one place) and they were looking for an area without so much competition – which means more money for them!

References:

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http://www. answers. com/Q/What_is_horizontal_integration

Image: designer491/Shutterstock. com