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Other resources in step 2b:

- Picture samples of diversification
- Schedule of diversification possibilities

Diversification

Those who have been in the automotive aftermarket repair game for some time will know that the trade has changed dramatically over the last 10 years or so. The vehicles we work on now are so different to those of our apprenticeship years.

So looking ahead, where is the future for our industry and more importantly, the future for our workshops?

It's not an easy question to answer. Ten industry experts would give you ten different answers.

We can all agree that our businesses need to evolve as the industry changes, but in what direction or area of business do we steer towards?

Diversification is a business strategy which, if done well, can ensure that your workshop stays ahead and moves along with the times. As we grow older, our ability or desire to continually change drops dramatically, making the challenge even harder.

Diversification seeks to increase profitability through greater sales volume obtained from new products and new markets.

Diversification can occur either at the business level or at the technician level. At the business level, it is most likely that a workshop will expand into a new segment of the industry. At the technician level, it is new skill levels, reached through training and experience which might drive diversity.

Diversification is part of the four main growth strategies defined by a business principle called the Product/Market Ansoff Matrix.



Igor Ansoff was a well published business guru of Harvard fame, who is credited with being the father of strategic management.

Probably his most quoted bit of strategic marketing planning is this matrix, the Ansoff matrix, which presents four alternative strategies for any business seeking to grow, and they are: market penetration – pushing existing products, market development – developing new markets for existing products, product development – developing new products for the exiting market, and diversification – developing new products for new markets.

Ansoff pointed out that a diversification strategy stands apart from the other three strategies. The first three are usually pursued using the same technical, financial, and merchandising resources used for the original product line, in your case, workshop repairs.

On the other hand, diversification usually requires a business to acquire new skills, new techniques and new equipment.

		Products	
		Present	New
Markets	Present	Market penetration	Product development
	New	Market development	Diversification

The different types of diversification strategies

The strategies of diversification can include internal development of new products or services , acquisition of another workshop, developing an alliance with a complementary business, tackling new technologies, and distributing or importing new products manufactured by another firm. Generally, the final strategy involves a combination of these options.

There are three types of diversification: concentric, horizontal, and conglomerate.

Concentric diversification

This means that there is a technological similarity between the industries, which means that the workshop is able to leverage its technical know-how to gain some advantage. For example, a workshop might decide to retail tyres, wheel alignments and specialise in front end work. The technology would be the same but the marketing effort would need to change. Another example of this would be a general mechanical workshop moving towards specialisation in electronic repairs and diagnostics.

In a lot of cases, concentric diversification seems to increase a workshops market share after launching a new service line that helps the particular workshop to earn additional profit.

Workshops could seek new products that have technological or marketing synergies with existing product lines which may appeal to a new group of customers. This also helps a workshop to tap that part of the market which remains untapped, and which presents an opportunity to earn profits.

Horizontal diversification

Horizontal diversification is where a workshop adds new products or services that are often technologically or commercially unrelated to current products but that may appeal to their current customer base. In a competitive environment, this form of diversification is desirable if the present customers are loyal to the current products and if the new products have a good quality and are well promoted and priced. An example of this may be an auto electrical business moving into the personal mobility market, electric carts and golf carts. The new products are marketed to the current customer base as well as to a whole new customer base.

Conglomerate diversification (or lateral diversification)

Conglomerate diversification is where a workshop introduces new products or services that have no technological or commercial synergies with current products but that may appeal to new groups of customers. The conglomerate diversification has very little relationship with a workshop's current business. Therefore, the main reasons for adopting such a strategy are first: to improve the profitability and the flexibility of a business, and second: to get a better reception in markets as a business gets bigger. Even though this strategy can be risky, it could also, if successful, provide increased growth and profitability.

Risks

Diversification is the riskiest of the four strategies presented in the Ansoff matrix and requires the most careful investigation and planning. Going into an unknown market with an unfamiliar product means a lack of experience in the new skills and techniques required. Therefore, a workshop may be putting itself into great uncertainty. Moreover, diversification might necessitate significant expansion of human and financial resources, which may detract focus, commitment, and sustained investments in the core products and services. Therefore, a workshop 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:

- **The attractiveness test:** the industry that has been chosen has to be either attractive or capable of being made attractive.
- **The cost-of-entry test:** the cost of entry must not capitalise all future profits.
- **The better-off test:** the new unit must either gain competitive advantage from its link with the corporation or vice versa.

Because of the high risks explained above, many companies attempting to diversify have failed. However, there are many good examples of successful diversification.

- [Virgin Group](#) moved from music production to travel, mobile phones and finance
- [Walt Disney](#) moved from producing animated movies to theme parks and vacation properties
- [Canon](#) diversified from a camera-making company into producing an entirely new range of office equipment.

In the automotive industry there are many different areas into which a workshop could diversify. The TaT technical team was asked to compile a list of diversification possibilities for the different types of workshops that make up the Capricorn membership base. It makes for interesting reading and may open your minds to some of the exciting possibilities that lie ahead for you and your workshop.

So here's the challenge. In the next four weeks, give yourself a target to plan a diversification strategy for your business to improve your chances of profitability.

The place to start is www.tatbiz.net.au/capricorn.

Just go for it!