Options for Growth: Diversification

In simple terms there are 5 broad strategies to generate growth:

- Increase sales to existing customers
- Generate new customers from within existing markets
- Diversify products being offered to the marketplace
- Diversify into new markets
- Undertake a merger or take-over

As a matter of course most businesses look to increase sales from existing markets. But perhaps the strategy that sometimes gets overlooked is the diversification strategy. Diversification can take several forms, including:

- New, or related products or services to existing customers
- New markets for existing products
- New products for new markets

Deciding how and when to diversify depends on you having:

- Thorough market and customer research for the new product, service or market
- A clear development strategy - including trying a new line or service for a short test period with prototypes and test marketing before totally committing to the new projects
- Sales, marketing and supply-chain operations that can cope with the added demands

You'll need to be clear about development costs and what your alternative actions are if any delay occurs in development. Wherever possible, try to control risk by securing orders or commitments up front.

Diversification can help insulate you from the impact of adverse changes in the market. In simple terms, if you supply one product or service and it falls out of favour with customers, it leaves you very exposed. If you have two or more products or services and the sales of one of these drop, at least there will be revenue coming into the business through the other.

There are risks in diversification because it means splitting what might be limited resources. If you diversify too quickly then you could lose track of, or dilute, your core product or service. Businesses should weigh up the risks and costs of opting for growth carefully against its benefits.

One last word of warning; make sure you don’t pull the wool over your own eyes when measuring how your growth strategy is going. It is easy to fall into the trap of simply believing that increases in sales imply growth and improvement in the business.

You need to be wary of that old failing of “profitless volume”! A business might achieve a far higher sales volume, but find that margins have narrowed and overheads have increased. At the end of the day it is yield rather than turnover that is important.

Cheers
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