



## How Companies Should Diversify their Business?

### KEYWORDS

**Dr Keyurkumar M Nayak**

Director Laxmi Institute of Management, Sarigam

#### **Diversification Strategy of Small Businesses**

Successful diversification will ensure *competitive advantage* to a company in achieving their goals. Using this strategic instrument this will develop their business by entering new production lines and/or markets and reduce the risk by spreading their investments. However, its implementation also brings risks. It depends on the manager/owner - if they will give a new impetus to your business or turn into a failure.

#### **Preliminary assessment of the company and the business environment**

First of all, note that successful diversification can be achieved only if you use your company's strengths; do not look for success out of your company. Successful diversification has to rely on a stable basis. Any new initiative involves allocation of part of your time, attention and financial resources that have previously been used in your main business. That is why, although it sounds as a paradox, your first step to diversification, should be to make sure that your main business is highly efficient, productive and profitable. Should you find out this is not so, it is better to postpone diversification of your business and seek other ways to fight competition until you are ready for this challenge.

To start this process you have to be sure that you have enough financial and human resources at your disposal to carry out the preliminary assessment and preparations for diversification. Otherwise it is better to look for other ways to increase your company's market share, for example using subcontractors, joint ventures or informal partnerships.

No matter if the diversification strategy is developed by company experts and managers or outside consultants, the most important thing to do is a thorough assessment of the environment and the company, the nature of its business, its management efficiency, its strengths and weaknesses, to analyze the basic parameters as product features, return on investment, structure of costs, market share, as well as the uniqueness of products and services compared to the other players / competitors in the market, etc. It is also necessary to study market trends, competition, new developments in the industry and other factors and to assess to what extent the company is ready to implement a new project.

#### **Choice of industry and ideas for diversification**

Ideally the choice of industry sector and/or business activity to diversify is preceded by a serious macroeconomic and sectorial analysis to identify economic fields with expected rapid growth and industries suitable for investment. However, very often, the general economic situation, existing expertise and experience of human resources or busi-

ness, and the personal contacts of the company owner or manager, predetermine to some extent the field of the future diversification. Of course, the results of the preliminary company assessment should be taken into consideration.

But even if the above statement is true for your company, it is vital to include the next step which will give you an idea if this is truly the right direction to develop your business.

Invite a group of 5 to 7 experts from universities, marketing companies and other professionals in different fields and organize a brainstorming session. It is a good idea to hold the meeting outside of the company office, and to have the group work run by a company representative and an outside facilitator. The goal is to identify the greatest possible number of ideas for diversification. These experts will help your company experts to screen the ideas and estimate their technical and economic viability.

The resulting short list of ideas will be subject to the same procedure several times until you arrive at the one idea which matches to the greatest extent your preliminary criteria. This procedure may seem protracted and time consuming, but if it is avoided and a trial-and-error principle adopted, this can lead to a poor outcome.