

Explain the advantages of vertical integration forwards. [3]

Forward vertical integration occurs when a firm takes over or merges with another firm so that it tends closer to its market (customers) in the supply chain or retail outlet. The advantages of such integration include the following:

1. **Economies of scale:** FVI is an external growth method and it is possible to reap economies of scale to reduce average cost.
2. **Better adapt:** By gaining access to customers, the firm can better adjust the output to meet the customers' requirements.

Explain the disadvantages of vertical integration forwards. [3]

1. **Diseconomies of scale:** FVI can lead to management problems as the firms might be of different sizes and the managerial culture also different.

Conglomerate merger

This occurs when firms producing unrelated goods and services come together. For e.g., a shoe manufacturer merges with a sugar producer. The main aim motivating conglomerate merger is ***to diversify activities to spread risks, to obtain economies of scale, to take advantage of growth prospects in the other market.*** However, a major disadvantage is ***a high risk of possible diseconomies of scale.***