

Diversification is key for SMEs to survive

Diversification has emerged as a key business strategy to help small to medium enterprises (SMEs) negotiate the Covid-19 pandemic and find ways to survive, innovate and even thrive.

The pandemic has seen many SMEs find new markets for their products or introduce new products or services to their existing offerings. Either way, Covid-19 has been a brutal wake-up call for many business owners and compelled them to think on their feet and become more innovative overnight.

Bridget du Toit, head of Services at EasyBiz Technologies, says although it may not always be possible for businesses to diversify, they should try and explore opportunities for diversification or ways to deploy their assets differently. “There are many great examples of how businesses have pivoted their offerings and optimised their current setups during the pandemic.



Bridget du Toit, head of Services at EasyBiz Technologies

“Breweries and gin distilleries have used their ethanol supplies to make and distribute hand sanitisers, manufacturers with 3D printers have made much-needed PPE and face shields, and wholesale food companies and restaurants have started doing home deliveries. Meanwhile, businesses that already operate online have expanded their activities and introduced new products and processes to optimise revenues,” she adds.

Du Toit has identified four key considerations that businesses need to take into account when planning to diversify their operations:

- **Does it make financial sense?**

For some business owners, the Covid-19 disruption has been the catalyst needed to rethink their entire business plans.

“Before deciding to bin the current business model, the business case needs to be weighed up carefully. The cost of doing nothing versus the cost of diversification needs to be considered,” suggests du Toit.

- **Know your core competencies**

Du Toit says businesses that want to diversify quickly need to play to their strengths. “For example, if a business provides dance, fitness or music classes, could technology such as video conferencing enable it to continue despite not being able to bring people together under one roof?”

- **Assess your assets**

Business owners should consider whether they have assets that could be deployed in different ways, for example, a vehicle rental company could consider using its fleet to make home deliveries. The key test is to establish whether there is a market for the new business.

- **Make the most of your investment**

When considering a diversification strategy, business owners should aim to de-risk as far as possible. Sometimes it is possible to open the door to a new market by making a relatively small vertical or horizontal step.

A training company, for example, could drill up or down by expanding its range of training courses, while a catering business could reach out horizontally by offering home-delivered cookery boxes.

Du Toit says small business owners must make the most of their ability to react to market changes quickly to find alternative revenue streams. “However, in this time of uncertainty, it is important to continue to plan for market recovery and the long term.”

The Fourth Industrial Revolution

“Every business will be affected by this new era of technology. Artificial intelligence will augment how we work and build new industries. Managers and executives need a paradigm shift in their thinking to cope with this,” concludes du Toit.

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