Diversification Strategy Benefits and Business Portfolio Analyses of the Company

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Abstract: ***The following research paper was devoted to discuss benefits of diversification strategy and three variations of the extension are proposed to firms to diversify the mix of businesses they persist: a strategy of related diversification, a strategy of unrelated corporate diversification and a strategy of limited corporate diversification. Besides, diversification strategy is recommended for companies to enlarge business, stabilize revenues and spread risk. As the paper shows diversification strategy does not guarantee to create sustainable competitive advantage and business portfolio needs special selections of portfolio, diversification can be implemented with other business strategies together. Article suggests portfolio analyze of Georgian diversified company and exhibits VRIO framework for it. Also, the paper names and analyzes the factors that made the company valuable, rare, hard-to-imitate and what helped to gain competitive advantage over competitors.***

Keywords: business, diversification, management, portfolio, strategy

JEL Classification: L1, L25, L10, L2

1. Introduction

New challenges are distinguished for companies, they have to increase their abilities to compete in a global market, expand and generate incomes. Competitiveness has been the major focus of corporate strategy studies (Caldeira & Moysés & Bertoncello, 2005).

This paper has the objective to investigate whether corporate diversification strategy increase corporate competitiveness. The focus is on the corporate diversification strategy as the main corporate strategy to gain and sustain competitive advantage over competitors.

Alfred Sloan at General Motors and some of his contemporaries used a new strategy, which was called diversification. Those pioneers find out that diversification strategy benefited from a divisional structure and that tightly designed planning and control systems and it supported that structure (Bartlett & Ghoshal, 1994). Diversification is attractive strategy for companies, especially if they want to increase revenues and be successful financially, though investors or company make any investment decision to create risk balanced portfolio and avoid a loss. Companies choosing diversification strategy get more benefit and have more business opportunity. Generally, diversification is considered as the perfect way to spread and handle all the risks, but there are plenty of threats that may occur to the portfolio, one of the treat is investor can't make an exact forecast of the future of the companies and stock prices, so risks can raise any time. So, instead of avoiding the possible losses, company with diversification strategy may have crises if the portfolio is not managed very carefully. When making an investment, we deal with Risk and Time Horizon. No investment is possible without loss, in other words "No Pain, No Gain", so investors take a risk and they have to handle the risk, as for the Time Horizon it can be very long and as the investment is longer the riskiness is increasing and the chance to get high return increases also. Based on this, companies have opportunity to enrich its investment portfolio among different asset types, product types, and geographical area and so on to reduce the risk.

An organization gets benefits from this strategy when the company can acquire greater efficiency or market impact through the use of shared resources. A case of related diversification is: Disney, which purchased ABC, Global coffee chain Starbucks is expanding in food market, and also the tie-up of McDonald with Coco-cola.

Selecting diversification strategy for business is connected to increase of income and expansion of business portfolio, which may be associated with risks at the same time. Discussing the risks and benefits of diversification strategy, we conclude, that diversification strategy need special selection and activities to choose the right product, industry or geographical area for any business. This strategy mentioned above, is used frequently by companies, which want to enlarge business, grow revenues, eliminate and spread risks.

2. Diversification Strategy Overview

Managers consider corporate diversification beneficial for company growth and development. Implementing corporate diversification strategy means, that the company operates in multiple industries or markets simultaneously. Some companies choose product diversification, geographical diversification or product-market diversification. Diversification consists of several growth opportunities: concentric, horizontal and conglomerate. Based on these, diversification is divided into several levels and types.

Vast amount of scientists and business representatives approve, that diversifying business portfolio is the most riskless decision, and it helps handle risks, also spread risks over different business units and even eliminate it. Nevertheless, there are some threats that can occur while diversifying the business portfolio. For instance, company's management can't make an exact forecast of the future of the company, as the future is unpredictable.

Caldeira, Moyses and Bertoncello propose a way to achieve corporate strategies to bring multiple businesses within the boundaries of the firm can be used to create economic value. This strategy is termed as a corporate diversification strategy. Firm can expect to generate competitive advantages (Caldeira&Moysés et al., 2005). As Barney (2002) suggests, three variations of the extension can be used for firms to diversify the mix of businesses they persist: a strategy of related diversification, a strategy of unrelated corporate diversification and a strategy of limited corporate diversification.

- When a firm implements a limited corporate diversification strategy, all or major of its business activities fall within a single-business companies (nearly 95% of its total sales in a single industry) or fall within a dominant-business firm (between 70% and 95% of its total sales). Though implementing a strategy of limited corporate diversification does not mean leveraging resources and capabilities beyond a single market or industry and, therefore it is considered as the analysis of business-level strategies (Rumelt, 1974).
- The company implements a corporate strategy of related diversification if less than 70% of its sales come from a single line or business units and these multiple business lines are linked. The corporate diversification strategy is termed corporate strategy of related constrained in case of the entire business in which a firm operates share a significant number of inputs, production technologies, distribution channels, identical customers, and etc. The corporate diversification strategy is related linked in case of the different businesses that a single firm pursues are linked on (1) only a couple of dimensions, (2) different sets of businesses are linked along very different dimensions.
- The company is pursuing an unrelated corporate diversification strategy is less than 70% of it's sales are generated by a single business line and business share.

As we mentioned above, diversification strategy may involve growth. Company can acquire a firm in other industries or lines of business. Below we introduce four explanation of this:

1. Company of slow-growth industries has the choice to acquire companies in faster-growing industries in order to increase their total growth rate.
2. Organizations with excess cash often struggle to invest in another industry, particularly in a fast-growing firm to use a profitable strategy.
3. Companies may diversify to spread their risks across several industries.
4. The acquiring company may acquire a weaker firm in different unrelated industry. An acquiring company with management talent, financial strength, technical resources and marketing skills can acquire and invest in weaker company, as it has ability to make it highly profitable.

Consequently, we approve, that the advantage of diversification is risk reduction. To achieve these, careful selection of business industries should be done. We conclude that analyzing business industries and relations between them can help to get benefits of diversification strategy. Besides, business growth is another benefit of diversification, which will generate income stabilization in future.

3. Case of Business Portfolio Diversification

"GT Group" Inc. is the evidence from developing country, which impalements these two strategies discussed above. In order to analysis company's business strategies, how they use diversification and integration strategy, and is does these strategies make the company Valuable, Rare, hard to imitable and organization, first of all we suggest to discuss business portfolio of "GT Group".

GT Group works mostly on Georgian market, and trades and distributes operations in Armenia and Turkmenistan. The major fields of activity of GT Group are the following (taken from company's web site):

- Import, export and servicing of all kind of vehicles, such as passenger cars, heavy commercial vehicles, buses, municipal equipment and machinery, agricultural and construction machinery, snowmobiles, ATVs and some special machinery and equipment;
- They import and sale oils and lubricants;
- They serve cars and equipment;
- Installation and different servicing of refrigeration equipment on commercial vehicles;
- They import and sale construction materials;
- They import and sale food products;
- They import and serve special materials, equipment and machinery for landfills;
- They import and serve machinery for wine industry, special materials for the wine industry.

In 2009 year, GT Group started to import construction and insulation materials. They produce various types of roofing, insulation materials and decoration stones. GT Groups offers the market the brands from renowned European manufacturers, these include the insulation materials, high density polyethylene (HDPE) from GSE LEANING TECHNILOGIES, insulation textiles from AKELIAF, roofing materials, shingles, solar and metallic tiles of various types, from TEGOLA CANADESE. The above mentioned activities are performed by the company named Kolkhi Jgupi LTD, which is also owned by the GT Group LTD.

In 2015, GT Group forms a Georgian-Italian joint Venture, named GT Enologica. The company dedicated to the imports, sales and servicing of special machinery and equipment for the wine industry.

Since the day of its foundation, GT Group is expanding its area of business day by day. For the last decades, GT Group increased the number of brands, besides it exclusively represents several brands in Georgia and offers world brand products and services to Georgian market. The company increases the number of private or public customers as it operates in several business areas.

GT-group has business activities in several industries. GT-group implements diversification strategy, it is attractive to analyze its business portfolio and investigate what kind of diversification strategy does it use?

4. Business Portfolio Analysis

"GT Group" business is distinguished by the diversity of product and service, constant extension and searching for new opportunities. This is indicative of Management's desire to distinguish them in the market. First of all, it should be noted that the company is distinguished by a number of exclusive rights in various fields, and also a good choice of European brands. Moreover, in many cases, GT group is the exclusive importer of European Brands and supplies high quality products to consumers. Table 1 shows the list of industries in which the company operates, and is engaged in a successful business. Bellow, we will discuss each of industry activities.

Table 1: Business Portfolio Matrix of "GT Group"

Year	Name	Status	Industry
2005	„ Euro product"	Exclusive Imports	Food and Drink (Product diversification)
2007	„Ford-Cargo"		Special Technology
2007	„GT motors"	Exclusive Imports of Brand Cars	Auto industry and Auto services
2009	Agricultural equipment	Exclusive Diller	Agricultural equipment
2010	„GT Airs"	Nishes type of market	Aviation, pilots training
2010	Construction Business	European Brands	Construction

5. "GT Motors"

In 2007, a new company, GT Motors ltd. is joining the holding. It exclusively represents some leading automotive brands in Georgia: Ford, Land Rover, Jaguar and Suzuki. GT Motors imports the passenger cars from manufacturers, to Georgian and provides customers with full technical and warranty services (www.gtgroup.ge).

"GT Group" daughter company "GT Motors" is the exclusive representative of well-known brands, which adds value and has a significant importance, because this helps to gain competitive advantage to the company, while other automobile importing companies have no ability to import and sale the above mentioned cars. Exclusive representative always gains competitive advantage and as GT group is importing well-known bands it also gains customer satisfaction, high quality and revenues. We consider that strategy of exclusiveness has two benefits from the point of view of marketing management and financial revenues.

Moreover, the company owns modern, European standard Motor Show salons, where the latest models of automobile brands are exhibited. Renewed vehicles are constantly offered to customers, which also create additional value for the company's favor, as it increases the chances of making profit, since the company is the exclusive importer of Ford, Land Rover and Suzuki. GT-motor's features like exclusiveness are difficult for competitors to copy or imitate and it is also the rare resource for the company. Based on VRIO analysis (see table 2), we can conclude, that thanks to just one subsidiary of the company (GT-motors), the company gains at least a temporary advantage over competitors and the performance of the company is sustainable above normal.

Table 2: VRIO framework for GT-motors

Is it Valuable?	Is it Rare?	Is it difficult to imitate?	Is the Firm Organized?	Result for GT-motors
Yes	Yes	Yes	Don't Know	Sustainable Competitive advantage

GTgroup enlarged its business and in order to become closer to the customer, it began the automotive service. GT group founded the center, which is equipped with an auto - diagnostic and mechanical equipment, furthermore center fully meets the quality standards provided by automakers. From the company's activity we see, that GT-group chose a strategy which is profitable double time more than usual: High-quality standards (of services and products) and forward vertical integration strategy. First of all, high-quality adds value to the company and is profitable, as it attracts customers and is aimed for customer satisfaction. Furthermore, vertical integration strategy helped the company to grow earnings and get closer to customers, their needs and quality control at the same time.

6. "Europroduct" and Product Diversification Strategy

Another daughter company of "GT Group" is "Europroduct". In 2005, "Europroduct" ltd. had joined the holding (GT Group). "Europroduct" ltd (see the link: europroduct.ge) imports high quality food products from EU and represents the following well-known European brands: Valio, Arla, Bayernland, Frico, others. Today, "Europroduct" ltd is operating five supermarkets in Tbilisi and Batumi, under brand name – Europroduct. Produce, imported by "Europroduct" is highly competitive and currently, the company is a leader on Georgian dairy market.

"Europroduct" is also the exclusive representative of the European food and beverage brands. It has exclusive right to import diversified products in Georgia, like dairy products, sweets, soft drinks, both alcoholic and non-alcoholic as well, bakery products, ground nuts, olives and more. Europroduct is the current leader in the market for imported dairy products. Products imported by the company have always been distinguished by its high quality and variety, which makes "Europroduct" leading importers of dairy products on the market.

Europroduct has exclusive right to import the world's most famous brands in dairy products, sweets and other food products. They are:

Valio - milk products from Finland, Arla - milk products from Denmark, Frico - dairy products from the Netherlands, Bayernland - dairy products from Germany, Ruecker - dairy products from Germany, Spomlek - dairy products from Poland, Lactima - dairy products from Poland, Zanetti - dairy products from Italy, ISPA - dairy products and bakery raw materials from Italy, Crespo - the olives from Spain, Torrent - olives from Spain, Fazer - sweets from Finland, DanCake- sweets from Portugal, Vobro - sweets from Poland, Riscossa - pasta, tomato sauce and oil from Italy, Gamma-a - canned fish from Latvia, Acroyali - peanut butter and peanut from China, Holsten - beer from Germany, O.D. Gourmet - cold coffee from Taiwan.
Food and drink products in a really diverse and at the same time they are associated with European brands. From the point of view of marketing strategy and brand knowledge, European association for the products is profitable, ir has a good reputation in local customers because of high quality and safe product, as European products are considered to be high quality. So it is logical that having "Europroduct" in "GT Group" business portfolio, it is very important and valuable business unit for the whole company. Moreover "Europroduct" implements product diversification strategy in its business, furthermore, it has the exclusive rights to import some European brands, for "GT Group" this means a completely unrelated diversification strategy, business portfolio of GT Group creates the distinction, rareness and as it often manages the exclusive right to import branded products, it indicates that GT Group may have the organizational advantage, the distinguished relations and connections, which ultimately provides the company's long-term advantage.

7. Conclusion

In this paper, we discussed the benefits and dangers of the diversification strategy. Based on the research, we concluded that the company's diversification strategy has several benefits, including risk reduction and distribution, business expansion, income stability. On the purpose to study diversification strategy in practice, we analyzed the Georgian diversified company "GT Group". According to the survey, it was found that an unrelated corporate diversification strategy has been successfully used. The company's profile shows that the company's business portfolio is well diversified. In addition, it also uses the product diversification strategy. However, our research shows that the company's management use diversification strategy with other business strategies, such as: a vertical integration, exclusive representation of the highest quality product delivered. Based on our VRIO analysis one of the daughter company GT Motors makes the company valuable, rare, hard-to-imitate and competitive advantage is granted to the company.

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