

Diversification strategy

[Business](#), [Strategy](#)



A firm can opt for four directions to achieve growth and these four options are market penetration, market development, product development, and diversification. In this paper I would be focusing on the fourth option a firm can opt for growth i. e. diversification and the four different types of diversification identified by Ansoff that are mentioned below.

1. Horizontal diversification.
2. Vertical diversification.
3. Concentric diversification.
4. Conglomerate diversification.

Conglomerate diversification takes place when a firm diversifies with another company that manufactures totally unrelated goods or services. There is nothing in common between the two companies that have not merged nor do the two have any strategy in common. Moreover, both companies have totally different target market and competitive advantages as well as objectives. Although diversification results in a reduction in the risk of investment, it has disadvantages and other advantages as well.

One of the most important advantages of opting for conglomerate diversification is that if a particular market is down or it fails, profits can be generated from the other company that operates in a totally different market. (Cipher-sys. com, n. d.). However, the synergies of such diversifications can be misleading and it can further increase the costs of management. Moreover, it becomes more complex for the investors and the other stakeholders to analyze the information related to the company.

Every company has their own corporate culture and values and when two different companies merge, their cultures might clash with each other and this averts development of innovation and reduces focus of the employees that reduces their efficiency and effectiveness. Dell, Hewlett-Packard, Johnson & Johnson, Wal-Mart and Unilever are some of the best examples of companies that have undergone conglomerate diversification.

Reference

Cipher-sys. com. (n. d.). Diversification. June 21st, 2009. Retrieved from:
http://cipher-sys.com/hofhelp/ansoff/model_use_and_applicability.htm