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Diversification as a Viable Corporate Strategy

Introduction

Diversification is one of the strategies pursued by firms wishing to grow in newer markets and by launching newer products. Diversification usually entails the firms entering new markets in the industry in which they are already present by launching newer products. Note the emphasis on new markets and new products as diversification is not only about entering newer markets but also with newer products. For instance, launching detergents and other hygiene based products by firms that already have soaps and other personal care products is one form of diversification wherein the firms launch an entirely new product line aimed at targeting newer market segments. Similarly, innovating and inventing newer products is another way of diversification, which can extend beyond the existing industry in which the firms operate. The best example of this type of diversification is launching mobile payment systems by mobile telephony companies wherein they tap newer market segments with newer product and service lines.

Concentric Diversification

The first type of diversification is concentric diversification wherein the firms ensure that there is a technological similarity between its existing core competencies and the newer product lines. Indeed, **this type of diversification is aimed at leveraging the existing competencies and expertise and which is aligned with its resources and capabilities**. In this type of diversification, firms typically launch additions to their product lines and at the same time target newer market segments. The idea here is to ensure that their brand image and brand loyalty are transferred to the newer products. Further, this type of diversification is sometimes not done strictly to target newer market segments but ensure that the untapped market segments are targeted. Examples of this would be launching Tablet computers by companies like Apple and Samsung, which are already present in the Smartphone market.

Horizontal Diversification

This type of diversification happens when firms tag on to the existing market segments and leverage the existing customer base though the products that they launch are aimed at sub segments in the current market. This type of diversification is usually followed when the firms launch newer products that have some relation to the existing products but at the same time, the firm is entering a new business. This new business can be related or unrelated to the current businesses in which the firm operates and the idea here is to ensure that the existing customers transfer their loyalties to the new product lines. Lest this sounds confusing, it needs to be noted that horizontal diversification as the name implies is all about entering newer market segments and launching newer products on the “same plane” horizontally which means that there is little alignment unlike vertical integration and concentric diversification.

Conglomerate Diversification

The third type of diversification or conglomerate diversification is completely different from the previously discussed strategies as this type of diversification is a strategy where conglomerates launch entirely new product lines that have no alignment with their existing resources and capabilities and enter completely new markets where they do not have a presence. For instance, Reliance, which ventured into Retail and Mobile Telephony, is an example of a conglomerate diversification. The sole intention is to leverage the positive brand image and the existing brand loyalty in its existing market segments as this firm has launched entirely new products unrelated to its core competencies and entered newer market segments where it has no presence at all. This type of diversification is the most risky of the three types discussed in this article though if the firm is successful, then it can aim for further diversification, which is indeed a profitable, and growth oriented strategy.

Goals of Diversification

There are two broad goals of diversification and they are to ensure that firms profit from diversifying when their existing products and market segments are saturated or competitors have outwitted them, and the other goal is when firms use the cash reserves at their disposal to become aggressive and enter new markets and launch new products as a means of ensuring continued success and profitability. The first type is known as defensive diversification and the second type is known as offensive diversification. Both rationales for diversification hinge on the pivot of the need of the firms to grow and profit when they either are stagnant or are in an adventurous spree especially when they have the resources to do so. Indeed, in the contemporary global economy, firms have to diversify as the twin challenges of the death of demand and the oversupply means that firms cannot be tied down to markets and products for long.

Risks associated with Diversification

As mentioned in the previous section, diversification has become necessary in the current global economic system wherein firms are forced to look for new markets and launch new products. Having said that, it must be noted that diversification is a risky strategy as it entails embracing uncertainty and unfamiliarity. Further, the firms are entering into uncharted territory and hence, they need to have a good compass of where they are headed if they are to successfully navigate the choppy and the tricky waters of the new markets and new products. As has been emphasized earlier, firms must choose diversification carefully and even Igor Ansoff who proposed this strategy in his Ansoff Matrix has pointed to diversification being the most risky of the four types of strategies. In conclusion, firms must do their due diligence before they diversify and not take things for granted as diversification entails disruption and creative destruction for which they might or might not be fully prepared