International
Journal
Of Advanced Research in Engineering& Management (IJAREM)
ISSN: 2456-2033 || PP. 12-17

Related and Non-Related Diversification Strategy of Domestic Business Groups in Vietnam

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Abstract: This report provides an important analysis on an issue that national business groups in Vietnam must face. That is to diversify business activities into anentirely new business fields or involve current and new business units in businessn fields that are similar in the value chain. Comparing related and unrelated diversification strategy, we see clear differences on how to create value and costs between the two strategies. We also analyze the way Vietnamese national corporations apply the two most sensible strategy to increase business revenue, reduce costs incurred, avoiding unnecessary risks.

Keywords: Related diversification strategy, unrelated diversification strategy, domestic corporations

1. Introduction

In the context of international economic integration and the constantly changing business environment, it is very important to predict the trend of the market and give directions for future business development. Therefore, the strategy of diversifying activities is an extremely important and necessary tool in orienting and adjusting business activities according to the objectives suitable to the business environment. Developing and implementing a diversification strategy will help businesses increase competitiveness, increase market share, ensure strong growth not only in the business sector but also can encroach upon other areas in the economy [9]. Vietnam is in the stage of strong economic integration and development, bringing many opportunities and challenges for businesses. Increasingly fierce competition from domestic rivals and foreign rivals has forced businesses to strive to improve the quality of operations, gradually penetrating other areas to ensure that link or non-link [9]. Here, both typical cases are carefully analyzed to draw interesting and useful conclusions. How does an organization use linked or unbounded diversification to achieve development goals looking for some "appropriate" strategies in which to transform resources, capabilities and capabilities? It is special to the new industry and to apply them in a way to get a sustainable competitive advantage. The objective of this article is to clarify what is of interest that the company will have to invest excess resources to create value by using a diversification strategy.

2. Theoretical Framework

From history of birth and development, there are many ways to understand the business strategy: Business strategy is the means to achieve long-term goals. Businesses need to solve is how to achieve the proposed results based on the situation and prospects of the business. The goals are the target, and the means to achieve this goal is the strategy. A business strategy based on one is the advancement of competitors and the business methods that managers based on that create successful results. Therefore, the business strategy is a management plan to strengthen the position, customer satisfaction and achieve the business objectives of the business [1]. Business strategy is a plan of actions that managers use to achieve business goals and immediate actions with changes in the situation and the occurrence of unexpected events. Thus, corporate strategies include planned activities (predetermined strategies) and the necessary responses to unforeseen conditions (non-planning strategies). [2]

The diversification strategy is aimed at creating diversity in the areas and business sectors that businesses participate in. Diversification brings many benefits for businesses not only dispersing risks but also other financial and non-financial benefits. First, diversification not only plays a role in dispersing risks to different businesses, because if only to disperse the risk can owners proceed simply to buy shares of many businesses. Second, diversification will make sense if it increases the benefits for owners more than they gain if they invest independently. Therefore, a sector / field selected for diversification must be attractive enough to bring higher profit margins and support more business sectors than when they do business independently.From Hitt's viewpoint - Ireland - Hoskission [3], diversification can be divided into two basic forms: (1) related diversification (binding or chain); (2) unrelated diversification.

Related diversification is also called concentric diversification. In this strategy, new development activities still relate to the main production activities of the enterprise in terms of customers, technology, distribution, management and brand. The key to implementing a related diversification campaign is to take advantage of the main internal advantages of the business. This strategy requires businesses to rely on brand relationships between the company and new areas of operation, the collaboration of two resonant impacts on the use of resources.

Unrelated diversification, in other words, non-linked diversification applies to narrowly specialized businesses, the development of new activities can only be expressed outside of previous activity. In other words, non-aligned diversification is diversified into new business areas that are not related to the current business sector of the business.

The strategy of diversification is essentially the search for new directions, new business areas to improve the efficiency of investment capital. The time when businesses decide to invest in new directions is often the time when the current business areas of the enterprise are starting to enter the saturation phase and the profitability ratio of the capital of the first business investment in these areas gradually decreases. At the same time, executives in the business start to see the potential in some new areas. Then they will be interested in making new strategies for their plans. In other words, the strategy of operational diversification is the strategy that businesses use to maintain the profitability of businesses in the current fields or increase profitability thanks to the operation in new areas of business. In addition, in an economy, each sector, each sector has its own advantages and disadvantages. Applying a diversification strategy to operate in many fields and industries helps businesses take advantage of all advantages brought about by each industry, thereby creating a synergy and flexible adjustment ability in production and service activities of enterprises. Since then become the leading enterprise in the market. In addition, the strategy of diversifying activities helps businesses disperse risks of enterprises, expanding investment into many other areas in the national economy. This will minimize the dependence of businesses on a certain area of activity that makes it difficult for businesses to change the general situation of the sector. In addition, the strategy of diversifying activities also makes enterprises become large corporations, operating in many fields through acquisitions and mergers. At that time, enterprises can create functional units combined with the operation programs of business units. In addition to saving costs, businesses need to achieve greater efficiency in their areas of operation, especially in brand promotion. At the same time as a large economic group, enterprises will have more voices in the market. This will create intangible values for businesses such as prestige, big brand, wide relationship and integrated information sources.

When traditional products of enterprises are sluggish due to reduced market demand or increased competition, enterprises must be oriented to diversify new activities or markets. Enterprises find ways to disperse the risks and the need for profit and income between other activities that compensate the other. When basic products are sufficient to ensure the growth of effective investment in other sectors becomes a strong motivation to push businesses into that field. Some of the current products of the business are falling into recession or seasonally consumed consumption during the year. There are new technologies that come out to suit the potential of businesses. Some business units are at risk from national and international environmental protection policies, so they have to narrow production scale. In comparison with unrelated diversification, related diversification has more ways to create value, so this strategy seems to be preferred.

Table 1. Comparison between related and unrelated diversification

	Related diversification	Non-related diversification
Concept	-A diversification into new business activities that relate to current business operations, by the similarity of one or more parts in the value chain of each activity.	- Is diversifying into a new business sector that is not clearly related to any existing business areas.
How to create value	- The economics of the scope - Transfer of capabilities between business units - Can be done in some restructuring process	- Can create value only by pursuing a strategy of acquisition and restructuring (because there is no

		similarity between the value chain of unrelated business activities)
Risk level	- Less risk (because companies are shifting into areas where administrators have more or less knowledge)	- More risk
Sources of costs	- Number of business units involved - The economics of the scope	- The number of business units (the larger the number of companies makes it difficult for managers to understand the complexity of each business unit, the managers do not have enough time to handle the information Essential news has impacted each company's strategic plan).
Conditions of implementation	- The number of business units (the larger the number of companies makes it difficult for managers to understand the complexity of each business unit, the managers do not have enough time to handle the information Essential news has impacted each company's strategic plan).	- The core skills of the company are highly specialized and have few applications outside the core functions of the company. - The senior management of the company has experience in buying and moving weak business units. - The management cost of execution does not exceed the value created.

Source: Nguyen Thi Lien Diep et al (2013)

3. Methodology

The report is based on a combination of analytical and synthetic methods. We collect and process information, including some information extracted from books, some essays, a number of journal articles and a number of websites related to the topic. In addition, we have used the following research methods:

- Methods of analysis and synthesis: On the basis of analyzing past data from published information documents, reports and industry development orientations to show the trend of movement and development of objects research.
- Statistical and comparative methods: On the basis of statistics of data collected in specific areas of each enterprise, to compare performance of some enterprises in the same field of activity as well as uptime.
- Logical thinking method: Based on the actual data to assess the level of business performance of businesses, strengths need to be promoted as well as the position of competitiveness of businesses in the process integration, serving as a basis for mapping out solutions to improve operational efficiency.
- Method of dialectical materialism and historical materialism: On the basis of past data as a basis for making assessments, assessing the operational situation of enterprises.

4. Research results

Some research on industrial organizations, using diversification index measures, examining enterprise diversification and economic efficiency and not finding any significant relationships between them. Rumelt and other strategic researchers use a semisubjective classification scheme and discover a systematic relationship between diversification and performance strategies. This study combines the strengths of the index approach, namely simplicity, objectivity and reproducibility, with the essential abundance of Rumelt's method. Using Jacquemin - Berry's entropy measure of diversification and business data, this study found that the relevant diversified companies showed substantially better profit growth than companies using unrelated diversification [5].

T.C Group - successfully applied related diversification strategy

T.C Group has adopted a related diversification strategy in continuously distributing high-end fashion items that are very successful in distributing Laneige high-end cosmetic brands. The company has built infrastructures, created good relationships with high-end retail centers, built an image of high-end cosmetic brands, a system of stores nationwide, and a team of professional counselor, a team of people who manage well the brand experience in high quality fashion business. Continuing to promote its internal resources, taking advantage of competitive advantages in other products, the company continuously distributes other high-end products related to the new beauty field. TC Group boldly distributes many beauty brands because the company has already built up strong forces (assets, experienced staff, expertise, and capabilities in high-end retail and system services). The company has built a brand image (a high-end successful retailer, creating a reputation for suppliers, customers and consumers). The company has adopted a cost-saving strategy (management costs, marketing costs, selling expenses). Partly, it does not stop distributing only one item and according to the need to develop into a strong company to increase revenue and level of diversification of high-end products related, supporting each other is inevitable, one of the right step for TC Group. The company is planning to expand and develop reputable brands in the world for perfumes and cosmetics, fashion and other Lifestyle accessories and categories, focusing on high-end product lines.

Kinh Do Group - Vietnam's leading food corporation

In the food market in Vietnam, Kinh Do is a well-known name. It is a strong brand not only in the country but also in some foreign markets. To achieve these achievements, Kinh Do has a strategy to operate properly and methodically. One of the strategies that make the capital's success is a related diversification strategy. Starting with the success of Snack products, Kinh Do's food industry has made great strides and is the foundation for the overall development of the group. Kinh Do marked an important milestone with the import of Danish Cookies; then successive chains of bread, cotton industry, and chocolate, hard candy, and candy. Over the past 17 years, more than 90% of the group's revenue from food and financial investment strategy of the group also focuses on these sectors. Currently, the capital has developed with many companies operating in the food sector, notably Kinh Do and Kinh Do Northern Joint Stock Company specializing in confectionery business and Kinh Do specializing in ice cream industry and yogurt. Kinh Do creates suitable and convenient products and provides safe, delicious, nutritious, convenient and unique food for everyone to keep pioneering in the food market. Kinh Do is pushing to expand the breadth and depth of the food industry through its M&A strategies to become the leading food corporation in Vietnam. In 2010, merged Kinh Do Northern Company and Kinh Do Company into Kinh Do Joint Stock Company. Kinh Do Company has made a strategic effort to penetrate the market by launching diversified, quality and cheap products along with strong and effective marketing and advertising efforts to increase market share of products. The company enhances brand promotion such as trade fairs, newspaper advertisements, delivery truck advertising, increasing product coverage across the country and expanding distribution channels in provinces and cities directly to the dealer store and delivery warehouse. Kinh Do takes steps to re-plan commodity structure, increase its presence on the channel and market penetration. In addition, the company also focuses on expanding distribution agents, giving priority to promotion campaigns, increasing the number of salespeople.

Vinamilk Vietnam Group

Vinamilk Vietnam applies related diversification strategies by expanding to beverage industry with existing customers. In addition to focusing on dairy products, the company also aims to expand the market to the industry, helping Vinamilk to occupy about 39% of the overall market share, improving the sales of key products. Currently, Vinamilk has more than 200 distributors and nearly 160,000 retailers.This is an important step to ensure Vinamilk's dairy products will be available in all market areas across the country and limitedinventory status. Beverage products are beneficial to consumers' health such as soy milk with Gold soy brand, fruit juice brands with V-fresh brand, some other dairy products: ice cream cake milk, yogurt, soymilk, butter, cheese, ice cream. Vinamilk invests in expanding distribution channels, when the more items are expanded the distribution channel becomes an urgent issue for businesses access to consumers. Finally understanding that over the years, in parallel with efforts to diversify products, Vinamilk boldly invested in expanding distribution channels throughout Vietnam. In the process of production and business, Vinamilk uses to coordinate its core competencies and rationally apply each type of business strategy given and achieved certain achievements. Marketing activities are always enhanced, reinforcing customer confidence with products. Vinamilk applies advertising through sponsorship of humanitarian programs and television programs, making all people aware of Vinamilk brand. Vinamilk has always been the pioneer in introducing new product lines in the market, international cooperation on research and application of nutrition science to develop solid nutritional products. Vinamilk has a distribution system covering the whole Vietnamese market, a large distribution system that accounts for over 50% of dairy retail points nationwide. With strong financial potential, short-term payment ability, fast payment and instant payment, there is no risk of payment. Vinamilk applies new technology for the development of products such as the world's most modern separating centrifugal technology and is applied for the first time in Southeast Asia to develop a line of pasteurized fresh milk products to keep flavor and High safety constantly. Seeking to expand supply and implement international cooperation programs to provide the best dairy products for Vietnamese consumers.

Honda Motor Vietnam Company

Honda Motor Company provides a good example of taking advantage of core competencies through related diversification. Although Honda is best known for its cars and trucks, the company actually started the motorcycle business. Through competition in this business, Honda has developed a unique ability to build small and reliable engines. When executives decided to diversify the automotive industry, Honda succeeded in part because Honda took advantage of this ability in its new business. Honda also applies its engine construction skills in vehicles all terrain, lawn mowers, and boat engine industries. Most recently, Honda developed an efficient six-power Honda-aircraft HA-420 HondaJet, approved by FAA.In addition, there are a number of corporations applying diversification strategies such as Vietnam National Oil and Gas Group, Vietnam Post and Telecommunications Group, Kinh Do Group and Hoang Anh Gia Lai Group doing real estate business, mineral exploitation, hydropower, wood products and a number of other large corporations in the country.

5. Research Results Discussion

What is the conclusion about the usefulness of a diversification strategy? Is it an effective development strategy for the organization? Studies on organizations that use diversification strategies show that in most cases, link diversification is better than non-linking diversification. If an organization can develop and exploit synergies in its resources, potential and special capabilities of its diversification, it will create a sustainable competitive advantage. However, the strategic vision of the ability to achieve desired synergies does not happen at all easily and automatically. Currently, there are many companies and types of small and medium enterprises, as well as domestic corporations that have adopted related diversification strategies and irrelevant diversification in order to achieve the development objectives,to find some "niche" strategies that convert its resources, capabilities and special capabilities to new industries and apply them in a way to gain a durable competitive advantage strong.When a business enters an industry that lacks important similarities with its current industry, most of the efforts in the unrelated diversification strategy do not have a happy ending. Not many companies use non-aligned diversification strategies because this development strategy requires bringing organizations into industries that do not exploit the strategic appropriateness and challenges of management of completely different business activities. Initiatives to do the best when entering new markets are expensive, both in terms of direct costs such as marketing costs, testing many different markets and indirectly like operating time. However, these efforts are disastrous. Brands are iconic, but these strategic resources are simply not effective for businesses.

6. Conclusion and Recommendation

The drawback of this study is not to conduct extensive empirical research, referring to the specifics of corporations operating in the Vietnamese market. In the context of more and more businesses often thinking that creating many new products is a manifestation of creativity, showing that businesses are always innovating and developing, the above conclusion will remind them to focus on Our main business or product is still of greatest importance to the growth of the business. Generating too many types of products is often due to some companies not understanding the needs of customers, not bringing the right products to the right customers or the right sales channels. The creation of too many product categories also reduces production efficiency and increases the complexity of operational activities such as distribution and service. The results of the study have shown the reality, business corporations In developing countries, it is most effective when they take advantage of the capacity and ability to apply a diversification strategy to build company development. The limit included in which if the manager begins to take strategic steps when they are too far from the ideal or do not have enough resources or power to do so or the business context is unfavorable then may not work.

Diversifying product categories may help support the main product category, search for new markets or disperse risks. The diversification of products is wrong business development direction, but managers must consider carefully the "ppropriate strategy of implementation. Building appropriate and effective business models is paramount, in which a good brand architecture strategy (planning factor) contributes to minimizing potential risks and helping to bring efficiency and optimal business results for businesses. A good branding strategy will contribute to minimizing risks and providing optimal business efficiency for businesses. A successful business is an enterprise that owns an effective business model. Therefore, each business model also needs to have a scientific and rational organization of its brand system by restructuring, eliminating small brands, putting effort into key products. Strengthen confidence in product quality, increase investment in modern technology and scale.

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