

Strategies for diversification



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INTRODUCTION

The ‘ Fine idea’ also known as ‘ Fine stationery’ is a Pvt Ltd. Company which was started in the year 1995 by Mr. Kalpesh. S. Patel with the capital of Rs. 50, 000/- and he is the CEO and chairperson of the firm. They provide printing services and are Manufacturers & License of ‘ Disney’ products. Fine Ideas is manufacturer of stationary, print promotion, table mats, mouse pads, packaging, brochures and pamphlet, design items. It is a company along with acting as supplier from Mumbai. The company also gives ideas and concepts for promotional activities. The company runs smoothly and hardly faces any problems. Recently they faced a problem of decrease in sales.

They are willing for diversification of their products, to increase their sales. Should they go for diversification of their products to increase their sales or would it be too risky? This led me to come up with a research question “

Should “ FINE IDEAS” consider diversification of their products to increase their sales?”

With the help of primary research and secondary information collected, I used Ansoff Matrix to find the solution to the problem. The main reason for the decrease in sale is an increase in competition. The company is not strong enough to face challenges laid down by competitors. The research will suggest an alternate path of diversification which if company chooses will be worth its survival in the market.

If the company does not come up with quick and appropriate decision then it will have to suffer heavy loss. The research will analyze the position of the company in the market. The result found after analysing the prevailing market conditions and the company’s problems is that the firm should consider diversification of their products to come out of this problem of decrease in sales and to re-attain its forecasted sales.

FINDINGS

Diversification is part of the four main marketing strategies defined by the Product/Market Ansoff matrix:

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Fine ideas pointed out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities which can be provided by ‘ Fine

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Ideas'. The notion of diversification depends on the subjective interpretation of "new" market and "new" product, which should reflect the perceptions of their customers.

The strategies of diversification can include internal development of 'Fine Ideas', acquisition of a firm, alliance with a complementary company, licensing of new technologies, and distributing or importing few products manufactured by another firm. Generally, the final strategy involves a combination of these options. This combination is determined in function of available opportunities and consistency with the objectives and the resources of the 'Fine Ideas'.

Rationale of diversification

There are two dimensions of rationale for diversification. The first one relates to the nature of the strategic objective: diversification may be defensive or offensive. Defensive reasons may be spreading the risk of market contraction, or being forced to diversify when current product or current market orientation seems to provide no further opportunities for growth. Offensive reasons may be conquering new positions, taking opportunities that promise greater profitability than expansion opportunities, or using retained cash that exceeds total expansion needs. The second dimension involves the expected outcomes of diversification: management may expect great economic value or first and foremost great coherence and complementary to their current activities. In addition, companies may also explore diversification just to get a valuable comparison between this strategy and expansion.

Factors of Risk involved for ‘ Fine Ideas’ to Diversify.

Diversification is the riskiest of the four strategies presented in the Ansoff matrix and requires the most careful investigation for ‘ Fine Ideas’. Going into an unknown market with an unfamiliar product offering means a lack of experience in the new skills and techniques required. Therefore, they will put themselves in a great uncertainty. Moreover, diversification might necessitate significant expanding of human and financial resources, which may distract focus, commitment and sustained investments for the ‘ Fine Ideas’. Therefore they should choose this option only when the current product or current market orientation does not offer further opportunities for growth. In order to measure the chances of success, ‘ Fine Ideas’ can also perform different tests like the attractiveness test, the cost-of-entry test and the better-off test. Because of the high risks ‘ Fine Ideas’, may led to failure while attempting to diversify. However, there are a few good examples of successful diversification like Walt Disney moved from producing animated movies to theme parks.

Companies like ‘ Fine Ideas’ diversify for a host of reasons. In some cases, it’s a survival strategy. For instance, if the company makes the bulk of its sales at a particular time of year, it makes sense to consider diversification. However, there are plenty of other good reasons for diversification, not least by extending your range of goods or services you can either sell more products to your existing customers or reach out to new markets. This can supercharge the growth prospects of ‘ Fine Ideas’. And perhaps the biggest reason for doing it is to extend a brand reputation into other markets, with the knowledge that making your business bigger than ever imagined.

ANALYSIS OF THE FINDINGS

The analysis was done by discussing with the owner of the firm about the fall in demand of sales over the time. It was not possible to find the accurate decrease in sales because their firm was only the supplier and the goods then go in the godown of the marketing firm from where the goods were supplied to the retailers and wholesalers. Due to decrease in demand for the existing goods by the people, the goods were logged into the godown of the marketing sector and so they were not accepting the goods coming from the Fine Ideas as they already have stock with them. Henceforth with this analysis of the situation it is clearly pictured that is a decrease in sales for the company.

The discussions took place in a positive manner as the current status proved that it was favourable and appropriate for the company to go for diversification as that was the easiest way out the problem faced by them. Following topic goes out of my assessment but I would like to mention that they have already put their thought and efforts in diversifying their products in some or the other way by starting their new business names as ‘Facetoons’ which is a similar kind of printing firm but they provide print on mugs, plates, shirts and many more and therefore the business is growing rapidly because of the increasing demand of their new idea. This instance itself proves that it is very essential for them to start to diversify their products but they should not completely close down ‘Fine Ideas’ because that is their image and reputation in market so they should work under the shade of ‘Fine Ideas’.

Fine ideas had been discussing that business strategies expand the scope of reaching goal through diversification into their businesses. But, under strict assumptions of risky markets, there is no obvious rationale for the company to acquire another. Diversification is a promotion strategy and a form of corporate strategy which is advised for 'fine ideas'. It seeks to increase profitability through greater sales volume obtained from new products and new markets. 'Fine Ideas' can diversify at the business unit level or at the corporate level. At the business unit level they are most likely to expand into a new segment and at the corporate level and it is also very interesting entering a promising business outside of the scope of their business unit.

CONCLUSIONS

Concluding by answering to my research question, "FINE IDEAS" should consider diversification of their products to increase their sales.

When to diversify for 'Fine Ideas'

History tells us it's not advisable to consider diversification until the core business is stable and profitable. If 'Fine Ideas' are still struggling to win orders and build a sales time for the core product, there is a real danger that diversification will take your eye off the ball.

The catalyst is often the realization that growth in the core business is either slowing or set to slow, often because the market for a particular product is becoming saturated.

Diversification strategy for 'Fine Ideas'

'Fine Ideas' can diversify by natural progression. More radically, they extend the brand by offering a much wider range of products that will nonetheless appeal to the same customers. Alternatively, they can use the strength of brand to move into new markets.

Another popular business diversification strategy is to look backwards and forwards along the supply chain for opportunities to tighten your grip on the market. For instance, in the recent past people had seen building societies buying estate agents and computer manufacturers buying resellers. In the US Google has busily acquired the leading web data analysis tools, online advertising companies and the social networks and sites that deliver what they unerringly know their users want.

The cons for 'Fine Ideas'

The company can get a hope for the extended product life cycle.

Diversification can put you on the fast track to growth but if the strategy fails it can also burn up money. Expanding the product range and even if turnover increases, the increase in costs could result in a slump in profits. Extend the brand into new markets and there is a danger that it will have no resonance with the newly targeted customers. Thus it's vital to research new markets before diversifying.

'Fine ideas' should also look carefully at their existing business. Do they have the right managers to cope with a divericating strategy? Should they integrate the diversified business into one company or ring fence the new operation as a business in its own right? And is your organization strong enough to be an umbrella brand where your core values resonate across the

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group? They should think hard before ‘ Fine Ideas’ commit their finances and precious time.

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