

# New product for the existing market

Business



Most products have a limited life. New products must, therefore, be developed keeping cost in mind. Innovation and change are good but managing costs and ensuring payback are equally important. A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. Similar to the case of new market development new product development carries more risk than simply attempting to increase market share.

The final strategy that a business can use to achieve growth is diversification which is the strategy of pursuing new markets with new products.

Diversification can be classified as horizontal, vertical and conglomerate. Horizontal diversification refers to the development of activities which are complementary to or competitive with the organisation's existing activities. It is often difficult to distinguish between horizontal diversification and market penetration because classification depends on how narrowly product boundaries are drawn.

Nestle's take-over of Rowntree Mackintosh in 1988 is an example of horizontal diversification. Nestle is one of the world's largest food companies, but its share of the chocolate confectionery market only amounted to some 35% in 1987. Rowntree held around 26 percent and had a particularly strong range of products such as KitKat. Nestle's acquisition enhanced its UK market position and reduced its reliance on sales of solid chocolate bars, demand for which is growing more slowly than demand for chocolate coated products such as Mars Bars. Nestle's acquisition could be viewed either as horizontal diversification into a broader range of confectionery products or

increased penetration of the UK confectionery market depending on where the industry boundary is drawn.

Vertical integration refers to the development of activities which involve the preceding or succeeding stages in the organisation's production process.

Backward or upstream vertical integration takes place when the organisation engages in an activity related to the preceding stage in its production process. Forward or downstream vertical integration takes place when the organisation engages in an activity related to a succeeding stage its production process. Obvious examples of vertical diversification include the brewers' control of public houses and the oil industry's combination of exploration, refining and distribution.

Conglomerate diversification refers to the situation where at face value the new activity of the organisation seems to bear little or no relation to its existing products or markets. For example, Hanson Trust's interests include engineering, batteries, building products and cigarettes. Diversification is the most risky of the four growth strategies since it requires both product and Market development and may be outside the core competences of the firm. In fact, this quadrant of the matrix has been referred to by some as the 'suicidecell'. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk.