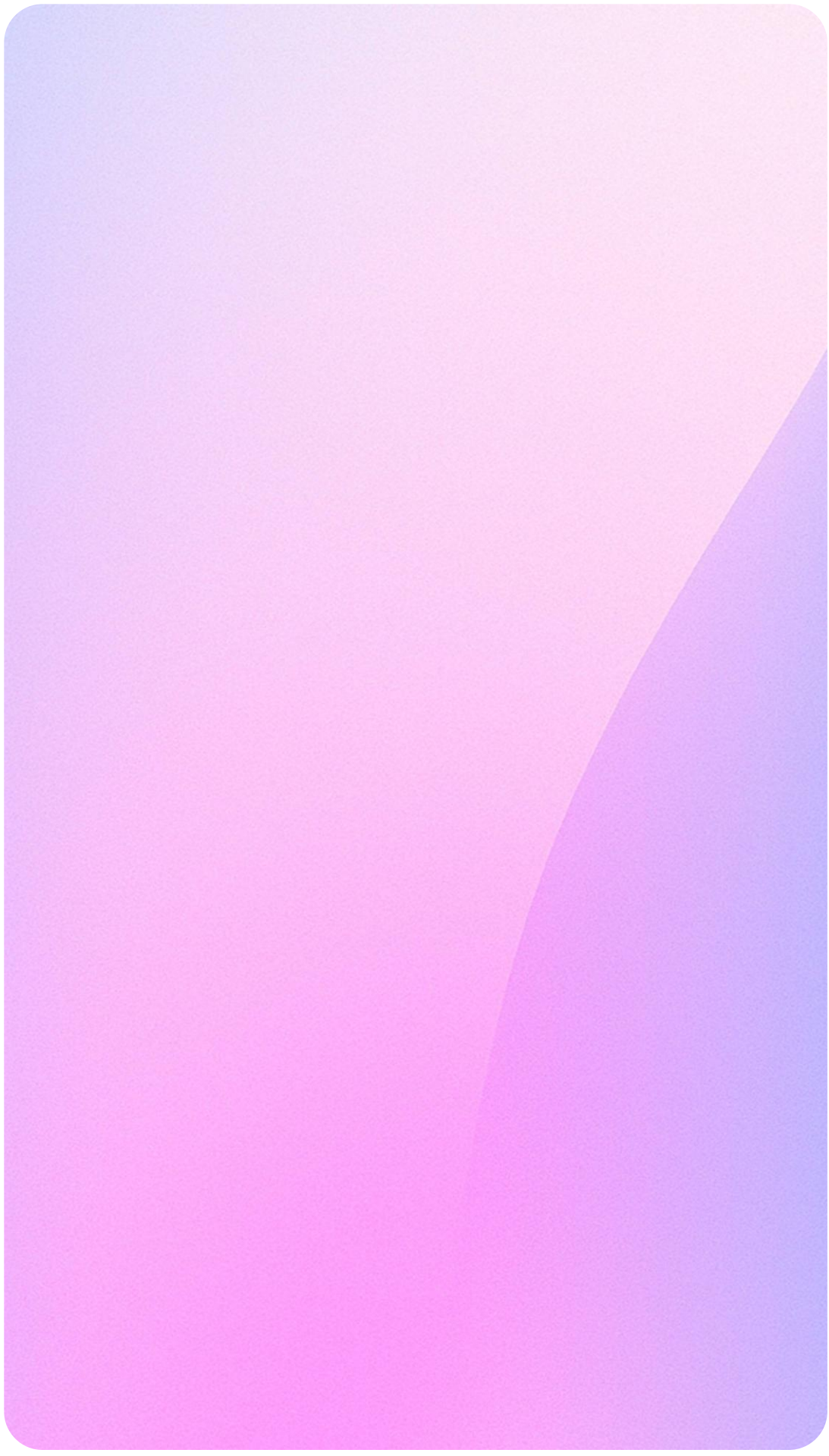




Acquisitions and Diversification – Week 10

How companies grow through strategic choices.
Let's explore what works and what doesn't.

Developing Strategic Capability

Recap from Previous Lesson



Recognise the Warning Signs

Organisations experience symptoms of decline: shrinking markets, lower profits, losing customers, and reduced competitiveness.



Understand the Root Causes

Strategic drift and inertia occur when companies stop adapting to market changes and cannot keep up with competition.



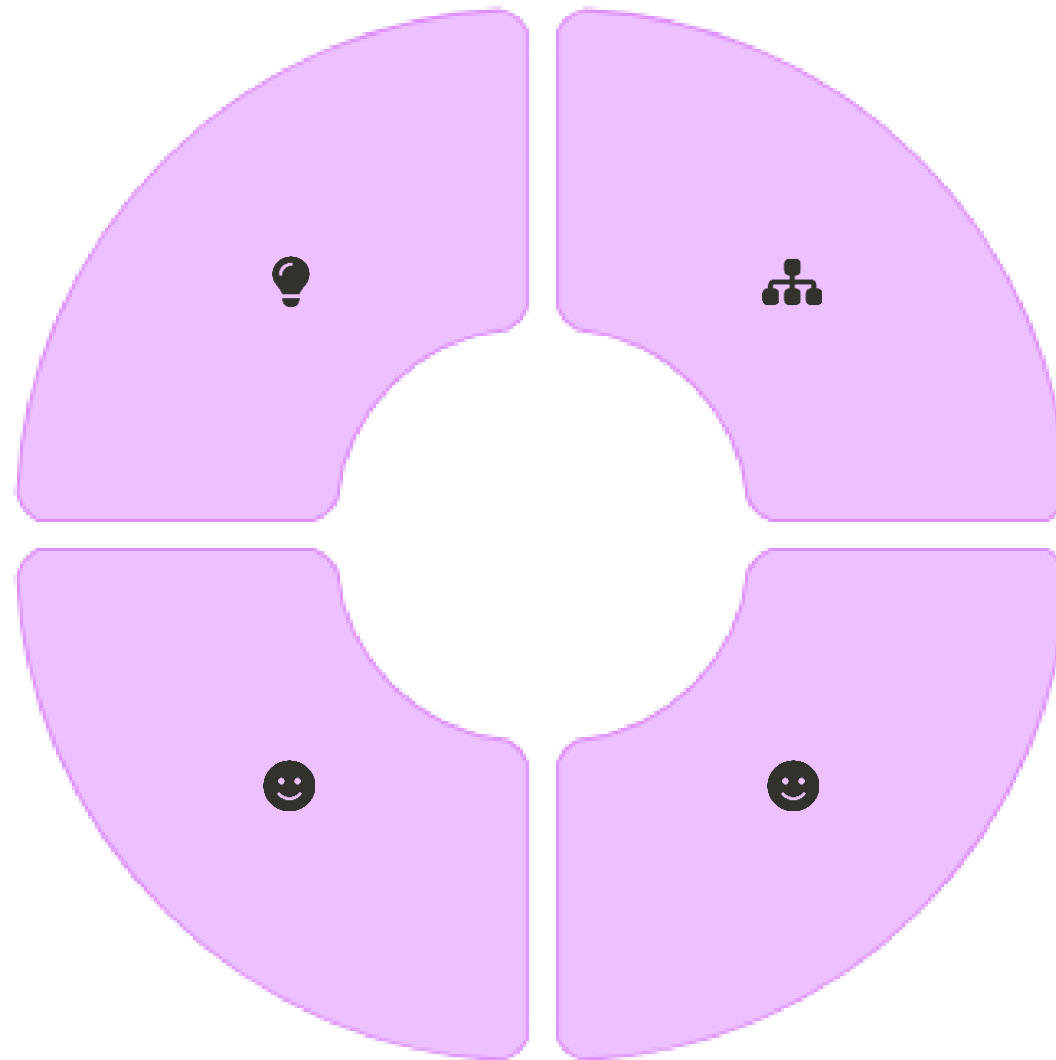
Choose a Growth Strategy

Companies decide to pursue acquisitions and diversification to recover and grow. This is where strategic decisions matter most.

Learning Objectives

Understand why companies
buy other companies or
expand into new areas

Apply tools to decide if
growth moves are good
decisions



Learn the different types
of acquisitions and
diversification strategies

Discover what can go
wrong and why some fail

How Do Companies Grow?

Two Main Paths



Internal Growth

Also called organic growth. The company develops its own resources and capabilities from within the organisation.

- **Organic growth** – build business naturally over time
- **Developing existing products** – improve or enhance what you already sell
- **Expanding existing markets** – reach more customers in your current market areas
- **Investing in research and development** – create innovations internally



External Growth

The company grows by joining with or buying other businesses. This is faster than internal growth but comes with more risks.

- **Acquisitions** – one company buys another company
- **Mergers** – two companies combine to form one new company
- **Strategic alliances** – companies partner without full ownership
- **Joint ventures** – companies work together on specific projects

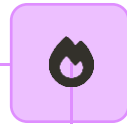
Growth Strategies as Responses

Why companies choose acquisitions or diversification:



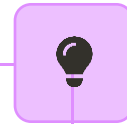
Market Decline or Stagnation

When sales or markets slow down, companies look for new ways to grow.



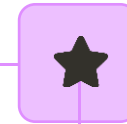
Competitive Pressure

Buying or joining others can help a company stay competitive.



Underutilised Resources

If a company has extra money, skills, or capacity, growth strategies help put them to good use.



Market Opportunities

Companies may spot emerging markets or trends and move quickly to benefit.

What signals tell you when a company needs acquisition or diversification?

Look for warning signs: slower growth, stronger competitors, wasted resources, or new opportunities. What symptoms would you observe?

Acquisition vs Merger

Acquisition

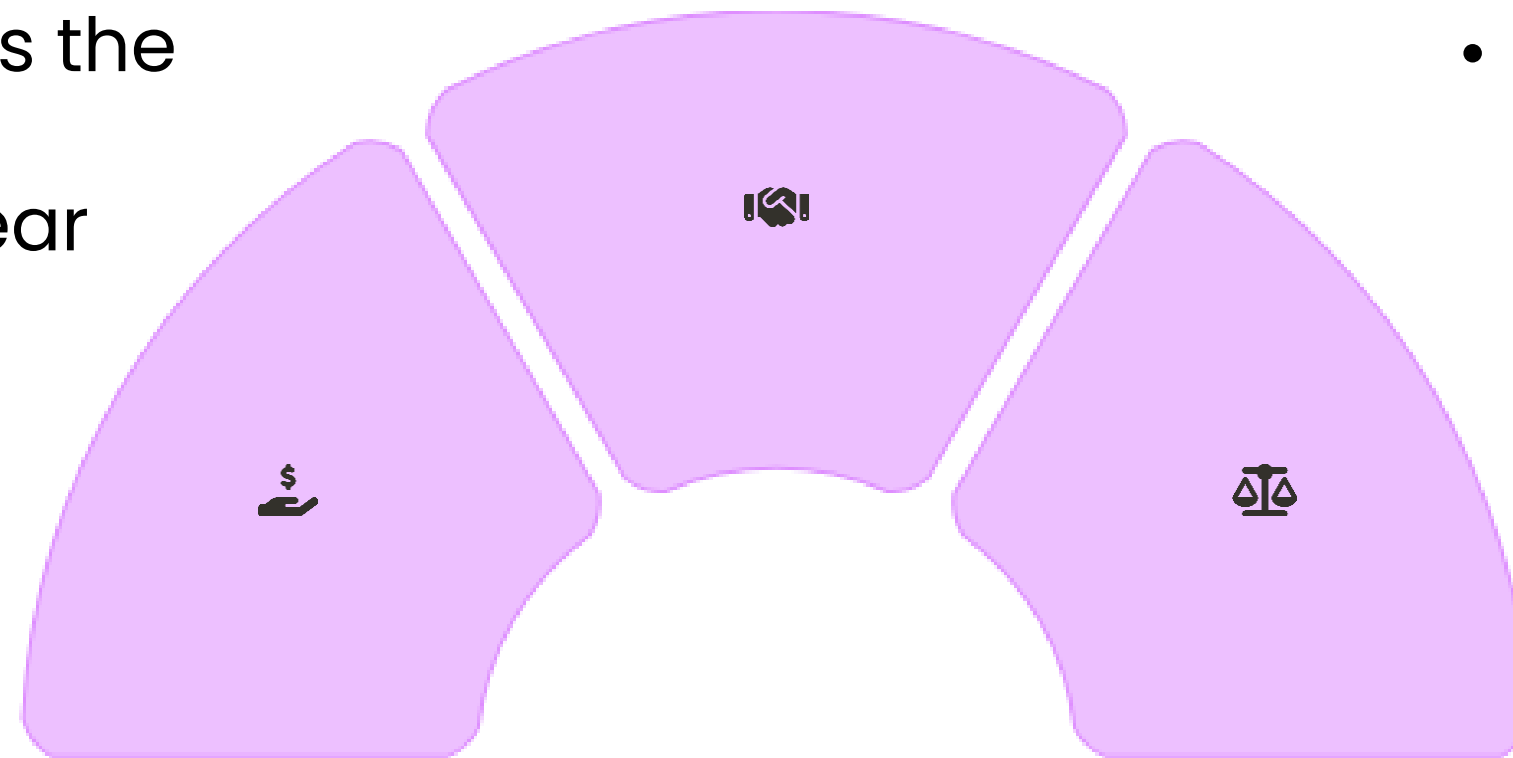
- One company buys another.
- The buyer stays in control and makes the decisions.
- Clear owner → clear target.

Merger

- Two companies join as equals to form a new company.
- No single company is in control.

Key Difference

- Acquisition: One company takes over another.
- Merger: Two companies combine on equal terms.



Types of Acquisitions

1

Horizontal Acquisition

Buy a competitor in the same industry and market. This increases market share and reduces competition.

Example: A coffee shop company buys another coffee shop company.

2

Vertical Acquisition

Buy a supplier or distributor in your supply chain. This gives you more control over production or distribution.

Example: A car company buys a parts supplier.

3

Conglomerate Acquisition

Buy a company in a completely different industry. This spreads risk and creates diversity.

Example: A food company buys a technology company.

Strategic Motives for Acquisitions

Market Power and Scale

Buying competitors increases your market share.

You become stronger and can influence market prices.

Speed to Market

Entering a new market is faster through acquisition than developing everything yourself.

You skip the learning curve and start immediately.

Access to New Capabilities or Technology

Instead of spending years developing new skills, you can buy a company that already has them. This saves time and money.

Remove a Competitor

Acquiring a competitor eliminates a threat to your business.

This strengthens your market position and gives you control over a rival.

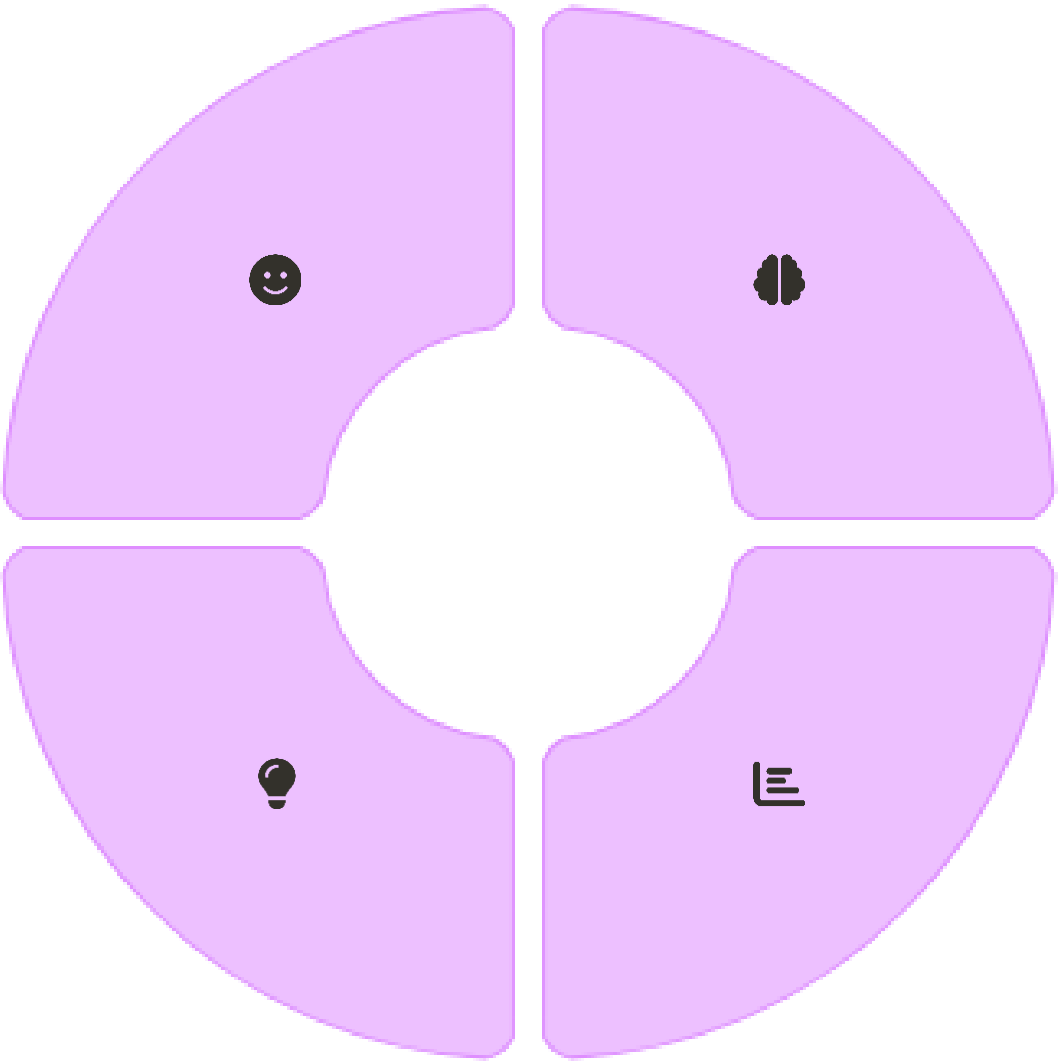
Reflection Task (30 Minutes)

Why Do Companies Fail?

Think about an acquisition that went wrong – was it due to overpaying, culture clash, or poor integration?

Learn from Experience

Based on what you have learned today (so far), what is the most important lesson about acquisitions and diversification?
What should companies remember?



What Would You Do?

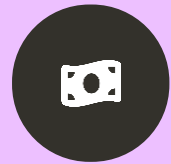
If you were leading a slow-growth company, would you acquire a competitor or develop new products yourself? Why? What factors would influence your decision?

Measure Success

How would you measure whether an acquisition or diversification was successful? What metrics or evidence would you use to evaluate it?

Why Acquisitions Fail

When acquisitions go wrong



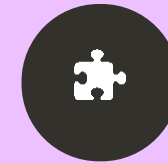
Overpayment

Companies pay too much for the target, creating financial pressure and making it hard to get value from the deal.



Cultural Mismatch

Differences in values, management styles, and workplace culture cause conflict and make it difficult for teams to work together.



Poor Integration

Systems, processes, and departments don't blend well, leading to confusion, duplicated work, and lower efficiency.

Why Acquisitions Fail (Continued)

When Acquisitions Go Wrong



Unrealistic Expectations

Leaders expect big cost savings or growth that never happens. The promised benefits don't materialise.



Management Distraction

Senior managers focus too much on the acquisition and not enough on running the core business, causing performance to drop.

Mini Case Discussion: TechStyle Company

A real strategic dilemma

The Situation

TechStyle is a successful fashion company. Their traditional clothing business is still profitable, but growth has slowed. Younger customers want technology-integrated fashion products like smart clothing and wearable technology.

Three Options

- **Option A:** Buy a technology startup to gain smart clothing expertise quickly.
- **Option B:** Develop technology in-house through research and investment.
- **Option C:** Partner with technology companies without full ownership or acquisition.

Your Task

- Which option would you choose? Why?
- What are the advantages and risks of each?
- What information would you need to decide?

Prepare to explain your recommendation with reasons.

What is Diversification?

Expanding beyond original business

Diversification means a company enters new markets or creates new products – moving into different business areas beyond what they already do.

Why companies diversify

Companies diversify to spread risk, find new growth opportunities, and use their strengths in new areas. It helps them reduce dependence on a single product or market.

Strategic benefits

Diversification can generate new revenue streams, protect against market downturns, and allow companies to use their existing skills and resources in exciting new ways.

Types of Diversification

Four different paths – part 1: the relationship spectrum

Related Diversification

- Enter a business connected to what the company already does.
- Lower risk because existing skills and knowledge can be reused.

Example: A car company develops electric batteries.

Unrelated Diversification

- Enter a business in a completely different industry.
- Spreads risk but requires learning new skills and markets.

Example: A food company buys a tech company.



Types of Diversification (Continued)

Four different paths –part 2: the market spectrum

Product Diversification

- Create new products for your current market.
- Lower risk because you already know your customers.

Example: A coffee shop adds new food items.

Market Diversification

- Sell your existing products in new locations or to new customer groups.
- Core product stays the same, but you must adapt to new market needs.

Example: A restaurant opens branches in new cities.



Strategic motives for diversification



Spread Risk

By entering different industries or markets, a company reduces dependence on a single product. If one market struggles, the company has other profitable areas to support it.



Find Growth Opportunities

When a company's original market is mature or saturated, diversification opens new avenues for growth and expansion into promising emerging markets.



Leverage Core Competencies

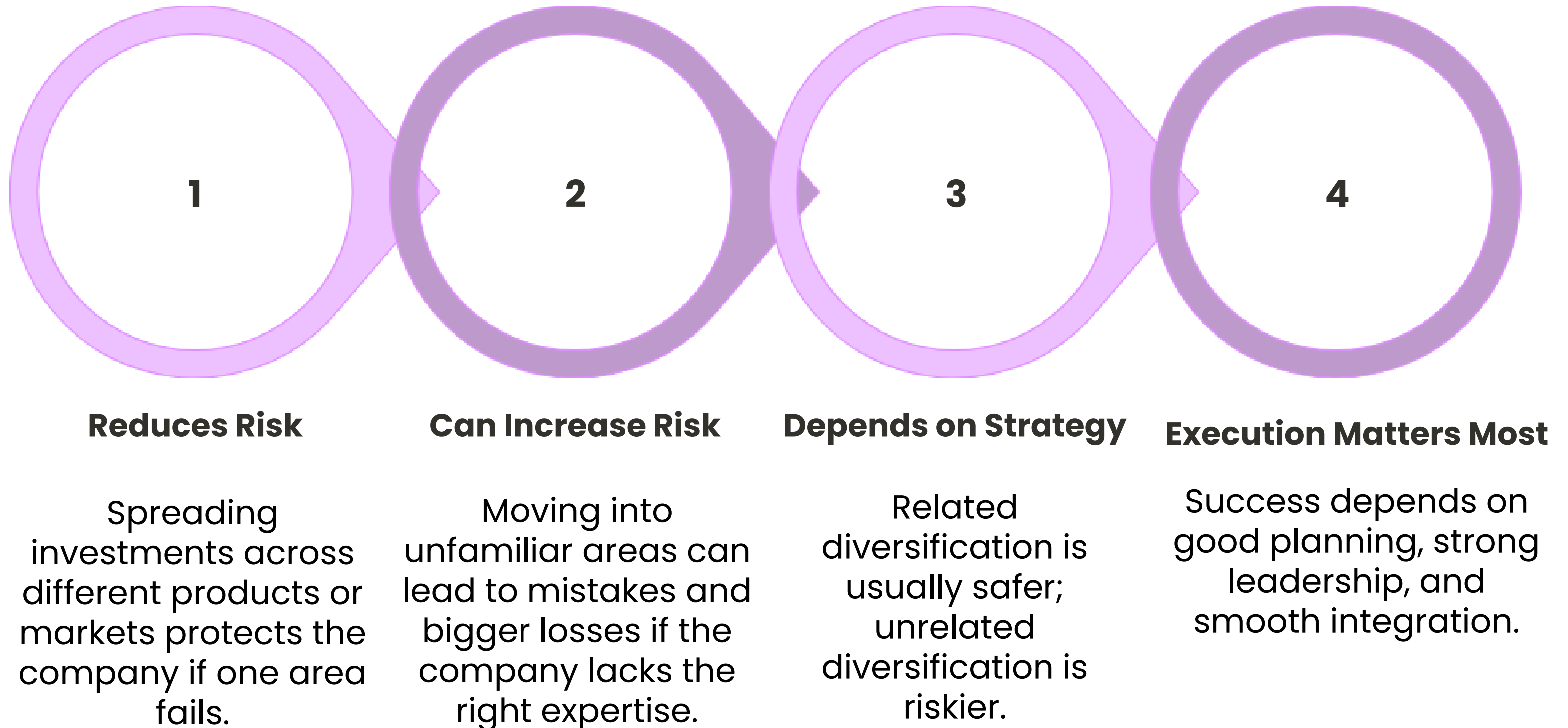
A company can use its existing strengths, skills, and resources to succeed in new business areas. This gives the company an advantage in new markets.



Improve Efficiency

Diversification can help companies use underutilised assets, technology, or expertise more productively. This increases overall organisational efficiency and profitability.

Is diversification risk reduction or risk increase?



Key Question Framework

Critical questions to ask before making growth decisions

Does this build on our existing capabilities?

Can we use our existing skills and strengths, or would we need to learn everything from scratch? The closer it is to what we already do well, the more likely it is to succeed.

Can the corporate office add value?

Will the parent company actually improve the new business through support, resources, or expertise? If not, the acquisition may not be worth it.

Key Question Framework

Critical questions to ask before making growth decisions



Is this the best use of our time and money?

1. Could we achieve better results by investing in our current businesses or pursuing different opportunities?
2. Compare the expected returns from this acquisition or diversification against other strategic options available.



Have we answered these questions with evidence?

- Base your answers on research, data, and honest analysis – not just optimism.
- If you cannot answer these questions with confidence and evidence, the acquisition or diversification is probably too risky.

Activity: Acquisition or Diversification Decision

Analyse the scenario

- Read the business case carefully.
- Understand the company's current situation, challenges, and market position.

Decide which strategy the company should pursue:

- **Acquisition** – Buy another company
- **Diversification** – Enter a new market or product area
- **Internal Growth** – Improve and expand existing products or services

Explain your decision.

- Key advantages of your chosen strategy
- Potential risks or challenges
- Why it is the best option for long-term success

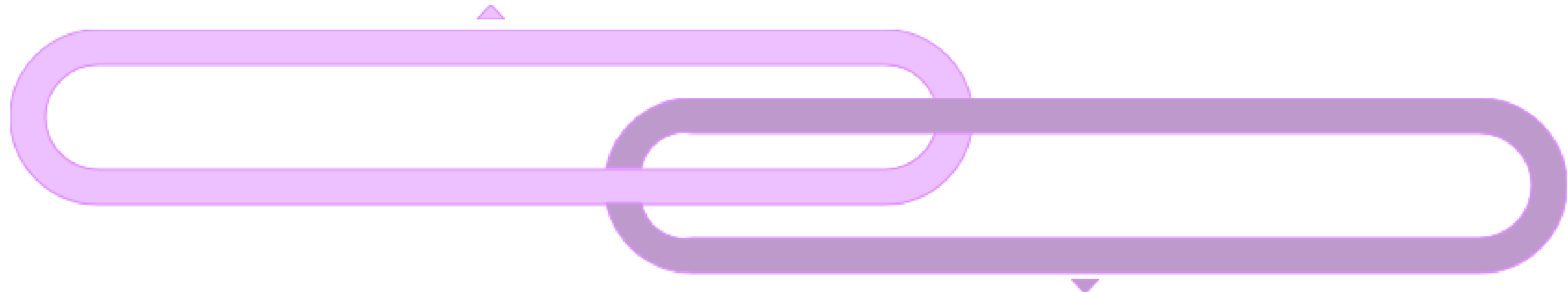
Linking to Strategic Capability

Why growth strategies test what companies can really do

Strategic Judgment

Companies need clear thinking and good analysis before choosing to acquire or diversify.

Decisions should be based on understanding the market and the risks involved.



Integration Capability

After the decision, companies must successfully combine the new business with existing operations.

This requires strong project management, communication, and coordination.

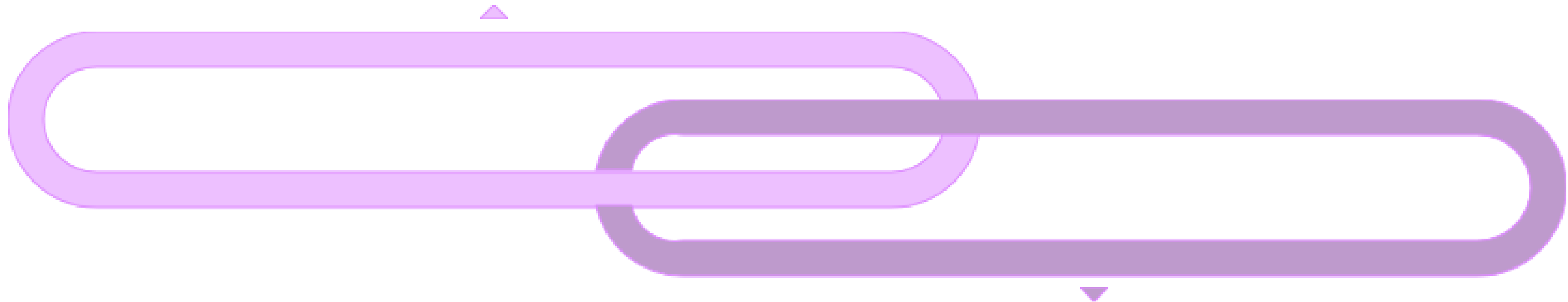
Linking to Strategic Capability

Why growth strategies test what companies can really do

Leadership and Change Management

Leaders must guide employees through the changes that come with acquisitions or diversification.

Strong leadership helps staff adapt to new structures, cultures, and ways of working.



The Real Test

These growth strategies show what a company can truly handle. Success proves strong strategic capability; failure reveals gaps in judgment, execution, or leadership.

Why do you think organisations continue to pursue acquisitions despite high failure rates?

Consider: What are the benefits and rewards that motivate companies to take these risks? Is it greed, pressure to grow, competitive necessity, or strategic opportunity?

Are there situations where acquisitions are worth the risk?

Use the chat to discuss what might make an acquisition successful enough to outweigh the failure rate.

Key Takeaways

Remember these important points

1

Acquisitions and diversification are high-risk, high-reward strategies offering rapid growth but requiring careful execution to avoid failure.

3

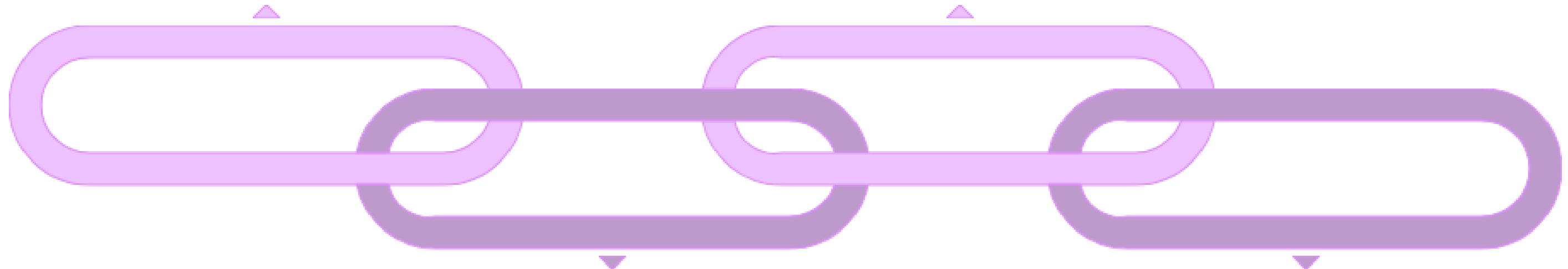
Use frameworks and ask strategic questions. Tools like Ansoff's Matrix and key questions significantly improve decision-making and success rates.

2

Strategic capability determines success, not size. A company's ability to make good decisions, integrate operations, and manage change is what matters most.

4

These moves test what companies can really do. Success demonstrates true strategic capability; failure reveals weaknesses in judgment or execution.



Next Week

Module Recap and Reflection

Further Reading

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**If you have any questions, please do not
hesitate to get in touch.**

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