

Arauco (a): forward integration or horizontal expansion

Business



Arauco (A Forward Integration or Horizontal Expansion Horizontal expansion is the way for Arauco to go. This is because, the organization has been in this business for many years, and it has already built a reputation as the main player in the pulp production. Additionally, most of the revenues earned by the company, to a tune of 50%, are being derived from pulp sales (Masanel, Tarzijan and Mitchell, 4). The company holds the largest world market share for the unbleached soft pulp, accounting for 15.8% of the world's market share. In the year 2003, the sale of pulp alone had accounted for 48.7% of this company's sales (Masanel, Tarzijan and Mitchell, 4). The company has also established an export strategy for its products, which allows it to continue thriving even amidst the tough economic times, since its export markets still serves as the rescue for the local turbulent marketing conditions. With these facts, it is advisable for the company to continue pursuing the same line of business, since it has build a brand that is already well known both locally and abroad, allowing it to curve a large market share in the world.

Therefore, through adopting the horizontal expansion strategy, the company will be in a good position to continue enjoying the advantages of the economies of scale of production that it enjoys right now, thus making it possible for the company to reduce its costs of production and thus earn higher profit margins. The company, through its size and market positioning, is able to capitalize on its production capacities to lower the cost of production of its major product. Unlike the other producers who incur higher production costs, the company is the only one capable of producing its pulp at a lower cost of \$300 per ton (Masanel, Tarzijan and Mitchell, 3). The

attempt by the company to diversify into other product, through adopting forward integration is likely to affect the company negatively. This is because, the company is likely to start losing its identity, since it is well known for its pulp production capability, which is the greatest strength that the company should capitalize on and increase its capacity, at the expense of venturing into the production of new products, in which the company bears little experience or market share (Hill and Gareth, 175).

The adoption of the forward integration strategy is also likely to affect the company negatively, through disruptions and disorientations by new employees, who would require induction and training to fit into the company's system (Hill and Gareth, 177). This is because; it will require hiring new employees to engage in the paper production department, which means that the company has to start sub-contracting other contractors for the provision of the newly required employees, yet the company had already build a long-standing relationship with contractors whom it had worked with for long, and thus could readily avail the required labor necessary for the expansion of its normal lines of operations (Masanel, Tarzijan and Mitchell, 6). Additionally, horizontal expansion eliminates the environmental concerns that would be introduced by forward integration to paper production, such as chemical by-products, gas emissions and the need for recycling and reuse, which were the major environmental issues that the government wanted the players in the industry to address. Through continued horizontal expansion, such concerns will be avoided.

Works cited

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