Diversification strategy definition pdf

If you're a business owner, whether your business is doing well or not so well, you're probably looking for growth. While there are many ways to grow a business, the overall way that companies achieve growth is that you may want to consider this diversification. Diversification is a growth strategy by branching into a new market segment, allowing your business to expand its presence and occupy a whole new space. This is achieved by expanding (or diversifying) your product or service offering to target new customers and increase profits. There is not just one type of diversification; There are several different ways to diversify and develop your company. Below, I'll walk you through different types of diversification strategies and illustrate the pros and cons of each for your company. Types of Diversification Strategies There are six established types of diversification strategies: Horizontal DiversificationVertanic DiversificationConcentral DiversificationConcentral Diversification Protect DiversificationSconsive Diversification 1. Horizontal Diversification To diversify your company horizontally means introducing brand new products or services for your current offering in order to expand your market share, either in a new market segment or your company's existing market. This can be done by: -innovation or licensing new products, merging or acquiring another company. There are two types of horizontal diversification - concentric and conglomerate - that we will dive into later. The new enterprise, formed through horizontal diversification, is designed to attract the existing customer base of the company, as well as to attract new customers to the brand. Some notable examples of horizontal diversification include: Disney's acquisition of PixarFacebook acquiring Instagram2. Vertical diversification, also called vertical integration, entails a growth strategy as the company expands its product line through forward or backward product integration into the existing supply chain. For example, a company that manufactures and sells cars can diversify its business by selling tires. A painting company that provides painting services can start selling paint. As both of these examples show, vertical integration converts company input into results. Both of the above examples illustrate the reverse integration. An example of forward integration can be a toy manufacturer, buying or opening a store store for the game. With forward integration, companies use later stages of the supply chain than the company's current business, while backward integration takes advantage of earlier stages. Vertical diversification has a number of advantages, including: strengthening strengthening your business's supply chain, making a profit upstream or downstream, reducing production costs, accessing new new channels and generating more revenue. Some high-profile examples of vertical diversification: Ikea buying scaffolding in order to supply its own raw materials Amzon integration into the equipment to produce its own Kindle Fire tablets3. Concentration diversificationConcentral diversification, a type of horizontal diversification, involves the introduction of new products or services into a product/service line that is closely related to existing products or services. In this way, you are expanding your market share in the market your company already operates in. Concentric diversification allows you to use existing brand recognition, customer base and loyalty, resources and distribution channels. This type of diversification aims to generate additional revenue from existing customers, as well as attracting new customers who may have been interested in other products but are more swaying your new products. An example of concentric diversification could be if a smartphone manufacturer started selling a smart watch (i.e. Apple, Samsung), or if a furniture company started selling home decor.4 The DiversificationAlso conglomerate, a type of horizontal diversification, a conglomerate diversification strategy, means the introduction of brand new products or services that have nothing to do with the current product offering of your business, so enter a whole new market and are attractive to customers who may have had zero interest in your business before. The benefits of diversification of conglomerates are high roices and high growth by adding a completely new revenue stream to a completely separate market. An example of diversification of conglomerates can be a sewing company, branched into toys5. Defensive diversification and offensive diversification are terms that are more related to why a company wants to diversify rather than like. Defensive diversification refers to companies that diversify to remain competitive because their market segment has become saturated, their existing products are ripe and in decline, or they lose to their competitors. As the word defensive suggests, this strategy is a response to the loss of profits and market share, as well as an attempt to protect its status and position.6 On the other hand, offensive diversification Occurs when the company aggressively seeks to increase its profit and market share by diversifying its product or service line in order to enter new markets and attract more customers. While defensive diversification is a means to stay in business, offensive diversification is a means for a successful, prosperous company to grow even more. Diversification is important For every business, but it is a business strategy that is definitely worth considering for any company looking to grow. Diversification Diversification have been used by some of the most successful companies around the world, including Apple, Google, Starbucks, and more. Here are the main reasons to consider diversification: Diversification allows businesses to significantly increase their revenues by using available resources, brand recognition and customer base. Diversifying your business, rather than investing in a single product or market, reduces your company's risks. Diversification allows you to remain profitable during industrial ups and downs, as society, economy and consumerism fluctuate. Diversification allows you to maximize your company's current resources that may not be underutilized. ConclusionDiversification is just one of many different ways to create growth for your business. If well thought out and done correctly, it can pay off substantially for the company and cement position as a highly competitive player in the market. However, a diversification strategy that has not been thought through can be a catastrophic and costly mistake for business. So, make sure you analyze both the potential risks and benefits, and determine what type of diversification would be best for your business before considering implementing this strategy. Links and more details This article includes a list of general links, but it remains largely unverified because it does not have enough relevant quotes. Please help improve this article by entering more accurate quotes. (December 2010) (Learn how and when to remove this template message) Diversification is a corporate strategy to engage in new products or product lines, new services, or new markets that include completely different skills, technologies, and knowledge. Diversification is one of the four main growth strategies identified by Igor Angoff in The Ansoff Matrix: Products present in new markets are currently infiltrating the New Market Development Diversification Market, which is separate from three other strategies. Whereas the first three strategies tend to be implemented with the same technical, financial and merchandising resources used for the original product line, diversification usually requires the company to acquire new skills and knowledge in product development, as well as new knowledge about market behaviour at the same time. This not only requires new skills and knowledge, but also requires the company to acquire new resources, including new technologies and new facilities, which puts the organization at a higher risk. Note: The concept of diversification depends on the subjective interpretation of the new market and the new product, which should reflect the perception not managers. Indeed, products tend to create or stimulate new markets; new markets encourage innovation in products. Product Product includes adding new products to existing products, either produced or sent to market. Expanding the existing product line with related products is one of those methods adopted by many businesses. Adding toothbrushes to toothpaste or toothpaste or mouthwash under the same brand or under different brands focused on different segments is one way to diversify. This is either an expansion of the brand, or an expansion of products to increase the volume of sales and the number of customers. Typology Strategies to Diversify Trends in product range for certain models in the U.S. x3 Diversification Strategies may include internal development of new products or markets, acquisition of a firm, alliance with an additional company, licensing of new technologies, and distribution or import of products of the production line of another firm. Typically, the final strategy involves a combination of these options. This combination is defined with itself in the function of the available capabilities and consistency with the company's goals and resources. There are three types of diversification: concentric, horizontal and conglomerate. Concentric diversification This means that there are technological similarities between industries, meaning that the firm can use its technical know-how to gain some advantage. For example, a company that manufactures industrial adhesives may decide to diversify the production of adhesives that will be sold through retailers. The technology will be the same, but the marketing efforts need to change. It also seems to increase its market share to launch a new product that helps a particular company to make a profit. For example, the addition of tomato ketchup and sauce to the existing Maggi brand of processed products of Food Specialties LLC is an example of technological concentric diversification. The company may be looking for new products that have technological or marketing synergy with existing product lines that appeal to a new group of customers. It also helps the company to use this part of the market that remains unused and which makes it possible to make a profit. Horizontal Diversification Company adds new products or services that are often technologically or commercially unrelated to current products, but which can appeal to current customers. This strategy tends to increase the company's dependence on certain segments of the market. For example, a company that has made laptops before can also enter the pen market with its new product. When is horizontal diversification desirable? Horizontal diversification is desirable if current customers are loyal to current products and if new products have good and well promoted and evaluated. In addition, new products will be kneaded in the same economic conditions as existing products, which can lead to stiffness or instability. Instability. The interpretation of horizontal integration occurs when a firm enters a new business (bound or unrelated) at the same stage of production as its current activities. For example, Avon's transition to the jewelry market through its door-to-door sales is linked to the marketing of new products through existing distribution channels. An alternative form of this Avon is also the sale of its products by mail (e.g. clothing, plastic products) and through retail stores (e.g. Tiffany's). In both cases, Avon is still in the retail stage. Conglomerate Diversification (or Side Diversification) Home Article: Conglomerate (Company) Aims to Diversify Under Calorie and Harvatopoulos (1988), there are two aspects of justification for diversification. The first relates to the nature of a strategic goal: diversification can be defensive or offensive. Defensive reasons may be the spread of the risk of market decline or forced diversification when the current product or current market orientation does not appear to provide any additional growth opportunities. Offensive reasons may be to gain new positions, to take advantage of opportunities that promise greater profitability than expansion opportunities, or to use non-growth cash that exceeds the overall need for expansion. The second aspect relates to the expected results of diversification: management can expect greater economic value (growth, profitability) or, above all, greater consistency with their current activities (exploitation of know-how, more efficient use of available resources and capacities). In addition, companies can also explore diversification only to gain a valuable comparison between this strategy and expansion. The risks of the four strategies presented in the Ansoff matrix, Diversification has the highest level of risk and requires the most thorough research. Moving to an unknown market with an unfamiliar product offer means a lack of experience in the new skills and techniques required. Therefore, the company puts itself in great uncertainty. In addition, diversification may require a significant increase in human and financial resources, which can be a distraction, commitment and sustained investment in major industries. Therefore, the firm should choose this option only when the current product or current market orientation does not offer further opportunities for growth. In order to measure the chances of success, various tests can be conducted: the chosen industry must be attractive or able to become attractive. Entry cost test: The cost of entry should not capitalize on all future profits. More profitable check: the new unit must either gain a competitive advantage from its connection with the or vice versa. Because of the high risks explained above, many companies are trying to diversify led to failure. However, there are some good examples of successful diversification: Apple has moved from PCs to Virgin Group mobile devices has moved from music production to travel and Walt Disney's mobile phones have moved from the production of animated films to Canon theme parks and recreation properties diversified from camera-making company to producing a whole new range of office equipment. See also Harry Igor Ansoff Market Market Market Development Market Penetration Product Development Product Distribution Pure Game Links - Ansoff, I.: Diversification Strategies, Harvard Business Review, Vol. 35 Issue 5,Sep-Oct 1957, page 113-124 - Ansoff, H.I., Corporate Strategy, Penguin, 1968 - Eichner, T. Coletti,. Customer preferences in online stores in mass setting. The practice of direct, data transmission and digital marketing. 15 (1): 20–35. doi:10.1057/dddmp.2013.34. Cite uses the last author-amper option (help) - Calo and Harvatopoulos (1988). Diversification: Les Regles de conduite. Harvar-l'expansion. Spring. 8-59. Michael Porter (1987). From competitive advantage to corporate strategy. Harvard Business Review. May-June (3): 43-59. 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