



**Definitions:**

**Value Chain** is the sequential set of primary and support activities that an enterprise performs to turn inputs into value-added outputs for its external customers.

**Vertical Integration** refers to the degree of integration between a firm's value chain and the value chains of its suppliers and distributors.

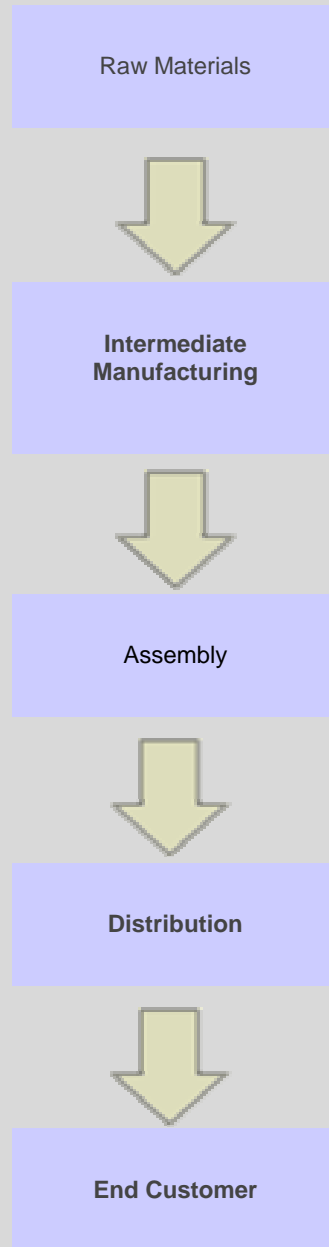
**Full Vertical Integration** occurs when a firm incorporates the value-chain of a supplier and/or that of a distribution channel into its own value chain by acquisition or by expanding operations.

**Close Partnership** is a vertical relationship in which the supplier is involved early and heavily in the design, development, and production of a specific product over a limited period of time.

**Virtual Vertical Integration** occurs when a firm creates a Close Partnership with suppliers and/or distribution channels into its own value chain on a project basis to explore opportunities.

**Cooperative Gain** is defined as a positive link between all partners economic performance in a vertical partnership.

**The Value Chain (Level 1)**



**Reasons to Integrate for Cost Reduction**

**(Porter)**

- Economies of scale.
- Learning.
- Capacity utilization.
- Linkages among activities.
- Interrelationships among business units.
- Degree of vertical integration.
- Timing of market entry.
- Firm's policy of cost or differentiation.
- Geographic location.

**Reasons to Integrate for Value Creation**

**(Sutherland)**

- Opportunities to Differentiate
- Capability Sharing
- Business Model Linkages
- Capital
- Capacity Sharing.
- Insight Sharing
- IP Sharing
- Market Channel Leverage
- Brand Linking
- Location