UDC 330.3:114

Olena Babenko
Lecturer, Kyiv National University of Trade and Economics, Ukraine
19 Kyoto Str., Kyiv, 02156, Ukraine
l.babenko@solaris.in.us

DIVERSIFICATION STRATEGY AT THE TOURIST ENTERPRISES

Abstract. Considering the role and importance of the appropriate strategy choosing for the tourist enterprises development, especially at the tourist service level, we should define the type of strategy. In this article, backgrounds and types of the diversification strategy at the tourist enterprises are described. The features of the diversification strategy services at the tourist enterprises are defined. The main goals of different types of diversification strategy implementing on the tourist enterprises have been grounded. Possible risks that could arrive after diversification strategy implementing at the small and big tourist enterprises are predicted. Among them are: lack of permanent investments, lack of experience in the new skills and techniques required, great uncertainty in which company put itself within diversification.

Keywords: tourist enterprise; strategy of diversification; corporate diversification; vertical diversification; horizontal diversification; market growth.
JEL Classification: L83, L1, M31

О. В. Бабенко
асистент кафедри готельно-ресторанного та туристичного бізнесу,
Київський національний торговельно-економічний університет, Україна

СТРАТЕГІЯ ДИВЕРСИФІКАЦІЇ НА ТУРИСТИЧНИХ ПІДПРИЄМСТВАХ

Анотація. У статті розглянуто сутність і види стратегії диверсифікації. Визначено особливості стратегії диверсифікації послуг туристичних підприємств. Обґрунтовано основні причини, що спонукають туристичні компанії до застосування стратегії диверсифікації. Виявлено ризики, які можуть спіткати малі та великі туристичні підприємства за умови впровадження цієї стратегії. Серед основних ризиків автор виділяє: відсутність постійного інвестування, брак досвіду для розвитку нових сфер діяльності, а також невизначеність, у якій може опинитися компанія на етапі втілення стратегії диверсифікації.

Ключові слова: туристичне підприємство; стратегія диверсифікації; корпоративна диверсифікація; вертикальна диверсифікація; горизонтальна диверсифікація; зростання ринку.

Е. В. Бабенко
ассистент кафедры гостинично-ресторанного и туристического бизнеса,
Киевский национальный торгово-экономический университет, Украина

СТРАТЕГИЯ ДИВЕРСИФИКАЦИИ НА ТУРИСТИЧЕСКИХ ПРЕДПРИЯТИЯХ

Аннотация. В статье рассмотрена сущность и виды стратегии диверсификации. Определены особенности стратегии диверсификации услуг туристических предприятий. Обоснованы основные причины использования стратегии диверсификации туристическими компаниями. Определены риски, с которыми могут столкнуться малые и крупные туристические предприятия в период внедрения этой стратегии. К основным рискам автор относит: отсутствие постоянного инвестирования, недостаток опыта для развития новых сфер деятельности, а также неопределенность, в которой может оказаться компания в ходе реализации стратегии диверсификации.

Ключевые слова: туристическое предприятие; стратегия диверсификации; корпоративная диверсификация; вертикальная диверсификация; горизонтальная диверсификация; рост рынка.

Introduction. Today, diversification of services is one of the instruments of the tourist enterprise's growth strategy, due to which it can extend its services and spheres of activity. However, its successful implementation requires profound knowledge and thorough preliminary assessment of the company and its environment. Although diversification is sometimes difficult for the small companies, it proves to be inevitable when their original markets become unviable.

Brief Literature Review. Many scientists, both Ukrainian and foreign, have conducted researches on this theme. Among foreign authors, there are I. Ansoff, P. Kotler, G. Kenny, M. Porter, O. Ferrell, and Ukrainians are S. Aleksandrov, G. Peresadiako, N. Butenko, M. Korinko, L. Balabanova etc. They define the notion of diversification strategy as well as its types. Still there are some issues to deal with, especially in the tourism sphere.

Purpose of the article is to research theoretical and methodological principles of separate diversification strategy types forming and implementation at the tourist enterprises.

Result. Diversification is a business development strategy allowing a company to enter additional lines of business that are different from the current products, services and markets (Kenny, 2009) [1].

Diversification is a firm's grows by diversifying into new businesses, by developing new products for new markets. It is a corporate growth strategy in which an enterprise expands its operation by moving into a different industry (Ferrell, 2012) [2].

Diversification is a strategy that takes a company into new markets with new products or services. According to T. Yahagi (2000) [3], companies may choose it for different reasons.

Firstly, companies might wish to create and exploit economies of scope, in which the company tries to utilize its resources and capabilities in other markets. Using diversification strategy, companies may therefore be able to utilize all their capabilities or resources, and attract new clients.

Secondly, managerial skills found within the company may be successfully used in other markets, where the dominant logic and managerial procedures can be successfully transferred to other markets.

Thirdly, companies pursuing the diversification strategy may be able to cross-subsidize one product with the surplus of another. This way, companies with a very diverse portfolio of products catering to different markets may potentially grow in power, and be able to withstand a prolonged period of price competition etc. When having subsidized one product for a substantial period, the company might possibly be able to win a monopoly, becoming the only supplier in the respective market.

Fourthly, companies may also want to use the diversification strategy to spread financial risk over different markets and products, so that the entire success of the company is not reliant on one market or product only (Yahagi, 2000) [3].

There may be, however, other reasons for companies to use the diversification strategy than the four listed above, and companies may very well benefit from the diversification strategy for other reasons. However, how to find out, when diversification will be best implemented. Figure 1 shows when the diversification is reasonable for the tourist enterprise.

Diversification is part of the four main growth strategies defined by Ansoff's Product/Market matrix [4] (Figure 2).

Ansoff pointed out that the diversification strategy stands apart from the other three strategies. The first three strategies (product development, market penetration and market development) are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires from a company to acquire new skills, techniques and facilities.

The concept of diversification depends on the interpretation of «new» market and «new» product, which can reflect the perceptions of customers more than managers. As result, products conduce to appearance of new markets; and new markets promote product innovation.

Product diversification involves addition of new products to existing products. Expansion of the existing product line with related products is one such a method adopted by many businesses. These are either brand extensions or product extensions to increase the volume of sales and the number of customers (Ansoff, 2007) [4].

Strong competitive position, rapid market growth – *Not a good time to diversify*	Weak competitive position, rapid market growth – *Not a good time to diversify*
Strong competitive position, slow market growth – *Diversification is top priority*	Weak competitive position, slow market growth – *Diversification merits are to be considered*

Fig. 1: **Conditions when diversification is reasonable for the tourist enterprise**
Source: The Authors' own development

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

Fig. 2: **Ansoff's Product/Market matrix**
Source: Johnson, Scholes, & Whittington, 2008 [5, p. 258]

Among four strategies presented in the Ansoff matrix, diversification has the highest level of risk and requires the most careful investigation. Going into an unknown market with an unfamiliar product offering means a lack of experience of 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 sustainable investments in the core industries. So, 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 provided, for example:

- 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 capitalize all future profits.
- The better-off test: the new unit must either gain competitive advantage from its link with the corporation or vice versa (Ansoff, 2007) [4].

The diversification strategy can be split into two different types (Table): related diversification and unrelated.

Related diversification is one of the two variants of diversification strategy. When making related diversification, companies expand their operations beyond current markets and products, but are still operating within existing capabilities or value network.

When expanding into different products or markets using existing capabilities, companies can create related diversification by using its capabilities and resources in other settings.

Unrelated differentiation is a diversification strategy where companies expand their operation into markets or products beyond current resources and capabilities. This strategy is also sometimes referred to as the conglomerate strategy.

«The unrelated diversification seems to be applicable and meaningful in at least two cases:

Firstly, if the parent company is able to provide different businesses with managerial knowledge and expertise that strengthens the individual business, it will be very feasible to diverse into different markets that will potentially increase parent company profits.

Secondly, unrelated diversification might give a company the opportunity of increasing the strength of the economy of different markets, and to develop competencies that can be shared between different markets and products» (Smith, 2012) [6].

Diversification is a strategic approach with different forms. There are its classifications depending on the applied criteria.

Depending on the direction of the tourist company diversification, the different types are:

- Horizontal Diversification acquiring or developing new products or offering new services that could appeal to the company's current customer groups. In this case the company relies on sales and technological relations to the existing product lines. For example a tour operator, producing tour packages adds a new type of tour to its tourist products.
- Vertical Diversification occurs when the company goes back to previous stages of its production cycle or moves forward to subsequent stages of the same cycle – production of raw materials or distribution of the final product. For example, if company that sells tour packages to the customers and starts selling another additional services, like insurance, international mobile cards, etc., which will be useful for companies clients. This kind of diversification may also guarantee a bigger satisfaction of your customers.
- Concentric Diversification occurs by adding new, but related to main activity product or services with the aim of fully utilising the potential of the existing technologies and marketing system. It is often used by small travel agencies, which sell additional service: insurances, Travel Sim cards etc. Often addition of new services increases sales of current product.

Table: **Guidelines for the situations in which related and unrelated diversification may be an effective strategy**

Related diversification	Unrelated diversification
When an organization competes in a no-growth or a slow growth industry	When revenues derived from an organization's current products or services would increase significantly by adding the new, unrelated products
When adding new, but related, products would significantly enhance the sales of current products	When an organization competes in a highly competitive and/or a no-growth industry, as indicated by low industry profit margins and returns
When new, but related, products could be offered at highly competitive prices	When an organization's present channels of distribution can be used to market the new products to current customers
When an organization has a strong management team	When the new products have countercyclical sales patterns compared to an organization's present products
When an organization's products are currently in the declining stage of the product's life cycle	When an organization's basic industry is experiencing declining annual sales and profits
When new, but related, products have seasonal levels that counterbalance an organization's existing peaks and valleys	When an organization has the capital and managerial talent needed to compete successfully in a new industry
	When an organization has the opportunity to purchase an unrelated business that is an attractive investment opportunity

Source: Ansoff, 2007 [4]

- Conglomerate diversification appears when companies continue to grow after a core business has mature or started to decline. They add to their main activity unrelated products or services. This type of diversification used company Fozzy Group by opening the new direction «Tourism» in their activity in 2014.
- Corporate Diversification involves production of unrelated but definitely profitable goods. It is often tied to large investments where there may also be high returns (Kotler, 2008) [7].

Diversification efforts may be either internal or external. Internal diversification occurs when a firm enters a different, but usually related, line of business by developing the new line of business itself. Internal diversification frequently involves expanding a firm's product or market base. External diversification may achieve the same result; however, the company enters a new area of business by purchasing another company or business unit. Mergers and acquisitions are common forms of external diversification.

One form of internal diversification is to market existing products in new markets. A firm may elect to broaden its geographic base to include new customers, either within its home country or in international markets. A business could also pursue an internal diversification strategy by finding new users for its current product. Finally, firms may attempt to change markets by increasing or decreasing the price of products to make them appeal to consumers of different income levels.

Another form of internal diversification is to market new products in existing markets. Generally this strategy involves using existing channels of distribution to market new products. Retailers often change product lines to include new items that appear to have good market potential.

It is also possible to have conglomerate growth through internal diversification. Its strategy is the least used among the internal diversification strategies, as it is the most risky. It requires the company to enter a new market where it is not established. The company develops and introduces a new product. Research and development costs, as well as advertising costs, will likely be higher than if existing products were marketed.

External diversification occurs when a firm looks outside of its current operations and buys access to new products or markets. Mergers are one common form of external diversification. Mergers occur when two or more firms combine operations to form one corporation, perhaps with a new name. These firms are usually of similar size. One goal of a merger is to achieve management synergy by creating a stronger team. This can be achieved in a merger by combining the management teams from the merged firms. A very good example of this type of diversification is merger of Tui and Turtess companies.

Acquisitions, a second form of external growth, occur when the purchased corporation loses its identity. The acquiring company absorbs it. The acquired company and its assets may be absorbed into an existing business unit or remain intact as an independent subsidiary within the parent company. Acquisitions usually occur when a larger firm purchases a smaller company. Acquisitions are called friendly if the firm being purchased is receptive to the acquisition. Unfriendly mergers or hostile takeovers occur when the management of the firm targeted for acquisition resists being purchased (Kenny, 2009) [1].

Some organizations refer to these types of diversification as different «integration» approaches because this is actually what happens. The new product or service and its market must be «integrated» into the organizational structure to be successful.

There are three broad approaches to how your organization implements a policy of diversification (Ansoff, 2007) [4]: full diversification; backward diversification; forward diversification.

Full Diversification approach is the most risky as you are offering a totally new product or service to an unknown market. It will also take considerable time to accomplish.

Backward diversification is the case when your organization decides to diversify by offering a product or service that relates to the preceding stage of your current product or service.

Forward diversification is the situation where your organization diversifies into the products or services that relate to a later stage that follows your current offering.

Tourist companies implement diversification strategy when they launch new services on new markets. This strategy is used by tourist companies which have financial possibilities and technical potential for passing to new tourist directions in the activity and work with the new not overcame segments of market.

There are three types of diversification which can be implemented in the tourism sphere:

Horizontal diversification is filling of assortment by services look like company's present products because of their technical or marketing positions.

Vertical diversification is filling of assortment by services, which are not concern directly with an old assortment, but can interest the clients of the tourist company. In this case diversification touches the concrete not production of services, but sale or procurement markets.

Conglomerate diversification is addition to the assortment by services which do not belong to the tourist company's common technologies, to present services or target markets (Gunn, 2002) [8].

Pros of diversification: there are several methods by which diversification strategy, the most common among them acquisitions and joint ventures can be implemented. Diversification can help companies to develop their full potential in a developing economy. In case of concentric diversification, a strong brand can help in mobilization of new products that belong to the brand. You can help the company in dissemination of its customer base. It also helps in improving the product portfolio of the company by introducing products complementing the market.

Cons of diversification: in the case of diversification through acquisitions, should make sure that the people at managerial level are well versed in the process to be followed for the company to acquire. If you are not armed with people who can handle these things, from the root of the herb can become a tedious task. It must take account of the efforts that are required to operate the business, and if the efforts required are more than the benefit obtained, it is best to stay away from the company.

Conclusions. Diversification is a business development strategy allowing a touristic company to enter additional lines of business that are different from the current tour products or services and markets. The diversification strategy achieves growth by developing new products for completely new markets, also, diversification can occur at two levels: at the business unit or at organizational level. The three approaches to diversification or integration are: full diversification, backward diversification, and forward diversification. This type of radical diversification can work if the company is cash rich and feels as though they would benefit from investing in a completely different type of business, perhaps, one that they believe has a better long-term future than their current enterprise. The diversification strategy implies the simultaneous development of new or improved tourist products and of the new markets (for instance, a tour operator specialized in the soft tourism can vary his mix of products offering also tourist tours with cultural character or treatment vacations in resorts). This type of strategy allows realization of a medium and long term flexibility of the derived tourist offer.

Without strategy, tourism entities are susceptible to strategic drift, particularly in today's turbulent environments and fragmentation.

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Received 25.07.2014