

VERTICAL INTEGRATION

Vertical integration is a business strategy where a firm owns and operates multiple levels of the supply chain.

EXPLANATION

Vertical integration can involve a firm expanding into any level of the supply chain: acquisition of raw materials, production, distribution, etc. This strategy can help a firm gain better control over its business, improving efficiency.

EXAMPLE

A firm that operates retail clothing stores can vertically integrate by acquiring the factory manufacturing the clothes. The firm now controls both production and distribution, giving greater control over the supply chain and a greater share of profit margins.