

## Concentric Diversification is a New Product Offering or Cannibalization. A Descriptive Study.

SHAHZAD KHAN

Lecturer City University of Science and Information Technology Peshawar Pakistan

Email: [Shahzadkhan.lecturer@gmail.com](mailto:Shahzadkhan.lecturer@gmail.com)

Tel: +92-3339405596

---

### Abstract

*The large firms of the world offer multiple related products for three major reasons. First to provide variety to their consumers, second to capture maximum market share and third to build competitive pressure. But problem arise that does the firms really become successful in their efforts. Firms offer the new products as a variety offering or either competition pressure but the problem arise when the new product not positioned as a variety or either start competing with company old product so the concept of cannibalization started. For the purpose this research has conducted to find that does related products offered by some reputed firms in Peshawar Pakistan considered as a new variety offering, cannibalization or competition coverage. For research a sample of 100 respondents were contacted and a nominal scale non self administered questionnaire was used to collect data from them. For the analysis part of the study SPSS software was used to find the response of respondents through descriptive analysis and cross tabs analysis.*

**Key words:** *Related Products, Variety, Cannibalization, Covering competition and demographic.*

---

### Introduction

The multinational firms of the world are having different product lines. Khan (2012) describe in his study that to make their consumer loyal the firm create rational and emotional motivation for the purpose of getting more profit from their loyal consumers. Firms offer different product for the reason that their customer does not switch to another company brand. According to Kotler and Keller (2009) a product line includes products which are similar in terms manufacturing pricing, distribution, promotion etc. The question arise why a company offers new related products if already having one in the market. The answer is hidden in three major reasons. First companies want to offer a new product because they want a new variety to their consumers as all the consumers in the market do no have same taste and flavors. Consumers bored with one product while using it again and again with respect to time. Second reason is to capture the market share. Companies can covered the market share more quickly if having more than one brand in the market. Greater the related brands and more sale will leads greater increase in market share. The third reason is the firm wants to create competitor pressure with offering new related product to same industry. This is obvious that firms having multiple varieties will lead and will build the competitor pressure. Now offering a firm new related product to the market firm want the all three reasons in mind and the summary of all reasons becomes making profit from the business. But the question arise does companies get successful in their this kind of attempt. They can if they keep two important dimensions in their mind. The concept of brand failure and cannibalization. Except brand failure another issue is important that is cannibalization. Cannibalization is a process when a firm one product starts competing with firm another product instead of its competition (Kotler and Keller 2009). Artur and Maria (2012) that making customer value there are many factors including tangible and intangible dimensions of a brand. All these dimension contribute towards either the main brand of the company or either the related band.

This research is conducted for the very same reason to find that how consumers take the related products in fast moving consuming goods (FMCG) sector. Study has taken 100 respondents to measure their response and their attitude, perception and their usage to related product as a variety, cannibalization or as a competition coverage. Study use a comprehend method for findings the results of the study and to find the attitude of consumer for buying product as a variety, canalization and covering competition.

### **Research main Objectives**

Research has three major objectives. The first objective of the study is to find the impact of demographic factors on respondents variety buying. The second objective is to find the influence of demographic factors on their buying as cannibalization or not. The third objective is to find do respondents consider related offerings from the companies as competition coverage.

### **Literature Review**

The study of Certo and Peter (1990) describe that diversification is a new offering in a related or unrelated manner by an organization. Diversification is not only for the reason to create competitive pressure but it also initiated by different firms for the attraction of new customers. According to David (2008) diversification is a strategy of a firm in which they offer a new related or unrelated product to the market. Offering a new product in presence of an existing one is diversification. There are two types of diversification strategies that a firm can apply. Related and Unrelated diversification strategies. Details of these strategies are giving below.

#### **Related Diversification**

According to David (2008) related diversification also called concentric diversification. According to this strategy a new related product is offered which is similar in terms of product nature, manufacturing, consumption, pricing distribution and promotion. The examples of such type of diversification is Pepsi which have a related product line in shape of Mountain Dew, 7up etc. Another brand of Pepsi is Lays chips which have related product in shape of way and chetoos.

#### **Un-Related Diversification**

Unrelated diversification has further two types David (2008). Horizontal diversification and conglomerate diversification. According to David (2008) horizontal diversification is such type of diversification in which product is related in few aspects like target market, promotion and distribution but different in aspects of nature of product, manufacturing and pricing. The example of Pepsi which produced soft drink as well and potato chips as well. So offering potato chips is an example of horizontal diversification. While conglomerate diversification is such type of unrelated diversification in which all the aspects of product are different i.e nature of product, manufacturing, distribution, pricing, consumption and target market (Certo and Peter 1990). The example of Tata Company producing vehicle and tea which are two unrelated products.

#### **Cannibalization**

According to Kotler and Keller (2009) cannibalization is the process in which a company new launched brand start competing with its own previous brand. A company never wants that one of its brand start competing with its own brand instead of this it compete with competitors. But this problem arises when the two products did not differentiated clearly. It is important to differentiate the new product from the previous brand in order to make a clear and distinctive place in consumer minds and occupy a certain place in the market as well. Certain customers even do not know that either two brands have any difference.

Only brand name will not help this thing other attributes of the brand must also be taken under consideration in order to provide a better value. According to Kusum, Donald, Lehmann, and Neslin (2003) brand equity of the firm is also affected if the clear differentiation is not made between two brands of the company.

### Concept of Flanker and Cannibalization

According to Certo and Peter (1990) flanker is new brand that is offered by a company which is a bit low in the aspects of product attribute and its aim to protect the main product of the company from the competitor brand. The new flanker brand will compete with the competitor products and the main product of the company will remain safe from the attacks of competition. But the problem arise when the flanker brand start competing with it own brand instead of competition.

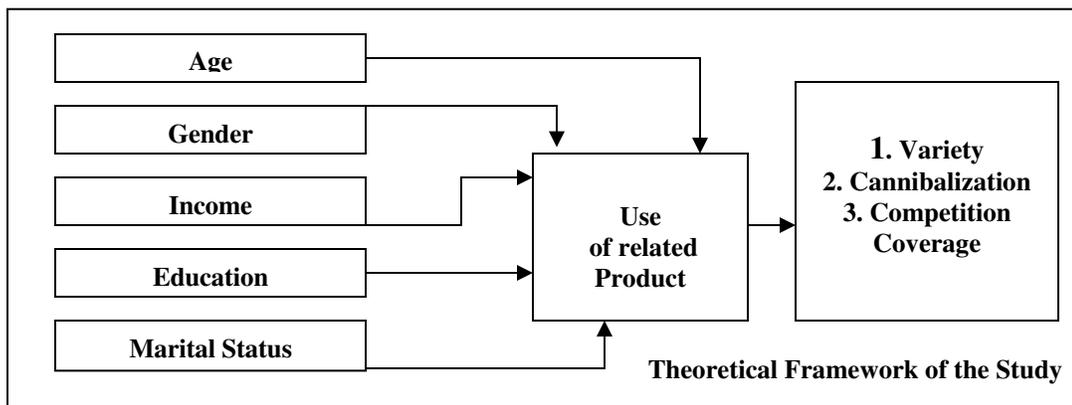
The firm has to create a clear differentiation for the flanker brand in order to keep safe the main brand of the company in order to avoid the concept of cannibalization. Firm image can be retained if the concept of cannibalization is avoided (Boulding, William, Lee and Staelin 1994). The study of Abraham (2011) describe that consumer behavior changed when they found different product from the company but important issue is that how brands are offered and how they are positioned differently from each other as consumer has different attitude to each and every products.

Consumers are rational in nature and they make their buying decision on the basis of logical justification (khan 2011). Consumer compare the two or more than two brands for their purchase and ob the basis of calculation they take their buying decision for purchase of goods and services. It mean that consumer buy the company related product on the basis of logical justification.

In the study of Yaseen, Tahira, Gulzar and Anwar (2011) describe that loyal consumer are more affected by the cannibalization as they do not want to try another company offering as they are used to and loyal to the company offering but still those loyal customer are cannibalized with the related product offered by the company. According to Smallwood, Denis and Conlisk (1979) they describe in their study that product quality remains same in related product but it may carry in flanker brands. Quality is the totality of features or characteristics that exist in a product which can satisfy the need or either want of the consumer. In other words it is freedom from defects. Reference group has strong influence on consumer buying behavior. In case of related product the role of reference group is also crucial as the purchase is more dependent upon other suggestion the reference can easily convince the buyers on logic to buy the related product instead of original or already exist product of the company (Amaldos and Jain 2008).

### Theoretical frame Work

This theoretical frame work shows the dependency and independency of factors age, gender, income, education and marital status as independent factors while use of the product is dependent variable of the study.



Use of product depends upon above five independent demographic factors. Using a product is purely dependent upon age, gender, income, education and marital status and the use will describe that either the product is used a new offering or either it is competing with the same product of the company.

## Research Methodology

### Data Collection

In this study both primary and secondary sources of data included. The primary data for this research study was collected through a questionnaire; the data of questionnaire was collected from 100 respondents which served as the primary source of data for the analysis of this research and that lead this research study to the exploration of either the firms related new offering used as a variety or compete with competitor brands or used as a cannibalization. At the same time literature review of this research study provided the secondary data. Source of secondary data which is gathered from published research articles.

### Sampling Design

100 respondents were randomly selected from Khyber Paktoon khwa, Peshawar. Respondents were only students who filled a questionnaire the collected data were carefully assessed to the statistical software i.e. SPSS and the results were taken as they were required for the analysis of this research study.

### Analytical Techniques

SPSS Software used in this study for analysis of factors that determine the either consumers use products as new offering of the company or either the new product offering used as a cannibalized product. In this research study the results are found by descriptive statistics and cross tabs analysis.

## Results and Analysis

### Age and use of Product

According to the results gathered from 100 respondents shown in table 1 which describe that the age is divided into four categories i-e less than 15, 15 to 25, 25 to 35, and 35 to 45 and above. Similarly the use of related products is also categorized into three categories of variety, cannibalization and competition coverage. The analysis of 100 respondents reviles the following results;

Table:1		Age					Total
		Less than 15	15 to 20	20 to 35	35 to 45	45 above	
Use of Product	Using as Variety	1	6	8	19	3	
	Cannibalization	3	17	21	0	0	
	Competition Coverage	0	9	8	4	1	
	Total	4	32	37	23	4	100
	Percentage	4%	32%	37%	23%	4%	100

The total average of total population whose age is less than 15 is 4% that uses related product. Total numbers of respondents in this age range are 4 which include 1 respondent that uses related for Variety and only 3 respondent use related product as they cannibalized the previous product.

Age ranges between 15 to 20 includes 32 respondents that use related products in which 6 respondents use related products for variety, 17 of them uses related products as cannibalized product and similarly 9 respondents use related product as competition coverage. Total average that uses related is 37% of total population whose age ranges between 15 to 20.

Total average of total population, age ranges between 20 to 35 that use related product is 37%. Total number of respondents in this particular age range is 37 in which 8 respondents use related products as a variety, 21 of them uses related product as a cannibalized and 8 respondents use related product as competition coverage.

Age ranges between 35 to 45 includes 23% of total population that uses related products. Total number of respondents is 23 in which 19 respondents use related products as variety while only 4 respondents use related products as competition coverage.

Total average of total population, age ranges between 45 and above that use related products are 4%. Total number of respondents that use social networking websites is 4 in which 3 respondents use related products as variety while 1 of them uses related products as competition coverage.

### Gender and use of Product:

According to the results gathered from 100 respondents shown in table 2 in which the gender is defined and the use related products which includes the factors which are variety, cannibalization and competition coverage. The analysis of 100 respondents reveals the following results;

Table:2		Gender		Total
		Male	Female	
Use of Product	Using as Variety	21	16	
	Cannibalization	31	13	
	Competition Coverage	12	7	
	Total	64	36	100
	Percentage	64%	36%	100

Total numbers of male respondents are 64 in which 21 male respondents use related products for variety, 31 respondents for cannibalization, and 12 respondents use related products for competition coverage. The above analysis concludes that the total average of male respondents is 64% of total population who use related products.

The total average of female respondents is 36% of total population who use related products. Total numbers of female respondents are 36 in which 16 female respondents use related products for variety, 13 respondents as cannibalization and 7 respondents for competition coverage.

### Family Income and use of Product:

According to the results gathered from 100 respondents shown in table 3 in which the use of related product is categorized into three group's i.e variety, cannibalization and competition coverage. In the same way the family income is categorized into four levels i.e above 10000 and below 20000, above 20000 and below 30000, above 30000 and below 40000 and above 50000. The analysis of 100 respondents shows the following results;

Table:3		Income				Total
		> 10000 and < 20000	>20000 and < 30000	>30000 and < 50000	> 50000	
Use of Product	Using as Variety	7	6	5	14	
	Cannibalization	5	15	27	2	
	Competition Coverage	2	7	6	3	
	Total	14	28	39	19	100
	Percentage	14%	28%	39%	19%	100

The total average of respondents that uses related product is due to variety is 14% of total population. Total number of respondents that uses related product in family income of above 10000 and below 20000 is 14 which includes 7 respondents that uses related product as variety, 5 as cannibalization and 2 a competition coverage.

The total average of respondents that uses related products in family income of above 20000 and below 30000 are 28% of total population. Total number of respondents that uses related products as variety in this income group are 28 in which 6 people use related product as variety, 15 cannibalization and 7 as a competition coverage.

Total number of respondents that uses related products in family income of above 40000 and below 50000 is 39% of total population. Respondents use related products in this family income group are 39 in which 5 uses related product as variety, 27 cannibalization and 6 as competition coverage

The total average of respondents that uses related products having family income above 50000 is 19% of total population. Total number of respondents that uses related products due to variety in this family group is 14, while 2 of them use related product as a cannibalization and 3 as competition coverage.

### Education and use of Product:

According to the results gathered from 100 respondents shown in table 3 in which the education is classified into four group's i-e SSC, HSSC, Graduation, Masters and PHD. Similarly the use of related product is classified into three group's i-e variety, cannibalization and competition coverage. The analysis of 100 respondents shows the following results;

Table:4		Education					Total
		SSC	HSSC	Graduation	Master	PhD	
Use of Product	Using as Variety	1	3	32	13	1	
	Cannibalization	1	2	23	6	2	
	Competition Coverage	0	4	12	2	0	
	Total	2	9	67	21	3	100
	Percentage	2%	9%	67%	21%	3%	100

The total average of SSC respondents is 2% of total population. The total number of respondents in SSC is 2 who in which 1 use related products for variety and 1 use as cannibalization. Total number of respondents in HSSC is 9 in which 3 respondents use social networking websites for variety, 2 uses as cannibalization and 4 as completion coverage. The above analysis of collected data concludes that the total average of people in HSSC is 9% of total population that use related products.

Total number of respondents in Graduation is 67 in which 32 respondents use related products as variety, 23 uses related product as cannibalization and 12 use related product as competition coverage. This concludes that the total average of people doing Graduation is 67% of total population that use related products.

The total average of people doing Masters is 21% of total population that uses related products. Total number of respondents in Masters is 21 in which 13 respondents use related products as variety, 6 of them uses related products as cannibalization and 2 of them use competition coverage.

Total number of respondents in PHD is 3 in which 1 respondents use related products as a variety while 2 of them use related product as cannibalization. The above analysis of collected data concludes that the total average in PHD is 3% of total population that use related products.

### Marital Status and Use of Product:

According to the results gathered from 100 respondents shown in table 5 in which the use of related products classified into three group's i-e using as variety, cannibalization and competition coverage. In the same way the marital status of the respondents were categorized into two groups i-e married and unmarried. The analysis of 100 respondents shows the following results;

Table:5		Marital Status		Total
		Married	Unmarried	
Use of Product	Using as Variety	11	53	
	Cannibalization	8	22	
	Competition Coverage	2	4	
	Total	21	79	100
	Percentage	21%	79%	100

The total average of married respondents is 21% of the total population which use related products. Total number of unmarried respondents uses related products is 21 in which 11 uses related product due to variety, 8 of them cannibalized and 2 of them use related product as competition coverage. Total number of unmarried respondents is 79 in which includes 53 respondents that uses related products as variety, 22 think they cannibalized and only 4 respondent's uses related products as competition coverage. This determines the total average of unmarried respondents is 79% of total population that uses related products.

### Findings and Conclusion

This research study gets response from 100 respondents and from the analysis of that collected data this research study finds that:

Age ranges between 15 to 20 mostly use related products whose total average is 32% of total population. In this age range out of 32, 17 use product as a cannibalized. While in an individual whose age is between 15 to 25 are 37% of total population in which 21 uses related product as they leave the previous product and

the new product is now under consumption in other words the firm previous brand is cannibalized. In case of gender male are 64 of total population in which 31 respondents cannibalized while 36% of the respondents are female in which 16 females use products as variety seeking.

In case of family income of above 20000 and below 30000 is 28% of total population in which 15 uses related product as a cannibalization. While in family income range of above 30000 and below 40000 are 39% of the total population in which 27 of the respondent's uses related product as a cannibalization which mean that the respondents are using the same company product.

In case of education level the graduation are 67% of the total population in which 32% of the respondents are using related product as variety offering. While master make 21% of the population of the total study in which 13% of the respondents use related product as variety offering.

On the basis of marital status married respondents are 21% of the total population in which 11 respondents use related products as variety offering while at other side of 79% of the respondents are unmarried in which 53 respondents use product as a variety offering and 22 respondents use a cannibalization.

## References

Ailawadi, Kusum L., Donald R. Lehmann, and Scott A. Neslin (2003). Revenue Premium as an Outcome Measure of Brand Equity. *Journal of Marketing*, 67(4), 1-17.

Artur Pazdziora and Maria Pazdziorb (2012). Role of intangible factors in shaping market value of companies from food industry sector. *International Journal of Innovations in Business*. Vol. 1. No 5 pp 345-361

Boulding, William, Eunhyu Lee, and Richard Staelin (1994). "Mastering the mix: Do advertising, promotion and sales force activities lead to differentiation?," *Journal of Marketing Research*, 31(1), 159-72.

Certo and Peter, 1990, Strategic Management: Concepts and Applications. New York, McGraw Hill.

Fred R. David (2008) Strategic Management; concept and cases, 12<sup>th</sup> edition

Kotler, P. and Keller, K.L. (2009) Marketing Management. Pearson International Edition. 13th Edition. Pearson Education Inc. Upper-saddle River.

K. Abraham (2011) "A Study on Consumer Behavior (With reference to V.B factors). *International Journal of Enterprise Computing and Business Systems* Vol.1 Issue 2

Nazia Yaseen, Mariam Tahira, Amir Gulzar and Ayesha Anwar (2011). Impact of brand awareness, perceived quality and customer loyalty on brand Profitability and purchase intention: a resellers' view. *Interdisciplinary journal of contemporary research in business*, Vol. 3(8), pp. 833-837.

Osman Khan (2012) "Towards understanding customer loyalty: An empirical study on emotional attachment. *International Journal of Innovations in Business*. Vol. 1. No 3 pp 241-267.

Shahzad khan (2011). Impact of Rationality in Creating Consumer Motivation (A Study of State Life Insurance Corporation Peshawar Pakistan). *Journal of managerial sciences* Volume V, numbers I pp 97-103.

Smallwood, Denis E. and John Conlisk (1979). Product Quality in markets where consumers are imperfectly informed. *Quarterly journal of Economics* 43 February pp1-23.

Wilfred Amaldos and Sanjay Jain (2008). Trading Up: A Strategic Analysis of Reference Group Effects. *Marketing science* Vol. 27, No. 5, pp. 932-942.