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STRATEGIES FOR THE DIVERSIFICATION OF INDUSTRIAL ENTERPRISES

Kalimullina Nargiza Vladimirovna
PhD, Acting Associate Professor, Department of Economics,
Urgench State University named after Abu Rayhan Beruni
E-mail: nargizak@urdu.uz

Abstract. This article examines the need to apply diversification strategies in industrial enterprises, their specific features, and the main directions for using these strategies. The study also develops conclusions on the effective application of diversification strategies in industrial enterprises.

Keywords: industry, enterprise, industrial enterprise, diversification, diversification strategy.

Аннотация. В данной статье рассматривается необходимость применения стратегий диверсификации на промышленных предприятиях, их специфические особенности, а также основные направления использования данных стратегий. Также сформулированы выводы по эффективному применению стратегий диверсификации на промышленных предприятиях.

Ключевые слова: промышленность, предприятие, промышленное предприятие, диверсификация, стратегия диверсификации.

INTRODUCTION

Economic diversification is one of the main priorities of a country's modern economic development. Achieving this objective requires the active search for mechanisms that enhance the competitiveness of the economy at both the meso- and microeconomic levels in domestic and international markets, while ensuring the efficient use of raw material resources by local enterprises.

In the current macroeconomic environment, diversification serves as an effective means of promoting sustainable economic development by facilitating the rational allocation of opportunities and resources among various sectors and types of economic activity. It enables enterprises to reduce dependence on a single line of business, strengthen their competitive position, and improve resilience to market fluctuations.

Therefore, diversification is an essential component of the national economic system. It contributes to sustainable economic growth, increases production efficiency, and supports the development of competitive industries. Moreover, it plays an important role in meeting the population's demand for high-quality, affordable, and economically accessible products and services, while enhancing the overall efficiency of resource utilization.

LITERATURE REVIEW

Numerous studies have examined diversification strategies for enterprises, particularly for industrial enterprises. According to some researchers, diversification refers to improving the market performance of a company's products. In this context, diversification involves the production and marketing of horizontally differentiated industrial products or services that enable enterprises to distinguish their offerings in a competitive market environment [5].

Several studies have also investigated the criteria for industrial diversification. These studies emphasize various forms of diversification in industrial enterprises and provide recommendations for promoting the development of diversification processes in industrial production [7].

According to other researchers, the development of diversification strategies enables industrial enterprises to strengthen their economic security, achieve sustainable competitive advantages, and reduce operational risks. From this perspective, the need to revise an enterprise's strategy is driven by the development of market relations, positive changes in the national economy, and increasing competition in global markets [1].

Other studies suggest that the degree of diversification should be assessed based on its effectiveness and economic feasibility. In particular, they argue that a high level of diversification does not always guarantee improved performance or higher efficiency in an industrial enterprise [2].

Furthermore, some researchers describe successful diversification strategies adopted by domestic enterprises when expanding into business areas unrelated to their core activities. They emphasize that the choice of diversification strategy largely depends on the potential opportunities provided by both the internal and external business environment [3].

Other studies highlight conversion as a common form of production diversification in many countries. According to these studies, the successful implementation of conversion strategies depends on well-designed government policy, an appropriate legislative framework, the development of conversion programs, the identification of the most effective approaches to industrial restructuring, the selection of high-tech products with strong market demand, and sufficient financial support for conversion projects [6].

Finally, several studies consider diversification strategy as an effective response to external factors, such as declining demand for a firm's core business, which may lead to the underutilization of production capacity. Based on empirical evidence from industrial enterprises, these studies propose a methodological framework for developing diversification strategies aimed at facilitating successful entry into new industrial sectors [4].

RESEARCH METHODOLOGY

This study employed a range of qualitative research methods, including observation, comparative analysis, systems analysis, synthesis, logical reasoning, abstraction, induction, deduction, and analogy. These methods were applied to examine the diversification strategies of industrial enterprises, identify their key characteristics, and evaluate their role in enhancing enterprise competitiveness and ensuring sustainable development.

ANALYSIS AND RESULTS

Product diversification is a strategic approach used by industrial enterprises to increase profitability and achieve higher sales volumes through the introduction of new products. Diversification may occur at either the business level or the corporate level. Business-level diversification refers to expansion into a new segment within an industry in which the enterprise already operates, whereas corporate-level diversification involves entering entirely new industries or business areas beyond the scope of the enterprise's existing operations.

The ability of industrial enterprises to attract customers by creating new competitive product attributes is based on continuous innovation, the effective use of intellectual assets, and the ongoing modernization of production processes. In this context, enterprises adopt flexible management strategies supported by advanced technological development. These value chains directly contribute to the creation of competitive advantages and strengthen the innovative potential of industrial enterprises. Furthermore, the rapid digitalization of business activities requires enterprises to use Internet marketing tools that actively engage consumers through digital platforms and electronic resources.

The main types of diversification strategies implemented by industrial enterprises include the following:

Concentric diversification. This strategy involves introducing new products or services that are closely related to the enterprise's existing business activities. For example, a company specializing in desktop computer manufacturing may begin producing laptops, thereby implementing a concentric diversification strategy.

Horizontal diversification. Horizontal diversification refers to offering new products or services that are unrelated to the company's existing products but are targeted at the same customer base. For example, a notebook manufacturer entering the pen market is implementing a horizontal diversification strategy.

Conglomerate diversification. This strategy involves expanding into entirely unrelated products or services that have no significant technological or commercial relationship with the enterprise's current business activities. It is typically pursued to spread business risk and create new sources of revenue. For example, a company operating in one industrial sector may expand into a completely different industry with no direct operational connection to its existing business.

Based on these approaches, the diversification strategies of industrial enterprises can be illustrated as shown in Figure 1.

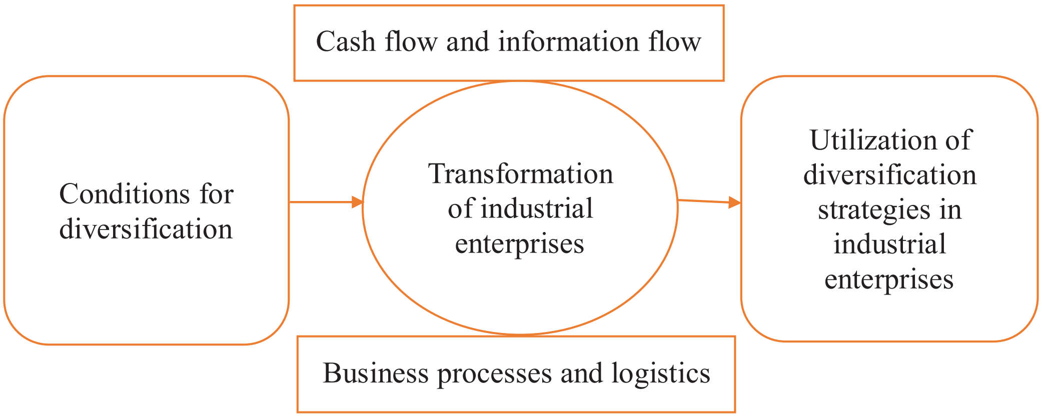

Figure 1. Implementation of Diversification Strategies for Industrial Enterprises[1]

Among the three main types of diversification strategies, conglomerate diversification is considered the riskiest. Its implementation requires a company to enter new markets and offer products or services to a new customer base. In this process, an industrial enterprise may need to increase its research and development costs, as well as marketing and advertising expenses. Furthermore, the probability of failure is relatively high when applying a conglomerate diversification strategy.

In addition to achieving higher profitability, industrial enterprises pursue diversification for several other reasons. In particular, diversification helps reduce risks associated with the decline of a specific industry.

At the same time, an industrial enterprise may implement a diversification strategy for the following reasons:

Achieving competitive advantages. An enterprise may consider diversification as an effective way to gain competitive advantages. By expanding its portfolio of products or services, the company can offer unique solutions that competitors are unable to provide.

Ensuring business growth and expansion. If diversification is successful, it can significantly contribute to business growth and improve financial performance. Therefore, when large and successful enterprises seek further development opportunities, they may identify diversification as the next logical strategic step.

Reducing the impact of economic crises. Diversification can serve as a proactive approach to mitigating economic downturns. By offering a variety of products and services, an enterprise can minimize the negative effects of recession and take advantage of opportunities arising from weaker competitors.

Strengthening brand image. A diversification strategy can also be used to enhance a company's brand reputation. Through positive associations with newly acquired brands or by changing business direction, diversification enables enterprises to present an improved image to the public.

Adapting to changes in the business environment. Due to predictable or unexpected changes in market conditions, diversification allows enterprises to use new technologies, prevent potential losses, and identify opportunities for reducing costs through synergy and increasing profitability.

Optimizing enterprise resources. Diversification can be an effective method for utilizing excess cash flows, improving the efficiency of existing infrastructure, and enhancing corporate-level decision-making processes.

CONCLUSION AND RECOMMENDATIONS

Diversification enables enterprises to produce a wide range of products and services and expand their available business opportunities. When implemented effectively, diversification can significantly improve brand image and increase company profitability. It can also serve as a protective mechanism. By diversifying products or services, industrial enterprises can strengthen their position against competitors and reduce market-related risks. In some cases, diversification allows companies operating in slowly developing markets to utilize excess cash flows more effectively.

Accordingly, diversification of industrial enterprises represents the process of reallocating enterprise resources to other areas of activity in order to achieve economic benefits or reduce risks. In this regard, the objectives of diversification should be determined based on the main economic challenges faced by industrial enterprises and their ability to maximize the use of production capacities.

1 author's development

However, when implementing diversification strategies, industrial enterprises should also consider the complexity of raw material resources, the sources of their formation, the specific characteristics of product demand, and compliance with quality requirements for finished products. In the process of diversification, industrial enterprises should ensure the possibility of achieving higher long-term profitability, maintain investment efficiency without reducing financial stability and liquidity below acceptable levels, and ensure overall economic feasibility.

Based on the above conclusions, the following recommendations are proposed for implementing diversification strategies in industrial enterprises:

to ensure the effective application of specialization principles aimed at implementing diversification strategies in industrial enterprises;

to develop rational product sales policies in industrial enterprises based on customer preferences and market requirements;

to establish specialized departments responsible for developing and implementing effective diversification policies within industrial enterprises.

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