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MANAGING THE GROWTH OF A VENTURE THROUGH DIVERSIFICATION STRATEGY IN A COMPETITIVE BUSINESS ENVIRONMENT

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ABSTRACT

This paper examined the strategic understanding of Business diversification as it concerns managing the growth of a venture in the ever changing competitive business environment. In Nigeria today, Ventures are essential tools necessary for the achievement of micro economic objectives in terms of employment generation, product and service delivery and the utilization of local technology. Ventures in Nigeria today are faced with the challenge of competition from rival firms and hence the need to keep reinventing strategies to attract and maintain their customers by producing products/services that meet ever changing needs. The specific concern of this paper is how a venturepreneur designs and implement strategies to succeed in a dynamic global marketspace. “Crafting a strategy involves shaping the market offerings."Ventureprenuers are saddled with the responsibility of how to produce successful performance of ventures by building a stronger long term competitive position. This necessitated the study to focus on diversification strategy in managing the growth of a venture in a competitive global business environment. The study adopted the qualitative research method because of its descriptive and historical nature which relied on secondary source of information. Major findings indicated that diversification can be the only option left for business growth and expansion in which a venture can be successful or not depending on the ventureprenuer's capabilities and other external environmental factors.

KEY WORDS:

Venture, Ventureprenuer, managing growth, diversification, strategy.

Introduction

Ventures all over the world are continuously passing through a regime of changes largely due to globalization. As pressure builds up, business ventures are striving hard for lasting successes in a competitive business environment. Ventures are today faced with many factors both internally and externally that determine business success. Business ventures are working very hard to have competitive advantage over their competitors in areas such as cost system and differentiation, market shares and profit.

For any business venture to succeed, it must definitely engage a strategy and resources which has to do with the ability of a venture to adapt to changes in an evolving market space. A strategy should not be static, it has to continuously generate information on a day - to - day running of a venture as the way to prepare and adapt to changes in a competitive global business environment. We therefore ask the question, "How should the firm grow in a competitive business environment?" There are many ways of answering this question, but one common answer you stand to get is diversification, it is a corporate strategy crafted by a company to increase profitability through higher levels of sales volume from new products and new markets. Furthermore, there is a popular adage that says "do not put all your eggs in one basket" this indeed explains substantially the necessity for diversification. Diversification can occur at the business unit level or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry that the business is already in. At the corporate level, it is generally very interesting entering a promising business outside of the bounds of the existing business unit. For businesses to succeed, they must continuously strive to adapt to changes by coming up with ways that specifically address identifiable customer needs in the society.

Conceptual Issues

In today's business environment, the ventureprenuer expands his present area of business operation into new product/service lines or location. This is in consonance with Kazmi (2008)'s view who said that diversification involves " a substantial change in business definition – singly or jointly – in terms of customer functions, customer groups or alternative technologies of one or more of a firm's businesses…. The notion of diversification is… related to newness of products or markets or both."

Lopes (2002) had earlier referred to diversification as the increase by a firm in the kinds of businesses which it operates, being that diversity either related to products, geographical markets or knowledge. Fleming, Oliver and Skouratis (2001) simply put"a diversified firm – a firm with two or more segments in unrelated industries." Thompson and Strickland (2003) see diversification as a collection of individual businesses, which comprises of several business divisions competing in diverse industry environments, with a multi-industry and multi-business feature. It is important to note that the concept of diversification may slightly vary within contexts, such as in finance which looks at diversification from investment perspective (diversified portfolio) whereas marketing and strategy looks at it from the perspective of product- market mix (what kind of businesses are undertaken by an organization). However, there is always a link in the differences.

Dimensions of Business Diversification

There are different dimensions to business diversification which are available to a venturepreneuer in a contemporary business environment. The Ansoff (1957 and 1965)'s product matrix and matrix for diversification strategies both explain the dimensions to diversification. These are expressed in the table below.

Product / market	Present	New
Present	Market Penetration	Product Development
New	Market Development	Diversification

Source: Adapted from H. I. Ansoff, "Strategies for Diversification", Havard Business Review, 1957, 5, pp.113-124

Table 2: Ansoff's Matrix for Diversification Strategies

	New product		
	Related Technology		**Unrelated Technology**
New Functions		Vertical integration	
Firm its own customers		Horizontal diversification	
Same type of product			Marketing related concentric diversification
Similar type of product			
New type of product	Marketing and technology-related diversification		Conglomerate diversification
	Technology-related concentric Diversification		

Source: Adapted from H. I. Ansoff, corporate strategy, New York, USA: McGraw -Hill, 1965, p. 132.

According to NGFL wales Business Studies (2008), the Ansoff Matrix approaches product mix from a different point of product life Cycle Analysis and the Boston Matrix. Instead of focusing on profitability or sales, the Ansoff Matrix outlines the options open to firms if they wish to grow, improve profitability and revenue. These options indicate how to manage the development of the product range. As it can be identified, product-market diversification is one of the four major options for growing a venture. Business Diversification **(**new markets, new products**)**, according to Ansoff (1957), is where a venture markets completely new products to new customers.

Two Dimensions

There are two main categories of business diversification namely related or concentric diversification and unrelated or conglomerate diversification. Related diversification means that the venturepreneur remains in a market or industry with which he has been familiar, offering new products or services while unrelated diversification is the adoption of new technologies unrelated to the business definition of any of its businesses either, in terms of their respective customer groups, customer functions or alternative technologies (Kazmi, 2008).

Related or Concentric Diversification

Kazmi (2008) further subdivided the concentric or related diversification into three. They are:

(a) Marketing –related concentric diversification: offering a similar type of product but using a new technology or production process, e.g. a company in the sewing machine business diversifies into kitchenware and household appliances, which are sold through a chain of retail stores to familiar consumers. The market relatedness here is in terms of the common distribution channel for sewing machines, kitchenware and household appliances (new products for the same market).

(b) Technology-related concentric diversification: offering a new product type using related or existing technology, e.g. firm which has been into manufacturing plastic kitchenware like plates, racks, cups, spoons etc now ventures into making plastic parts for electric appliances, automobiles, etc. (new products for customers)

(c) Marketing and technology-related concentric diversification: providing similar type of product with related technology, e.g. a synthetic water tank manufacturer makes other synthetic items such as pre-fabricated doors and windows for residential and commercial establishments sold through its hardware suppliers' network. The market relatedness here is in terms of the common distribution channels for water tanks and pre-fabricated door and windows, while the technology relatedness is in the common technology of plastic processing and engineering required for manufacturing these products.

Unrelated or Conglomerate Diversification

This at times takes place when a firm wishes to or is forced to exit from an unattractive or undesirable industry. The conglomerate strategy according to Kazmi (2008) requires taking up those activities which are unrelated to the existing business definition of any of its businesses, either in terms of their respective customer groups, customer functions or alternative technologies. However, offering a new product manufactured through an unfamiliar technology for a new set of customers involves considerable risk. This diversification option can only made possible when:

a. There is excess capital- surplus cash over and above what is needed to run the business profitably and meet debt commitments.
b. There are bright chances of increasing the worth of the organization and enhancing the shareholders' value.

Thus unrelated diversification can only be justified when surplus cash reinvested into new ventures can generate more value for stakeholders.

Diversification is an inherently risky strategy because the business is moving into markets in which it has little or no experience. For a business to adopt a diversification strategy, it must have a clear idea about what it expects to gain from the strategy and a transparent and honest assessment of risks.

Cases of Business Diversification Canon Company

Canon Inc. is a Japanese multinational corporation that diversified from a camera making company into producing an entirely new range of office equipment. Today, it specializes in imaging and optical products, including cameras, photocopiers and computer printers.

Venture Life Cycle and Business Diversification

The question: "*when should a venture diversify?*" is better answered when one considers the life cycle of a venture. Kotelnikov (2001) proposed that a venture would need to broaden product lines and/or extend geographic coverage (diversify) at the rapid growth stage as shown in tables 3(a) and 3(b) below:

Table 3(a): venture management at different stages

CONTINOUS GROWTH STAGE	-Build a balanced Business system -Keep reinventing your growth strategies -Establish a responsive innovation system -Develop a capability for flexibility and speed
RAPID GROWTH STAGE	-Reinvent differentiation and competitive strategies. -Cultivate leaders. Empower employees -Broaden lines, extend geographical coverage -Inject relentless growth attitude in your people.
INITIAL GROWTH	-Capture market share. Launch differentiated produce. -Gain repeat customers. Expand channels and revenues. -Expand management team. Train employees -Start inventing your second stage of growth.
START UP	-Define product and market niche. Create your business module -Prepare a Business plan. Build management team -Protect your competitive advantage. Raise venture capital. -Create your brand. Produce and differentiate your product.

Source: Vadim Kotelnikov, 1000ventures.com

Table 3(b): Venture management at different stages

COMPANY GROWTH STAGE	GESTATION	INCEPTION	PROTOTYPE	ROLL OUT	GROWTH	EXPANSION	MATURITY
PRODUCT STAGE	Idea	Concept	Prototype	Launch	Scaling up	Diversification	Continuous innovation
FUNDING STAGE	Pre-seed	Seed	Seed	First stage	Second stage	Third stage, Bridge financing	Asset-based financing

Source: Vadim Kotelnikov, 1000ventures.com

These models according to Kotelnikov (2001), suggest that a venturepreneuer would need to broaden his product lines at the stage of rapid growth.

Reasons for Business Diversification

Many reasons have been advanced to justify business diversification. These have been concisely summed up into three (3) by Kazmi (2008) as follows:

Minimization of business risk:

Historically, 50% of venture capital profits come from only 7% of investment, up to 33% of venture capital investments result in losses, with as many as 15% going broke, that is, a -100% return (National Venture Capital Association, 2004). This, according to knill (2009), provides the understanding why venturepreneuer would be inclined to diversify.

Maximizing organizational strength while minimizing weaknesses:

Firms may find that they have unutilized or underutilized capacities sometimes in manufacturing. A firm could find that it can perform a business activity at a lower cost with better time if it utilizes its internal capabilities. For example, in Timex Watches, it was decided that share departmental functions could be performed at much lower cost than if they were done by an outside agency.

Achieving venture Growth:

Growth is an implicit objective in nearly all organizations. Stock markets tend to reward growing companies. Managers find growth extremely attractive because it holds out the prospects of increased earnings for the firm leading to increased compensations. They also see the acquisition of new knowledge as instrumental to improving their self-actualization prospects.

Benefits and risks of Diversification

Fleming, Oliver and Skourakis (2001) highlight the following as the benefits of venture diversification.

(a) *Significant reduction in the variability of cash flows*: this is as a result of the aggregation of less than perfectly correlated cash flow streams from different business segments within a diversified firm's portfolio of operations. Managers are able to make better-informed capital budgeting decisions as firm cash flows are subject to less variability since the effects of cyclical industry downturns are partially mitigated by the presence of different industry exposures, which are not perfectly correlated.

(b) *Increased operational efficiency:* diversification can increase the value of a firm through generating economies of scope, so that the firm can reallocate the use of firm-specific and rent-bearing assets from one line of business into another. Factors of production held by one division in excess of efficient amounts could be transferred across to other industry operations held within the diversified firm's portfolio of operations.

(c) *Internal capital market:* According to Weston (1970), Williamson (1975) and Stein (1997) internal capital markets provide value for stakeholders through the allocation of capital resources from poorly performing divisions, which may be cash-rich, to more efficient divisions when external capital market imperfections exist. The establishment of such an internal capital market allows the diversified firms to overcome imperfections and transaction costs from sourcing finance from external capital markets (Alchian 1969); Weston 1970; Williamson 1979; Hubbard 1998).

Risks of Diversification

However, diversification is considered the riskiest of the four strategies presented in the Ansoff matrix and it requires the most careful investigation (The free Dictionary, 2010). Going into an unknown market with an unfamiliar product offerings means a lack of experience in the new skills and techniques required, therefore, the company puts itself in a great uncertainty. Moreover, diversification might necessitate significant expanding of human and financial resources, which may detract focus, commitment and sustained investments in the core industries. Therefore a firm 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, different tests can be done:

(a) *The attractiveness test*: The industry that has been chosen has to be either attractive or capable of being made attractive.

(b) *The cost-of-entry test:* The cost of entry must not capitalize all future profits.

(c) *The better-off test:* The new unit must either gain competition advantage from its link with the corporation or vice versa.

Conclusion

This paper exudes the strategic understanding of business diversification as it affects managing the growth of a venture in a competitive Nigeria's business environment. Its particular reference to the dimensions of business diversification

and its justification as well as the benefits and risks of diversification portray the fact that diversification can:

i. Be the only strategy option left for business growth and expansion.
ii. Diversification can either be successful or failure depending on the ventureprenuer's capabilities and other environmental factors.

Finally, the notion of diversification depends on the subjective interpretation of "new" market and "new" product, which should reflect the perception of customers rather than managers. Indeed, product tend to create or stimulate new markets; new market promote product innovation.

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