SUGGESTED SOLUTION TO QUESTION 6

Section A

<u>Vertical integration</u>

Acquiring ("buying out") either one's suppliers (backward integration) or one's customers (forward integration) in order to gain more control or to generate additional profit.

Example of **forward integration**: Vodacom buying out resellers (service providers such as Mobile Direct, AutoPage Cellular, etc.) of its offerings in the market place.

Example of **backward integration**: SAPPI buying out the companies who own the plantations which supply it with raw materials (the wood and chemicals to produce pulp)

Some companies find it useful to own the whole supply chain e.g. oil companies performing drilling, refining, chemical manufacture, and service-station operation.

<u>Horizontal integration</u>

Acquiring one or more of one's competitors.

Example of **horizontal integration**: Musica buying out Look & Listen, CD Warehouse, etc.

This allows a company to increase its market share and profits in that industry.

Section B

	Current Products	**New Products**
Current Markets	Market Penetration Strategy	Product Development Strategy
New Markets	Market Development Strategy	Diversification Strategy

a) Market penetration strategy:

This entails a company gaining greater sales or market share by continuing to sell current products in their current markets. *Example: Coca cola launching a new 5 litre economy size bottle.*

b) Market development strategy:

This entails a company developing new markets for its existing products. *Example: Bakers punting the fact that their Tennis biscuits make an ideal base for cheesecake.*

c) Product development strategy:

This entails a company selling new products of potential interest to its current markets. *Example: Retailers such as Tesco (UK) offering their existing customers unconventional products such as bank accounts, broadband Internet connectivity, etc.*

d) Diversification strategy:

This entails a company doing something completely different and new – developing new products for new markets. This is very risky though as the company is likely to have little experience with the product and/or market. Experience has shown that not many companies are able to crack this. *Example: BMW producing mountain bikes and targeting them at a market segment who would not necessarily be willing, or in a position, to buy BMW cars.*