Diversification

KANISHK K U
RA2011004010226

What it means?

A strategy used by a corporation to boost profitability and obtain better sales volume from new items is product diversification. Diversification can take place at the corporate level or at the business level.

Diversification is a growth strategy that involves entering a new market niche, which enables your company to increase its footprint and take over entirely new territory. This is accomplished by broadening (or diversifying) the scope of your product or service offerings in order to attract new clients and boost revenue. There are numerous ways to diversify and expand your business; there isn't just one kind of diversification. I'll walk you through various diversification tactics below.

Types of diversification strategies

- Horizontal diversification
- Concentric diversification
- Vertical diversification
- Conglomerate diversification
- Defensive diversification
- Offensive diversification

1. Horizontal Diversification

To increase market share in either a new market segment or your current market, your company must horizontally diversify by adding brand-new items or services to what it now offers.

This can be accomplished by

- launching or licensing new items, joining forces with another business, or buying it out.
- Concentric and conglomerate horizontal diversification are the two forms, and we'll get into them later.

The new company created through horizontal diversification is made to appeal to both the company's current clientele as well as draw in new clients.

Examples of horizontal diversification that are well-known include:

Pixar was purchased by Disney

Meta bought Instagram

2. Concentric Diversification

Concentric diversification, a form of horizontal diversification, entails adding new goods or services that are closely related to your current offerings to your product or service line. As a result, you are increasing your company's market share in the existing market.

Utilizing concentrated diversification enables you to take advantage of your current brand recognition, clientele, resources, and distribution networks. This kind of diversification seeks to bring in more money from your current clientele while also drawing in new clients who could have been interested in your earlier products but are more persuaded by your more recent offerings.

An example of concentric diversification would be if a smartphone manufacturer (such as Apple or Samsung) started offering smartwatches or if a furniture manufacturer started carrying home furnishings.

3. Vertical Diversification

Vertical diversification, also known as vertical integration, is a growth strategy in which the business grows its product range by integrating new or existing goods into its current supply chain.

Example of backward integration,

- Selling tires is one way for a business that makes and sells cars to diversify.
- An organization that offers painting services can start selling paint.

Vertical integration turns the inputs of the business into the outputs, as is shown in both examples.

Example of Forward integration,

A toy company acquiring or opening a toy store is an example of forward integration. Backward integration uses earlier phases of the supply chain, while forward integration makes use of later stages than the company's current business.

Vertical diversification has several advantages, including:

- strengthening and enhancing your business's supply chain,
- capturing upstream or downstream profits,
- cutting production costs,
- accessing new distribution channels and
- gaining more revenue.

Examples of prominent vertical diversification include:

Ikea is buying trees so that it can supply its own raw materials.

Using hardware integration, Amazon will create its own Kindle Fire tablets.

4. Conglomerate Diversification

Additionally, a conglomerate diversification strategy is a type of horizontal diversification that entails the introduction of brand-new goods or services that have nothing to do with the current product line of your company. This opens up a brand-new market and attracts clients who may not have previously been interested in your company.

Due to the addition of a completely new revenue stream in a completely different market, conglomerate diversification has a high return on investment and great development potential.

Conglomerate diversification might take the form of a garment manufacturer entering the toy market.

5. Defensive Diversification

The terms defensive and offensive diversification are more concerned with the why than the how of a company's desire to diversify.

When a company diversifies defensively, it means that they do so because their market segment has grown saturated, their current products have aged and are declining, or they are losing market share to other enterprises.

As the name "defensive" implies, this approach is an effort to maintain status and position in the face of declining profitability and market share.

6. Offensive Diversification

On the other hand, offensive diversification refers to a company's aggressive efforts to increase earnings and market share through broadening its product or service line in order to penetrate new markets and win over more clients.

Offensive diversification is a way for a successful, growing organisation to go even further, but defensive diversification is a way to stay in business.

Conclusion

One of the strategies for fostering business growth is diversification. If properly planned and executed, it can significantly benefit a business and solidify a place as a participant in a cutthroat industry.

A poorly thought-out diversification strategy, however, can be a fatal and expensive oversight for a company. Therefore, before you think about implementing this strategy, make sure you evaluate the potential risks and rewards as well as which type of diversification would be appropriate for your firm.