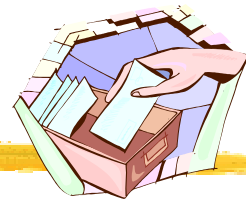


Integration of Firms

The CEO's Plan



Game Rule

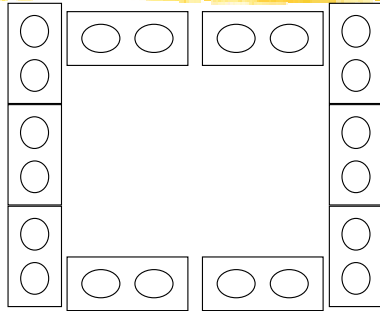


- ❖ **Every student can draw a slip.**
- ❖ **Each slip represents a firm. Students become the Chief Executive Officer (CEO) / boss of those firms and they can use their own name to complete the firm's name.**



- Cut out Table 1 and 3 before the lesson.
- Ask every student to draw a slip (i.e. Table 1). For example, if XXX student is the owner of a boutique, XXX student can name her boutique as “XXX Boutique.” Distribute each student an A4 paper to write his/her firm's name on.
- T: Everyone is either the CEO or owner of the firm, you want to earn as much profit as possible, don't you? Suppose your firm is a listed company, you do not only want to earn as much profit as possible, but you also want to increase your share price! Therefore, you have to be very careful in your decision-making. It may affect your share price.

Sitting Plan



Door

Blackboard

•Ask students to set the classroom up as the sitting plan suggested in Table 4. As soon as students find their partners in the coming 4 rounds, they should sit down with their partners according to the sitting plan.

ROUND 1

– Horizontal Integration

❖ You have **2 minutes** to find **1 partner** to work with.

❖ Your targets are:

- ✓ To **enlarge the market share**
- ✓ To **reduce competition**



- T: What we will do today is to see if you can co-operate with another firm to enlarge the market share and reduce competition.
- I will give you 2 minutes to go and find one partner to work together.
- After you have found your partner, you should sit with your partner and show me your company names on the desk.
- (After 2 minutes) Distribute Worksheet 1 to each student. Ask students to fill in Round 1 information. Choose 1 to 2 pairs of students to share:
 - Whom he/she integrated with;
 - The reason(s) for such integration
- Ask 1 to 2 students (if there is any) who could not find a partner to integrate to comment on integration of other groups.
- Teacher should drop down students' points on board (please refer to Table 2 for suggested blackboard arrangement). Teacher may consider giving out instant prizes to groups with correct elaboration or creative ideas.
- Teacher should introduce the concept of “horizontal integration” with reference to its related motives.

ROUND 2 – Lateral Integration

❖ **Find some new partners this time so that:**

✓ **You can extend its brand name to another product.**

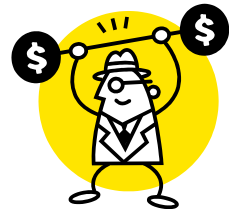
❖ **You will have 2 minutes to work with a new partner.**

- T: This time, you want to extend your brand name to another product, see if you can find some new partners to integrate for this purpose.
- (2 minutes later) Ask students to sit down and fill in Round 2 information (Worksheet 1). Choose 1 to 2 groups to:
 - Introduce the newly formed company;
 - Explain the reason(s) for such integration.
- Ask 1 to 2 students (if there is any) who could not find a partner to integrate to comment on integration of other groups.
- Teacher should drop down students' points on board.
- Teacher may consider giving out instant prizes to groups with correct elaboration or creative ideas.
- Teacher should compare the concept of “lateral integration” & “horizontal integration”.

ROUND THREE – Vertical Integration

❖ Try in **2 mins** to find a partner this time.

❖ Your Board of Directors would like to **ensure the steady supply of materials for production and adequate market outlets for the company.**



- (2 minutes later) Ask students to sit down and fill in Round 3 information. Choose 1 to 2 groups to introduce the newly formed company. Ask 1 to 2 students (if there is any) who could not find a partner to integrate to comment on integration of other groups.
- Teacher should drop down students' points on board.
- Teacher may consider giving out instant prizes to groups with correct elaboration.
- Teacher should help student to distinguish “forward vertical integration” and “backward vertical integration” by more daily examples.
- All paired students should state clearly who are merging firm and who are merged firm in the integration.

Definitions with real examples

❖ Vertical Integration:

- ✓ **Occurs when firms at different stages of production of the same product combine together.**
- ✓ **Can be divided into backward & forward integration.**

•Briefly explain ALL types of integration. Distribute “Fact Sheet on Integration of Firms” to each student.

•Teacher should help student to distinguish different types of integration by definition.

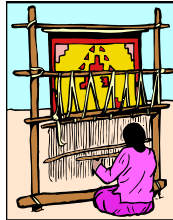
•Teacher should help student to distinguish whether the motive is general motive or specific motive.

Definitions with real examples

❖ Vertical backward integration:

- ✓ Occurs when a firm **combines** with another firm in its **preceding stage of production**.

- ❖ e.g. a garment factory integrates backwards when it combines with a weaving factory, because weaving precedes garment-making in clothes production.



Definitions with real examples

❖ Vertical forward integration:

- ✓ Occurs when a firm **combines** with another firm in a **later stage of production**.

- ❖ e.g. A garment factory integrates forwards when it combines with a boutique, since garment selling follows garment production.



- Real example: American online and Time Warner announced a merger in 2000.

Definitions with real examples

❖ Horizontal Integration

✓ It takes place when firms **producing the same product** or at the **same stage of production combine together**.

❖ **E.g. In 1994, the combination of the Hop Hing Oils & Fats LTD (合興油脂公司) and Lam Soon Oils & Fats LTD (南順油脂公司).**

❖ **E.g. In 1998, British Petroleum acquired AMOCO.**

Definitions with real examples

❖ Lateral Integration:

- ✓ It occurs when firms **producing related products combine together.**



- ❖ **E.g. The publication of the Apple Daily (蘋果日報) by the Next Magazine Publishing LTD (壹週刊出版有限公司)**
- ❖ **E.g. Ah Yee Leng Tong was taken over by Café de Coral at HK\$14 million in May 1990.**

Definitions with real examples

❖ Conglomerate Integration

✓ It occurs when firms in **entirely different lines of production** combine together.

❖ **E.g. Swire Pacific LTD (太古股份有限公司) is a conglomerate formed by integrating different firms engaging in aviation, property, industries, trading, marine services and insurance.**

❖ **E.g. in 1972, the HK Land LTD took over the Dairy Farm Co., LTD**

ROUND 4

– Different types of integration

- ❖ You will be given an assignment to **integrate with another firm** according to **type of integration**.
- ❖ You will have another **2 mins** to do so.

- T: Now, in this round, each of you will be given an assignment to integrate with another firm according to type of integration. (Distribute a slip from Table 3 to each student). You will have another 2 mins to do so.
- (2 minutes later) Ask students to sit down and fill in Round 4 information. Choose 1 to 2 groups to introduce the newly formed company.
- Teacher can ask students to check whether other groups integrated according to its given definition.
- Teacher may consider giving out instant prizes to groups with correct elaboration.

ROUND UP & EXPLANATION

❖ Can you name some **types** and **motives** of integration?



- Collect students' worksheets to grade each integration. Award winner in the next lesson.
- Compare & contrast students' points with textbook to elaborate &/or consolidate types and motives of integration.
- Teacher may like to play 1 or 2 more rounds before consolidation if time permits.

