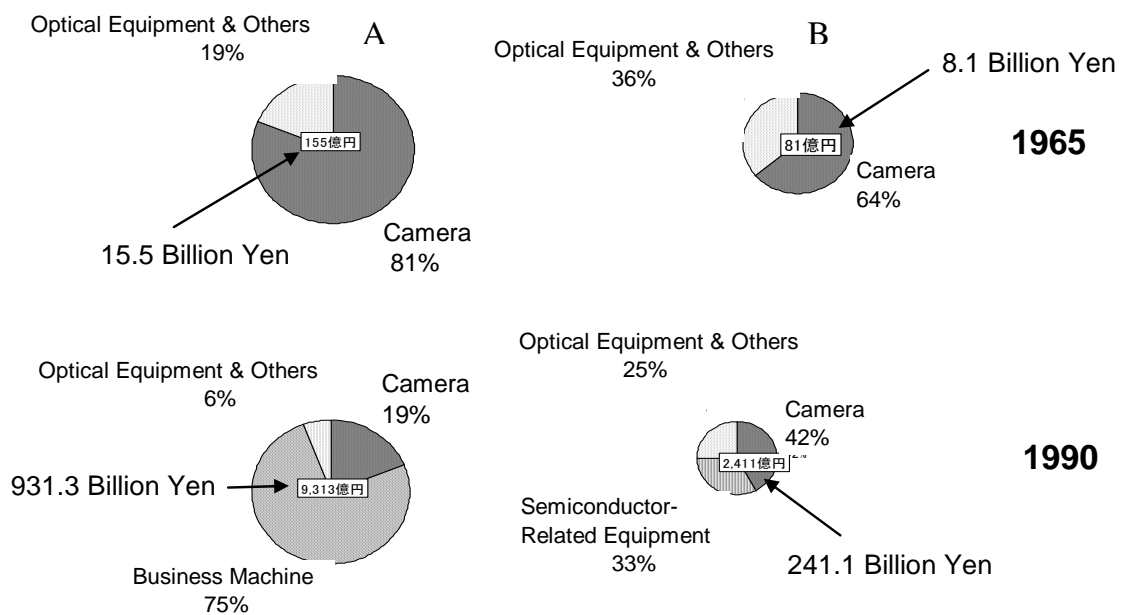# 10   Diversification Strategies
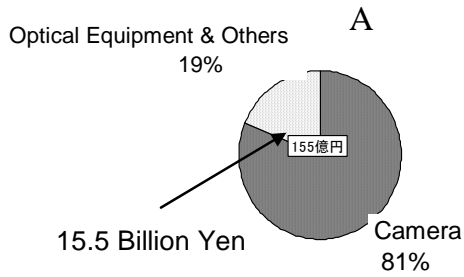
10-3   Types of Diversification and Their Performance

Bibliography:

Yoshihara, Hideki et al. (1981), *Diversification Strategy of Japanese Companies*, Nihon Keizai Shimbun, Inc.
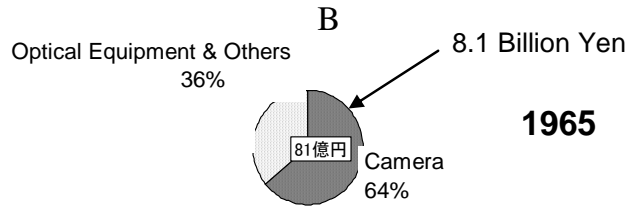
1 Success and Failure in Diversification and Their Impact

A

Optical Equipment & Others
19%

155億円

15.5 Billion Yen

Camera
81%

B

Optical Equipment & Others
36%

8.1 Billion Yen

81億円

Camera
64%

1965

Optical Equipment & Others
6%

Camera
19%

931.3 Billion Yen

9,313億円

Business Machine
75%

Optical Equipment & Others
25%

Camera
42%

Semiconductor-
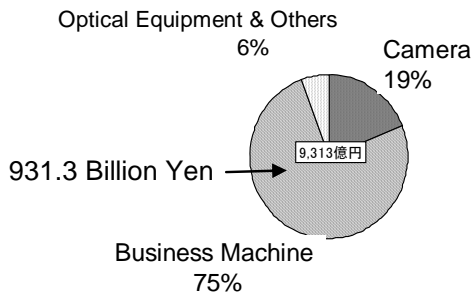Related Equipment
33%

2,411億円

241.1 Billion Yen

1990

Canon's Sales Composition (1965)

Nikon's Sales Composition (1965)

A

B

Optical Equipment & Others
19%

Optical Equipment & Others
36%

8.1 Billion Yen

1965
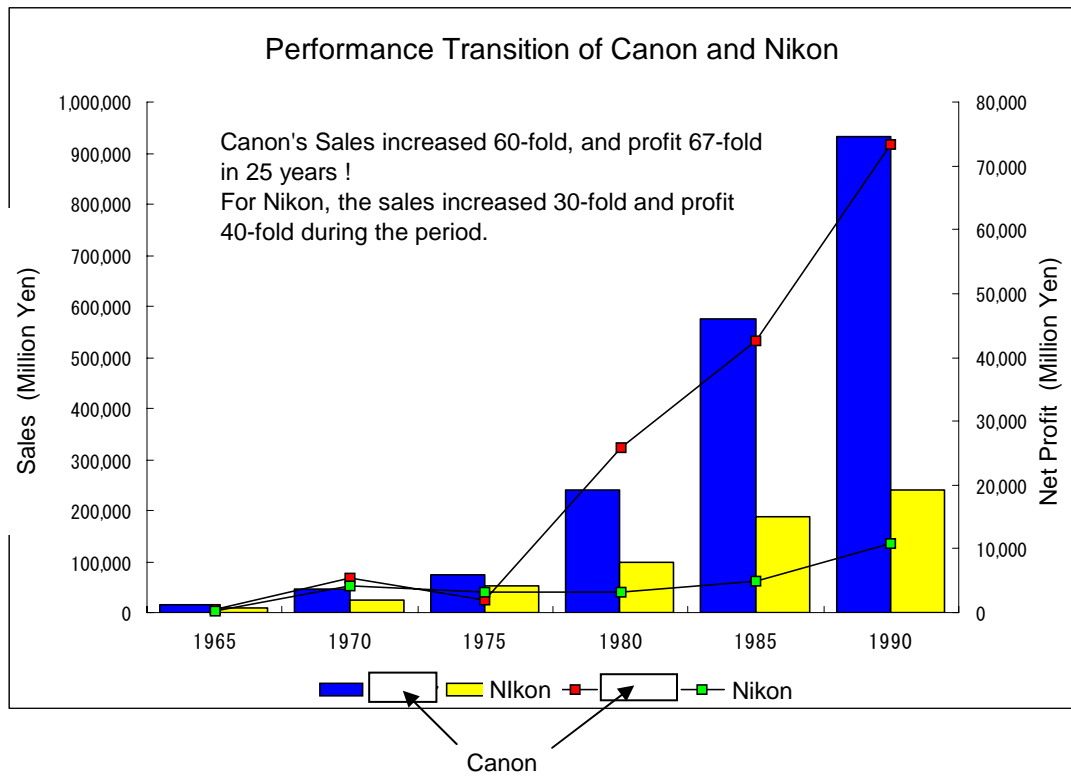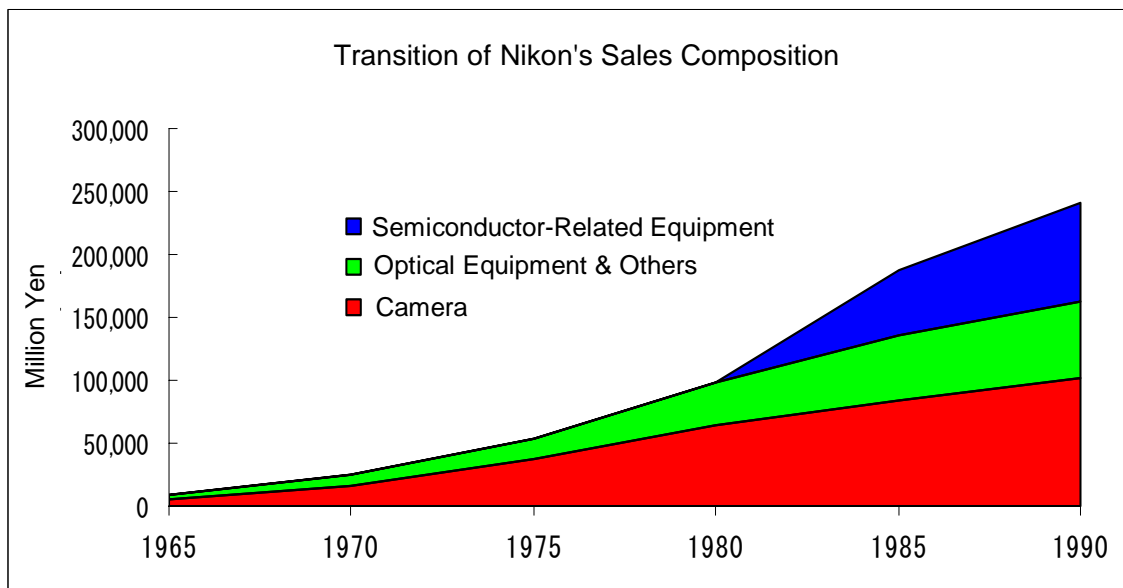
155億円

81億円

Camera
64%

15.5 Billion Yen

Camera
81%

Canon's Sales Composition (1990)

Nikon's Sales Composition (1990)

Optical Equipment & Others
6%

Camera
19%

Optical Equipment & Others
25%

Camera
42%

1990

9,313億円

2,411億円

931.3 Billion Yen

Semiconductor-
Related Equipment
33%

Business Machine
75%

241.1 Billion Yen

Performance Transition of Canon and Nikon

Canon's Sales increased 60-fold, and profit 67-fold
in 25 years !
For Nikon, the sales increased 30-fold and profit
40-fold during the period.

Sales (Million Yen)

Net Profit (Million Yen)

NIkon — Nikon

Canon

1965 1970 1975 1980 1985 1990

Transition of Canon's Sales Composition

■ Business Machine
■ Optical Equipment & Others
■ Camera

(Million Yen; years 1965–1990)

Transition of Nikon's Sales Composition

■ Semiconductor-Related Equipment
■ Optical Equipment & Others
■ Camera

(Million Yen; years 1965–1990)

All the above drawn by Shintaku

Growth and Diversification of Textile Companies

Company	1954 Sales (100 million Yen)	Rank	1988 Sales (100 million Yen)	Rank	1988/1954 Rate of Sales Growth	1988 Mix Rate of Non-Textile Products' Sales
Asahi Kasei	216	5	8,178	1	37.9 times	80.0%
Mitsubishi Rayon	78	15	2,003	8	25.7times	66.2%
Nitto Boseki	114	12	1,217	11	10.7times	54.5%
Kanebo	380	3	4,816	3	12.7times	48.0%
Toray	298	4	5,531	2	18.6times	43.2%
Kuraray	109	13	2,111	7	19.4times	40.8%
Teijin	153	8	3,123	5	20.4times	35.1%
Unitika	388	2	2,498	6	6.4times	31.5%
Nisshin Spinning	147	9	1,749	9	11.9times	30.0%
Toyobo	680	1	3,156	4	4.6times	22.6%
Kurabo	160	7	1,307	10	8.2times	18.0%
Toho Rayon	75	16	710	14	9.5times	15.4%
Omikenshi	96	14	631	15	6.6times	9.0%
Fuji Spinning	146	10	798	13	5.5times	5.1%
Shikibo	127	11	614	16	4.8times	1.6%
Daiwabo	161	6	804	12	5.0times	

Diversification and Growth of Textile Companies
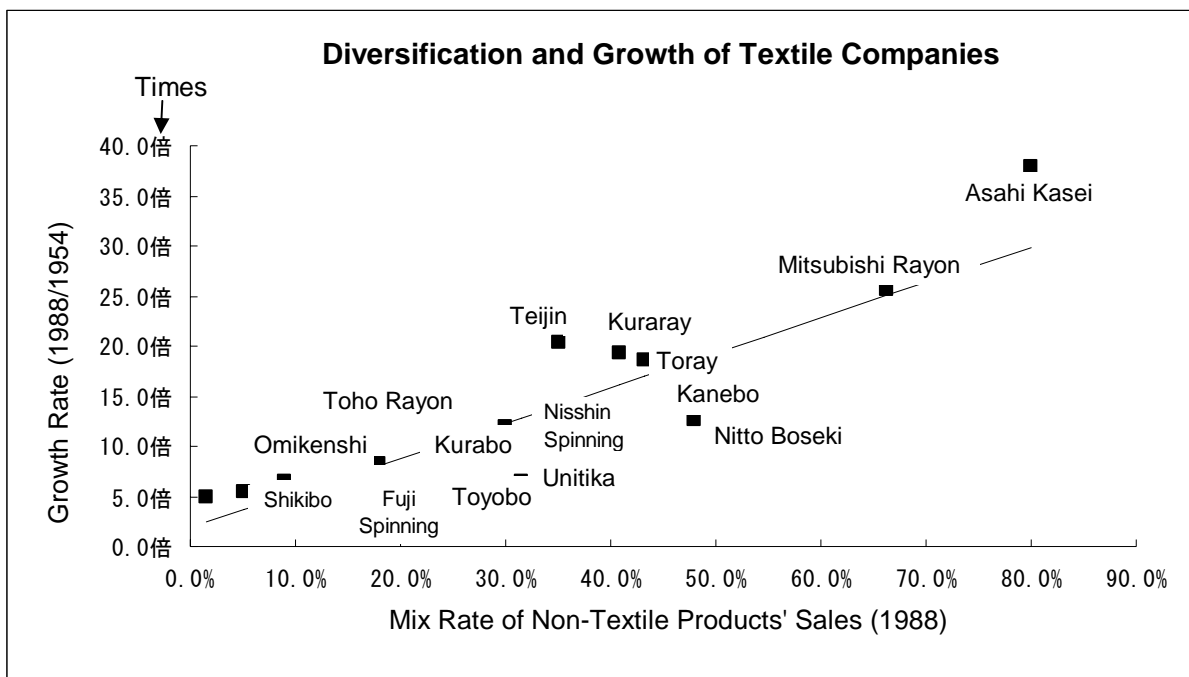
1.1.1 Genre of Diversification

◆Single business strategy (S: Single)

◆Vertical integration strategy (V: Vertical)

◆Dominant-centered diversification strategy (D: Dominant)

-Constrained one (DC: Dominant-Constrained)

-Linked one (DL: Dominant-Linked)

◆Related-sphere diversification strategy (R: Related)

-Constrained one (RC: Related-Constrained)

-Linked one (RL: Related-Linked)

◆Unrelated diversification strategy (U: Unrelated)

1.2 Criteria of Classification
1.2.1 Quantitative Criteria by Sales

◆Specialization ratio (SR):

-Sales of the largest business / Gross sales

◆Vertical ratio (VR):

-Sales of the largest business group having the vertical relevance / Gross sales

◆Relevance ratio (RR):

-Sales of the largest business group having some sort of relevance in terms of
technologies or markets / Gross sale

1.2.2 Qualitative Criteria by Resource Deployment

◆Constrained type: Type which, with relevancy in a tightly-meshed pattern, mutually utilizes a small variety of managerial resources in various fields

◆Linked type: Type in which various managerial resources are accumulated within the firm without emanating any close-knit relationship of the mutual utilization, and that firm makes a foray into a new field leveraging retained managerial resources, which allows the same to make a greater inroad into another new field once again leveraging managerial resources accumulated in the previous new filed.
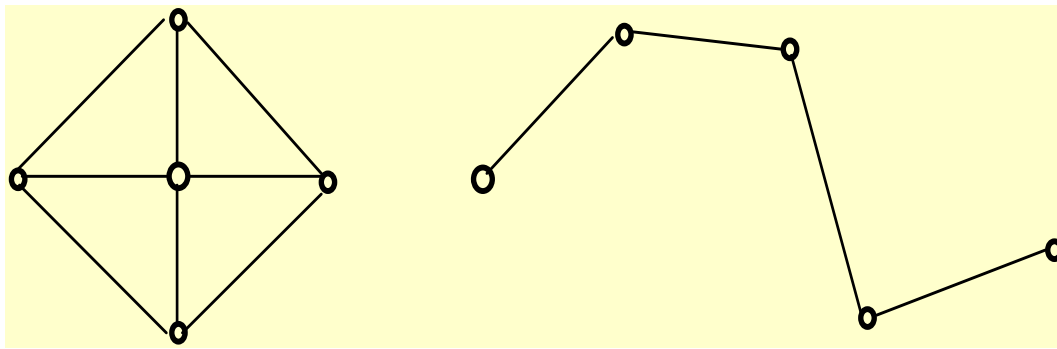
Constrained   Linked

The figure is omitted
due to copyright.

Yoshihara, Hideki et al. (1981), *Diversification Strategy of Japanese Companies*, Nihon Keizai Shimbun, Inc.

1.3 Examples of Strategy Genre

◆Single-business type: Toyota Motor

◆Vertical type: Toray (synthetics → chemistry)

◆Dominant-constrained type: Shiseido (cosmetics → toiletries)

◆Dominant-linked type: Yamaha (piano → motorcycle, ski, stereo)

◆Related-constrained type: Honda (motorcycle → automobile, etc.)

◆Related-linked typed: Ajinomoto (seasoning → fat and oil, feedstuff, processed food)

◆Unrelated type: Ube Industries (cement, chemistry, machinery, coal)

1.3.1 Diversification Type of Ajinomoto

|	1965	1988
Seasoning	54.2%	21.6%
Fat and oil	17.3%	15.0%
Various amino acid	2.6%	10.5%
Processed food	3.5%	45.3%
Others (feedstuff, etc.)	22.4%	7.6%
Sales (100 million Yen)	544	4,600
	1965	1988
Specialization ratio	0.542	0.453
Vertical ratio	0.577	0.669
Relevance ratio	1.000	1.000
Constrained/Linked	Linked	Linked
Diversification type	Related-linked	Related-linked

2 Trend of Diversification

2.1 Trend by Type

◆ Subject of the experimental study: 118 Japanese major corporations (mining and manufacturing) for 1958 – 1973 – 1988

◆Chart 2-1.　Trend of Diversification

-Progress in diversification: Increase in highly diversified companies (RC, RL, U)

　　40% in 1958　→　46% in 1973　→　53% in 1988

-Decrease in non-diversified companies (S, V)

　　39% in 1958　→　36% in 1973　→　31% in 1988

Transition of Diversification-Strategy Types of Japanese Companies

Year	1958	1963	1968	1973	1978	1983	1988
Single-business type (S)	25.7%	23.9%	20.5%	16.2%	16.2%	14.5%	14.5%
Vertical type (V)	13.3%	17.9%	18.8%	19.7%	17.1%	17.9%	16.2%
Dominant-Constrained type (DC)	15.0%	11.1%	10.3%	10.3%	11.1%	10.3%	12.0%
Dominant-Linked type (DL)	6.2%	6.0%	8.5%	7.7%	7.7%	6.8%	4.3%
Related-Constrained type (RC)	15.0%	17.9%	13.7%	14.5%	16.2%	18.8%	17.9%
Related-Linked typed (RL)	15.9%	15.4%	21.4%	24.8%	25.6%	27.4%	27.4%
Unrelated type (U)	8.9%	7.7%	6.8%	6.8%	6.0%	4.3%	7.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Origin: Yoshihara et al. (1981) and Ueno (1991). Study of 117 companies

Distribution of Diversification-Strategy Types of Japanese Companies
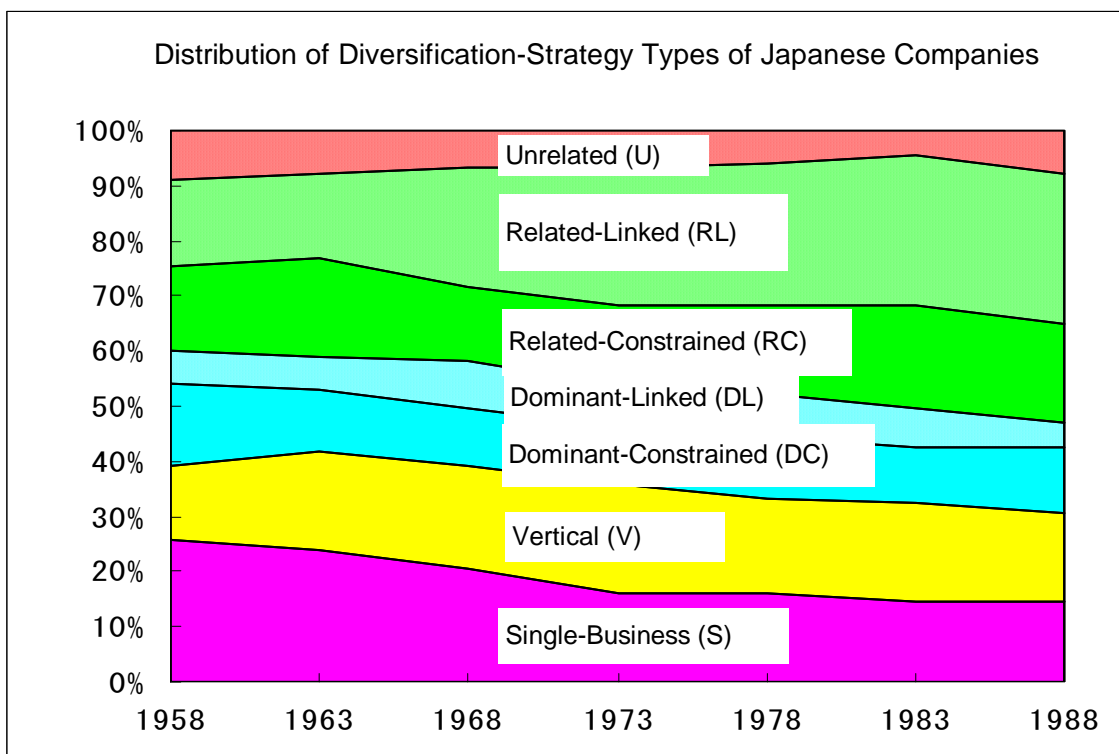
◆Chart 2-11   International Comparison

 -Diversification level has been low and its progress speed has been slow with Japanese corporations.

 - → The years 1958–73 were the high-growth period of Japan's economy.

2.2 Routes of Diversification

◆ 1) Single-business → Dominant-Constrained → Related-Constrained → Related-Linked

-First, the firm moves in a field that is close to its primary business. In order to utilize existing core resources intensively, the firm gains grounds in business fields one after the other in vicinity of its primary business, and eventually reaches Related-Constrained type. With further progress in diversification, the firm in certain phase experiments a pervasive utilization of its managerial resources, and moves on to Related-Linked type.

◆ 2) Single-business → Dominant-Linked → Related-Linked

-The initial foray is made into a field having rather high foreignness to the existing business. Subsequently, leveraging new managerial resources obtained in that new field, one further makes advances into new fields in sequence.

◆According to the date, except for these two routes, there exists only [Single-business → Vertical (nondiversification)].

2.3 Inducements to Diversification

◆External Inducements

-1. Long-term stagnation in a growth rate of demand in the existing product market

-2. High concentration (oligopoly) in the existing product market → Evasion of competition

-3. Uncertainty over demand in the existing product market → Dispersion of risk

-4. Tightening of the corporate breakup regulation by the antimonopoly law

◆Internal Inducements

-1. Efficient utilization of untapped resources

-2. Negative objective gap

-3. Corporate scale (untapped resources)

2.4 Mode of Diversification

◆ 1. Problem-triggered mode ← External inducement: Low-growth industry, industry with a low accumulation of managerial resources required for diversification

◆ 2. Adaptive mode ← Internal inducement: High-growth industry, consumer-goods industry

◆ 3. Entrepreneur mode ← Leadership, vision: High-growth industry, consumer-goods industry, scientific-technology-type industry

2.5 Environment and Types of Strategy

◆ 1. Instability of the existing business　→　Need for diversification

◆ 2. Level of technological differential competition and R&D capacity of the existing business　→　Capability of diversification
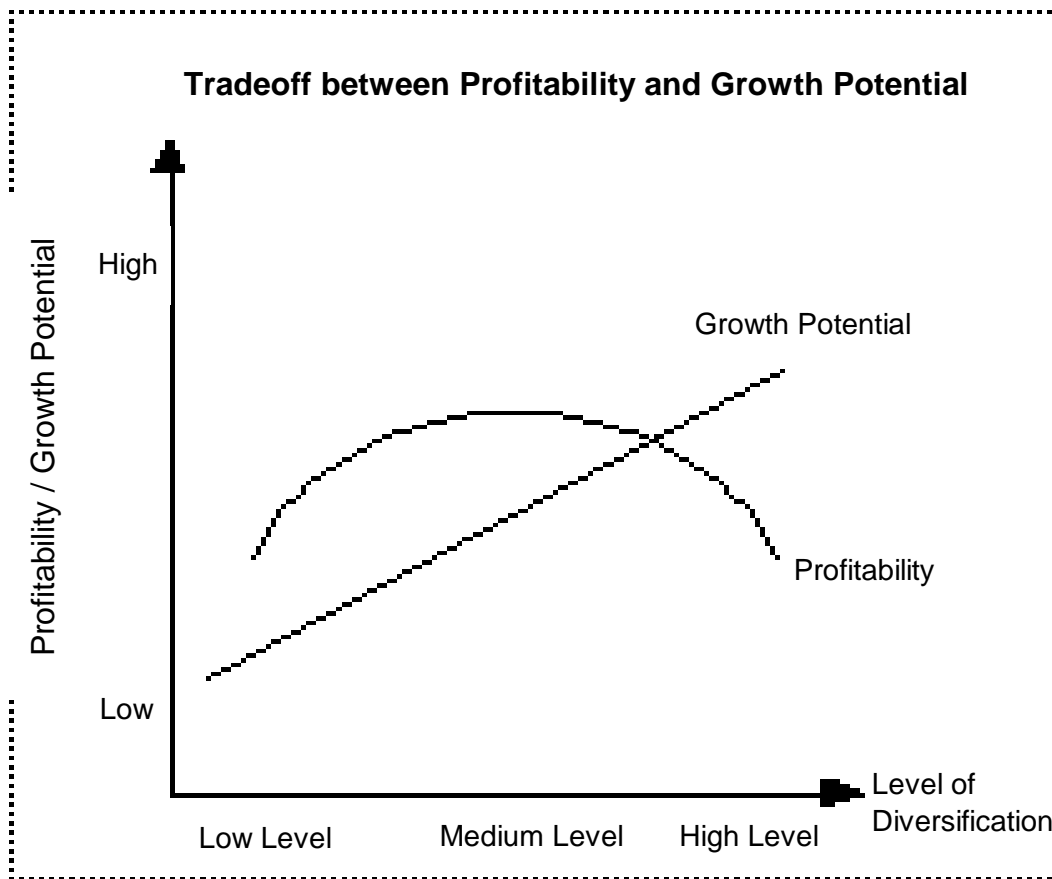
Environment and Types of Strategy

		Capability of Differentiation	
		Low	High
Stability of Existing Business	Unstable	(4) necessity-large/capability-small V, U	(3) necessity-large/capability-large RL
	Stable	(1) necessity-small/capability-small S, DC, DL	(2) necessity-small/capability-large RC

Yoshihara, Hideki et al. (1981), *Diversification Strategy of Japanese Companies*, Nihon Keizai Shimbun, Inc.

3　Diversification and Managerial Performance
3.1 Types of Diversification and Performance

◆Tradeoff between profitability and growth potential: An advanced diversification brings about a high growth potential, but a low profit as well.

◆The higher a specialization ratio, and the more resource-intensive a development is, the higher a profitability comes out. (Dominant-Constrained type has the highest profitability, as in Diagram 4-5.)

◆The higher a relevance ratio, and the more resource-pervasive a development is, the higher a profitability becomes .

Tradeoff between Profitability and Growth Potential

Profitability / Growth Potential

High

Growth Potential

Low

Low Level   Medium Level   High Level

Level of Diversification

Profitability

Yoshihara, Hideki et al. (1981), *Diversification Strategy of Japanese Companies*, Nihon Keizai Shimbun, Inc.

3.2 Routes of Diversification and Accomplishment
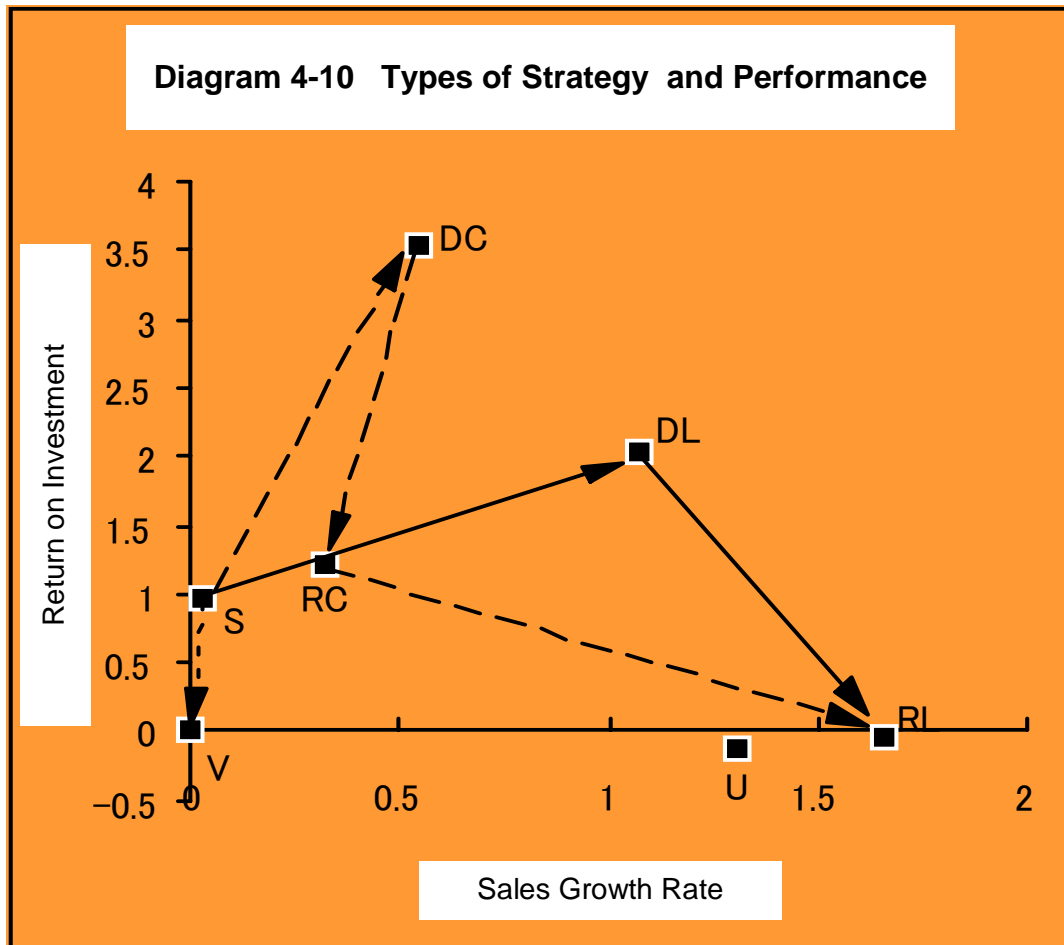
Diagram 4-10　Types of Strategy　and Performance

Return on Investment

Sales Growth Rate

Yoshihara, Hideki et al. (1981), *Diversification Strategy of Japanese Companies*, Nihon Keizai Shimbun, Inc.

◆2) The route of [Single-business → Dominant-Linked → Related-Linked] represents an efficient diversification.　Accomplishment of Related-Constrained type is low in both profitability and growth potential.

◆Conversion from Constrained type to Linked type is difficult.

◆Dominant-Linked type is being captured as a preparatory period for accumulating resources so as to implement a full-fledged diversification.

◆Amid the transition from Single-business type to Dominant-Linked type, new managerial resources come to be aggressively innovated while the primary business is sound.

■