

# Industrial Economics

## \* Chapter 4 \*

### Diversification

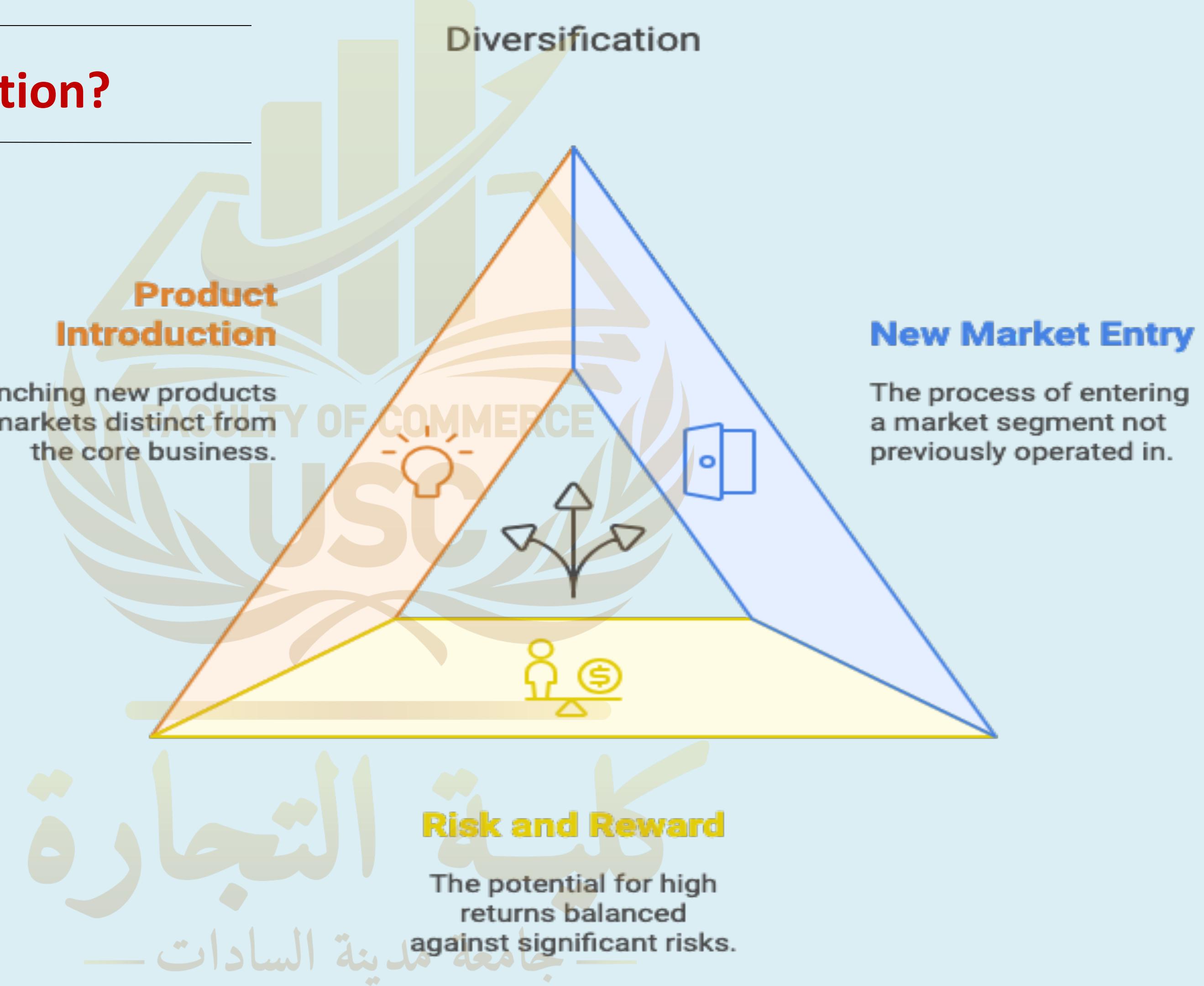
Section by, Hend Abdelsalam

جامعة مدينة السادات —  
كلية التجارة



# Q1: Define diversification?

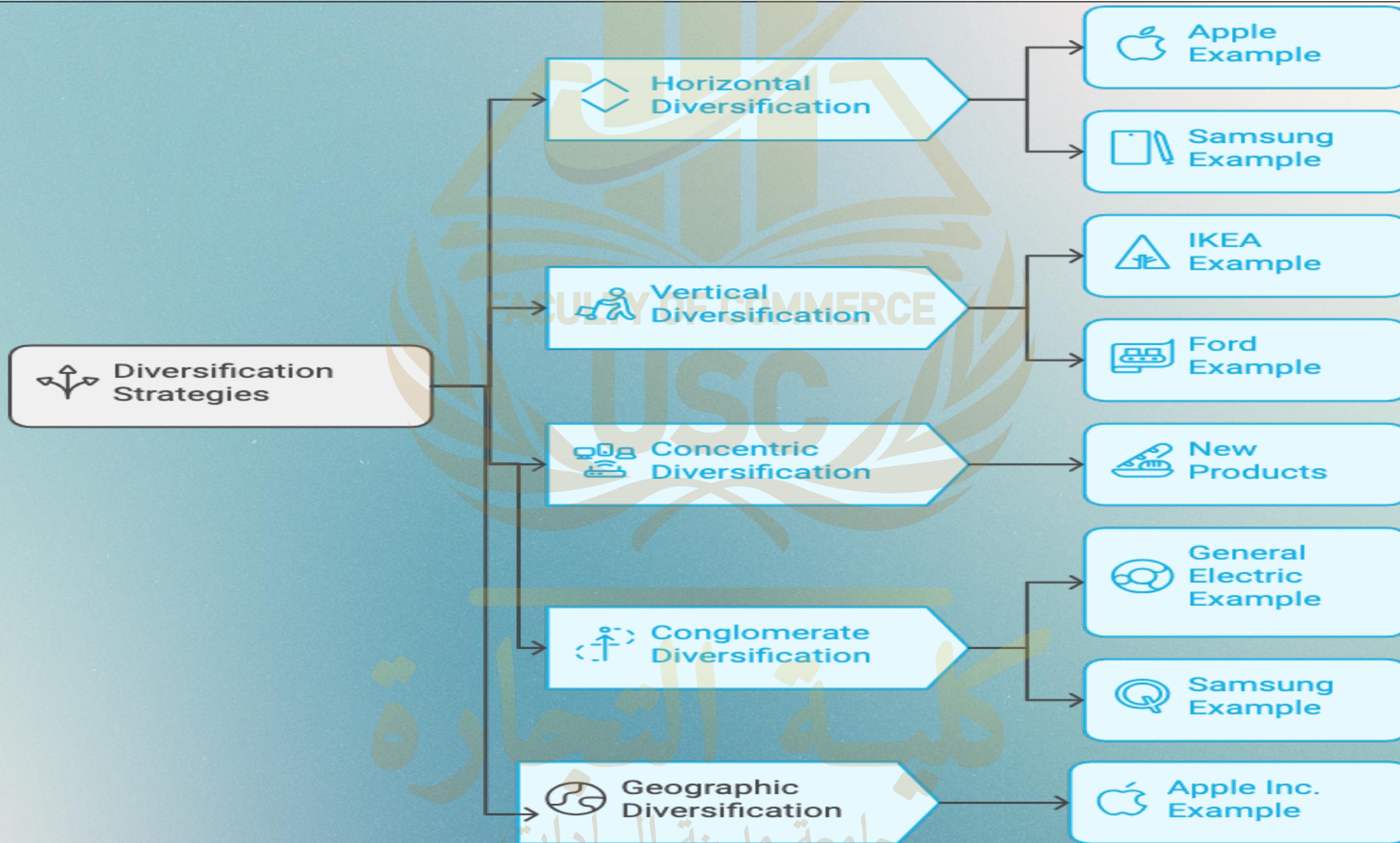
- ✓ Diversification is an act of an existing entity branching out into a new business opportunity.



## Q2: Why do firms diversify?



# Q3: What are the types of diversification strategies ?



## 1- Horizontal Diversification

### Exploring Horizontal Diversification

#### Market Share

Increasing market share through diversification

#### New Services

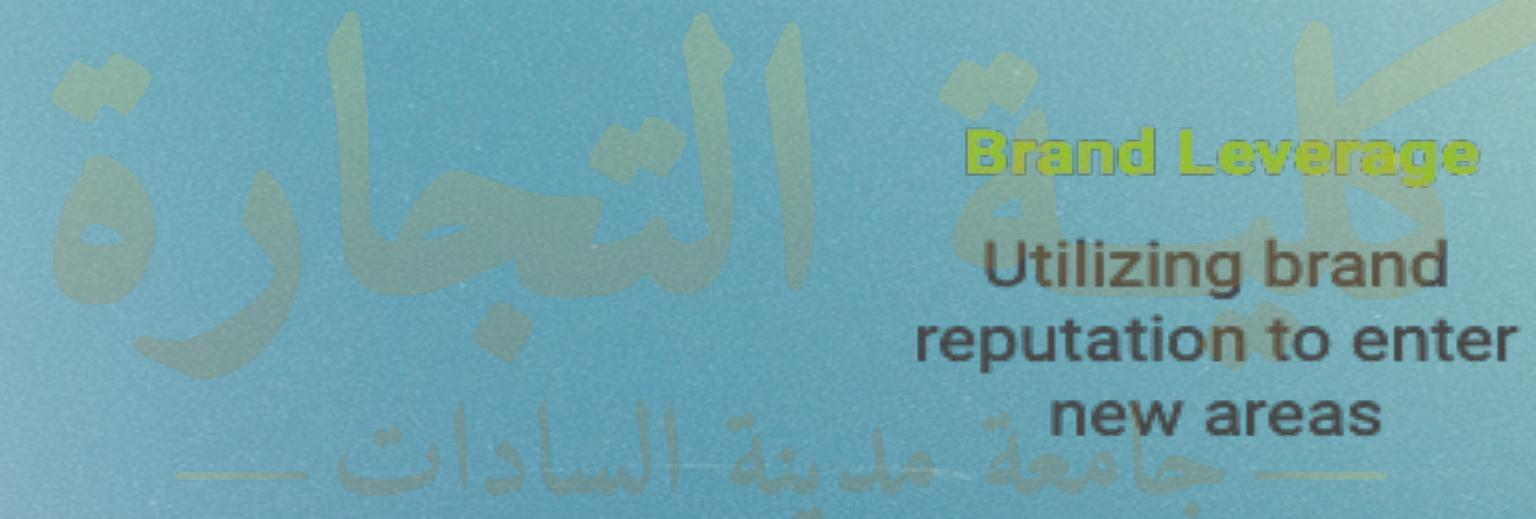
Offering new services to existing customers

#### Customer Loyalty

Building on existing customer loyalty

#### New Products

Developing new products for current markets



#### Brand Leverage

Utilizing brand reputation to enter new areas

## 1- Horizontal Diversification

### Examples for horizontal diversification



Apple

Expansion to  
iPod, iPhone,  
iPad, Apple Watch



Samsung

Expansion to Mobile Phones, Home Appliances, Computer Components

\*Leverage Brand Reputation.

\* customer loyalty to succeed across various electronics categories.

Reduce Dependency on One Product Line

Capture Broader Market Share



Build Diversified Portfolio

## 2- Vertical Diversification

### Definition:

This form of diversification takes place when a company goes back to a previous or next stage of its production cycle.

# Achieving Supply Chain Control

## Supply Chain Control

Achieve reduced costs, improved efficiency, and better quality control.

## Forward Integration

Establish retail outlets to sell products directly to consumers.

## Backward Integration

Acquire or merge with suppliers to control raw material sourcing.

## Identify Stage

Recognize the need to integrate backward or forward in the production cycle.



# Examples



Control Wood Supply By purchasing forests

Invest in Renewable Energy sources to power its stores.

Purpose

For Reducing Supply Chain Disruptions

Manage Costs

Support Sustainability Goals



Own Rubber Plantations

Own Steel Mills

Own Parts Manufacturing

assembling everything in Ford factories.

Purpose

Improve Production Efficiency



Lowering costs

Ensure steady supply parts

التجارة

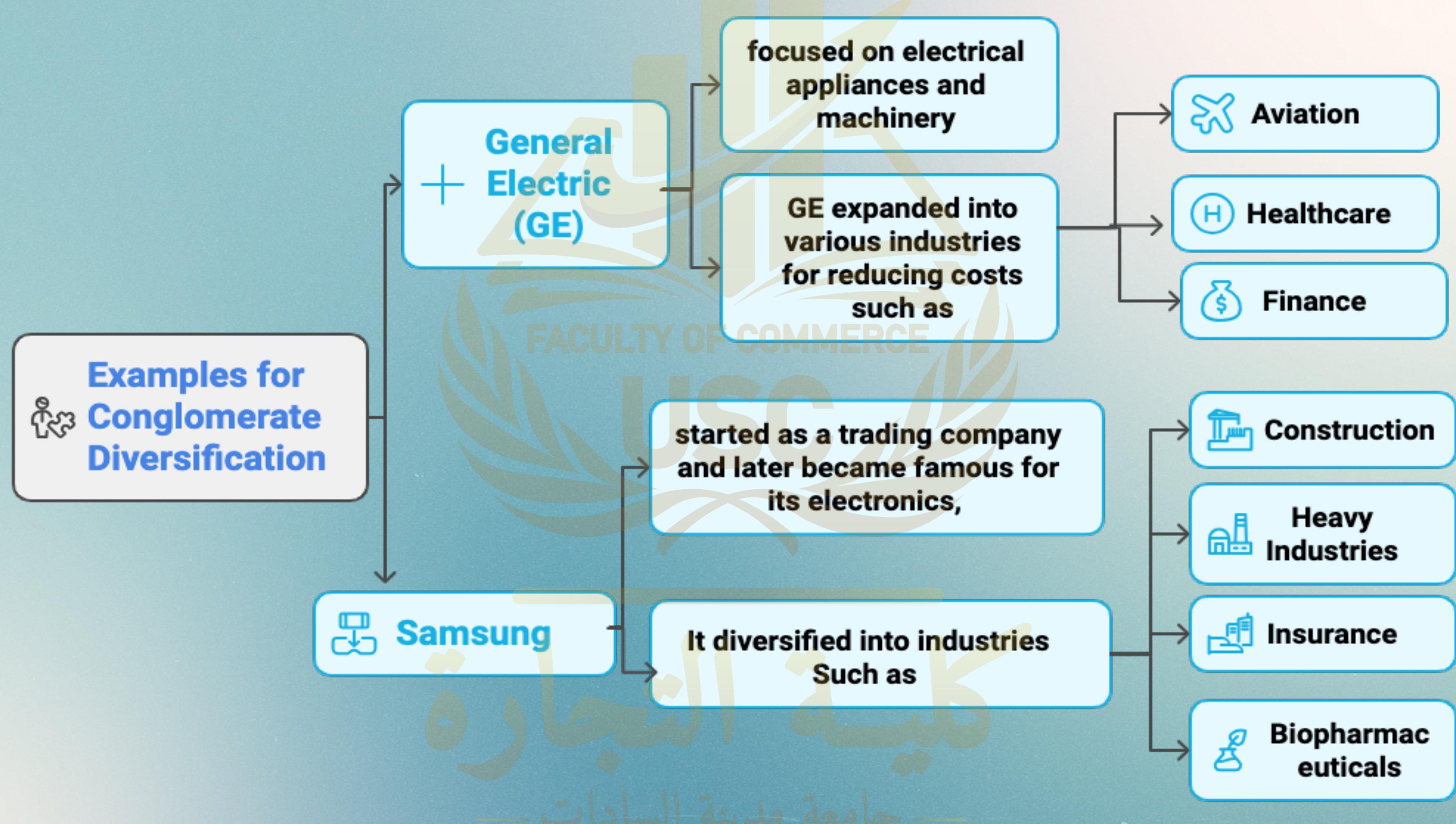
جامعة مدينة السادات

### 3- Concentric Diversification

- ✓ In this form of a diversification strategy, the entity introduces new products with an aim to fully utilize the potential of the prevailing technologies and marketing system.
- ✓ For example, a bakery making bread starts producing biscuits.

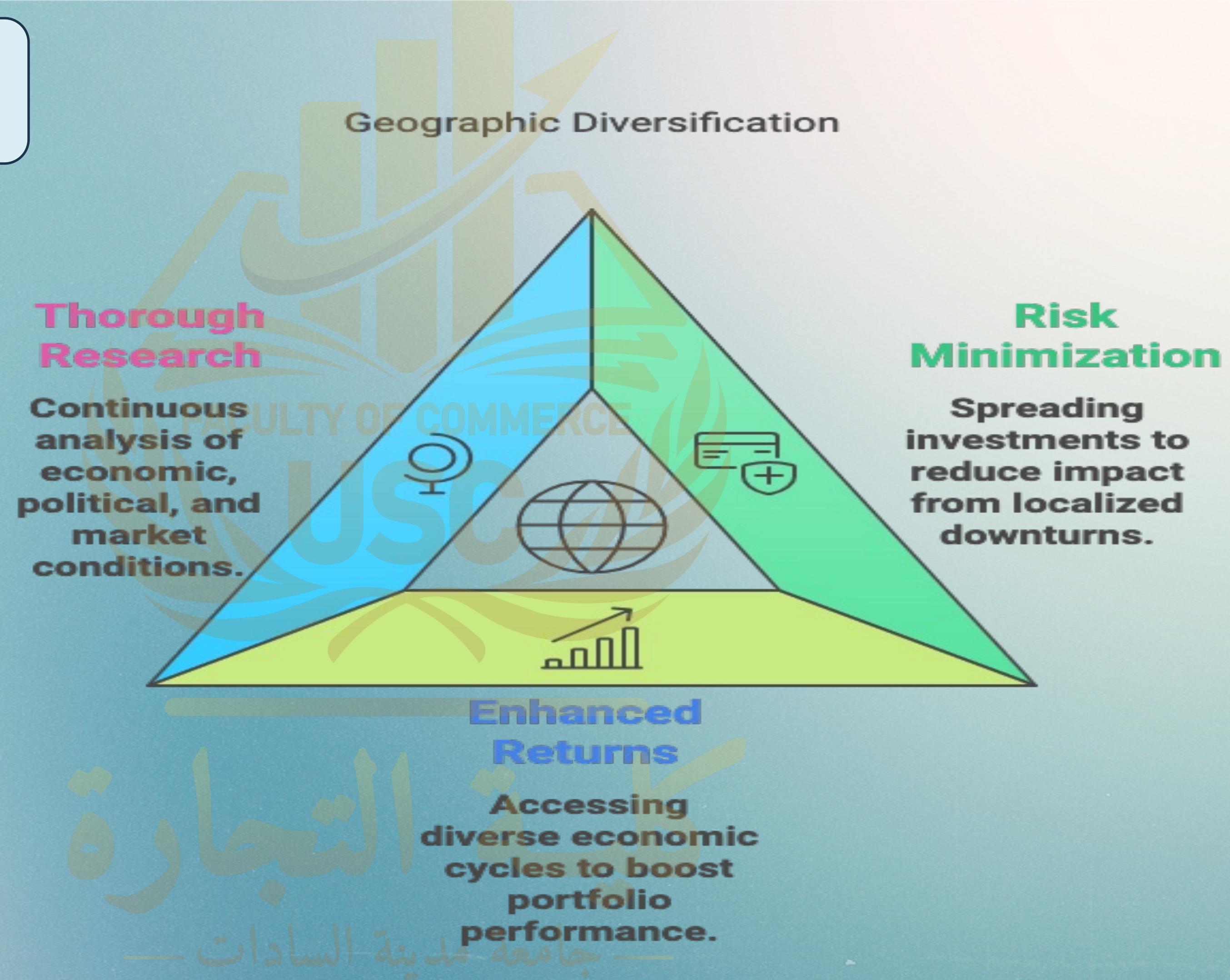
## 4- Conglomerate diversification

- ✓ In this form of diversification, an entity launches new products or services that have no relation to the current products or distribution channels.
- ✓ A firm may adopt this strategy to appeal to an all-new group of customers.



## 5- Geographic diversification

Geographic diversification in trading aims to reduce risk by spreading investments across various regions.



## Example of geographic diversification

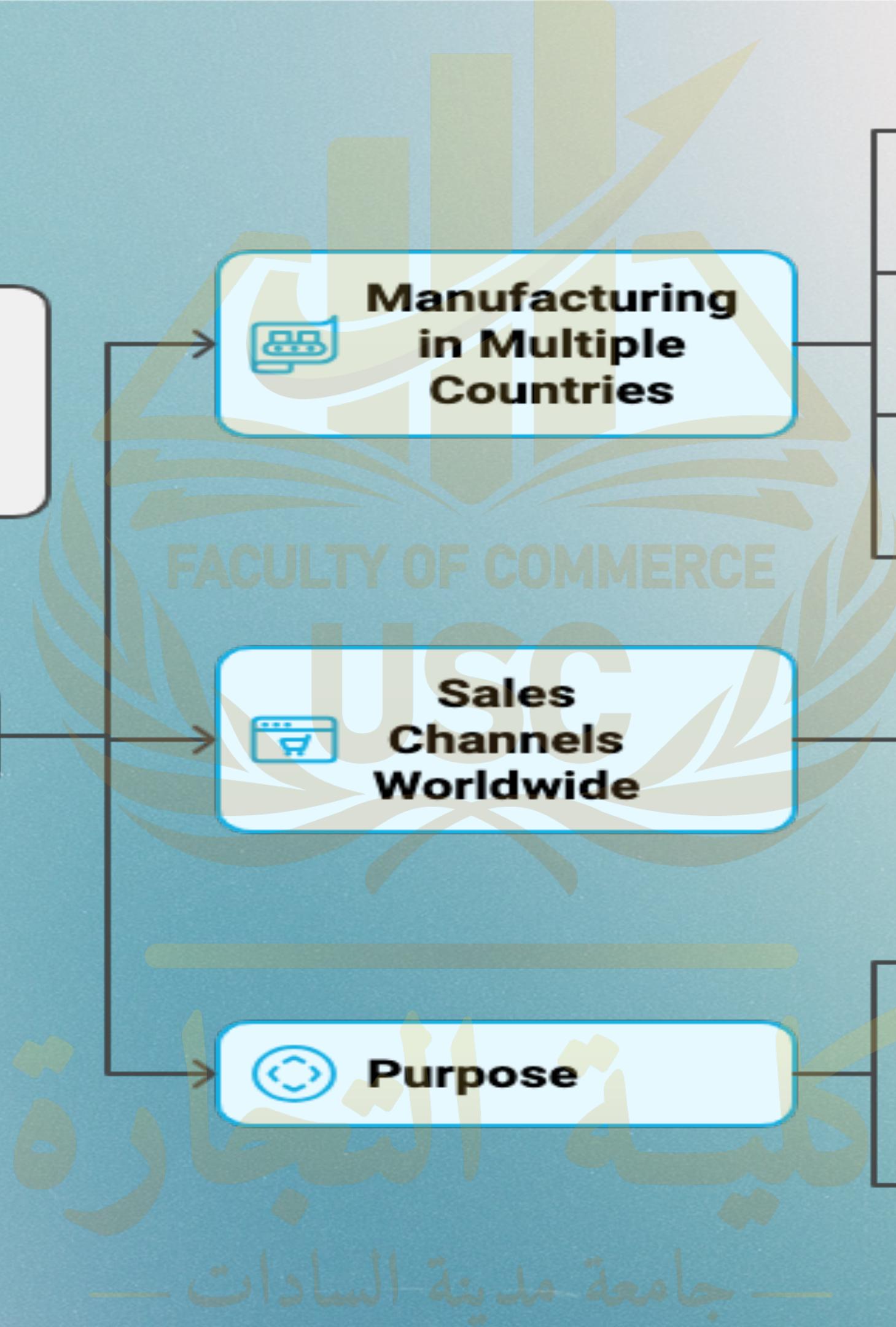
Apple Inc.

Manufacturing  
in Multiple  
Countries

Sales  
Channels  
Worldwide

Purpose

- U.S.
- China
- South Korea
- Vietnam
- Global Customer Base
- Manage Supply Chain Risks
- Mitigate Currency Fluctuations



**1. Which of the following best describes diversification in corporate strategy?**

- a. A company focusing on its core product line
- b. A company entering a new market segment it does not currently operate in
- c. A company reducing its workforce to cut costs
- d. A company maintaining its current business operations

**2. What is the main purpose of horizontal diversification?**

- a. To eliminate competitors from the market
- b. To develop new products unrelated to the current product line
- c. To appeal to the firm's current customer base with new products
- d. To reduce product quality for cost efficiency

### **3- Why might a firm pursue diversification as a strategy?**

- a. To focus solely on its primary industry
- b. To utilize existing resources and capabilities fully
- c. To avoid entering new market segments
- d. To increase reliance on a single product

### **4. Which of the following is an example of vertical diversification?**

- a. A car manufacturer creating a new line of electric vehicles
- b. A bakery starting to produce pastries
- c. A car manufacturer purchasing a tire company
- d. A mobile phone company creating a new line for producing watches

## **5. How does concentric diversification differ from conglomerate diversification?**

- a. Concentric focuses on unrelated products, conglomerate focuses on related products
- b. Both focus on related products
- c. Both focus on unrelated products
- d. Concentric focuses on related products, conglomerate focuses on unrelated products

## **6- What is a key benefit of conglomerate diversification?**

- a. Access to a completely new customer base
- b. Increased reliance on a single industry
- c. Reduced return on investment
- d. Focus on core business activities

## **7. How does geographic diversification help in risk management?**

- a. By concentrating investments in one region
- b. By focusing on short-term profits
- c. By investing solely in domestic markets
- d. By reducing dependency on a single geographic market

## **8. What is an example of backward integration in vertical diversification?**

- a. A retail store opening more branches
- b. A bakery selling its own bread in more shops
- c. A car manufacturer purchasing a steel mill
- d. A technology firm developing new software

## **9. How does geographic diversification enhance portfolio resilience?**

- a. By spreading investments across various regions
- b. By focusing on a single market
- c. By investing only in domestic markets
- d. By avoiding international market influences

## **10. What is the primary goal of horizontal diversification?**

- a. To eliminate competition
- b. To leverage brand loyalty in new related areas
- c. To focus on a single product line
- d. To enter unrelated new markets

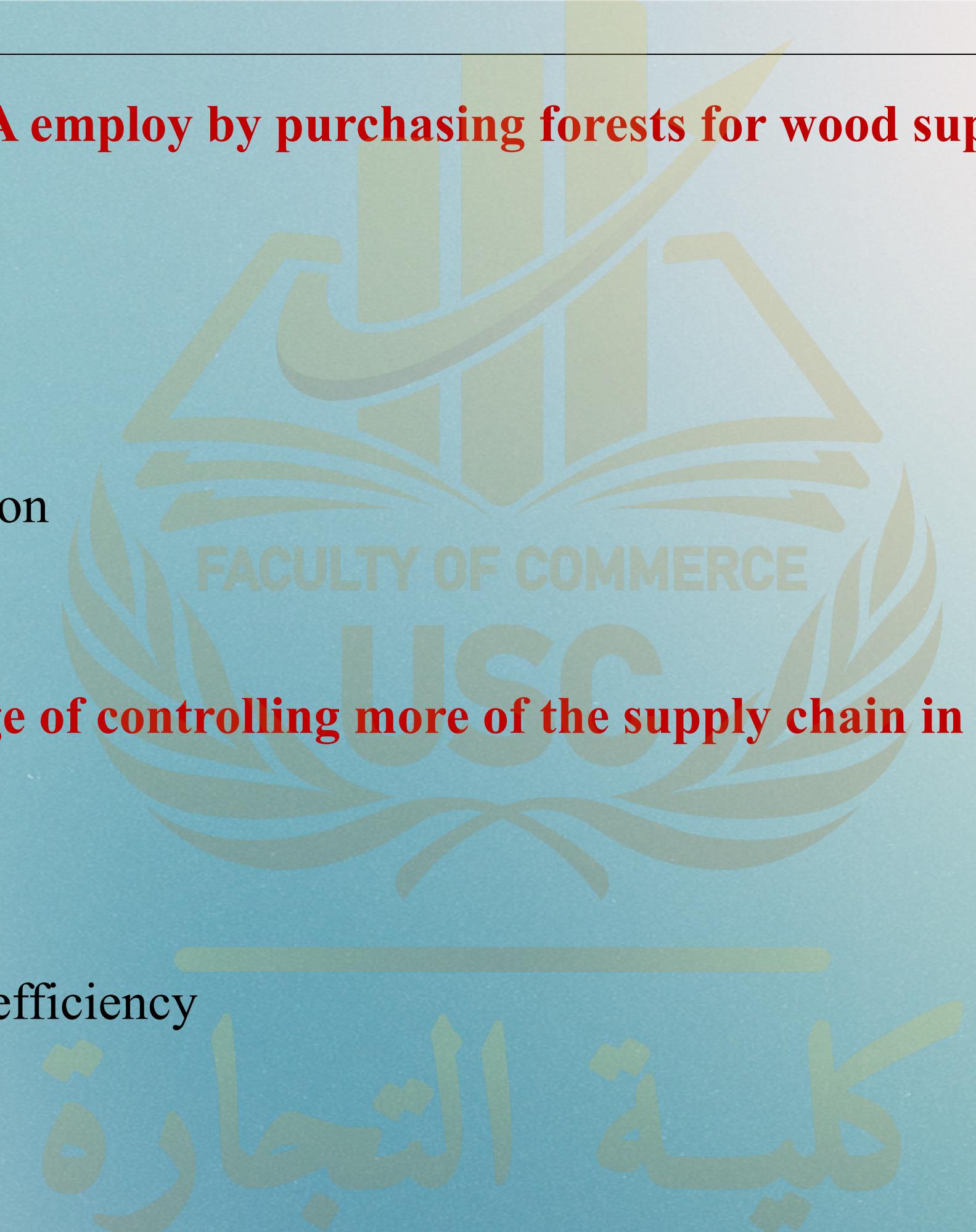
**11. Which type of diversification involves launching unrelated products or services?**

- a. Horizontal diversification
- b. Vertical diversification
- c. Concentric diversification
- d. Conglomerate diversification



**12. What strategy did IKEA employ by purchasing forests for wood supply?**

- a. Horizontal diversification
- b. Vertical diversification
- c. Concentric diversification
- d. Conglomerate diversification



**13. What is the advantage of controlling more of the supply chain in vertical diversification?**

- a. Increased competition
- b. Reduced quality control
- c. Improved supply chain efficiency
- d. Higher production costs

#### **14. Why might a company choose geographic diversification?**

- a. To minimize risks related to economic downturns in one region
- b. To focus investments in a single country
- c. To avoid international markets
- d. To concentrate on domestic market performance

#### **15. Which of the following is a key reason for firms to diversify?**

- a. To remain static in their market
- b. To ensure maximum utilization of existing resources
- c. To avoid growth in business operations
- d. To reduce market share

جامعة مدينة السادات — كلية التجارة

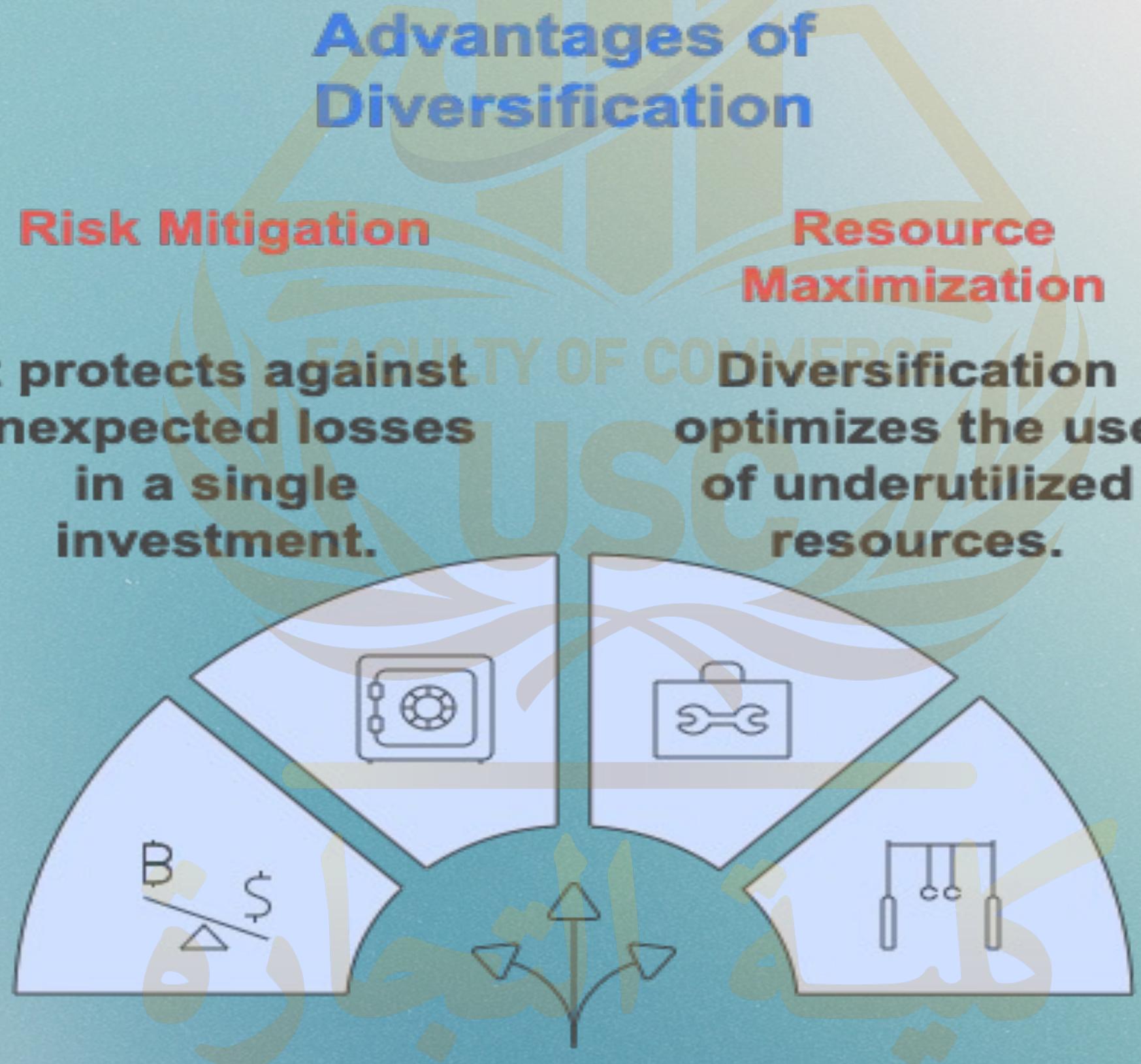
## **16. How does vertical diversification differ from horizontal diversification?**

- a. Vertical involves new products for the same customer base
- b. Horizontal focuses on backward integration
- c. Horizontal involves unrelated products
- d. Vertical involves moving forward or backward in the production cycle

## **17. What was Henry Ford's strategy with rubber plantations and steel mills?**

- a. Horizontal diversification
- b. Vertical diversification
- c. Concentric diversification
- d. Conglomerate diversification

# Q4: What are the advantages of diversification strategies ?



## Q5: What are the disadvantages of diversification strategies ?

### Diversification Disadvantages

**Slow Market Response**

Diversification can limit innovation in the entity .

**Risk of Overexpansion**

Overambitious diversification can lead to resource strain.

**Limited Growth Opportunities**

Diversification restricts profit maximization and growth potential.

**Skill Set Demands**

Entering new markets requires new expertise.



## **18. What is one advantage of diversification in relation to economic changes?**

- a. It guarantees profit maximization.
- b. It allows a company to focus on a single market.
- c. It helps balance the entity during economic ups and downs.
- d. It limits the use of resources.

## **19. How does diversification help with the utilization of resources?**

- a. By focusing on profit maximization in one segment.
- b. By maximizing the use of potentially underutilized resources.
- c. By limiting growth opportunities.
- d. By reducing the need for new skill sets.

## **20. What is a significant disadvantage of diversification regarding innovation?**

- a. It enhances the company's ability to innovate quickly.
- b. It allows for a focused approach to market demands.
- c. It limits innovation due to a lack of focus on operations.
- d. It ensures the company always has sufficient resources.

## **21. What can lead to a company's sectors suffering in a diversified business?**

- a. Mismanaged diversification or excessive ambition.
- b. Focused investment in a single profitable segment.
- c. Continuous innovation in all sectors.
- d. Immediate response to market changes.

## **22. How does diversification affect a company's ability to respond to market changes?**

- a. It enables rapid response to changes.
- b. It enhances expertise in the new field.
- c. It ensures focused attention on one market area.
- d. It limits the company's ability to respond quickly.

كلية التجارة

جامعة مدينة السادات

### **23. What challenge does diversification cause when entering a new market segment?**

- a. It demands limited resources.
- b. It requires new skill sets and expertise.
- c. It guarantees immediate profit.
- d. It focuses on a single investment.



### **24. Why might diversification be beneficial when certain industries decline?**

- a. It focuses solely on the declining industries.
- b. It provides a movement away from declining activities.
- c. It limits the company's resources.
- d. It guarantees growth in the declining industries.

## **25. What is one risk of over-expanding due to diversification?**

- a. Ensuring all sectors of the company improved.
- b. Having excessive resources for each sector.
- c. Suffering due to insufficient resources.
- d. Becoming highly innovative in all areas.

# Now, Can you test your self ??

**Write in the following:**

Q1: Define diversification?

Q2: Why do firms diversify?

Q3: What are the types of diversification strategies ?

Q4: What are the advantages of diversification strategies ?

Q5: What are the disadvantages of diversification strategies ?



Thank you!

كلية التجارة  
— جامعة مدينة السادات —