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Topic- Expansion through Diversification

Diversification strategies involve all the dimensions of strategic alternatives. Diversification may involve internal or external, related or unrelated, horizontal or vertical and active or passive dimensions either individually or collectively. Diversification involves a substantial change in the business definition in terms of customer groups and their functions or alternative technologies of one or more of the organization's businesses.

Organizations adopt diversification strategies due to the following reasons:

- It minimizes risks by spreading it over several businesses of the firm.
- It helps in minimising the organizational weaknesses and capitalises strengths.
- It helps firms when growth in existing business is blocked due to the environmental and regulatory factors.

These days, diversification strategies are becoming less popular as organizations are finding it difficult to manage their diverse business activities. Businesses are selling or closing less profitable divisions in order to focus on core businesses.

There are three types of diversification strategies, which are as follows:

Concentric diversification:

In concentric diversification, an organization launches new products or services in relation to its existing products or services. When an organization takes up an activity in such a way that it is related to the existing business definition of one or more of a firm's businesses either in terms of customer groups, customer functions or alternative technologies, it is called concentric diversification.

For example, AT&T is spending S120 billion to acquire cable television companies in order to wire America with fast Internet service over the cable rather than over telephone lines. AT&T's concentric diversification strategy has led the firm to discuss a joint venture with America On Line (AOL) to provide AOL customers, the cable access to the Internet. Therefore, the six situations where concentric diversification may be an effective strategy are:

- When an organization competes in a no-growth or slow-growth industry.
- When the addition of new products significantly increases the sales of the current products.
- When the new products are available at highly competitive prices.
- When the new products have seasonal sales levels that counter balance an organization's existing position.
- When the product of an organization is in the diminishing stage of the product life cycle.
- When an organization has a powerful management team.
- Concentric diversification may be of the following three types:

- **Marketing-related concentric diversification**: It exists when a similar type of product is offered with the help of unrelated technology. For example, a sewing machine company diversifies in the kitchenware and home appliances, which are sold to housewives through a chain of retail stores.

- **Technology-related concentric diversification:** It exists when a new type of product or service is provided with the help of related technology. For example, a leasing company offering hire-purchase services to the institutional customers starts consumer financing to the purchase of durables to individual customers.

- **Marketing and technology-related concentric diversification**: exists when a similar type of product ice is provided with the help of technology. For example, raincoat manufacturer.