VERTICAL RELATIONS 2

Context and concepts

- Context: You're not sure whether to buy or make. Are intermediate options possible?

Coke and Pepsi

- Both own some distributors, but not all ("tapered integration")
- Why?

Benetton and Zara

- Benetton: owns a few stores; production based on extensive network of suppliers.
- Zara: owns most stores; production tightly integrated.
- Why?

UNITED COLORS OF BENETTON.

Stefanel

- Franchising involves complex relationships
- Which should be financed/controlled by parent (and why?):
  - Advertising
  - Rent
  - Store design
  - Salesforce training
**Toyota**

- Production based on long-term, informal relationships with suppliers (not primarily ownership).
- Suppliers involved in design as well as production.
- Questions:
  - How important are cultural factors? Can the system be transplanted to other cultures?
  - Is Toyota + suppliers one firm or several firms? What is a firm? Who cares?

**Levi Strauss**

- Resale price maintenance
- Why?

- Other vertical restraints:
  - US car dealers: exclusive dealing
  - European car dealers: exclusive territories

**Antitrust law**

- Vertical integration and vertical restraints may increase overall efficiency (e.g., lower cost, better products)
- They may also increase market power
- Antitrust law attempts to distinguish between them
- Examples:
  - Fine fragrances
  - Consumer electronics
  - Microsoft: Internet Explorer, Office

**Takeaways**

- Among the alternatives to make or buy: tapered integration, franchising, supplier networks, and vertical restraints (contractual limitations on suppliers or distributors).
- Sometimes it's hard to say exactly what the boundaries of a firm are.
- Antitrust law does not prohibit vertical relations "per se," but does address possible anti-competitive practices and consequences.