

# Business/News & Views®

## Diversify Your Business

By: [David Weatherholt, MBA](#)

The diversification principle has long been accepted as an important investment strategy. Can the diversification principle be applied to your business as well?

It is risky to put all of your eggs in one basket. This simple truth is the logic behind the portfolio management strategy of diversification. In its simplest form, an investment portfolio should be balanced between assets and risk. The asset classes-- equities, bonds, real estate, and commodities-- must be balanced to minimize actual or perceived risk. Selecting a particular asset class is not enough to diversify away risk. Even instruments within these classes must be balanced between counter-cyclical (i.e. one that rises while the other is down) investment options.

### ***How to apply the diversification principle to your business***

The ownership portion of your business is in a single asset class: equities. Do you have a major portion, 80% or more, of your investment in a single asset class (i.e. your business)? Further, is that asset class focused on a single product or service? A “yes” answer to these questions means all of your eggs are in a single basket, and diversification must be the central goal of your business planning strategy.

Implementation of a diversification strategy between the asset classes will be the easiest change in the planning process. The goal of this step is to develop a portfolio balanced between different asset classes and risk tolerance.

With the portfolio structure established, execution of the plan involves moving a portion of excess cash into other asset classes. If coming up with excess cash is a problem, then profitability is the issue. That is the easy part. The hardest part will be to diversify your product or service line.

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If "Black Friday" or a similar event is a reality, then your business is extremely risky, with all of your eggs in a single basket. Diversifying your product or service line and moving toward a balanced business "portfolio" is not just an option but must be the overriding goal. This process will be difficult, but it is crucial. Survival and success in our current business environment is not going to be easy either. Successful changes to your product line requires taking the time and energy to analyze your current business model-- how it generates revenue-- and then be willing to make tough choices.

Start by taking a long and hard look at every aspect of your business. Using a S.W.O.T. analysis, identify the strengths, weaknesses, opportunities, and threats for every business process. Also apply this analysis to your customers, employees, suppliers, and the current business goal. This analysis will produce lots of useful information and an accurate view of how each part and process works toward the overall business goal. Be prepared for some surprises, which is okay. They offer opportunities to make needed changes that will form the basis for diversification of your product and services.

Use this analysis to evaluate other business opportunities and, most importantly, to develop new revenue sources for slow periods. This process will reveal a real diversification of your income stream. These changes don't need to be earth shattering-- a modest increase of even 1-2% would be a great first step toward business diversification that will increase revenue and minimize risk.

Looking at your business as an investment portfolio with a diversification strategy may be an entirely new concept for you. The hardest part of this process will be the evaluation of your business and beginning to think outside the box. Remember "difficult" does not equal impossible. Change begins with a new idea and a simple shift in your thinking.

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*Let me know if you have any comments,  
questions, or suggestions.*

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