

**MANHATTAN GMAT**

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CAT Exam #3

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AWA ESSAYS: Analyze Issues

ESSAY QUESTION:

"Since no business can be all things at once, companies that specialize in one product or service are more efficient than those that offer a diverse product mix."

From your perspective, how accurate is the above statement? Support your position with reasons and/or examples from your own experience, observations, or reading.

YOUR RESPONSE:

The view that companies that specialize in one product or service are more efficient than those that offer a diverse product mix is subject to some debate. While some believe that companies involved in production of a specific product or service are more efficient, others believe that a mix of products provides a company with a certain kind of power that in turn helps it become efficient. As we will discuss this topic further, we will see that there is no one-size-fits-all solution here. The environment of the market is what eventually determines the structure that companies may take to be truly efficient.

Firstly, there is a general belief that by focusing on a specific strength it is possible to achieve efficiency. This is generally true as much in personal life as in the business world. A focus on one's strength areas does give competitive advantage to the company and gives it a unique edge. For example, an insurance company may be more efficient if it were to focus on its core business that is to sell insurance policies. It may not like to invest time and resources into something that is not its core strength such as software development. While an insurance company may need software for its operations, it may simply outsource such part of its business so that it can focus on its strength area. A real-life example of such focus and increase in efficiency is IBM. IBM had many products and services in the nineties when it started facing troubled times. Its management, led by Luis Gerstner, finally sold off specific areas of business that it did not consider core strength or did not see any future prospects. This turned around the company and made it extremely efficient.

Secondly, it must be understood that while focus may give efficiency, it is not the sole factor. There are other factors in play too. The government and its regulatory bodies play a large role in any business environment. They have such powers that they can decide the fate of various companies. This is even more relevant in the economies where markets are not open or partially open. This is true for various Asian economies such as India. The government control here is an extremely important factor. In such an

environment conglomerates persist. Conglomerates are in business of not one but many unrelated products. The uncertain environment of closed or partially open economies gives them bargaining power with government and also access to relatively cheaper credit. A small or medium business is generally not able to compete because it does not have resources to forge political alliances necessary for survival in such an environment.

Thirdly, sometimes it is the case that companies are more efficient while being diversified simply because it suits their particular business. It is many times possible and even highly profitable for companies to expand backwards and forwards. For example, a leading manufacturer of computer hardware may like to expand backwards into manufacturing of chips rather than depend on its suppliers. This may be of strategic interest to the company. Similarly, a retail chain may be interested in producing some of its own goods to drive down costs and increase efficiency. A real life example is Amazon, which in spite of being a book store developed cloud computing technology, which it was already using for its purpose, and rolled it out for other clients.

To summarize it may be said that while focusing on a specialized service or product may be beneficial in some cases it is not the rule. Different environments require different approaches to achieve efficiency and what may be true in one case simple may not be true in other. It is the market environment, special skills of an organization and its future strategic direction that together dictate the most efficient path for it.

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