SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA- 206
SUBJECT NAME: FUNDAMENTALS OF MARKETING

UNIT-III

TOPIC NAME:PRODUCT DIVERSIFICATION,TYPES, STRATEGIES AND APPROACHES

Product Diversification

Definition

Product diversification strategy is known to be one of the major forms of **business growth strategies**. It is also termed as business development. It can be done by adding new products to the range or by altering the existing products. Diversification strategy enables the business to get the opportunity to grow through increased sales by entering the new markets or existing customers.

Approaches

First of all businesses need to set the objectives for the product diversification. You can do it in two ways i.e. defensive approach or offensive approach.

Defensive approach

This approach is used to protect the business. For instance, demand for your products is dropped and there is tough competition in the market. This is seriously alarming particularly for the businesses that build their business on a single product. Survival of the business is seriously threatened with declining revenues.

Offensive Approach

This is an alternative approach to defensive strategy. You see a strong opportunity in the market but you are not willing to take advantage of it via existing products.

Types of Diversification

1. Business can modify its products. New version of the product will be capable of attracting different groups of customers other than the existing data base of buyers. For instance if you are dealing in developing tools for professional building, then you must come up with a version that appeals even the beginners or laymen.

2. Another way is to offer new product to your existing customers. For instance, a vegetable or a fruit retailer can add healthy foods that attract the same group of customers who are particular about in-taking the fresh fruits and vegetables.

3. Adding a new product to the existing product range is also a good idea. This is aimed towards a new group of customers.

Levels of Diversification

Some management experts have tried to show that diversified firms? vary according to their levels of diversification.

1. Low Levels of Diversification.
2. Moderate to High Levels of Diversification.
3. Moderate to High Levels of Diversification.

Low Levels of Diversification

This level of diversification is seen in a company that operates its activities mainly on a single or dominant business. The company is in a single business if its revenue is greater than 95 percent of the total sales.

If the generated revenue is between 70 percent and 95 percent, the company’s business is dominant. 5M Security Services Limited is an example of a firm with little diversification as its primary focus is on the ‘security guards market’.

Kellog is an example of a dominant business firm because its major sales come from breakfast cereals’ and ‘snack foods’.

However, the firms that generate their income from single products cannot be called diversified firms in the true sense of the term.

Moderate to High Levels of Diversification

In this level, two types of diversification are evident – ‘related constrained’ and ‘related linked’, in the case of related constrained diversification, less than 70 percent of revenue comes from the dominant business and ail SBUs/divisions share product, technology, and distribution channels.

If the firm has related linked diversification, less than 70 percent of revenues come from the dominant business but there are only limited links between and among the SBUs. Procter and Gamble is an example of a related constrained firm, while Johnson and Johnson is an example of a related linked firm.

Very High Level of Diversification

This level applies to companies that have unrelated diversification. It earns less than 70 percent of its revenues from the dominant business but there are no common links between the SBUs.

Diversification Strategies

There are three types of diversification techniques:

1. Concentric diversification

2. Horizontal diversification

3. Conglomerate diversification

1. Concentric diversification

Concentric diversification involves adding similar products or services to the existing business. For example, when a computer company that primarily produces computers starts manufacturing laptops, it is pursuing a concentric diversification strategy.

2. Horizontal diversification

Horizontal diversification involves providing new and unrelated products or services to existing consumers. For example, a notebook manufacturer that enters the pen market is pursuing a horizontal diversification strategy.

3. Conglomerate diversification

Conglomerate diversification involves adding new products or services that are significantly unrelated and with no technological or commercial similarities. For example, if a computer company decides to produce notebooks, the company is pursuing a conglomerate diversification strategy.

Of the three types of diversification techniques, conglomerate diversification is the riskiest strategy. Conglomerate diversification requires the company to enter a new market and sell products or services to a new consumer base. A company incurs higher research and development costs and advertising costs. Additionally, the probability of failure is much greater in a conglomerate diversification strategy.