



# What COOs Can Learn From Oracle's Strategy of Vertical Integration to Add New Revenue Streams and Diversify Risks

**Dr. Billie G. Blair**

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# About the Webinar Speaker

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- About Dr. Billie Blair, President/CEO, Change Strategists, Inc.
- Author, ***ALL THE MOVING PARTS: ORGANIZATIONAL CHANGE MANAGEMENT (2007)***
- Author, ***VALUE + EMPLOYEES AS VALUERS (2009)***
- President of an international firm that consults with Fortune 500/1000s on corporate strategy, including integration processes
- Former university dean and professor, management
- Former executive in corporate, health care and university settings

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# Overview

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- **Vertical integration is an old idea that makes perfect sense in modern day operating environments.**
- **Firms that control all essential company operations “under one roof” have a leg up.**
- **This solution circumvents “broken” supply chains and makes customers happier.**

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# What to Know

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- **Control Your Processes:** Learn how to control the parts of your processes that directly affect the consumer (think Apple and their efforts).
- **Look at Your Supply Chain Operations:** Vertical integration provides a major advantage over rivals who depend on the conventional buyer-seller relationship to get stock in.
- **Rethink Horizontal Agreements:** Horizontal involvements run the risk of standardized processes and “power shifts” to players that dominate these horizontal layers – Microsoft and Intel are recent examples.
- **Calculate the Costs:** The bigger the corporation, the more difficult (and expensive) it is to build a “complete customer experience” through vertical integration.
- **Reevaluate Products/Services Connections:** You’ll need good guidelines to rethink your current product and service combinations.

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# What to Know

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- **CONTROL YOUR PROCESSES**
- Mainframe computers – acquisition of total product lines was required.
- Apple controls the parts of the operation that touch the customer,
- And contracts for the remainder of the manufacturing.
- New decision is to design the chips for its products.

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# What to Know

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- **LOOK AT YOUR SUPPLY CHAIN OPERATIONS**
- Determine how the chain actually works.
- Detect any weak links.
- Find out why there are weaknesses – management, complexity of manufacture, other.
- Realistically assess how well supply chain arrangements are working.

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# What to Know

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- **RETHINK HORIZONTAL AGREEMENTS**
- Power shifts frequently occur in horizontal, supply chain operations.
- Determine how critical it is for your company to avoid these.

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# What to Know

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- CALCULATE THE COSTS
- The HPs, IBMs, Xeroxes etc. will have a more difficult time of building a complete vertical integration process . . . . But, then, of course, there is Apple who has done it successfully – and Oracle who fully intends to.

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# What to Know

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- REEVALUATE PRODUCTS/SERVICES CONNECTIONS, AGREEMENTS BY THESE GUIDELINES
- Are they cost effective?
- Are they timely?
- Do they support good customer satisfaction?

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# Market Conditions

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- A compressed market
- Greater global competition
- The need for higher ratings on customer satisfaction
- The need for greater customer loyalty to brand
- The need to think green.

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# Strategies

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- Strategy 1 - Go for effectiveness not elaborateness – focus on cost and control.
- Strategy 2 - Re-build your strategy platform – rethink from the ground up.
- Strategy 3 - Employees as consultants: things that work for the customer; how they think they *should* work. (See my latest book: **VALUE +**)
- Strategy 4 - Battleships (turn it around or, at least, 180 degrees) -- that is, set out new, directive goals, take new tacks.
- Strategy 5 - Evaluate actions taken for effectiveness, appropriateness in today's markets.

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# Action Plan

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- ASSESS CURRENT OPERATIONS
- DETERMINE WHAT WORKS WELL AND WHAT DOES NOT
- SET OUT TOTALLY NEW GOALS, DIRECTED TOWARD FUTURE OPERATIONS
- TAKE STEPS TO DISBAND/REPLACE UNITS, OPERATIONS NOT WORKING WELL
- INVOLVE YOUR EMPLOYEES IN FINDING/DESIGNING THE SOLUTIONS TO PROBLEMS
- LET THE FUTURE GUIDE YOU – COLLECT INFORMATION ABOUT GLOBAL OPERATIONS, SET TACTICS APPROPRIATELY
- CREATE A FLEXIBLE OPERATION, READY TO RESPOND QUICKLY AND ACCURATELY TO UNKNOWN CONDITIONS
- DEVELOP A THOROUGH EVALUATIVE PROCESS (USE CRITICAL PATH MANAGEMENT PROCESSES, FOR FOR EXAMPLE)

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# Tips & Tricks

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- BE RUTHLESS – THINK ABOUT THE “COMPANY’S OVERALL WELFARE” – NOT YOUR OWN OR THAT OF ANY SINGLE GROUP OF EMPLOYEES
- BE COURAGEOUS – ACT ON THE INFORMATION DEVELOPED FROM THE STRATEGY BUILDING PROCESS
- BE THOUGHTFUL – READILY EXPLAIN YOUR PLANS AND THE NECESSITY FOR ACTION TO YOUR EMPLOYEES, YOUR CUSTOMERS
- BE CONCILIATORY – DON’T BACK DOWN ON YOUR PLANS OF ACTION, BUT DO LISTEN TO CONCERNS, QUESTIONS – THEN EXPLAIN WHY YOU’RE GOING TO DO WHAT NEEDS TO BE DONE

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# Case Studies

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- Case Study #1 – Apple
  - - Has acquired all controlling parts that touch a customer
  - - Now will also develop its own chips for its products
  - - Figured out how to link the content, the hardware, the software, and the pricing and distribution mechanisms of its operations in a vertical integration schema
  - - Uses aggressive contract manufacturing rather than doing *everything*

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# Case Studies

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- Case Study #2 – ORACLE
- Acquisition of Sun Microsystems
- Transform to a maker of software, computers, and computer components
- Harkening back to the '60s of U.S. conglomerates, rather than the current fragmentation of the U.S. technology industry.

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# Case Studies

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- Case Study #3 – BOEING
- Acquiring companies that ensure adequate supplies, replacing troubled suppliers (The Dreamliner Experience: 2 years' delay)
- Reversed the aggressive outsourcing of the past – Dreamliner production line relied on hundreds of suppliers

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# FAQs

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- AN OLD, TRIED BUT NOT PROVEN OPERATING TECHNOLOGY
- ORACLE AND OTHERS ARE JUST TRYING SOMETHING DIFFERENT – THEY HAVE LOTS OF MONEY
- BUT WHAT ABOUT ME AND MY COMPANY?
- I'D RATHER ADOPT A "WAIT AND SEE" APPROACH – WHAT'S WRONG WITH THAT?
- HOW MUCH DOES THIS COST TO RECONFIGURE A COMPANY, DO VERTICAL INTEGRATION?

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# Conclusions

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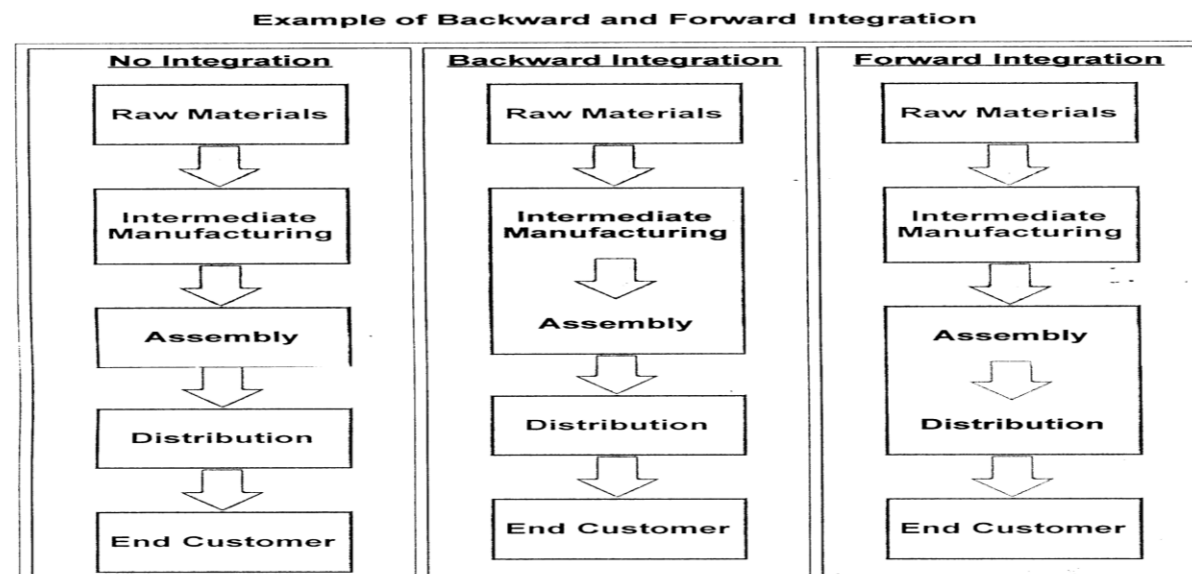
- THINK ABOUT THE FUTURE MORE CLEARLY
- EXPECT A CHAOTIC AND UNCERTAIN FUTURE FOR SEVERAL DECADES
- WOULDN'T YOU WANT TO BE IN CONTROL OF AS MUCH OF YOUR OUTPUT AS POSSIBLE?

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# Additional Documents

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