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Diversification, an Effective Strategy to Deal with the Pandemic Crisis: An overview

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ABSTRACT
We are very much aware of the fact that the ongoing pandemic COVID-19, has immensely effected every aspect of human life. It has wreaked havoc to the economy of every country affected. Business world has suffered beyond repair. This paper endeavors to highlight the hidden silver lining behind the dark clouds of pandemic crisis, which is a business strategy, often been considered as a survival strategy called Diversification. The paper tries to analyze whether the same strategy has come out with flying colours as not only a solution to revive a business which has or was going to collapse due to the crisis but has also added value to the business. The paper can be considered as a case study taking the example of a handful of companies who have walked the path of diversification during the crisis period and analyses their performances to come a conclusion regarding the affectivity of the strategy especially during this period.
Key words: Diversification, Pandemic, Digital platform, Online channels.

Can Diversification Be An Effective Strategy To Deal With The Pandemic Crisis: A Study

I. INTRODUCTION

We are very much aware of the fact that the ongoing pandemic COVID-19 has immensely affected every aspect of human life. It has wreaked havoc to the economy of every country affected. Business world has suffered beyond repair. A study on habit formation come up with the findings that the average time for a new habit to develop is 66 days with a minimum of 21 days. The lockdown has lasted for almost a year which is enough time change the consumer behavior that formed the foundation of demand and supply in the market. (Jacobides & Reeves, 2020). Companies have started adapting to the changed consumer behavior. The pandemic situation has pushed brands to think out of the box. Brands are going out of the way to mitigate their losses. Smart brands are offering pertinent products and services to lure the targeted cohorts. Businesses are adapting, diversifying, pivoting, innovating reorganizing etc. but most importantly they are diversifying. Business Diversification is a risky affair, one needs to analyze its potential before doing so but the call of the hour is to adapt ones business to the changing market conditions so diversification has become an absolute necessity.

Objective of the Study

The objective of the study is to highlight the paradigm change in the form of diversification and to study how adapting this strategy has helped companies to fight the pandemic crisis. The paper can be considered as a case study taking the example of a handful of companies who have walked the path of diversification during the crisis period and analyses the trend and pattern of diversification and ultimately their performances to come a conclusion regarding the affectivity of the strategy especially during this period.

Literature Review and Research Gap

(Attig & Sy, 2021) Using a large sample of stocks from 48 developed and emerging markets, it was shown that the benefits of diversification persist during the global financial crisis, the coronavirus pandemic, and other hard times, demonstrating their counter cyclicality. It was found that international diversification was the best risk-reduction tool when developed and emerging markets were jointly considered, it was concluded that industrial diversification was the best alternative for funds limited to developed markets.

(Bhatia & Khurana, 2021) The present study comprehensively evaluates the international growth strategies preferred by Indian companies in the pre-pandemic and the pandemic period. Results indicate that Indian companies were inclined to grow beyond their home territories. This evaluation of the firm's nature and extent of internationalization included the period of COVID-19 as well.

(Onali & V, 2020) They investigate the impact of information disclosed under SFAS 131 on idiosyncratic and total stock risk. Business diversification exacerbates the impact of the shock on idiosyncratic and total volatility, while it reduces that on idiosyncratic and total skewness. They also provide evidence that international diversification decreases the negative price reaction to stock market crashes following the shock.

(Verbeka & Yuand, 2021) They find that the pandemic will also have lasting impacts on the international business strategies of large MNEs. For scholars studying the strategies of the world's largest firms, this was an opportunity to design better research studies, more closely aligned with managerial practice and therefore more likely to include sound managerial prescriptions.

Reviewing the literature we see that a few research works have been conducted to study the nature and extent of diversification. Market research has been conducted to study the impact of portfolio diversification during the period of pandemic. However, limited studies have been done to study the pattern of change in diversification strategy and how the change have been adapted by the companies to survive the pandemic crisis leading to fruitful results.

Diversification from Traditional to Current

The term 'diverse' means various and hence, it can be said that 'diversification' refers to variety. Variety indicates different, discrete, separate etc. Different authors have defined diversification in their own ways. Ansoff (1957, 1965) defined 'diversification' as the entry of firms into new markets with new products. Rumelt (1974) stated that "Diversification move is an entry into new product market activity that requires or implies an appreciable increase in the available managerial competence within the firm". Diversification, in fact, is the extent to which firms operate in different business simultaneously (Pitts and Hopkins, 1982). It represents an increase in the number of industries in which the firm operates (Berry C.,1975). However, a very comprehensive definition is given by Booz, et.al (1985) which includes the objectives, the direction as well as the means to achieve the diversification. To them, diversification as a means of spreading the base of a business to achieve growth and reduce overall risk by including all investments except those supporting the competitiveness of the existing business directly. Further, they stated, diversification can be in the form of any investment in relation to new product or products, services, customer segments or geographic markets. Besides this, the task of diversification can be achieved by any of the methods including internal development, acquisitions, joint ventures, licensing agreement etc

Diversification strategies can be broadly classified into two categories- Concentric or Related Diversification and Conglomerate or Unrelated Diversification.

Concentric or Related Diversification includes the development of the range of offerings and activities within the current ambit or experience of the organization in question and according to its current expertise (Pettinger, 1996). There may be a direct relationship. For example, when an electric goods company uses its technology to manufacture electronic calculators and digital wrist watches, it is related diversification. Again, it may be related to the market sector covered or the technological capacities and technical expertise the organization has or it may constitute the development of a complementary range of products. It may be because they rely on managerial capabilities and routines and repertories. Two main advantages of related diversification which are mainly responsible for gearing of profit are: firstly, related diversification brings about economies of scale and secondly, it helps a firm to spread its core competencies across multiple businesses (Prahalad & Hamel, 1990).

Conglomerate or Unrelated Diversification takes place when a company grows by diversifying into totally different or unrelated industry as compared to their present line of activity. A US based company, Virgin Group's, transition from records and music retailing to airlines is an ideal example of unrelated diversification. This strategy is mainly adapted when the current market is not profitable any more, and the company wants to diversify its profit over different products. Since this field is absolutely new and unknown, the volume of risk involved is much more in comparison to other forms of diversification.

Again, from the viewpoint of mode of diversification, growth may take place through

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internal expansion or by collaborating with other concerns. In internal diversification, the concern grows internally through diversification. Here, diversification is achieved either by marketing existing product(s) to new markets i.e., by finding new users for the current product or by introducing new product to the existing market. Conglomerate form of diversification can also be adopted but is rarely used because of the extent of risk involved in such a kind of practice. In external diversification the new product or new markets are explored but it is done through merger with or acquisition of another concern. Here, the externally diversified concern enjoys an edge over the former because of the existence of synergic effect.

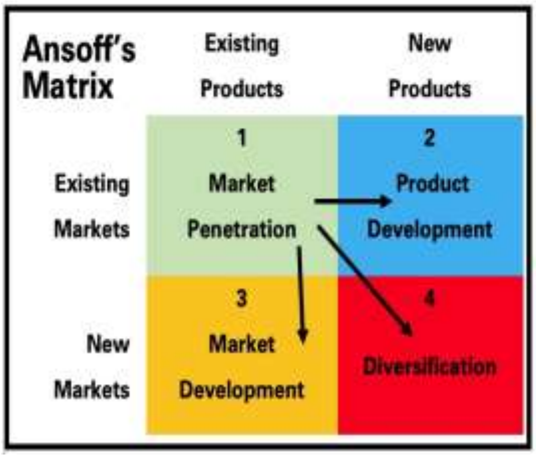
Last but not the least, diversification may be classified broadly into product diversification and market diversification. Product diversification means switching of activities from a single line product to multiple line products. Market diversification takes place when a company ventures into a market different from the existing one, say from domestic to national market or international market.

Ansoff proposed four strategies for growth which can be neatly summarised in the matrix below

1. **Market penetration,** where the company seeks to improve business performance either by increasing volume of sales to the present customers or by finding new customers for present product.
2. **Product development**, in this strategy the products are developed with new and different characteristics retaining the present mission as such will improve the performance of the mission
3. **Market development,** where the company attempts to find new market for its present product line generally with slight modification
4. **Diversification,** which is the last and final alternative. It calls for simultaneous departure from the present product line as well as the market structure. This strategy is completely different from the other three alternatives because those alternatives are usually followed with the same technical, financial and merchandising resources used for the original product line but diversification required new skills, new techniques and new facilities that lead to change in the physical and organizational structure.

But first, let's look at the original version of the Ansoff Matrix.

Picture of original matrix



(Source:https://www.davidparrish.com/wp-content/uploads/2015/09/Ansoffs-Matrix-for-Creative-Industries.jpg)

Ansoff's matrix provides a very simple but very effective focus for considering different options for growth, and provokes debate about whether to find new customers for existing products [3], offer more products to the existing customers [2], or stick to the existing products and gain a greater share of the current market [1]. Diversification [4], which is often the instinct of ambitious businesses, is the most risky growth strategy, because as the matrix shows so clearly, it means leaving the safety zone of both existing customers and existing products into a region of entirely two unknowns: new products and new markets. Here 'Products' means products or services. 'Markets' means market segments, niches and customers.

As a Creative Responses to the Crisis, COVID-19 Diversification options can be explored more effectively using an adapted version of the Ansoff Matrix to think strategically, map out options, generate new ideas and make crucial business decisions for the short term and long term. This adaptation of Ansoff's Matrix takes into account new opportunities in the Digital Economy.

In the digital age, there are new opportunities for diversification since existing products/services can often be adapted into digital products/services, or delivered through online channels, to current customers or new ones. This provides many more options. Let us refer to the adopted matrix shown below.

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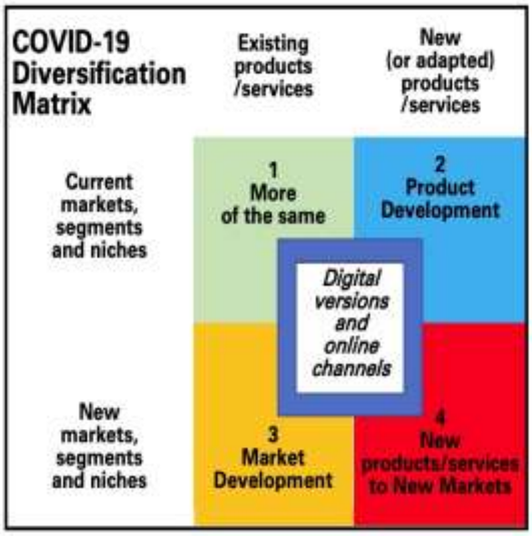
Picture of adopted matrix



(Source:https://www.davidparrish.com/wp-content/uploads/2020/05/COVID-19-Diversification-Matrix.jpg)

This new 'COVID-19 Diversification Matrix' can be utilized to generate several COVID-19 Diversification ideas and options, which can then be evaluated and prioritized using the Feasibility Filters. In this way it can be used to support smart strategic responses to COVID-19 and map out an action plan.

Pattern of Diversification followed during COVID-19

The COVID-19 pandemic has changed how businesses everywhere operate. Undergoing a massive transformation and pivoting to a new direction could be the only way many companies stay alive. The business sectors that benefitted the most during the pandemic were e- commerce, technology, payment, media and pharmaceutical. Since people couldn't come to the product the product where reached to the people with the help of internet. So companies who could quickly diversify adapt to the digital platform, could make the most of it, survived the pandemic and eventually saw the face of profit and stability

Eleven COVID-19 Diversification Strategies and their implimentations:

A. Keep the current business model and go for market penetration, in other words more sell more products to current markets.

- Computer games companies selling more.
- Netflix started selling a lot more during COVID-19 to existing market. They didn't diversify or change business model.

B. Product development by selling new products to existing markets.

- Swiggy and Zomato, the nation's largest food delivery startups, began delivering alcohol in select parts of the country.
- ClubFactory, best known for selling low-cost beauty items, has also started to deliver grocery products.
- Wow! Momo Foods has recently launched its grocery arm 'Wow! Momo Essential Services'. The grocery diversification which has partnered with ITC, Nestle and P&G to enable the delivery of essential grocery supplies through third-party vendors aims at reinventing the business model through agility.

C. Product development by selling adapted or digital versions of existing products to current markets.

- Books being adapted from paperback editions to digital editions (eBooks and Audiobooks) to be sold to the current creative markets.

D. Product development by selling existing products to current markets through online channels.

- Many retailers have started to use the platform of facebook to reach their customers. Even workout classes like yoga , zumba being done through the same.

E. Market development by selling existing products to new markets.

- Black Gold Engineering in Namibia. Innovative LED street lighting company. Currently selling LED lighting for new hospital isolation units.

F. Market development by selling adapted or digital versions of existing products to new markets.

- BookMyShow, which sells movie tickets, has in recent weeks rushed to support online events, helping comedians and other artists sell tickets online.

G. Market development by selling new version of existing products to new markets:

- BharatPe has partnered with ICICI Lombard to roll out 'COVID-19 Protection Insurance Cover' for shopkeepers. One of its kind of sachet products, the premium starts at a nominal amount of Rs 210 and provides a sum insured for Rs 25,000 and value-added benefits such as health assistance and CHAT/Virtual assistance, teleconsultation and ambulance assistance, as part of the offering

H. Market development by selling existing products to new markets through online channels.

- Reliance JIO entering the grocery market through JIO Mart.

I. New Business Model by selling new products to new markets

- Manufacturers switching production to healthcare products (ventilators, masks, hand sanitiser etc) for a healthcare market they didn't serve before.
- Foreign luxury brands like LVMH are switching production lines from producing perfume to making hand sanitizer, industrial companies are making hygienic masks, distilleries are creating disinfecting alcohol, and
- Automotive companies like Air Bus, Siemen, Ford helped Penton to manufacture ventilators.
- FMCG players have forayed into the market of sanitizers such as Marico with its Mediker brand, Dabur with its Dabur Sanitize, and Emami with its BoroPlus brand. Marico has also come up with fruits and vegetable sanitizer.

J. New Business model by selling new digital products to new markets.

- Companies selling LMS software to schools and colleges and public in general for online education. Like BYJU's, Educomp Solutions , Zeus , Vedantu etc.
- Ferns and Petal introduced new digital gifting options like Celebrity Video Message (one can gift personalized video wishes for the occasion from the receiver's favorite celebrities like Aishwarya Sakuja, Jay Bhanushali, etc.), have either Violinists or Poets or Flute Players on Call, Digital Games, E-Greeting Cards, Digital Caricatures, etc.

K. New Business model by selling new products to new markets through online channels.

- Carnival Group, which is India's third-largest multiplex theatre chain, said it is foraying into cloud kitchen business

II. OUTCOMES AND CONCLUSIONS

The above diversifying steps have been taken not just with the objective of booking profits but also for connecting with and reassuring their presence to the consumers. Consumers' expectations have increased and thus, brands need to stay purposeful and adopt an approach of authentic empathy. Consumers will embrace those brands which show a sense of responsibility and genuine concern in the hour of crisis because every penny counts, consumers anticipate affordable product choice. While COVID-19 poses a threat to the financial stability of consumers, they want brands to deliver real value in reasonable price.

Many small and medium businesses survived taking the help of social media like Facebook which lead to a 39 per cent rise in advertising impressions at Facebook in the first quarter of the year. Boosting $85.7bn market capital. The work from home culture and schools and colleges taking online classes have surged the growth of video communication apps like zoom, google meet, Microsoft teams etc. Zoom was up more than three-fold from a year before, while revenue soared 169 per cent. Online entertainment benefitted greatly from the pandemic for example Netflix who reached to a lot more consumers from before, Netflix witnessed 183m global subscribers by the end of Q1, a 23 per cent jump from a year earlier, which added a market capital of $55.1bn. FMCG companies who stumbled initially also gained momentum by diversifying their line of product or exploring new markets sometimes taking the help of digital platforms. In the second quarter of 2020, online shopping surged 44% compared to the prior year and represented more than 20% of all retail sales, according to data from the department of commerce. India's e-commerce industry is expected to grow 84 per cent to $111 billion by 2024 as it gains from demand created by the coronavirus pandemic's impact.

Although this paper fails to measure in objective terms how much the diversification strategy has influenced the performance of the companies during the pandemic crisis. However, we get a holistic view of the necessity, trend of adoption and impact of the diversification strategy during this crisis period. Never the less, there is a much scope for further detailed research on this topic.

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