PRODUCT DIVERSIFICATION AS A STRATEGY FOR BRANDING AND BUSINESS GROWTH

Study of an Efficient Company

Dr. José G. Vargas-Hernández

Georgina Fernández Álvarez

This work aims to analyze the relationship of the diversification of products with the brand positioning and his time with business growth, on the assumption that the strategy is applicable in the diversification of products for brand positioning and generate a considerable business growth. In this analysis used the qualitative method on the basis of a case study of an efficient company that complies with the requirements to be applied the theory of resources and capacities because of their activity and business history. In conclusion, the case study we provides relevant data that allows you to identify the correlation between the diversification of products and brand positioning, and that these in turn are important factors for business growth due to the needs that arise when diversifying the production, such as broadening the current facilities or opening new plants for the supply of production.

KEYWORDS: Business Growth, strategy, diversification of products, brand, positioning.

JEL: M300, M390.
Resumen: Este trabajo tiene como objetivo analizar la relación de la diversificación de productos con el posicionamiento de marca y a su vez con el crecimiento empresarial, partiendo del supuesto de que la estrategia es aplicable en la diversificación de productos para posicionamiento de marca y generan un crecimiento empresarial considerable, se utilizó el método cualitativo en base a un estudio de caso de una empresa eficiente que cumple con los requisitos para ser aplicada la teoría de recursos y capacidades debido a su actividad e historia empresarial. En conclusión el caso de estudio nos proporciona datos relevantes que permite identificar la correlación entre la diversificación de productos y posicionamiento de marca, y que estos a su vez son factores de importancia para el crecimiento empresarial debido a las necesidades que surgen al diversificar la producción, como ampliar las instalaciones actuales o apertura de nuevas plantas para el abastecimiento de producción.

Palabras clave: Crecimiento empresarial, diversificación de productos, estrategia, marca, posicionamiento.

1. INTRODUCTION

One of the important thinkers in the world of marketing Sun Tzu referred that the time to have a victory in hand, it should not be reused the same technique, but it should evaluate the circumstances and diversify methods to continue to infinity. Within the theory of resources and capabilities, the brand is considered as an added value that allows companies to generate a competitive advantage. In this way, it is that it becomes a powerful weapon that can be used as an effective strategy. Globally, companies are making efforts to meet the needs of customers by offering a lot of products. This action can be defined as an expansion of product line, product proliferation or increase the variety of products (Connor, 1981).

Following the contributions of war, Vargas-Hernández, and Bojorquez Bojorquez (2014) within industries, companies develop strategies for their existence, among which are:

A. Implementation of diversification.
B. Product structures.
C. Adapt products to customer needs.

The company may consider the proliferation of products as a development strategy for the share in the market that will allow its brand to have a dominant position (Laurent, 2014) and in turn can generate business growth.

2. BACKGROUND AND LIMITATIONS

A. Background: In studies conducted in the framework of strategic management, it can find different theories that allow analysis of the growth of the company. This article primarily will discuss the theory of resources and capabilities, which is focused mainly on making sense and use to the resources available to the company, which are used for the generation of strategies. These resources, in turn allow the differentiation of companies within an industry where success or failure is the result of the correct or incorrect management of its own resources.

The best way to implement a strategy, it should take the actions taken by competitors into account, because, as mentioned above, the companies have different resources that allow them to compete. Thus, observing the behavior, it gives the company a generic vision of actions to take to compete with the resources it currently has and can apply them differently as charged by its competitors (Garces and Fong, 2014). Castañas and Helfat, (1991), mention that this theory thrives on agency theory mainly because economic incentives are the main influence on the development of capacities and utilization of organizational resources.

When used efficiently the resources of the company based on production, they are effective until such time that rival firms manage to make uniformity in that characteristic that once provided a differentiation. This is the importance of applying resources effectively and continuously to maximize business income (Fong, 2005). Teece, Pisano and Shuen (1997), introduced the dynamic capabilities theory, which mainly consists of that ability of organizations to adapt and be able to change at the right time.

Focused on the main theme of this article, the relationship with the theory rests on the point that diversification is considered as the use of internal company resources to strengthen one of its intangible resources. In this case the branding, and implementation of strategies can be done in any area of the organization.

B. Limitations of the study: When is made a case study of a company that is now known worldwide, it is faced the reality of the lack of internal information, such as sales data, which could serve as evidence to prove the facts embodied in words. So, this analysis intends to make the implementation of strategic management theories and show that in reality, these are theories that allow maintaining a comprehensive concept of implementation in the business environment.
This paper tries to answer the question: Is the product diversification strategy to position a brand and in turn, these two actions allow company growth?

It is important to know that a company has the opportunity to develop outside its everyday environment. So, a strategy must always go hand in hand with growth of it. It can be taken as a starting point vertical integration. Vertical integration refers to the joint venture in order to achieve economies of scale that may involve opening up opportunities in new markets. It is necessary to evaluate the structure, organizational control and bureaucratic costs; and product diversification, which involves creating innovative products, different from the existing, i.e. they are not similar or may have a certain relationship. These two concepts belong to the variety of strategies that can be used to create advantages and company growth (Vargas-Hernandez et al. 2014).

3. ASSUMPTION OF STUDY

Under the assumption that the strategy is applicable for product diversification in order to position a brand and this in turn generates business growth given the need to satisfy a portion of larger market which it initially had. As part of this study, although the literature presents its claims to such events, most cases usually leave aside the issue of a good brand management for the growth of the company, despite being regarded as an intangible asset that generates product or service recognition in the minds of consumers.

Figure 1. Business growth.

Sources: Own elaboration.

The clock is intended to represent the different market positions that customers have different requirements in terms of perceived value and cost constraints. Therefore, primarily it seeks to demonstrate the actions mentioned as a cycle of cause and effect, which can be taken by companies to obtain positive results in the market in which it operates, as it can be shown in figure 2.

4. RESEARCH OBJECTIVE

To analyze the current situation of an efficient company through its history of business growth that meets the appropriate characteristics to represent the cases of the different theories that comprise a part of the framework of strategic management, to demonstrate the impact of diversification of products in brand positioning, and this in turn foster business growth.
5. LITERATURE REVIEW

A. Concepts:-

It is important to create the conceptualization, to allow pointing out ideas and managing an appropriate approach in the study. Therefore, this conceptualization begin by defining product diversification from the concept of strategy is to make changes in the product in order to enter new markets and generate economies of scale or scope (Vargas-Hernandez et al. 2014). Within three types of diversification, but especially the two that approach that is diversification enabling entry into new markets without changing the production base it has and the diversification that allows the extension in the same market is enhanced but with a different technology.

The brand from the economic point of view is an “added value” (Sierra, 2009); while Healey (2008) defines it as a promise of satisfaction and Keller (2008) considers the choice of a name, logo, symbol, or characteristics that distinguish one product from another. Positioning a brand is to give a place in the minds of consumers, so that this relates the image with different characteristics, such as quality, which is a fashion, prestige, income etc. From this, it gets brand recognition in the way it meets the expectations expected by the customer, which makes it important to relate the diversification of products with the brand positioning.

Business growth from the point of view of Penrose is the growth rate of the company that is primarily due to the ability of this, it has to manage its capabilities that currently account (Penrose, 1959). She defines the company as a set of tangible and intangible assets, which are as productive in making decisions management (Penrose, 1959).

B. Theory:-

Based on the research object, literature theory of resources and capabilities, which rises to a study of the strategy seen from inside companies, the pioneer of this theory is Penrose (1959), in his work The theory will of the growth of the firm. In this book, she sustains being of paramount importance that companies must assess their internal resources, as they are the ones that allow them to growth in the market.

The diversification strategy to create a competitive advantage in a market, (Vargas et al, 2014) consists of three points:

1) enter the market with new products,
2) extend in the same market with new products, and
3) enter new markets based on a different area of technology.

By the basic theory of economics and marketing with contributions from Michel Porter (1981) based on a strategy, he conceptualized three strategies to make it to its customers compared with its competitors. These three main groups of strategies are:

1) cost leadership strategy,
2) differentiation strategy and,
3) focus strategy.

Figure 2. Clock of the strategy of Bowman.

Source: Bowman & Faulkner, (1997)
This paper mainly focuses on differentiation strategy to provide customers with a product that is valuable and different than others. When a product has such features, consumers are willing to pay a higher price. Some of the features are quality, design, luxury, reputation, etc. Generally, these characteristics are related to the brand positioning. In most countries, the main strategy is to recognize a product based on quality, service, presentation and design. Hence the brand goes beyond a simple name (Sierra, 2009).

In one of his theories, Peng (2012) mentions that this differentiation can be achieved through a VRIO framework which is to create a valuable resource for the company consisting of a value, rarity, difficult to imitate and has an organization of resources and capabilities that the company owns. When the frame is applied to VRIO product diversification, it can be possible to get the company to have competitive advantage for longer time that generates new products, because competitors can hardly imitate.

The view based on resources (RBV) indicates that the advantage based on the results, is an efficient combination of resources and capabilities of the organization. It is found it difficult to imitate costs and competition when it tries to do so (Barney, 1991). There is no doubt that these factors are important for creating competitive advantages but it must considered that there are external factors that directly influence the decisions of the companies.

Paradigms in strategic management were basically consist between the paradigm of competitive forces approach (Porter, 1981) and from the resource-based (Penrose, 1959) perspective. The first consists in that the share of a company can open paths of competitive advantage in a market and the second stands out mainly that each organization may be unique and competent if it knows to manage its resources. Pure skills (Collis, 1994), are mainly obtained from the proper implementation of the strategies that will allow the organization to be more efficient as it has more resources, but it must not lose sight that lies within an environment in which are more influential factors than internal ones. These are competition, market, imitation, etc.

Although Alchain and Damsetz (1942) differ with the view of Collins, noting that efficient production depends not only on the heterogeneous resources owned by the organization, but is finding the relationship in which the maximization of both to have a more precise application within strategies that the organization chooses to apply. To the extent that capabilities become distinctive across organizations, allowing them to have a competition in which rivals have difficulties to imitate, and this difference is mainly based on the experience acquired by the staff within the organization as far as they have the ability to create, acquire and store this knowledge so that it can be transferred only within the organization (Barney, 1991).

Therefore, capabilities within an organization are paramount for strategies that allow them to evolve and stay within competition, as mentioned above, without any slope to be imitated by other organizations (Collis, 1994). But, is it possible that the resources and capabilities enable the organization to be competent during the life? Maybe it’s not the only means by which organizations can survive before a competent world. It must be considered various factors that may end with their strategies, such as environmental threats and weaknesses within it, because as it might be expected. Hardly an organization is perfect, and for more resources and capabilities they may have, if its weaknesses are bigger, will not have the ability to generate strategies that allow it to survive in the market (Peng, 2012).

Generating a value chain within the organization can take advantage of opportunities for growth and differentiation, considering as a value chain to all business activities in which it develops, produces and markets products and services (Barney, 2008 p. 81). In his virtuous circle, Penrose notes that at the time the company divides the work or specializes in it, the growth of the company is generated and thus can exert diversification. Taking into account that diversification may be related or unrelated to the activities of the company, it is critical that strategies can be met with capabilities that the company has used.

6. RESEARCH METHOD

Case’s unique design is used, with the aim of generating a broad analysis of the concepts of understanding in different areas: business unit, its brand and product diversification by level. Some data were taken from the Mexican Automotive Industry Association (AMIA) reflecting the niche market of the sale of motorcycles in Mexico and exports and imports worldwide, with the objective of analyzing the desirability and scope of the company Ducati as well as data of the same company on its growth in recent years, based on the implementation of the diversification of its products. It should be noted that it is a qualitative study.
In this article, the focus is on analyzing the company Ducati, mainly for its history and unique desmodromic distribution system, VRIO value that remains within the career motorcycle market as a pioneer. Ducati Motor Holding S. p. A, is an Italian company founded in 1926. Its Italian style is present in all its bikes, retaining a timeless style make for a company that can hardly be achieved. Superbike, Monster, Streetfighter, Hypermotard, Multistrada and the new Diavel are represented in more than 60 countries around the world, the dream of the most passionate riders (Ducati, 2015). Starting with activities producing components for radio transmitters via an industrial scale, it opens its doors in the market. A product “Manens capacitor” designed for radio apparatus, immediately generating patents that provided an expansion of the company, generating international recognition (Ducati, 2015). Like any company Ducati begins as a small company born of an idea, within a family. Since its inception the brand bearing his name “Ducati” brand that since its inception has a strong meaning based on innovation, quality and prestige. It is not until June 1935, the construction of a factory, which was the main objective of creating an industrial and technological center, begins. In parallel Ducati began its overseas expansion in order to create direct service and assistance to its worldwide client’s greater weight (Ducati, 2015). The product scheme shown in Figure 3, which is the first structure.

7. BEGINNINGS AND EVOLUTION OF THE COMPANY’S STRATEGY OF DIVERSIFICATION

Within the automotive industry, there is an important ramification: motorcycles. In the global market, the leading motorcycle brands that are competing are BMW, Harley-Davidson, Ducati, Suzuki, Keeway, Yamaha, Caravel, BRP and Honda, brands that stand out for having a variety of products and sale of complementary products for motorcycle industry as well as accessories, clothing, among others.

In this article, the focus is on analyzing the company Ducati, mainly for its history and unique desmodromic distribution system, VRIO value that remains within the career motorcycle market as a pioneer. Ducati Motor Holding S. p. A, is an Italian company founded in 1926. Its Italian style is present in all its bikes, retaining a timeless style make for a company that can hardly be achieved. Superbike, Monster, Streetfighter, Hypermotard, Multistrada and the new Diavel are represented in more than 60 countries around the world, the dream of the most passionate riders (Ducati, 2015). Starting with activities producing components for radio transmitters via an industrial scale, it opens its doors in the market. A product “Manens capacitor” designed for radio apparatus, immediately generating patents that provided an expansion of the company, generating international recognition (Ducati, 2015). Like any company Ducati begins as a small company born of an idea, within a family. Since its inception the brand bearing his name “Ducati” brand that since its inception has a strong meaning based on innovation, quality and prestige. It is not until June 1935, the construction of a factory, which was the main objective of creating an industrial and technological center, begins. In parallel Ducati began its overseas expansion in order to create direct service and assistance to its worldwide client’s greater weight (Ducati, 2015). The product scheme shown in Figure 3, which is the first structure.

A. The diversification tool for growth:

World War II destroyed its facilities in Borgo, but the Ducati brothers during the war studied and designed new products so that they could offer after the war. In September 1946, they designed their first auxiliary motor bike “Cucciolo”, which became famous worldwide, becoming later on a miniature motorcycle. The Ducati brand therefore consolidated in the field of mechanics. Anticipating the results of a fatal disaster, this strategy gives them the main tool of survival, addressing the needs of a devastated market. This event becomes the future of the world, because it drives companies to implement their creativity and use their resources and skills to rebuild their brands and products.

During the 1952-1958 periods, Ducati were beginning with the manufacture of motorcycles, with a special feature that makes them distinctive from the others, the dermodrómico system. In 1969, when the competition begins to be introduced into the market, as a defense, Ducati starts updating its models enlarge the plant through new productive areas, where the first two-cylinder racing and road bikes would be built. Figure 4 compared with Figure 3, it can be observed how Ducati starts to diversify its products, maintaining its brand, now with a different concept, but still retains its prestige due to the diversification of products that allows it start its business growth while expanding its plant as the result of increasing its portfolio of products.

![Ducati Network 1952-1958](image)

**Figure 4: Ducati network 1952-1958.**

Ducati began to make the application of intangible resources owned, entering the market with new products that have the effect of giving greater market presence of its brand. In 1983, the company was purchased by the Group Cogiva. Therefore, Ducati grows its market segment, because it begins to introduce new models. In the 90's Ducati begins with a transformation from being a metallurgical company to a company with a complete range of products, and selling motorcycles, accessories and clothing. For 2000 increased consolidation in the motorcycle market worldwide, while continuing to innovate in their products.
8. BRAND RECOGNITION

Ducati ranks first brand worldwide recognition according to statistics presented by Pied Piper (2015). It is Ducati brand Top Hotels in 2015, recognized by consumers and pointing to be the brand with the best overall improvement, registered with a Benchmarking study that studies the behavior of buyers by brand motorcycles. In graph 1 it can be seen that Ducati has a positive growth of 2, because consumers have in their mind the positioned brand. In this study, it was awarded this recognition because it offer “Test” rides to convince the customer to buy the product (Pided Pioper, 2015).

Is it a result of the diversification of its brand its success in the market? It can be deduced that there is sufficient statistical evidence that it is probably the success because Harley-Davidson, direct competition from Ducati for the top spot in brand recognition, has a similar diversification which has Ducati. Most however, its intangible resource it is its dermodromic system allows it to continue in its brand’s rise because it is a difficult value added, rare, and difficult to imitate and its organization of resources.

To strengthen its brand, according to the study by Tawfik & Leenen (2001), Ducati has a section called “World Ducati” where it can be found all kinds of products and services related to motorcycle, which are divided into six categories:
A. Racing.
B. Advertising.
C. Ducati Desmo Owners Club (DOC).
D. Events.
E. Ducati Museum.
F. Ducati University (management and technical staff give lectures at universities world regarding their products and polytechnics).

Thus, Ducati is responsible for positioning its brand and creates the bond of trust supported by the various products and services that currently has.

9. BUSINESS GROWTH AS A RESULT OF TWO FACTORS

Ducati covering market begins to grow with its appearance in Mexico, because in 2012, Audi Group acquired the brand Ducati to be sold in Mexico. Growth has been based on its new products launched. One of them is the new Monster 821 and Monster 1200 (Ducati, 2015). Through reengineering product is that it manages to maximize profits. By the time Ducati does not enter in the statistics provided by AMIA of Italian brands sold in Mexico.

Table 1 shows the import of new motorcycles by country of origin in 2011 to the first half of 2014.

Table 1. Imports of new motorcycles by country of origin

<table>
<thead>
<tr>
<th>Origen</th>
<th>Brasil</th>
<th>Canadá</th>
<th>China</th>
<th>India</th>
<th>Italia</th>
<th>Japón</th>
<th>Taiwán</th>
<th>EE. UU.</th>
<th>Otros</th>
<th>Total Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>8,495</td>
<td>1,271</td>
<td>77,398</td>
<td>3,220</td>
<td>548</td>
<td>10,353</td>
<td>730</td>
<td>11,440</td>
<td>4,439</td>
<td>117,894</td>
</tr>
<tr>
<td>2010</td>
<td>10,438</td>
<td>281</td>
<td>82,198</td>
<td>7,320</td>
<td>837</td>
<td>7,854</td>
<td>538</td>
<td>7,329</td>
<td>2,821</td>
<td>119,456</td>
</tr>
<tr>
<td>2011</td>
<td>8,072</td>
<td>331</td>
<td>154,629</td>
<td>13,712</td>
<td>1,311</td>
<td>5,878</td>
<td>771</td>
<td>10,356</td>
<td>5,051</td>
<td>200,090</td>
</tr>
<tr>
<td>2012</td>
<td>1,574</td>
<td>310</td>
<td>194,429</td>
<td>22,714</td>
<td>1,226</td>
<td>6,466</td>
<td>592</td>
<td>11,159</td>
<td>5,344</td>
<td>244,658</td>
</tr>
<tr>
<td>2013</td>
<td>840</td>
<td>256</td>
<td>164,470</td>
<td>26,626</td>
<td>1,226</td>
<td>5,896</td>
<td>646</td>
<td>13,787</td>
<td>7,279</td>
<td>220,935</td>
</tr>
<tr>
<td>ene-jun 13</td>
<td>346</td>
<td>143</td>
<td>73,371</td>
<td>13,517</td>
<td>743</td>
<td>2,469</td>
<td>232</td>
<td>4,875</td>
<td>3,791</td>
<td>99,487</td>
</tr>
<tr>
<td>ene-jun 14</td>
<td>760</td>
<td>118</td>
<td>94,482</td>
<td>22,082</td>
<td>699</td>
<td>3,329</td>
<td>380</td>
<td>5,942</td>
<td>3,135</td>
<td>130,927</td>
</tr>
</tbody>
</table>

Source: Elaborated by AMIA with data of Administración General de Aduanas
The intention of presenting this information is to enhance that Ducati has a growth opportunity focused in 2012 because the Italian brands in Mexico show a negligible percentage in the market for Mexican motorcycles. It is a point of action which Ducati has already begun to work.

All countries have shown a decrease in imports except for China. But promptly it can be analyzed the participation of Italian brands, who are entering the Mexican market. In graphs 2, it is shown that Italy has a share of 1% in Mexico, the reason why it tries to enter the market with new products and with its recent partnership with Audi Group.

Table 2. Sales growth at Ducati.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of sales growth in 2013</th>
<th>Units sold in 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>México</td>
<td>8%</td>
<td>8804</td>
</tr>
<tr>
<td>Brazil</td>
<td>74%</td>
<td>1174</td>
</tr>
<tr>
<td>Europe</td>
<td>-3%</td>
<td>19743</td>
</tr>
<tr>
<td>Italy</td>
<td>-14%</td>
<td>4284</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>16%</td>
<td>2742</td>
</tr>
<tr>
<td>Asia</td>
<td>11%</td>
<td>5787</td>
</tr>
<tr>
<td>Thailand</td>
<td>22%</td>
<td>3057</td>
</tr>
<tr>
<td>Australia</td>
<td>13%</td>
<td>2132</td>
</tr>
<tr>
<td>Japan</td>
<td>1%</td>
<td>2558</td>
</tr>
</tbody>
</table>

Source: Own elaboration with data of Ducati 2015.

In graph 3, it can be seen the percentage of sales that Ducati has in each country, which represents 2% increase in sales for 2013.
Sales data show that the increase is significant in 2012 from January-December period to the year 2013. Based on the strategic alliance with Ducati Audi Group, with a vision of business growth, denotes favorable growth in revenues of Audi Group since 2013. Its revenue rose to 49,880 (48,771) million Euros (Audi Group, 2014). Table 3 shows the production of motorcycles for Audi Group, comparing the period 2012 to 2013 period.

**Table 3. Production of motorcycles.**

<table>
<thead>
<tr>
<th>Motorcycle production</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Naked/Sport Cruiser (Diavel, Monster, Streetfighter)</td>
<td>20,777</td>
<td>8,171</td>
</tr>
<tr>
<td>Dual/Hyper (Hypermotard, Multistrada)</td>
<td>16,336</td>
<td>2,608</td>
</tr>
<tr>
<td>Sport (Superbike)</td>
<td>7,905</td>
<td>4,955</td>
</tr>
<tr>
<td>Ducati brand</td>
<td>45,018</td>
<td>15,734</td>
</tr>
<tr>
<td>Motorcycles segment</td>
<td>45,018</td>
<td>15,734</td>
</tr>
</tbody>
</table>

In the first period is shown 2012 data for the period from July to December is due to consolidation with Ducati was consolidated in July 2012.


The year 2012 meant a drop in the motorcycle segment, but in 2013, it was observed a significant increase thanks to the appearance of Ducati, as a new brand on the undercard of Audi and thanks to product diversification (Audi Group, 2014).

**10. ANALYSIS OF RESULTS**

Ducati, a company with a history to recognize, hits the theory and demonstrates that it is possible unification of intangible resources for business growth, starting in a completely different market that penetrates today. It shows that his vision capability was exploited from the outset. Ducati does not lose the opportunity to enter the market showing an area of opportunity, and simultaneously sets the standard to be followed by its competitors.

Moreover, it gets to keep its status within the market for five years, with a sales increase of 2% per year, which may seem small but is significantly good. Ducati constantly is applying reengineering of its products, improving what was the best product for today where the circumstances have changed, conserving resources if that is the main dermodrómic system.
11. CONCLUSIONS

Based on the comparisons made in the three action points of this essay, it can be deduced that the case study provides important data that allows identifying the correlation between product diversification and branding. These in turn are factors important for business growth due to emerging needs to diversify production, such as expanding existing facilities or opening new plants to supply the needs of production.

The brand as a competitive advantage handled with proper management, provides a positioning in the minds of consumers and thus reinforces the market segment to which it is addressed. It certainly is a strategy that provides growth of framework VRIO companies. This is why it should be considered as an intangible resource with a high growth potential for the company.

Product diversification is certainly to encompass the market, either horizontally or vertically. It can avoid the lag in the company, because it is in a world where changes are the order of the day. It is not a static world. So companies should consider growth as a basic need and a way to survive as a competitive tool, identifying those actions carried out by competitors and to a continuous improvement.

REFERENCES