1.1 Vertical Relations in an Information-Age World Economy

i) Transformation of manufacturer-subcontractor relations

In a traditional manufacturing model, a producer would send its purchasing officer to subcontractors with detailed blueprints and instructions on how to make the parts. Parts would be further subjected to quality controls after delivery. This old model is being replaced by new technology in the emerging information economy.

Digitial technology offers an improved and more efficient way of securing supplies. Producers will soon be able to send three-dimensional drawings down modem links to subcontractors. As computer-aided designs (CAD) grow more sophisticated, the practicality of most designs of parts can be tested by computer with increased reliability before delivery. In computer-aided manufacturing (CAM), good software enables machines to perform quality checks.

With on-line communications, it is as swift and easy to send out a parts order to 25 potential subcontractors as to five; or to Chicago, or Tokyo or Singapore as it is to Toronto. Having placed an order on-line, the company can wait to see which supplier offers to fulfil it most efficiently. The on-line opportunities will enable the firm to scour the world for the best deal. These links help to ensure that manufacturers obtain faultless parts at short notice. In time, traditional producer and parts' supplier relations will become uncompetitive and will be replaced by these new links based on much enhanced information technologies.

ii) Transformation of manufacturer-retailer relations

One key assumption of early vertical restraint cases was that the retailer at the point of sale had the best information and would be the most responsive to market forces because its investment was at stake. The manufacturer, having sold the product down the distribution chain, was supposed to be indifferent to subsequent developments and to remain detached from immediate market signals. In the information age, that assumption will increasingly become less applicable.

In the traditional producer-retailer setup, each retailer has to source its merchandise from a number of producers with enough stocks in the warehouse to meet its peak demand. As computer network linkups grow wider and become cheaper, the manufacturers and dealers will be able to establish e-mail and video contacts with a couple of clicks on the mouse. As industrial networking catches on, retailers with varying patterns of demand can use each other's stocks and reduce the requirement to hold large amounts of overall stocks on hand.