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Market and Business Diversification – A Measure to Enhance Competition

Abstract

In 1991, the Indian economy was opened for the entry of multinational companies. This definitely posed a challenge before the Indian industrial units. In order to face the competition with the global giants they needed to become big, increase the size of their operations, diversity into the other geographical markets or enter into some new activity/product etc. This study was conducted with a view to find out how the exporting units struggled in order to survive, grow or remain competitive in post globalization period. Majority units of 'all exporter' category under study admitted that they had to add new markets. The three type of industries under sample were also of the same opinion that it helps in terms of increased exports. A significant number of exporting units of 'all exporter' category have opted for diversification into different product/business lines.

Industry wise analysis revealed that Textile units were more concerned about the quality of their products. With this view, they preferred backward and forward integration strategies. Some units preferred to add different products in their product-mix. Some Food processing units diversified into different product lines while other units simply added more product lines maintaining the consistency in their product-mix. Engineering units also added new product items/lines. Mostly the new product line added by the units contributed to their revenue through domestic sale. A small number of exporting units also entered into joint venture agreements. 'Quality products' and 'timely deliveries' were stated to be the two main factors where these exporting units enjoyed competitive advantage.

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Introduction

After India ushered in an era of globalisation in 1991 with declaration of policy of libralisation, the domestic industrial units were under constant pressure because of keen competition from nationals. MFA got phased out by the end of 2005, resulting in better and free access to textiles export markets and greater competition in export markets. To face the challenges, it was required that they should achieve a respectable size to improve their competitiveness. Joint-ventures, acquisition, restructuring, and diversification are different ways for a firm in order to expand/increase size of its operations. This study attempts to find out that how the industries under survey tried to improve their competitiveness.

Objective and Research Methodology

The study has been conducted to find out the efforts made by the exporting units to face the challenges in post-globalisation period. A sample of 76 exporting units was chosen from the sample state of Haryana. The sample units represented three major exporting industries of the state namely Textile industry (32 units), Food processing units (20 units) and Engineering, other industries (24 units). Responses were sought from units through a structured questionnaire and personal interview. Secondary data was collected from various libraries of export production councils like Texprocil, CII, ITPO etc. The reference year for data collection is 2015-16. Analysis has been done by using percentage and ranking. Aggregate of sample units has been termed as 'all exporters' category. Analysis of the data has been carried out Industry wise and for 'all exporters' category.

Review of Literature

Empirical interest on diversification is not new as per Olivier (2013) and diversification is seen as a one of the desirable trade objectives by Paul (2009). Craig and Yunus (2009) have concluded that chances to diversify into new markets being a significant predictor of export marketing performance. In their opinion it is that micro and macro level of export of goods and services are becoming important for the survival of domestic firms and to overcome trade deficit issues. As per Jerzy (2012) the countries that have more diversified export (Horizontal and vertical product) will have stable export revenue and which would lead to long-run growth.

Hausmann (2003) raised a new conceptthat economic growth is not driven by comparative advantage but by countriesdiversification of their investments into new activities and an essential role is played by theentrepreneurial cost-discovery process. Verduzco-Gallo (2014) established that export diversification could helpto stabilize export earnings in the long run. Seetanah and Lamport (2014) have found apositive relationship between export diversification and growth.

Market Diversification/Expansion

As many as 66% of 'all exporters' category reported that they had added new markets during last five years. 66% of textile industry, 71% of engineering industry and 60% of food processing industry have made efforts to diversify their markets.

Textile industry has made diversified into Japan, Australia, U.K, Brazil, Africa, Argentina, Yemen, Omen, Dubai, South Africa, Canada, Newzealand, lreland, Singapore, Italy, Spain, U.S.A, Netherlands, Luxembourg, France, Taiwan, Korea & Malaysia. One of the firms diversified its operations in a new export market and made exports worth Rs. 20 crores in 1998-99 (approximately 50% of firm's total exports for that year). The firm had entered in this market four years back.

Engineering industry has added markets like Egypt, Bangladesh, Nepal, Riyad, Indonesia, Malta, U.A.E, Iraq, Malaysia, Canada, S. Africa, Spain, Germany, Dubai and U.K. Maximum contribution to export of one firm in very first year has been Rs. 17 crore and minimum export gain has been Rs. 3 lakhs.

Food processing industry has added Bahrain, Germany, S. Africa, U.A.E, U.S.A, Sweden, Kuwait, Yemen, Australia, U.K Tanzania,. S. Arabia, Russia, Italy and Mauritius. One exporting unit that started its operations three years back in the country, whole of its exports for the year 2010-11 worth Rs. 58 crore come from this single market., Smal1est contribution to exports of a firm from one year Rs. Fivelakh.

Business Diversification

Approximately 18% firms/units from the whole sample have involved in the diversification of product or business lines. 25% of the food processing industry and one-fifth (21%) of units in the engineering industry have reported they have diversified in other product items or business lines during the, last five years. However, only 12.5% of textile units reported diversification into new activities.

Textiles

One of the textile units stated the objective behind diversification was to adhere to certain quality norms and with this objective process of backward integration was initiated and the firm W its yarn manufacturing and processing unit. Another un it apart from traditional handloom items has diversified into organdy cushion cover, table cover, napkins, curtains and metal curtains. This diversification has contributed 4.13% of exports to the firm for the year 2010-11. A third unit reported that it has diversified into carpets and curtains resulting in contribution of Rs. 4 Crores to its exports in 2011-12. One more unit has diversified into the production of seat covers of automobiles (termed as Auto-fab) during 2011-12. This contributed Rs. 8 crores towards the export sales of firms.

Food Processing

One of the food processing units has diversified into a different product line of readymade garments and was able to fetch exports worth Rs 10 lakhs during the year 2010-11. Another exporter of rice has diversified into edible oil. However, the sales of edible oil are made only in domestic market. It contributed Rs. 10 crores to its sales in 2010-11. Another firm was able to export the groundnuts, pulses, till and sesame seeds worth Rs. 14 crores during 2010-11. Another firm has reported diversification into spices and essential oil. A merchant exporter from this industry stated that he had a highly diversified export mix ranging from coconut, groundnut, rapeseed, sugar and jewelry even. During the year 2010-11 It exported jewelers worth Rs. 3.12 crore.

Engineering

One of the units from engineering industry diversified itself in 1993 and has been able to export goods worth Rs. 256 lakhs during the year 2010-11. Another unit diversified into manufacturing of glass bottle, breweries (beer) & figured glass and affected the sales of these products in domestic market only. By diversifying in manufacturing of audio visual equipments, a firm was able to affect exports worth Rs. 4 lakh. Another firm increased its domestic sales by diversifying in manufacturing of steel processing and grading machines. One of the firms is having production of steel cable drums under trial.

Joint Ventures and Acquisitions

As many as 6 units have disclosed that either they have entered into a joint venture agreement or it is in process. Out of this six units, three units belong to food processing industry, two units have come from engineering industry (one of units from sample group has finalised joint venture agreement with a German firm) and one unit is from textile industry. The interview revealed that many more firms are willing to enter into such agreements. Many of them have failed to work out appropriate strategic alliances due to lack of necessary information. Two firms from food processing industry and one from textile industry reported having restructured themselves. One of the firms in engineering industry has acquired another ring unit.

Competitive Advantage

Firms were asked regarding competitive advantages enjoyed by them. They were required to rank the variables i.e. wide range of product, special items, quality products, timely delivery, low prices, and distribution network.

Table-I shows that ‘quality products’ has been placed at the first position in aggregate terms as well as in industry-wise classification. However, food processing and engineering industry has also placed ‘timely delivery’ at the first position. The textileindustry however, has placed this factor at second position. However, third rank is given to different factors. 'all exporters' category places 'special items’ at third position, while food gives third rank to ‘low prices’. Textile industry puts its third competitive advantage as ‘wide range of products. The engineering industry third position is held by ‘special items’.

Table – I
Competitive Advantage

Factors	**All Exporters**		**Textiles**		**Food Processing**		**Engineering**	
	%	Rank	%	Rank	%	Rank	%	Rank
Wide Range of Products	65.00	IV	87.50	III	45	4.5	62.50	V
Special items	68.11	III	62.50	V	45	4.5	95.83	III
Quality products	100	I	100	I	100	1.5	100.00	1.5
Timely Deliveries	98.96	II	96.87	II	100	1.5	100.00	1.5
Low Prices	64.68	V	71.87	IV	55	III	66.67	IV
Distribution Network	44.23	VI	46.87	VI	40	VI	45.83	VI
No. of Firms	76		32		20		24	

Note: $\overline{X}$ represents total number of affirmative responses divided by total number of responses.

It may be concluded that most of the exporters (100% in our sample group) consider ‘quality of the products’ as their major competitive advantage supported by timely deliveries. Along with them textile industry has Consolidated its position by providing wide range of products, engineering industry by offering special items and food processing industry through the low prices. A few exporters expressed the view that they don’t have any control over distribution and it obtains the last position in rank-analysis of competitive advantages.

Findings & Conclusion

Majority of exporters of sample units accepted that they had to enter into new geographical markets in order to face the competition. Industry-wise analysis also supported the above view. The firms also benefitted from this strategic decision. In some cases of Textile exporting units this share went upto 50% of their total export in a short span of 4 years. Food processing industry reported that the diversification into new markets resulted in better performance. Engineering industry was also able to sustain itself in face of competition with the help pf new destination markets.

Diversification in related and not-related businesses was also adopted by exporters as a measure to face the challenges of market. Textile units went ahead with forward and backward integration strategies to face the market situation. It was reported that they faced the challenge mainly on the quality aspects. Some Textile units also added new product items in addition to the traditional items produced by them.

Food processing industry mainly entered into new but related product lines. However, few units also ventured into having a diverse product-mix with low consistency.

Engineering industry units were found to be adding new related product lines which contributed to their total revenue through domestic sales. It seems that they were struggling hard to face the challenges in international markets. Some of the units were able to succeed to enter into joint venture agreement with their foreign counter parts. While many Textile and Food processing units restructured themselves in order to remain competitive.

‘All exporters’ category reveals that ‘quality products’ is their main competitive advantage. Industry wise analysis reveals that textile industry considers ‘quality products’ as their prime competitive advantage while the other two industries rate ‘quality products’ and ‘timely deliveries’ aspect as equal. Hence these two products are the main aspects where exporting units enjoy a competitive edge. It was also found that these exporting units need to work on ‘distribution network’ aspect in order to consolidate their strength in the international market.

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