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Growth through product-market expansion: evaluating growth opportunities beyond a firm's existing business

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Abstract

Growth is a critical driver of long-term success for firms. As firms in mature markets face slowing core business growth, expanding into adjacent markets can be the only way to sustain growth. However, such moves also involve greater uncertainty and complexity. While academic literature acknowledges the importance of structured decision-making in these contexts, existing frameworks often treat market attractiveness and competitive advantage separately, offering limited guidance on how to combine them. This thesis addresses that gap by developing an integrated evaluation framework for assessing product-market expansion opportunities beyond the existing business.

The developed framework draws on three literature streams, adjacency growth, corporate diversification, and market competition, to address two fundamental questions concerning the identified growth opportunity: (1) Is the underlying market attractive? and (2) Can the firm establish a favourable competitive position within it? The framework is applied in a qualitative case study of a global manufacturing company exploring entry into a related product category. Using internal data, strategic planning materials, and twelve semi-structured interviews with internal experts and external stakeholders, the study analyses market size, growth drivers, profit pool dynamics, customer purchase criteria, and the firm's relative capabilities.

The results show that combining external market characteristics with internal sources of advantage offers a robust basis for evaluating adjacent growth opportunities. In the case context, the analysis supports a recommendation to proceed with the expansion. Beyond the case, the study provides a generalizable framework for firms seeking to grow beyond their core, offering practical guidance for linking market evaluation with competitive positioning in strategic decision-making.

Keywords Adjacency growth, Product-market expansion, Corporate diversification, Competitive advantage, Growth opportunity evaluation

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Tiivistelmä

Kasvu on keskeinen tekijä yritysten pitkän aikavälin menestyksessä. Kypsillä markkinoilla toimivien yritysten ydinliiketoiminnan kasvu usein hidastuu, jolloin laajentuminen viereisiin tuotemarkkinoihin saattaa olla ainoa tapa ylläpitää kasvua. Tällaiset kasvupyrkimykset sisältävät kuitenkin merkittävästi enemmän epävarmuutta ja kompleksisuutta. Vaikka akateeminen kirjallisuus tunnistaa jäsennellyn ja systemaattisen päätöksenteon merkityksen tälläisissä konteksteissa, olemassa olevat viitekehykset tarkastelevat markkinoiden houkuttelevuutta ja yrityksen kilpailuetua usein erillisinä ilmiöinä, yhdistellen niiden tutkimusta vain rajallisesti. Tämä diplomityö vastaa tähän tutkimusaukkoon kehittämällä arviointikehyksen yrityksen ydinliiketoiminnan ulkopuolisten kasvumahdollisuuksien arviointiin.

Kehitetty viitekehys perustuu kolmeen kirjallisuusalueeseen – vierekkäiseen kasvuun (adjacency growth), yritystason diversifikaatioon sekä markkinakilpailuun – ja se pyrkii vastaamaan kahteen keskeiseen kysymykseen tunnistetusta kasvumahdollisuudesta: (1) Onko kohdemarkkina houkutteleva? ja (2) Voiko yritys saavuttaa sillä suotuisan kilpailuaseman? Viitekehystä sovelletaan laadullisessa tapaustutkimuksessa, jossa tarkastellaan globaalin valmistavan yrityksen laajentumista uuteen mutta läheisesti liittyvään tuotekategoriaan. Analyysi perustuu sisäiseen markkinadataan, strategia-aineistoon sekä kahteentoista sisäisen ja ulkoisen asiantuntijan puolistrukturoituun haastatteluun, ja se tarkastelee muun muassa markkinakokoa, kasvun ajureita, kannattavuuspotentiaalia, asiakkaan ostokriteereitä ja yrityksen suhteellisia kyvykkyyksiä.

Tulokset osoittavat, että ulkoisten markkinatekijöiden yhdistäminen yrityksen sisäisiin vahvuuksiin tarjoaa vahvan perustan vierekkäisten kasvumahdollisuuksien arviointiin. Tapauksen kontekstissa analyysi tukee laajentumisen jatkovalmistelua. Yleistettävämmin tutkimus tarjoaa viitekehyksen yrityksille, jotka tavoittelevat kasvua ydinliiketoimintansa ulkopuolelta, tarjoten käytännön ohjeistusta markkina-analyysin ja kilpailuaseman yhdistämiseen strategisessa päätöksenteossa.

Avainsanat Vierekkäinen kasvu, Tuote-markkinalaajentuminen, Yritystason diversifikaatio, Kilpailuetu, Kasvumahdollisuuksien arviointi

List of figures

List of tables

Table of contents

Preface and acknowledgements

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Helsinki, June 24, 2025

Tuomas Haanpää

1 Introduction

This master's thesis is a case study conducted for a global manufacturing company on the topic of evaluating a growth opportunity beyond the scope of the firm's existing business. In this chapter, I first explain the academic and managerial motivation for studying this theme. I then move on to elaborate on the objectives and research questions, followed by introducing the structure of this thesis, and a more detailed introduction to the case company context.

1.1 Background and motivation

Growth, most often referring to increase in a company's revenues, is widely recognized as a fundamental driver of long-term corporate success. Growth is important for companies for both financial and non-financial reasons. From a financial perspective, revenue growth is a key driver of total shareholder returns, particularly over the long term. While improving margins or paying dividends can contribute to value creation, their potential is inherently limited. Conversely, revenue growth has fewer structural limitations, making it a more significant contributor to long-term shareholder value. (Pidun, 2019)

Beyond direct financial value, growth also adds significant non-direct value. It enhances a company's external reputation and internal culture. Externally, growth increases a firm's relevance in its industry, making it a more attractive partner to customers and stakeholders (Pidun, 2019). Internally, it fosters a positive corporate culture, creates advancement opportunities for employees, and helps attract and retain skilled talent. Profitable growth generates momentum within organizations, boosting morale and encouraging innovation. On the other hand, a lack of growth can erode this momentum, leading to organizational stagnation. (Zook, 2004)

Because growth is critical, firms face increasing expectations to grow (Zook, 2004). Yet, determining where to grow is challenging, especially for firms whose core markets are maturing with limited opportunities for further expansion. In such cases, firms often find that expanding beyond the scope of their existing business portfolio can be the only way to achieve growth (Very, 1993).

Indeed, for a company with a strong existing business, expansion into new but related products and customer segments can hold immense potential: on average a strong established business has around a hundred growth opportunities surrounding it, and these yet unproven growth opportunities can make up as much as 50 percent of value of the company (Zook, 2004). The question then arises, which of these opportunities to pursue. This selection is crucial, as it has been suggested that 80 percent of growth differences among companies can be attributed to the market growth of the segments they choose to compete in. (Baghai et al.,2007).

Furthermore, not all growth is valuable, and sustained, profitable growth is rare. Even if a firm achieves revenue growth, it can fail to create shareholder value due to a number of reasons, for example entering unprofitable market segments, lacking a defendable competitive advantage, or underestimating competition. The problem is exacerbated when attempting to grow beyond the scope of the existing business. In such situations, uncertainty increases, and decision-making becomes even more complex. As a result, such attempts rarely succeed, with only a quarter of them creating value (Zook, 2004).

In summary, firms are expected to grow but face significant uncertainty in determining where to grow and how to grow. Scholars and practitioners alike have called for more systematic and structured methods to evaluate growth opportunities. Christensen (2013), for instance, argues that many companies struggle with value creating growth because they lack a rigorous framework for building new businesses. In practice, such decisions are often based on intuition or informal criteria. Studies have shown that structured, repeatable approaches outperform intuition-based decision-making, particularly because the high-stakes nature of these choices tends to distort judgment.

Despite the clear managerial relevance of systematic growth evaluation methods, academic literature addressing structured frameworks for assessing growth opportunities beyond existing business domains remains relatively limited. Although Zook’s (2004) adjacency growth literature directly addresses this topic, the research stream remains underdeveloped with few active contributions. This thesis seeks to contribute to this research gap by connecting adjacency growth concepts more explicitly with other more established theoretical perspectives on firm growth and by complementing it with a practical case study.

1.2 Objective and research question

The case company studied in this thesis faces precisely the scenario described above. While the case company context is elaborated further later in this chapter, it is sufficient here to note that it is a global manufacturing firm with leadership positions in mature markets, prompting it to seek growth beyond its core business areas. The company's management has identified a promising growth opportunity and seeks clarity on whether to pursue it further.

Thus, the objective of this thesis is to formulate a clear, evidence-based recommendation for the case company regarding whether to pursue this identified growth opportunity.

Given the limited existing literature on the topic, a broader review of fundamental theories on firm growth is surely in place. However, it was not immediately obvious what type of literature could provide insights into the phenomenon: for example, finance literature would suggest that a growth opportunity should be executed on when the discounted cash flows from pursuing the opportunity exceed the investment cost. However, in discussions with the case company it became evident that the question it was facing preceded the calculation of a detailed business case, as in this stage the assumptions that need to be made for calculating the business case were too uncertain to make.

To select relevant literature streams to complement the adjacency growth literature, guidance was taken from the academics calling for methods to answer the two questions highlighted above that firms commonly face when exploring new growth: "where to grow" and "how to grow." The question of "where to grow" involves identifying market-related factors indicating the attractiveness of a potential expansion market on its own. The question of "how to grow" addresses whether the firm can develop and sustain a competitive advantage within the new market, in other words, take advantage of the attractiveness of the market. To tackle the "where" question, this thesis adopts a portfolio strategy perspective informed by corporate diversification literature. To address the "how" question, it incorporates insights from competitive strategy and market competition literature. Additionally, the case company requested that the analysis include practical elements, specifically market size and growth, competitor analysis, and comparisons of the case company’s product with alternative solutions.

Balancing these practical requirements with the aim of generating academically generalizable insights led to the following research question:

“How should a manufacturing firm combine analysis of market related factors and competitive advantage to evaluate whether to pursue a growth opportunity beyond the scope of its existing business?”

To ensure focus on the most relevant elements, the scope of the thesis was narrowed in some areas. For example, segmentation of the target market was not conducted independently; instead, the analysis followed the segmentation scheme already used by the case company, based on product categories and geographic markets.

1.3 Structure of the thesis

This thesis consists of five chapters. This introduction chapter discusses the motivation and background of the thesis, sets the objective and related research question of the thesis, and provides an overview of the relevant case company context.

The following chapter, theoretical approaches to corporate growth, forms the theoretical part of the thesis. It covers the three literature streams that ultimately form the evaluation framework. It starts with a review of the adjacency growth literature and concludes that while the literature introduces the three key recurring success factors in growing beyond the scope of the existing business, it lacks actionability and connection to more established literature. I then move on to the two complimentary streams, corporate diversification and market competition, establishing their fundamentals and scouring them with a focus on what could be the implications for a firm considering growth beyond the scope of its existing business. The chapter is concluded with a synthesis of the literature and its implications for any firm evaluating a growth opportunity beyond the scope of its existing business.

The third chapter presents the methodology of the study. It explains the reasoning behind the choice of a single-case study and describes the research design and data collection methods.

The fourth chapter takes the implications surfaced in the theory chapter and applies them to form an evaluation framework to the case company's specific expansion opportunity. The chapter is structured around the two central evaluation questions: (1) Is the target market attractive? and (2) Can the firm establish a favourable competitive position within it? The analyses include both market-level and firm-level perspectives, covering aspects such as market size and growth, current and expected profitability, customer purchase criteria, and the case company's capability fit. These insights are used to form a basis for the recommendation presented in the next chapter.

Chapter five synthesizes the findings and discusses their implications. It begins by presenting the recommendation for the case company based on the results of the evaluation framework. This is followed by a discussion of the broader generalizability of the findings, contributing to both academic theory and managerial practice. The chapter concludes by outlining directions for future research and evaluating the limitations of the study.

The appendices provide additional materials that support the main analysis, including a description of the conducted interviews.

An overview of the thesis structure is presented in Figure 1.

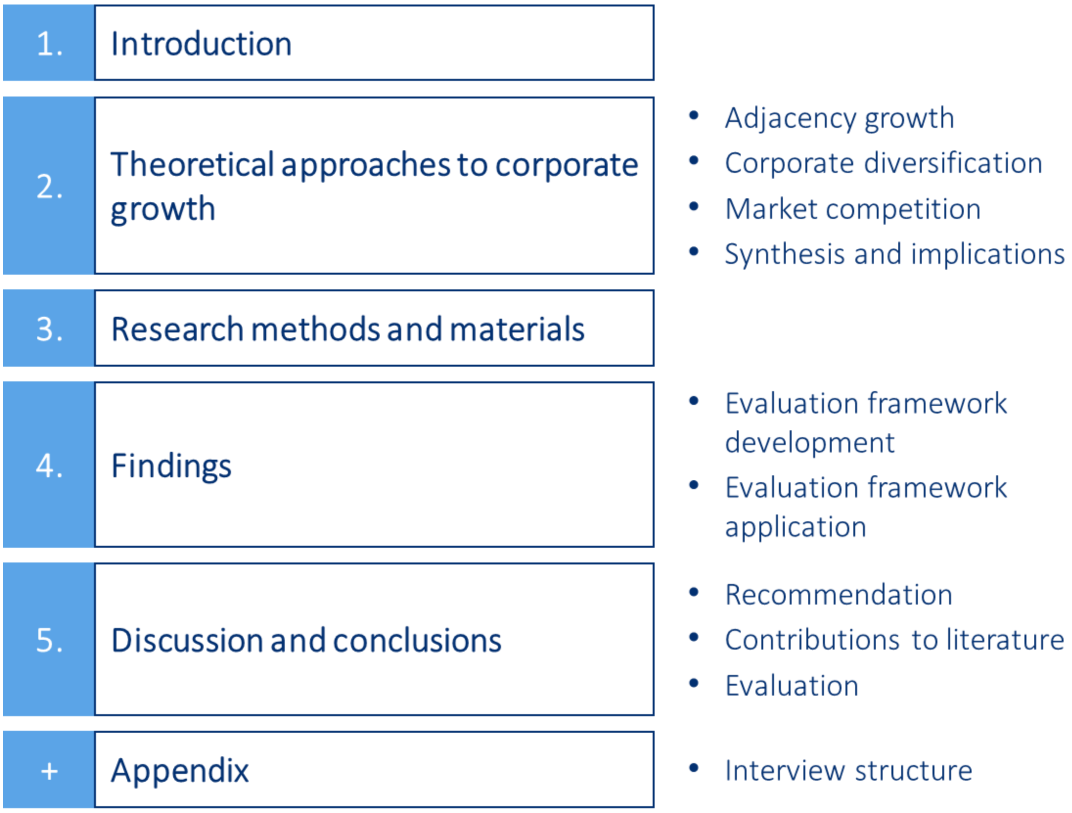

Figure 1. Thesis structure.

1.4 Introduction to the case company context

This thesis is a case study exploring how a firm might evaluate and decide whether to pursue a growth opportunity beyond the scope of its existing business. This section briefly outlines the case company's context in less academic terms to establish a foundation for the evaluation. Due to confidentiality agreements, the case company remains undisclosed, and certain details have been anonymized. While this can limit the depth at some parts of the analysis, care has been taken to maintain transparency around the evaluation logic throughout the thesis.

The case company is a leading global manufacturer of consumer goods operating in B2B markets. Although the company's core business remains highly profitable, its growth potential is constrained by a mature market with limited expansion opportunities. Consequently, management has turned its attention outward, seeking growth opportunities beyond the scope of the existing business. One such opportunity has been identified: entering a market with new customers but highly related products. These products are new in the sense that the company does not currently manufacture them, but they leverage the same underlying manufacturing technology as the company's core business.

Several dimensions of the case company context are critical for evaluating this growth opportunity and are outlined below. First, the product category under consideration includes two distinct sub-categories, referred to in this thesis as Category 1 and Category 2. Moreover, products in both categories can be manufactured from five different material types, each with different properties (e.g., cost, sustainability). These materials are anonymized in this thesis as Material 1, Material 2, and so forth. As alluded to above, the case company has significant expertise specifically in producing goods made from Material 5.

Another significant aspect of the growth opportunity is the investment required in new production capacity to enter this product category. While this thesis does not focus on specifying the parameters of the capacity expansion, such as the number or location of production machines, these factors set certain boundaries for the analysis. A key consideration is that due to the high fixed costs associated with investing in new production capacity, any expansion would require installing multiple assets, resulting in an incremental capacity increase of 300 million units produced.

Thirdly, the geographical dimension is also essential in evaluating the growth opportunity. As the case company manufactures physical products, the relevant markets are at least partially defined by location. Industry experts emphasize that it is not economically viable to ship these products over long distances due to their physical properties. As a result, the analysis focuses on a specific region and a defined set of countries where the case company's new production capacity would be expected to serve. These countries are, unsurprisingly, referred to in this thesis as Country 1, Country 2, Country 3, and Country 4.

Finally, it is important to highlight that regulatory uncertainty is a major factor in evaluating the opportunity. Upcoming regulatory changes affecting the use of Material 1 and Material 2 are expected to significantly influence material substitution dynamics within the target categories. However, the final form, timing, and enforcement details of these regulations remain unsettled. This regulatory uncertainty must be carefully considered when assessing the market's future potential and the risks associated with the expansion.

A summary of the key contextual dimensions relevant to the evaluation is presented in Table 1.

Dimension	Description
Product categories	Two distinct sub-categories, Category 1 and Category 2, considered for expansion
Material types	Five materials with different properties (Material 1 to Material 5); case company experienced in Material 5
Production capacity	Expansion would require an incremental addition of 300 million units due to high fixed investment costs
Geographical scope	Focus on a defined region covering Country 1, Country 2, Country 3, and Country 4
Uncertainty factors	Significant uncertainty particularly regarding regulatory developments

Table 1. Key contextual dimensions of the case.

2 Theoretical approaches to corporate growth

This thesis is concerned with developing a framework for evaluating whether a firm should pursue a growth opportunity beyond the scope of its existing business. To answer the main research question, a theoretical decision-making framework is developed by reviewing existing literature on firm growth.

The first literature stream reviewed, adjacency growth, addresses this question head-on by focusing specifically on how firms can expand beyond their core business. However, while the adjacency growth literature provides valuable insight—particularly by emphasizing the importance of relatedness to the core business, access to a profitable market, and achieving leadership economics—it is somewhat underdeveloped. In particular, it lacks actionability when it comes to evaluating how a firm might actually achieve a favourable competitive position, or "leadership economics," in practice. Therefore, two additional, more established streams of literature are reviewed in hopes of identifying actionable ways to evaluate and decide on growth opportunities.

The literature review thus consists of three main parts that together form the theoretical framework for the study. First, the adjacency growth literature is discussed, summarizing its key findings on growth beyond the core and the recurring success factors identified for such initiatives.

Second, to complement the insights from adjacency growth, two additional streams are introduced. The choice of these complementary streams is guided by a common academic framing of the two key questions firms must answer when evaluating growth opportunities: "where to grow" and "how to grow."

The corporate diversification literature addresses the "where to grow" question. It helps evaluate whether expansion into a particular new market or product category makes sense from a portfolio perspective, focusing on how relatedness between the existing and new businesses can enable value creation.

The market competition literature addresses the "how to grow" question. It provides tools for assessing whether a firm can establish a favourable and sustainable competitive position once it has identified an attractive opportunity, emphasizing the importance of aligning with customer needs and building defensible advantages.

Before diving into the complementary perspectives, we first turn to the adjacency growth literature, which directly addresses the challenges firms face when expanding beyond their core business. This stream provides the foundation for understanding the logic of adjacent expansion and introduces the key success factors that any evaluation must consider.

2.1 Adjacency growth

As discussed, growth is essential for companies for a multitude of reasons. It was also established that achieving and sustaining profitable growth is inherently challenging. Evidence indicates that once a company's core market matures, seeking new growth opportunities becomes fraught with risk. (e.g., Christensen, 2013) One perspective in the literature that has explored ways to overcome this growth paradox is the adjacency growth literature. This chapter introduces key perspectives on growth beyond a company's existing business, drawing primarily from the adjacency growth framework proposed by Zook (2004), grounding it with insights on new business building (Meyer, 2007), platform growth (Laurie, 2006; Ojanperä & Vuori, 2021), and the disruptive innovation perspective as articulated by Christensen (1997). This section first establishes a foundation for discussing growth outside a firm's existing business and then narrows the focus to identify the key success factors for achieving success in such endeavours.

2.1.1 Terminology of adjacency growth

Adjacency growth, or adjacent growth, is defined as the "use of existing positions and capabilities to enter new but related fields of activity, such as new categories, additional services, or new customer groups" (Pidun, 2019). This definition aligns closely with other related concepts, such as growth platforms, described as clusters of interconnected growth opportunities that are strategic and material in scale (Laurie, 2006; Ojanperä & Vuori, 2021), and new market applications, which leverage a firm's technical or production capabilities to serve new users or use cases (Meyer, 2007). According to Zook (2004), adjacency growth is characterized by three critical features.

Firstly, Zook (2004) suggests that adjacency growth builds on the foundation of a strong core business. The core business encompasses the firm's primary products, markets, and capabilities, which drive most of its profitability. By drawing on these strengths, adjacency opportunities not only extend the business but also reinforce and defend the core. Meyer (2007) echoes this view, emphasizing the importance of leveraging core skills and technologies in new market segments. Similarly, Pidun (2019) advocates for growth opportunities that maintain a connection to existing capabilities, ensuring they benefit from the core's competitive advantages. However, Christensen (1997) warns that excessive reliance on the core can create inertia, leaving firms vulnerable to innovative competitors who exploit weaknesses inherent in the traditional business model.

Secondly, Zook (2004) emphasizes that pursuing adjacency growth opportunities represents a true extension beyond the core business, distinguishing it clearly from incremental growth within the core. Zook proposes that all growth opportunities should be evaluated relative to the firm's existing core business. Opportunities that involve pushing the boundaries of the core—such as expanding into new products, customer segments, geographies, channels, or value chain steps—far enough to be considered distinct but not so far as to become unrelated diversification, are classified as adjacencies. Depending on how many dimensions shift, adjacency moves can remain relatively close to the core, for instance by selling existing products to new customer groups, or they can stretch farther from the firm's original base. Figure 2 illustrates how adjacency opportunities can vary in their distance from the core.

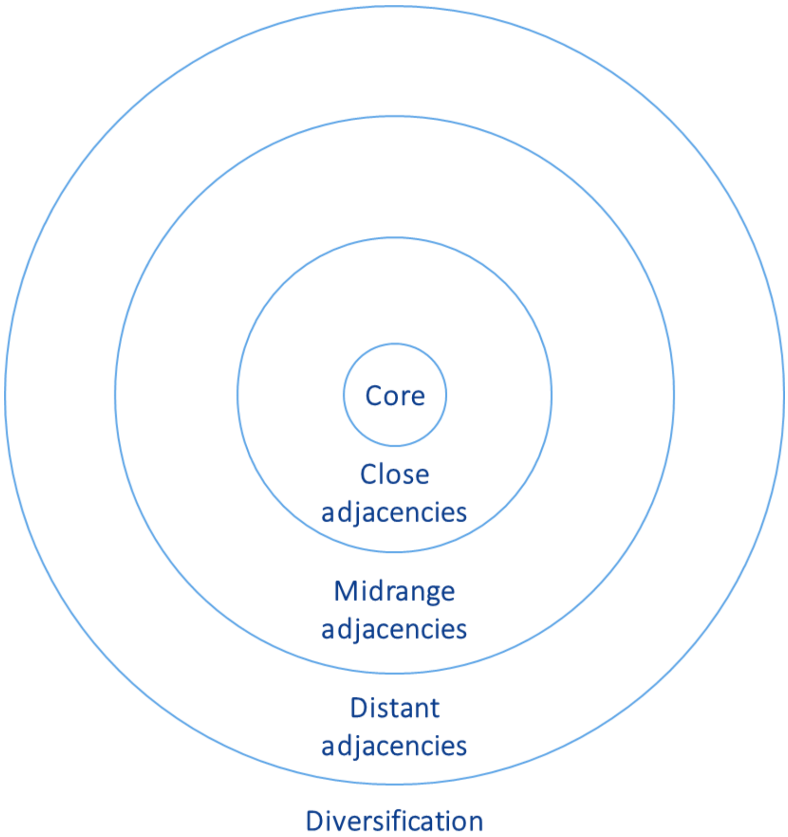

Figure 2. Classification of growth opportunities based on distance to core (Zook, 2004).

However, because adjacency growth necessarily involves stretching the firm's business scope, whether in terms of products, markets, or technologies, it also introduces an elevated level of risk. According to Zook (2004), only about one in four adjacency moves successfully deliver real growth. Pidun (2019) elaborates on the causes of failure: companies often underestimate the resistance posed by entrenched incumbents or the strength of new competitors; they overestimate the attractiveness and profit potential of adjacent markets, falling victim to the illusion that "the grass is greener" elsewhere; they overextend their internal resources, introduce organizational complexity, and divert managerial attention away from the core; and they misjudge the synergies between old and new businesses, discovering too late that technological similarities may be superficial.

This heightened risk relative to incremental core growth is recognized also by Meyer (2007), who nonetheless argues that adjacency growth moves are still less risky than "discontinuous projects" or "moonshot innovations"—growth initiatives that might require up to a decade to yield meaningful commercial results.

Thirdly, adjacency growth opportunities must be significant in scale and repeatable in nature. Zook (2004) argues that these opportunities should either generate substantial growth directly or lead to a sequence of related moves that cumulatively create material growth. He suggests that as much as 50 percent of the value of many stocks is based on investor expectations of adjacency-driven growth around a firm's core business. Meyer (2007) similarly highlights the transformative potential of new market applications, noting that they often constitute entirely new business models rather than mere product line extensions. Also, Laurie (2006), whose definition of growth platforms closely aligns with adjacency growth reinforces this perspective by emphasizing the scalability and interconnectedness of growth platforms, where one opportunity naturally leads to another.

2.1.2 Key success factors of adjacency growth

As established above, while adjacency growth can offer substantial upside, it also entails significant risks, and thus demands a careful and structured decision-making process. Companies are often faced with a seemingly overwhelming range of possible adjacency moves: Zook (2004) estimates that a typical core business has around one hundred potential adjacency opportunities at any given time. The challenge then becomes, how to decide which opportunities to pursue.

Many scholars stress the importance of a standardized and structured approach for evaluating growth moves. Christensen (2013) argues that the absence of such structured evaluation is one of the main reasons firms struggle to sustain profitable growth. Zook (2004) similarly warns that the high stakes of adjacency moves can distort managerial judgment, with decision-making often driven by excitement rather than rational analysis. As a countermeasure, he advocates for formalized processes that help organizations assess adjacency opportunities systematically rather than emotionally. Pidun (2019) reinforces this view, emphasizing that corporate leadership must implement the right frameworks, incentive structures, and resource allocation mechanisms to give growth initiatives the highest chance of success. Meyer (2007) likewise highlights that the major hurdle is typically not generating growth ideas but transforming them into scalable, commercially viable businesses.

While the exact structure of the evaluation process may differ between firms, certain key criteria can be identified as common across successful processes. More specifically, Zook (2004) proposes three broad success factors that any evaluation of adjacency growth opportunities must consider. These are summarized below in Table 2.

Success Factor	Description
Relatedness to the Core	The adjacency opportunity should have a clear and measurable connection to the firm’s existing customers, capabilities, cost structures, or competitors to leverage existing strengths.
Access to a Robust Profit Pool	The opportunity should tap into a sizable and sustainable profit pool, not merely a large revenue pool; profit potential must be assessed based on market structure and competition.
Path to Leadership Economics	The firm must have a credible plan to achieve sustainable cost or profitability leadership in the new market, ensuring the ability to reinvest and maintain advantage over time.

Table 2. Success factors in adjacency growth (Zook, 2004).

First, the opportunity must demonstrate clear and measurable relatedness to the firm's core business. Although superficial similarities often tempt firms into overestimating relatedness, Zook cautions that without a true strategic connection, initiatives are likely to fail. To assess relatedness more rigorously, Zook introduces the concept of economic distance—measuring how far the adjacency lies from the core along dimensions such as customer types, competitors, cost structures, and required capabilities. Pidun (2019) similarly stresses that initial growth beyond the core should prioritize adjacent fields where the firm’s assets and capabilities provide a tangible advantage, thereby leveraging existing competitive strengths.

Second, adjacency opportunities must connect to a robust profit pool. As Zook (2004) explains, attractive revenue figures alone do not guarantee a worthwhile market: firms must evaluate the available profit pool—the total amount of profits that can be captured within an industry. Estimating the size, growth rate, and economic structure of the profit pool, as well as understanding customer alternatives and competitive pressures, is critical. This distinction between profit pools and pure revenue size is also underscored by Gadiesh and Gilbert (1998), who point out that industries with large revenues may still have thin or negative profit margins. However, as Meyer (2007) notes, new profit pools can sometimes be created even in seemingly unattractive markets by establishing entry barriers or deploying new competitive models, often driven by cost innovation.

Third, the firm must have a credible path to achieving leadership economics within the targeted market. Zook (2004) argues that unless a firm has a clear plan for attaining a leadership position—particularly one based on sustainable unit cost advantages—it risks being out-invested by stronger competitors or trapped in a cycle of matching the leader's investments without matching their returns. Zook posits that 80 percent of the profit differential between leaders and followers can typically be explained by lower unit costs. This emphasis on achieving a durable leadership position is echoed across the growth literature. However, Christensen's (1997) theory of disruptive innovation adds a critical nuance: firms that become too focused on reinforcing their leadership position risk becoming vulnerable to disruptive entrants that introduce entirely new business models. Thus, while striving for leadership economics is crucial, firms must simultaneously stay alert to shifts in industry dynamics that could render existing leadership strategies obsolete.

In summary, the adjacency growth literature offers the beginnings of a blueprint for extending beyond a firm's existing business. It suggests that such opportunities must build on the strengths of the core business, be linked to robust profit pools, and offer a realistic path to sustainable leadership economics. Nonetheless, a gap remains: although the adjacency growth literature identifies these critical factors, it provides relatively limited actionable guidance, particularly on the second key question: how to achieve leadership economics once an opportunity is identified. Of the two questions raised by scholars seeking better evaluation frameworks, where to grow" and "how to grow, the former is addressed more thoroughly by the existing literature, while the latter still requires additional theoretical development. This shortcoming motivates the next steps of the literature review.

2.2 Corporate diversification

The second stream of literature that examines growth beyond a firm's existing portfolio is corporate diversification. The central questions in this literature include what portfolio of businesses a firm should operate in and what constitutes the optimal level of diversification for performance (e.g., Markides & Williamson, 1994; Aggaral & Samwick, 2003). By definition, a company's degree of diversification results from decisions about whether to pursue growth opportunities involving new products and new markets. Importantly, these questions also align with the first of the two guiding questions that firms face when evaluating growth beyond their current scope: "where to grow?" Given this connection, the corporate diversification literature could offer valuable insights for firms considering expansion beyond their existing portfolio, thereby warranting a closer review.

This section first establishes a definition of corporate diversification, then examines its relationship with firm performance, and finally explores the concepts of related diversification and the resource-based view as frameworks for understanding when diversification is most likely to create value.

2.2.1 Definition of corporate diversification

The study of corporate diversification can be traced to fundamental works by Ansoff (1957, 1958), Chandler (1962), and Gort (1962). In one of the early works on firm growth, Strategies for Diversification, Ansoff (1957) categorized all possible growth opportunities available to a firm into four alternatives based on how they alter the firm's product-market structure. These alternatives, market penetration, market development, product extension, and diversification, are often summarized in the well-known Ansoff Growth Matrix. (see Figure 3 below).

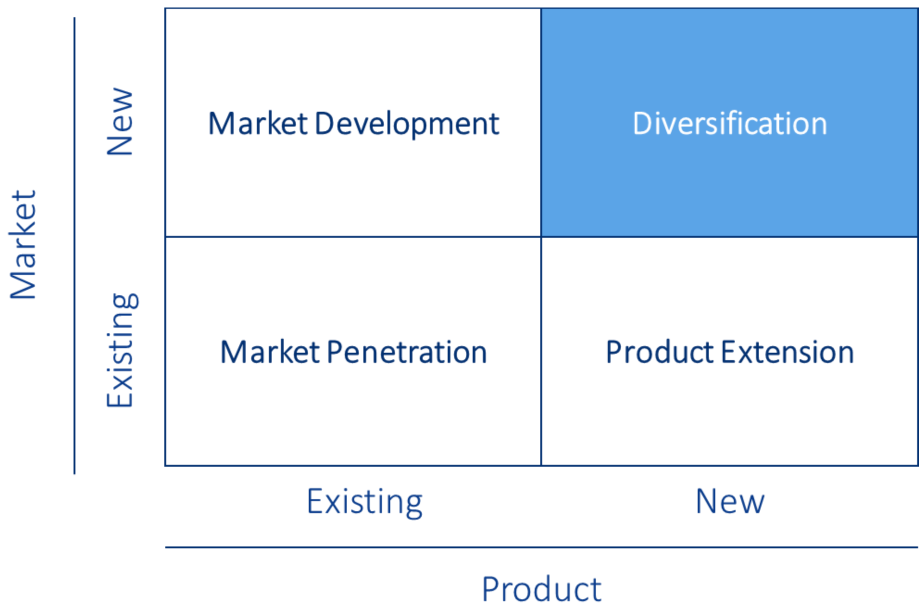

Figure 3. Classification of growth opportunities based on product-market structure.

As defined by Ansoff (1957), diversification specifically refers to situations where a firm pursues growth by entering new markets with new products. In this sense, diversification represents the most substantial departure from a firm's existing business activities, as it alters both the product and market dimensions simultaneously. This distinguishes it from strategies involving movement along only one dimension, such as expanding into new markets with existing products or offering new products to existing customers.

Over time, the definition of diversification has broadened beyond Ansoff's original formulation. Contemporary perspectives (e.g., Cardinal et al., 2011; Montgomery, 1985) have expanded the concept to include an increase in various forms of heterogeneity. Diversification is now understood to encompass entry into entirely new industries, serving new customer segments, offering new product lines, employing different types of resources, or expanding operations internationally. Considering the case company's situation, evaluating a growth opportunity involving new customer segments and new products leveraging existing technology, these broader interpretations of diversification are particularly relevant. Thus, an investigation into the diversification literature is warranted to extract insights applicable to the case company's evaluation.

2.2.2 Diversification and firm performance

During the 1960s, diversification became a dominant strategy for corporate growth, leading to the rise of large, diversified conglomerates (Knecht, 2013). This widespread adoption of diversification triggered a wave of academic research into its relationship with firm performance, making it one of the most extensively studied topics in strategic management (e.g., Grant, 2005; Rumelt et al., 1994). Scholars have investigated fundamental questions including why firms diversify, what benefits and risks diversification entails, whether diversification creates or destroys value, and what constitutes the optimal degree of diversification for a firm (Grant, 2002; Rumelt et al., 1994).

Although firms pursue diversification for various reasons, these motivations can generally be categorized as either proactive or defensive (Ramanujam & Varadarajan, 1989). Proactive motivations involve the pursuit of new growth opportunities. For instance, firms with mature core businesses generating strong cash flows but limited reinvestment opportunities may seek to diversify in order to deploy capital into promising new ventures. However, some critics argue that proactive diversification strategies are occasionally driven by managerial self-interest rather than shareholder value creation. Motives such as empire-building are often cited, linked to the perception that larger firm size brings greater power, prestige, and personal financial rewards for management teams (Pidun, 2019; Montgomery, 1994).

Conversely, defensive motivations are aimed at mitigating risks or addressing underperformance. One common defensive rationale for diversification is risk reduction, wherein firms spread business risks across different industries or markets to protect themselves from volatility in any single domain. However, critics of this rationale point out that investors can often achieve similar risk reduction independently by diversifying their own investment portfolios (Knecht, 2013). Another defensive motivation is strategic renewal. Firms facing declining performance in their core businesses may use diversification to reallocate resources toward industries or market segments offering higher growth or return potential, thus revitalizing the overall portfolio (Pidun, 2019).

In addition to these motivations for diversification, several theoretical perspectives have been proposed to explain the potential benefits of diversification. One widely discussed perspective is the synergy argument, closely aligned with the resource-based view, which suggests that value can be created through the sharing and transfer of resources across business units, resulting in combined value exceeding that of the units operating independently. Another perspective, the market power argument, posits that diversification enhances a firm's ability to exert pricing and competitive power in its markets by increasing its size and influence (Shepherd, 1970). A third perspective frames diversification as a tool for risk reduction, allowing firms to balance performance across multiple businesses and mitigate exposure to individual market shocks (Amit & Livnat, 1988). A fourth view, based on transaction cost theory, proposes that diversification can create internal markets that reduce information asymmetries and coordination costs compared to relying on external market mechanisms (Williamson, 1975).

Despite these potential advantages, diversification is not without significant risks and limitations. In general, the primary challenge lies in the expanding scope of the firm, which complicates management and decision-making. More specifically, Knecht (2013) identifies three main costs associated with diversification. First, implementation difficulties are common when integrating diverse businesses, potentially limiting the realization of synergies. Second, diversification increases organizational complexity and coordination costs. Managing a more heterogeneous portfolio requires additional managerial resources and more extensive monitoring systems, which can slow down decision-making and increase inefficiencies (Rawley, 2010; Pidun, 2019). Furthermore, this complexity can obscure the performance of individual business units, allowing underperforming units to evade scrutiny. Third, effective management of a diversified firm requires a deep understanding of the success factors in each business area. In the absence of sufficient expertise, resource allocation decisions may be suboptimal, undermining the potential benefits of diversification (Knecht, 2013). These risks often lead investors to advocate for focused portfolios, urging firms to divest non-core businesses and concentrate on areas where they have clear competitive advantages.

The key potential benefits and risks associated with diversification, as identified in the literature, are summarized in Table 3 below.

Potential diversification benefits	Potential diversification risks
Sharing and transferring resources across businesses to create synergies (resource-based view)	Implementation difficulties limiting realization of synergies
Enhancing market power through greater size and influence (market power argument)	Increased complexity and coordination costs, leading to inefficiencies
Reducing risk by balancing performance across different businesses (risk reduction argument)	Performance opacity, allowing underperforming units to evade scrutiny
Reducing transaction costs by creating internal markets (transaction cost argument)	Lack of deep expertise in all business areas, leading to suboptimal resource allocation

Table 3. Key benefits and risks associated with diversification.

Empirical findings on the relationship between diversification and firm performance have been mixed. Some studies suggest that diversification creates value, while others find that it can harm performance (e.g., Lahovnik, 2011). Pidun's (2019) review of the literature concludes that the effect of diversification is highly context dependent. Nonetheless, a recurring pattern across studies is the existence of a curvilinear, or inverted U-shaped, relationship between diversification and firm value, wherein moderate levels of diversification enhance firm performance, but excessive diversification leads to diminishing returns (Nippa et al., 2011; Palich et al., 2000).

One critical factor influencing the success of diversification is relatedness, the degree of similarity among a firm's business units in terms of customer bases, resource usage, or operational capabilities (Rumelt, 1974). Related diversification, where a firm expands into businesses that share meaningful commonalities with its core, is generally found to be more successful because it allows for the leveraging of existing strengths and synergies. In contrast, unrelated diversification tends to struggle with realizing these benefits, often failing to generate the hoped-for performance improvements (Knecht, 2013).

Very (1993) summarizes the consensus neatly, stating that "achieving superior performance through diversification is largely based on relatedness."

This view is reinforced by a meta-analysis conducted by Schommer et al. (2019), who find that although the average level of diversification has declined over time, related diversification has become increasingly prominent since the late 1990s. Together, these findings underscore the fact that the benefits and risks of diversification are highly firm-specific. The optimal degree and type of diversification for any given firm depend heavily on context-specific factors, emphasizing the importance of thorough evaluation before pursuing diversification strategies.

In conclusion, the current literature supports the view that, on average, diversification (which increases when pursuing growth opportunities in new products and new markets) per se has no universally positive or negative effect on firm performance. This insight frees management from ideological biases against diversification and shifts attention toward evaluating the conditions under which diversification is likely to create value. The most consistently cited explanation for successful diversification lies in the concept of relatedness. Furthermore, the resource-based view offers a comprehensive framework for understanding how relatedness drives value creation, making it a logical next step for deeper exploration.

2.2.3 Related diversification and resource-based view

The resource-based view (RBV) of the firm (Barney, 1991; Wernerfelt, 1984) offers a theoretical lens for understanding when and why diversification can create value. According to this perspective, a diversified firm's success depends on its ability to share and leverage valuable resources across different business units. Without effective resource sharing, a diversified firm may perform no better, or even worse, than the sum of its individual businesses operating independently (Robins & Wiersema, 1995).

In practical terms, the RBV highlights the importance of synergies, where two or more business units working together generate greater value than they would separately. In the context of corporate diversification, the degree of relatedness between businesses becomes a crucial determinant of whether such synergies are achievable. Relatedness, therefore, is often viewed as a necessary condition for realizing the benefits that diversification can theoretically offer (Knecht, 2013).

Building on this foundation, relatedness in diversification has been categorized into two distinct forms: operational relatedness and strategic relatedness (Rumelt, 1974; Markides & Williamson, 1994). While both types of relatedness offer pathways to value creation, they differ significantly in their nature, durability, and implications for competitive advantage.
Operational relatedness occurs when businesses share tangible resources such as production facilities, input factors, customer bases, or distribution channels. For example, firms can achieve cost efficiencies through shared manufacturing infrastructure, joint procurement of materials, or targeting similar customer segments (Rumelt, 1974). These synergies can manifest as cost advantages, such as economies of scope, or revenue synergies through opportunities like cross-selling. Although operational relatedness can create immediate and measurable benefits, it has been critiqued within the RBV framework for being relatively easy to replicate. Many operational assets, whether material or intangible, can be acquired through market transactions such as purchases, leasing, or licensing agreements. Moreover, operational synergies are often replicable through mergers, partnerships, or outsourcing arrangements, making them a less sustainable source of competitive advantage over the long term (Knecht, 2013).

In recognition of these limitations, research attention has increasingly shifted toward strategic relatedness. Strategic relatedness concerns the sharing and transfer of strategic assets, which are resources that competitors cannot easily acquire, replicate, or substitute. Markides and Williamson (1994) argue that operational relatedness emphasizes static economies of scope, whereas strategic relatedness captures the dynamic potential for building and sustaining competitive advantages. Examples of strategic assets include not only proprietary technologies and brand reputation but also less tangible capabilities, such as an organization's ability to anticipate customer needs or manage large-scale, complex operations effectively. Strategic assets are often the outcome of years of experience, learning, and embedded organizational routines, and thus cannot easily be replicated by competitors. Consequently, strategic relatedness provides a more enduring basis for synergies and competitive advantage than operational linkages. (Robins & Wiersema, 1995; Knecht, 2013).

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In summary, the literature generally supports the view that related diversification creates more value than unrelated diversification. The RBV provides a framework for understanding why this is the case, focusing on the role of shared resources and synergies in creating competitive advantage. Traditional operational relatedness is often viewed as a necessary condition for achieving synergies in diversification strategies. Moreover, strategic relatedness, which emphasizes the use of resources that are difficult to imitate, is considered a stronger contributor to improved performance in diversified firms compared to operational relatedness, which competitors can replicate more easily. As a result, risks associated with diversification are higher when the opportunity is unrelated to the firm's existing customer base, markets, or capabilities, highlighting the importance of relatedness in reducing complexity and enhancing value creation.

2.3 Market competition

The two literature streams covered thus far, adjacency growth and corporate diversification, have primarily addressed the question of where firms should seek new growth opportunities, approaching the topic from a largely top-down perspective. However, as established earlier, a second critical question when evaluating growth opportunities is how a firm can grow in a way that creates, rather than destroys, value. This concern centers on a firm's ability to achieve a competitive advantage in the new product or customer market (e.g., Coyne, 1986).

The prevailing view is that firms should only pursue growth opportunities in markets where they can reasonably expect to establish a competitive advantage. For a firm considering entry into a new market, this raises two fundamental questions: (1) How can it predict whether it will have a competitive advantage? and (2) How can such an advantage be maintained?

2.3.1 Competitive strategy and competitive advantage

In contrast to corporate strategy, which focuses on selecting a portfolio of businesses, competitive strategy operates at the business-unit level. It seeks to explain why some firms outperform their rivals within an industry, focusing specifically on "defeating competitors and achieving dominance in a product/market segment" (Coyne, 1986; Javidan, 1998).

At the heart of competitive strategy lies the concept of competitive advantage. Although extensively discussed in the strategic management literature, competitive advantage remains somewhat vaguely defined. Most definitions converge around the idea that competitive advantage manifests as value creation, often measured in financial returns. However, there is little consensus about to whom the value accrues (e.g., customers, shareholders) and over what time horizon (Rumelt, 2003).

Competitive advantage is inherently relative, meaningful only when compared to specific competitors or groups of competitors within a market, strategic group, or industry (Hu, 1995; Kay, 1993). Importantly, while firms may possess numerous advantages, such as superior production systems, cost efficiencies, or customer service, the advantages that matter in the competitive process (i.e., which firm a customer chooses to purchase from) are those that customers value and consider critical when making purchasing decisions (Coyne, 1986).

An especially important dimension of competitive advantage is its sustainability. As Aharoni (1993) notes, “strategy entails an attempt by a firm to achieve and sustain competitive advantage over other firms.” Sustainability does not imply permanence but instead refers to the extent to which competitors are unable to replicate or erode a firm's advantage over time (Gunther McGrath et al., 1995).

Several major perspectives have been developed to explain the origins and nature of sustainable competitive advantage. Four of these are summarized below in Figure 4.

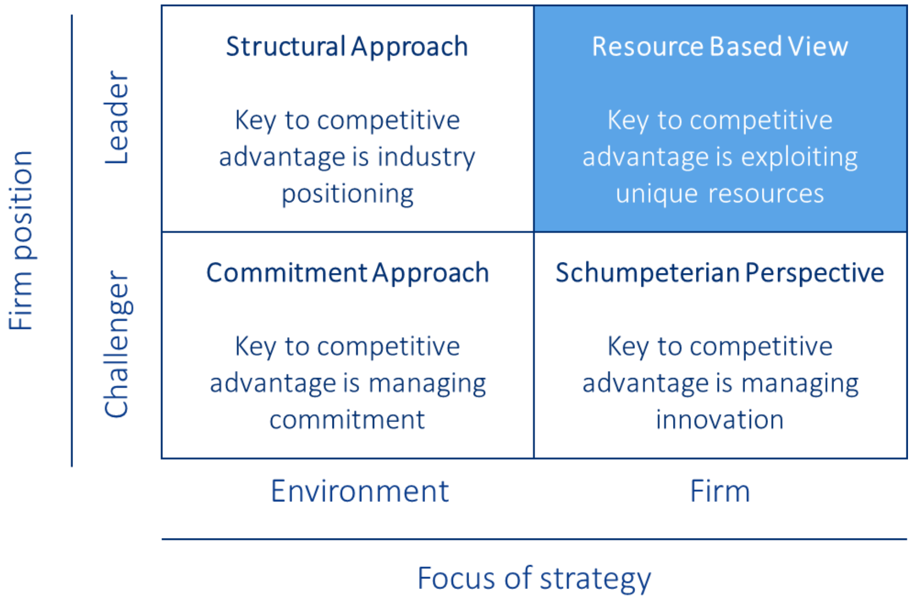

Figure 4. Major perspectives on the nature of competitive advantage (Ma, 2003).

One influential view is the structural approach, pioneered by Porter (1980; 1985), which emphasizes the firm's positioning within the industry and its ability to influence or adapt to competitive forces. Factors such as market power, barriers to entry, and control over suppliers and customers all contribute to sustaining an advantage. Another, likely the most widely recognized perspective is again the resource-based view (RBV) of the firm, which shifts the focus inward. Instead of external market positioning, the RBV attributes performance differences to unique, valuable, and hard-to-replicate internal resources (Fahy, 2000).

In addition to these two main perspectives, two others enrich the understanding of sustainable advantage. The commitment perspective, drawing from game theory and industrial organization economics, emphasizes that selective, irreversible investments can secure enduring advantages (e.g., Caves, 1984, Ghemawat, 1991). Meanwhile, the Schumpeterian perspective focuses on innovation and creative destruction, arguing that firms can establish advantage by redefining industries and avoiding head-on competition with incumbents (e.g., Schumpeter, 1950, Foster & Kaplan, 2011).

2.3.2 Sustainable competitive advantage and resource-based-view

As said, the resource-based view of the firm has emerged perhaps as the most prominent theory of competitive advantage. As such, it attempts to explain why firm-level performance differences exist, and why they persist despite open competition, two questions very influential to a firm considering pursuing a growth opportunity in an unfamiliar market, beyond the scope of its existing business.

As summarized by Fahy (2000), the resource-based view offers a framework for understanding how firms achieve and sustain competitive advantage. It is based on the assumption that the goal of managerial effort is to establish a sustainable competitive advantage, enabling the firm to earn economic rents or above-average returns. The RBV focuses on the role of a firm's resources in creating and sustaining these advantages, emphasizing that the effective deployment of key resources within product markets is essential. In addition to the resources themselves, the RBV highlights the importance of strategic decision-making by management in identifying, developing, and leveraging these resources to maximize performance.

One central question in this framework is: What types of resources create competitive advantage? The RBV suggests that not all resources contribute equally to competitive outcomes. Instead, it focuses on the specific characteristics of resources that enable firms to achieve SCA. Barney (1991) proposes four criteria that resources must meet to provide a competitive advantage: they must be valuable, rare, inimitable, and non-substitutable. Other scholars, such as Grant (1991), expand this view by emphasizing additional factors, including durability, transparency, transferability, and replicability. Collis and Montgomery (1995) propose a related framework, identifying inimitability, durability, appropriability, substitutability, and competitive superiority as key tests for resources. Amit and Schoemaker (1993) further refine these characteristics, introducing criteria such as complementarity, scarcity, and low tradability. Fahy (2000) synthesizes these perspectives, organizing them into three broad categories: value, barriers to duplication, and appropriability. These characteristics are summarized in Table 4 below.

Characteristic	Description
Value	The resource must allow the firm to meet customer needs more effectively or efficiently than competitors, ideally through differentiation aligned with key purchase criteria.
Barriers to duplication	The resource must be difficult or costly for competitors to imitate, enabled by factors such as capability gaps and causal ambiguity
Appropriability	The firm must be able to capture and retain the value created by the resource, preventing it from being fully appropriated by customers or employees

Table 4. Characteristics of resources contributing to competitive advantage (Fahy, 2000).

The first characteristic, value, is critical for a resource to contribute to competitive advantage. Barney (1991) explains that resources are valuable when they allow the firm to implement strategies that improve efficiency or effectiveness in meeting customer needs. One perspective is provided by Coyne (1986), who also emphasizes that value perceived by the customer is essential, specifying that the customer makes their purchasing decision without knowing or caring about the internal characteristics of the supplier firm that are not reflected in the attributes of its products and services. Instead, for a resource to be valuable, it must produce a consistent difference in *product/delivery attributes*, i.e., attributes that affect the market and thus the customer's selection of producer such as price, quality, aesthetics, and availability, between the producer's product or service and those of the competitors. Furthermore, those attributes must be considered important by the customer, that is, *a key buying criterion* for the market. While Coyne's perspective is more detailed, it aligns with Amit and Schoemaker's (1993) perspective, who argue that to be valuable, a firm's resources must overlap with strategic industry factors, a set of resources that has become a determinant of success in an industry.

The second characteristic, barriers to duplication, addresses the ability of firms to protect their valuable resources from imitation by competitors. Numerous classifications of these barriers exist, including asset stock accumulation (Dierickx and Cool, 1989), capability gaps (Coyne, 1986), and causal ambiguity (Reed and DeFillippi, 1990). Coyne (1986) identifies four types of capability gaps that underpin barriers to duplication: business system gaps, which arise from unique production efficiencies or technical expertise; position gaps, based on historical advantages such as brand reputation or geographic proximity; regulatory or legal gaps, derived from protections like patents and licenses; and organizational or managerial quality gaps, reflecting the firm's ability to innovate and adapt more effectively than competitors. Fahy (2000) synthesizes these classifications, emphasizing that barriers to duplication exist when resources are inimitable, immobile, and non-substitutable.

The third characteristic, appropriability, focuses on the firm's ability to capture the value created by its resources. Competitive advantage generates value that can be appropriated by various stakeholders, including customers, employees, governments, and shareholders (Collis and Montgomery, 1995; Kay, 1993). For competitive advantage to translate into sustained financial performance, the firm must ensure that it can appropriate a significant portion of this value. Physical and financial assets typically allow for easier appropriation, whereas intangible assets, such as brand equity and intellectual property, present greater challenges (Grant, 1991). However, in the context of competitive strategy, the emphasis is often on defeating competitors and securing a dominant position within the market segment, with financial appropriation viewed as a secondary concern.

In summary, the resource-based view provides a framework for understanding how firms achieve and sustain competitive advantage. For a resource to contribute to a sustainable competitive advantage, it must enable the creation of customer value, be protected by barriers to duplication, and allow the firm to appropriate the value generated. While having a sustainable competitive advantage is not a guarantee of financial or business success—as firms may survive in markets without one—it nonetheless serves as an important guiding principle: firms should prioritize entering markets where they can reasonably expect to establish such an advantage.

In practical terms, predicting whether a firm will have a competitive advantage requires assessing the key purchase criteria that drive customer choice in the target market and evaluating whether the firm's product or service offering is positively differentiated against competitors on those criteria. Maintaining this advantage over time requires ensuring that the differentiation is underpinned by capability gaps—structural, positional, regulatory, or organizational—that competitors will find difficult or costly to replicate.

2.4 Synthesis of literature and research gap

It was established in the beginning of this chapter that firms increasingly face the challenge of deciding where to grow and how to grow. The brief literature review has so far covered three perspectives on corporate growth: two that primarily address the question of where to grow—adjacency growth and corporate diversification—and one that focuses on how to grow, namely market competition. Since the aim of this study is to develop an actionable evaluation framework for a company assessing a growth opportunity beyond the scope of its existing business, the following section synthesizes the key messages from these literature streams and their implications for firms in such situations. A summary is presented in Table 5.

From the adjacency growth perspective, a structured process is recommended for evaluating opportunities beyond the core business. Such a process should reflect three key success factors: relatedness to a strong core business, access to a robust profit pool, and the potential to achieve leadership economics. For a firm evaluating a new opportunity, these considerations suggest that the opportunity should not be too distant from the core. This ensures the firm can benefit from its existing strengths and avoids overextending managerial attention or resources. It also implies that the profit pool associated with the new opportunity must be sufficiently attractive and not expected to diminish over time. Furthermore, the firm must assess whether it can realistically achieve a cost or differentiation advantage in the new area to compete effectively and justify reinvestment.

The corporate diversification literature similarly points to the importance of relatedness. While there is no universal relationship between the level of diversification and firm performance, value creation tends to be highly context dependent. Where diversification does generate value, it is most often due to strategic relatedness between the existing and the new business. Operational relatedness may serve as a prerequisite, but it is the strategic connection—typically through shared, hard-to-replicate resources—that predicts long-term success. Interestingly, this view is consistent with the idea of economic distance found in the adjacency growth literature. The implication for a firm is again that growth efforts should build on the capabilities and strengths of its current business.

The market competition literature shifts focus to how a firm should grow once it identifies a new market. For growth to contribute to creation of economic value, firms are as a principle advised to enter markets where they expect to be able to create a sustainable competitive advantage. Such an advantage is usually based on product or delivery attributes that align with the key purchasing criteria of customers in the target market. To establish this advantage, the firm must be able to positively differentiate its offering from that of competitors. For this differentiation to be durable, it must stem from a capability gap between the firm and its rivals, rather than superficial product differences. As a result, firms must closely assess the key purchase criteria in the new market and compare their capabilities with those of competitors to determine whether a competitive edge is realistically achievable.

Together these three perspectives offer insights for firms evaluating opportunities beyond their existing business, touching on both where and how to grow. Despite their individual contributions, a gap remains in integrating these perspectives into a cohesive, practical framework that firms can apply in real decision-making contexts. The existing literature provides limited guidance on how to combine the concepts found in adjacency growth literature, diversification literature, and competitive advantage into a structured tool for evaluating specific product-market opportunities. This study aims to address that gap by synthesizing the insights into a unified framework tailored to the case company's context.

Literature Stream	Illustrative works (non-exhaustive)	Summary of key messages	Implications for evaluating growth opportunities beyond existing business
Adjacency growth	Zook (2004) - *Beyond the Core: Expand Your Market Without Abandoning Your Roots*	- Growth opportunities can be classified based on their "economic distance" from the core business. - A structured process is needed for evaluating adjacency growth opportunities. - Success depends on: (i) relatedness to a strong core, (ii) access to a robust profit pool, (iii) potential for leadership economics.	WHERE TO GROW: - Ensure the profit pool is attractive and not evaporating. - Assess economic distance: growth should not divert focus and resources from the core. HOW TO GROW: - Evaluate whether leadership economics can be achieved to justify reinvestment.
Corporate diversification	Ansoff (1957) - *Strategies for Diversification*	Growth opportunities can be classified by how they alter product-market mix. - No universal link between diversification level and firm performance; value creation is context-dependent. - Strategic relatedness (shared hard-to-replicate resources) predicts success.	WHERE TO GROW: - Ensure strategic relatedness between the existing and new businesses. HOW TO GROW: - Evaluate under which specific conditions diversification into new products or markets creates value.
Market competition	Coyne (1986) - *Sustainable Competitive Advantage – What It Is, What It Isn't*	Firms should only enter markets where they can build a sustainable competitive advantage. - Competitive advantage is tied to delivering superior attributes aligned with customer purchase criteria. - The advantage must stem from a capability gap that is hard for competitors to replicate.	HOW TO GROW: - Identify key purchase criteria in the market and benchmark own offering against competitors. - Ensure differentiation is rooted in hard-to-replicate capabilities

Table 5. Synthesis of literature.

3 Research methods and materials

This chapter outlines the research approach and materials employed in this thesis. The goal of the study is to develop and apply a decision-making framework that helps the case firm evaluate whether to pursue a product-market expansion beyond its current business scope. The chapter begins by discussing the rationale for the research approach selected and the theoretical basis used in the framework development. It then outlines the practical execution of the study, including the types of data and analysis conducted.

3.1 Introduction to research approach

As discussed in the previous chapters, growth is critical for the long-term success of firms, yet many struggle to determine where and how to grow. This challenge is particularly relevant for firms in mature markets where opportunities often lie outside the firm's current business. In such situations, uncertainty increases, and decision-making becomes more complex. Existing research has called for more structured and systematic methods for evaluating such growth opportunities.

Three academic perspectives were found to be particularly relevant for this thesis. The starting point was the literature on adjacency growth, which directly addresses the question of how firms can expand beyond their core business. However, to complement the stunted literature stream, two additional literature streams were selected on the grounds of them appearing to support the two guiding questions proposed by academics in this context: "Where to grow?" and "How to grow?"

The diversification literature focuses on whether expanding into new markets or products creates value from a corporate portfolio perspective. The market competition literature, in turn, concerns itself with how firms can achieve a defensible competitive position in new markets. While each stream contributes valuable insights, they have traditionally been studied in isolation.

To address this gap, the study adopts a qualitative case study approach. Case studies are appropriate when the goal is to build understanding of relationships between concepts, and when contextual depth is necessary (Yin, 2018). In particular, a case study allows for the synthesis of conceptual frameworks with real-world decision-making, which suits the exploratory and applied nature of this thesis. While the primary methodology is qualitative, selected quantitative analyses were included to support key assessments, such as market sizing and cost competitiveness.

3.2 Execution

In line with the research approach described above, the execution of the study followed three main steps. First, academic literature was reviewed to develop a structured decision-making framework suitable for evaluating growth opportunities beyond a firm's current business. Second, this framework was applied to a real-world case involving a potential expansion by the case company. Third, the results of this analysis were synthesized to generate a recommendation for the case company and to reflect on the broader applicability of the framework.

The development of the framework began with a review of the adjacency growth literature. Building on this foundation, two complementary literature streams were incorporated. Each contributed distinct perspectives on how to evaluate growth opportunities.

The corporate diversification literature helps assess whether the opportunity is likely to create value from a portfolio perspective. It emphasizes the importance of relatedness—particularly strategic or operational relatedness—between the new business and the existing one, as a key condition for achieving synergies and improving overall firm performance. This perspective is particularly helpful in evaluating whether a diversification move aligns with the firm's current capabilities and resources.

The market competition literature shifts the focus from where to grow to how to grow successfully. It emphasizes the importance of entering only those markets where the firm can achieve and sustain a competitive advantage. This advantage is typically based on superior product attributes, cost structures, or service capabilities that align closely with customer purchase criteria. The literature also highlights the need to assess whether these advantages are durable—i.e., based on unique, hard-to-replicate capabilities.

Together, these three perspectives form a multi-level framework for evaluating product-market expansion. The framework was then applied to the case company's context using a combination of internal and external data sources.

Internal materials, including market models, cost and profitability data, and strategic planning documents, were used to estimate market size, expected growth, and cost competitiveness. External data was drawn from public sources such as annual reports, market research studies, and industry databases to triangulate the internal data and provide broader market context.

To complement the quantitative analyses and to provide deeper qualitative insights, a total of 12 semi-structured interviews were conducted for this thesis. Interviews were carried out with both internal experts from the case company and external stakeholders representing market participants and potential customers. The interviews primarily informed two parts of the analysis: first, the assessment of market attractiveness, particularly the identification of capability gaps and resulting barriers to competition; and second, the evaluation of the case company's potential to establish a favorable competitive position through the identification of key purchase criteria and competitive benchmarking.

The internal interviews accounted for three of the interviewees and focused mainly on identifying the capability gaps and resulting barriers to competition. The internal experts were also interviewed when comparing the performance of competing solutions across the identified key purchase criteria. The internal participants were selected from three functions, product management, sales, and operations, chosen due to their proximity to both the commercial and operational aspects. The remaining interviews were conducted with external market experts and potential customers, with a primary focus on identifying the key purchasing criteria in both product categories. The external interviewees were selected based on their roles in making purchase decisions within their respective industries. A summary of the interviewees and their roles is provided in Table 6.

Finally, insights from the literature and empirical analysis were synthesized to assess whether the case company should proceed with the proposed expansion. This synthesis also served as the foundation for the broader discussion on how firms might apply the proposed evaluation framework to similar strategic decisions.

Interviewee type	Role / Title	Function / Organization	Interview focus
Internal	Category Manager	Category Management	Competitive dynamics
Internal	Sales Manager	Sales	Competitive dynamics
Internal	Operations Manager	Operations	Competitive dynamics
External	Senior Buyer	Potential Customer	Key purchase criteria
External	Sustainability Manager	Potential Customer	Key purchase criteria
External	Procurement Manager	Potential Customer	Key purchase criteria
External	Category Manager	Market Expert	Key purchase criteria
External	Market Analyst	Market Expert	Key purchase criteria
External	Market Analyst	Potential Customer	Key purchase criteria
External	Market Analyst	Market Expert	Key purchase criteria
External	Director of Innovation	Market Expert	Key purchase criteria
External	Product Manager	Potential Customer	Key purchase criteria

Table 6. Interview summary.

4 Findings

This chapter presents the findings of the research process outlined in the previous chapter. It aims to provide a logical progression from the implications identified in the literature review to the analyses used to evaluate the growth opportunity and the resulting findings for the case company.

Specifically, this chapter is structured into two parts. First, a framework for evaluating the growth opportunity is developed based on the implications surfaced in the literature review. Second, the evaluation framework is applied to assess the growth opportunity identified for the case company.

4.1 Evaluation framework in case company context

In this section, a framework for evaluating the growth opportunity is developed, drawing on the implications highlighted in the literature review. As discussed in Chapter 2, firms evaluating product-market expansion face two fundamental strategic questions: "where to grow" and "how to grow". While these guiding questions provide useful direction, they must be translated into more analytically actionable terms for practical decision-making.

To do so, this thesis applies the profit pool lens from the adjacency growth literature. Firstly, it is evident that firms would prefer to grow in markets that are attractive. As to what constitutes an attractive market, as discussed in the literature review, the attractiveness of a market can be assessed based on the size and expected development of its profit pool, representing the total economic value available to all players. This provides the basis for rephrasing the first strategic question. The question of "where to grow" is thus formulated as:

1. Is the underlying market attractive overall?

However, the literature also makes clear that an attractive market is not sufficient on its own. As established in the competitive strategy literature, for growth to be value-creating, the firm should also have a credible path to establishing a competitive advantage. This principle is consistent with the second part of the profit pool logic, which holds that a firm's relative competitive position determines how much of the profit pool it can realistically capture. As such, the second strategic question, "how to grow", is reformulated as:

2. Can the case company achieve a favourable competitive position within the market?

With these two sub-questions in mind, the rest of the evaluation framework can be fleshed out. Both questions are further supported by sub-questions and corresponding analyses that are grounded in the literature and tailored to the case company context. Table 7 presents this framework, linking the main question of whether the case company should pursue the expansion to the two sub-questions, to the relevant theoretical implications and to the concrete analyses conducted during the study.

The first question, whether the underlying market is attractive overall, is informed primarily by the adjacency growth literature, which emphasizes calls for assessing the attractiveness of a market using the profit pool lens. Following this logic, four analyses are used to assess market attractiveness. Market size and market growth indicate the overall scale and development trajectory of the opportunity. For the purposes of the case company, a critical question here is whether the market is big enough to support the proposed capacity expansion. Current profitability is evaluated based on the observed performance of incumbent players. Finally, to estimate the profitability development of the industry, an analysis of the market's competitive dynamics is conducted. This analysis draws on the resource-based view, aiming to identify the capabilities that underpin the profitability of the current players, and assess whether or not they are likely to be duplicated by competitors. Together, these analyses aim to determine whether the target market represents a stable and substantial profit pool.

The second question, whether the case company can achieve a favourable competitive position in the market, draws on the competitive strategy and resource-based view literatures. These perspectives argue that sustainable value creation depends on the firm's ability to deliver a differentiated offering that aligns with customer needs and is supported by capabilities that are difficult to imitate. To assess this, the framework includes three complementary analyses. First, customer purchase criteria are identified, and the case company's offering is benchmarked against those of both direct and substitute competitors. Second, the firm's potential to achieve leadership economics is examined, assessing whether the case company is able to overcome the competitive barriers identified in the competitive dynamics analysis. Third, the analysis evaluates the economic distance between the new business and the firm's existing operations. This helps assess the likelihood that the case company can execute the opportunity without undermining its core business.

Key question	Sub-questions to answer	Literature implications	Analyses to be done
Should the case company expand into the new product-market category?	Is the target market attractive overall?	Assess the profit pool of the target market to make sure it's not evaporating	Market size
			Market growth
			Current profitability
			Competitive dynamics (barriers to competition, etc.)
	Can the case company compete profitably (i.e., achieve a favourable competitive position) in the market?	Determine the key purchase criteria of the market you are considering entering and compare against attributes of own and competitors' offering	Key purchase criteria and benchmark against competitors
		Assess the source of leadership economics in the adjacency and have visible path to achieving it to compete economically and justify reinvestment	Source of leadership economics and benchmark to competitors
		Assess the distance of the business entered through product-market expansion from the core business to ensure it does not divert resources away from the core	Economic distance from core business

Table 7. Evaluation framework.

4.2 Evaluation framework application

With the evaluation framework now in hand, this section applies the framework to the case company's specific context. The analyses proposed in the framework are conducted using both internal and external data sources to address both of the sub-questions.

4.2.1 Analysis of market attractiveness

This section aims to evaluate the attractiveness of the target market by drawing on the analyses proposed in the literature review. Specifically, the section covers four dimensions structured around the profit-pool lens. When done thoroughly, the exercise of mapping out an industry's profit pool is a heavy exercise. In addition to being an intensive calculation process, accurate financial data is a must. Due to these constraints, explicitly mapping out the profit pool in terms of absolute profit euros is beyond the scope of this study. However, it remains possible to apply the profit pool lens conceptually to assess market attractiveness. The two biggest modifications are made to the assessment of current profitability and expected profitability development. The profitability of existing competitors is used as a proxy for the current profitability of the market. Similarly, expected profitability development is proxied through an analysis of competitive dynamics, as the persistence or erosion of capabilities underlying the profitability of the current players can provide insight into the likely evolution of the profit pool.

Market size

Assessing the attractiveness of the market related to the proposed expansion begins with determining market size, representing the first dimension of the profit pool lens. Although a large market does not directly equate to an attractive market (Zook, 2004), it serves as a critical starting point for evaluating potential. A larger market size tends to support the viability of expansion efforts by indicating greater opportunities for revenue and profit generation, and by providing the possibility to sustain operations even if the firm captures only a modest share of the market.

The size of the target market related to the product-market expansion was estimated in terms of volume, i.e., pieces consumed per year, utilizing internal market models. Figures 5 and 6 present the estimated market size for the Categories 1 and 2 respectively, broken down by material and geography.

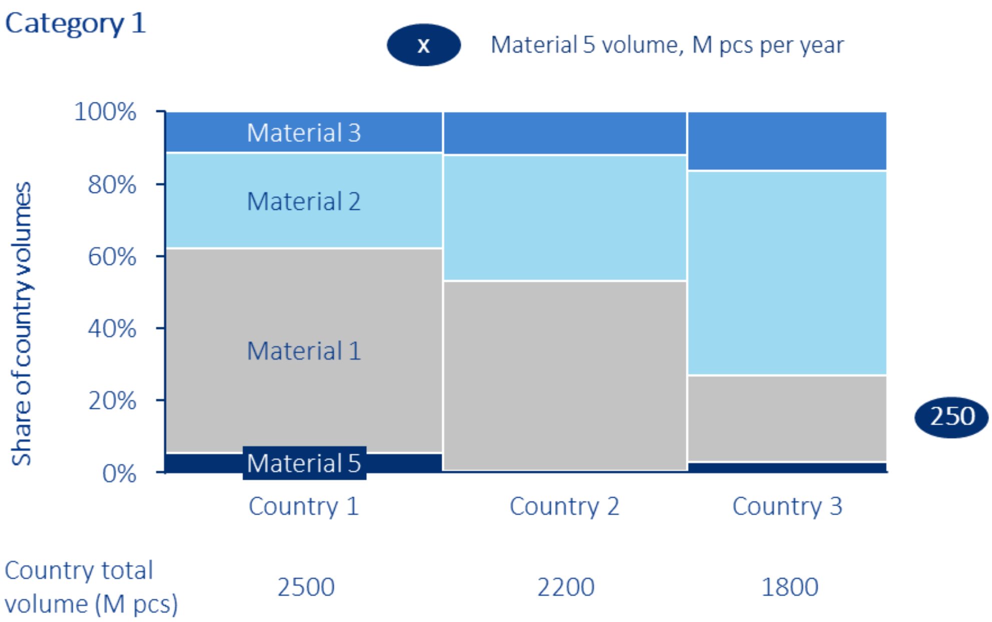

Figure 5. Category 1 market size by material and geography.

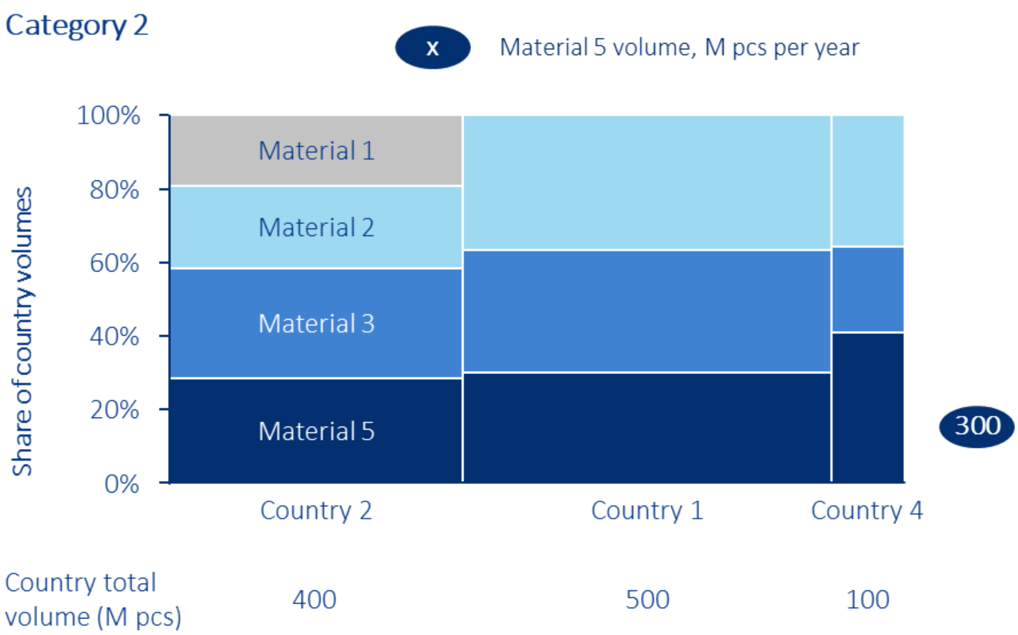

Figure 6. Category 2 market size by material and geography.

Across both product categories and all relevant geographies, the total market size was estimated at 7,5 billion pieces per year. Within this total market, Category 1 accounted for 6,5 billion pieces per year, while Category 2 represented 1,0 billion pieces per year. Material 5, the material used in the case company's production, accounted for only around 5% of Category 1, corresponding to a market size of around 250 million pieces per year. In contrast, Material 5 held a higher share of roughly 30 percent of Category 2, however still amounting to a similar market size of around 300 million pieces per year due to Category 2's smaller market size overall.

Evaluating whether the market size is sufficient requires considering the specific business context. For the case company, a key benchmark is whether the market can absorb the proposed capacity addition linked to the expansion opportunity. As outlined in the case company context, manufacturing products from Material 5 involves significant fixed investment, and therefore capacity expansion needs to occur in increments of approximately 300 million pieces per year to achieve favourable unit economics. Under the proposed expansion plan, about 150 million pieces would be allocated to Category 1 and another 150 million pieces to Category 2. Comparing the proposed capacity expansion to the existing market size, the expansion would result in an approximately 50 percent increase in Material 5 supply within both categories.

This scale of expansion suggests that unless Material 5 penetration within the overall market increases significantly, the proposed capacity addition would likely result in substantial overcapacity. The current market size alone does not appear sufficient to support the additional volume without triggering competitive pressures or capacity underutilization risks.

In summary, while the absolute market size is considerable in volume terms, it appears relatively small compared to the proposed scale of capacity expansion. However, given the low existing penetration of Material 5, especially in category 1, the opportunity for growth through the substitution of Material 1 and Material 2 remains significant. This dynamic will be further examined in the following analysis of market growth.

Market growth

As the current market size related to the expansion is relatively small, much of the attractiveness of the market in terms of volume hinges on expected growth. As discussed in the case company context, the hypothesis put forward by the company is that the primary driver of market growth will be upcoming regulation that facilitates the shift from Materials 1 and 2 to Material 5. Consequently, market growth was estimated by considering two components: the base growth of the overall market and, in addition to that, the potential regulation-driven substitution growth from Material 5 replacing Materials 1 and 2.

External data sources estimate that the base growth of the overall market will remain low, at approximately one to two percent per year for both Category 1 and Category 2. In the selected countries, this would increase the market size of Material 5 within Category 1 from 250 million pieces per year to approximately 260 to 280 million pieces per year in 2030, resulting in an incremental increase of 10 to 30 million pieces of demand. Similarly, for Material 5 within Category 2, the underlying market growth would increase the market size from 300 million pieces per year to approximately 320 to 340 million pieces per year by 2030, incrementally adding 20 to 40 million pieces of demand. Evidently, these incremental volume increases remain small when compared to the total proposed capacity addition of approximately 300 million pieces.

Beyond the organic market growth, regulatory developments have the potential to drive additional Material 5 penetration. Two primary types of regulatory changes could influence substitution growth. The first type, which is considered the more impactful of the two, is an outright ban on Materials 1 and 2 in certain product categories. In its current proposed form, this regulation is expected to affect the entire Category 1, requiring a transition from Materials 1 and 2 to alternative materials by 2030. This shift is anticipated to be significant, given that approximately 80 percent of the current Category 1 market is estimated to be Materials 1 and 2.

The second type of regulatory development consists of broader policies such as a blanket tax or fee on the use of Material 1 and 2, aimed at increasing the cost of using the materials. This approach is expected to mostly affect Category 2 since, in Category 1, the expected impact of the ban on Materials 1 and 2 would likely outweigh any price-based policy measures. Unlike the ban, which directly mandates a material transition, a tax or fee-based approach introduces a more market-driven dynamic with indirect and less predictable effects on Material 5 adoption.

Indeed, substantial uncertainty remains concerning the implementation, scope, and impact of these regulation measures. In the case of the ban on Materials 1 and 2, uncertainty stems from the fact that regulation details are yet to be finalized, leaving room for modifications or exemptions that could lessen the overall impact. Furthermore, affected parties retain the right to apply for exemptions, which introduces an additional layer of unpredictability. In the case of a tax or fee on the use of Materials 1 and 2, uncertainty arises from the absence of a uniform region-wide approach. Instead, various regional policies are expected to emerge, differing in whether they apply only to Material 1 or also extend to Material 2. Additionally, the extent to which these costs would be passed on to the customer remains unclear, making it difficult to assess the extent of material substitution driven by price increases.

To address this uncertainty, a scenario analysis was conducted to estimate possible Material 5 market growth outcomes. Figure 7 and Figure 8 present the results of this analysis for Category 1 and Category 2, respectively. This analysis examined two mutually exclusive dimensions: the share of Material 1 and Material 2 volume that is replaced and the share of Material 5 as the replacing material of choice. The product of these two dimensions determines the resulting incremental Material 5 demand. Furthermore, to assess whether the various market growth outcomes would be sufficient to justify the proposed capacity addition, a market share assumption for the case company of 20 percent was applied. In the below Figures, the outcomes cells in green represent outcomes where the incremental case company demand exceeds the proposed capacity addition, while the cells in red represent outcomes where the incremental case company demand falls short of the proposed capacity addition. Internal experts were consulted to determine and justify the most likely range of outcomes.

Staring with Category 1, internal expert assessments indicated that some degree of exemptions from the regulation should be expected, which could lead to an estimated Material 1 and Material 2 replacement rate of approximately 50 to 60 percent. The experts also viewed Material 5 as the most suitable replacement material, largely due to its cost advantage compared to alternative options. As a result, the share of Material 5 within the replaced Material 1 and Material 2 volume was estimated at 60 to 70 percent. Under these assumptions and applying a market share of 20 percent, the expected development would result in an incremental demand increase of Material 5 of approximately 250 to 350 million pieces by 2030, significantly exceeding the proposed capacity addition of 150 million pieces per year.

Material 5 as replacing material, %	10 %	20 %	30 %	40 %	50 %	60 %	70 %	80 %	90 %	100 %
100 %	83	166	248	331	414	497	580	662	745	828
90 %	75	149	224	298	373	447	522	596	671	745
80 %	66	132	199	265	331	397	464	530	596	662
70 %	58	116	174	232	**290**	**348**	406	464	522	580
60 %	50	99	149	199	**248**	**298**	348	397	447	497
50 %	41	83	124	166	207	248	290	331	373	414
40 %	33	66	99	132	166	199	232	265	298	331
30 %	25	50	75	99	124	149	174	199	224	248
20 %	17	33	50	66	83	99	116	132	149	166
10 %	8	17	25	33	41	50	58	66	75	83

Share of Material 1 and Material 2 replaced, %

Figure 7. Incremental Material 5 demand within Category 1 by 2030, M pcs per year.

For Category 2, the expected outcome is notably different, as illustrated in Figure 8. The experts indicated that if taxes or fees on the use of Material 1 and Material 2 effectively closed the price gap between them and Material 5, the share of Material 1 and Material 2 replaced could be as high as 60 to 70 percent, as only the most demanding applications would likely remain in Material 1 and Material 2. The share of Material 5 as a replacement material was placed at a similar level of 60 to 70 percent, given that Material 5 is expected to be a more cost-effective option than Material 3, which would be reserved for premium applications. However, even in an optimistic scenario where all products made of Material 1 and Material 2 in Category 2 were replaced with Material 5, the incremental demand increase for the case company would be just over 100 million pieces per year, which remains well below the required level to fill the proposed capacity addition of 150 million pieces per year.

Material 5 as replacing material, %										
100 %	11	21	32	42	53	64	74	85	96	106
90 %	10	19	29	38	48	57	67	76	86	96
80 %	8	17	25	34	42	51	59	68	76	85
70 %	7	15	22	30	37	**45**	**52**	59	67	74
60 %	6	13	19	25	32	**38**	**45**	51	57	64
50 %	5	11	16	21	27	32	37	42	48	53
40 %	4	8	13	17	21	25	30	34	38	42
30 %	3	6	10	13	16	19	22	25	29	32
20 %	2	4	6	8	11	13	15	17	19	21
10 %	1	2	3	4	5	6	7	8	10	11
	10 %	**20 %**	**30 %**	**40 %**	**50 %**	**60 %**	**70 %**	**80 %**	**90 %**	**100 %**

Share of Material 1 and Material 2 replaced, %

Figure 8. Incremental Material 5 demand within Category 2 by 2030, M pcs per year.

Overall, the findings indicate that base market growth is limited, while regulatory-driven substitution remains highly uncertain. In the case of Category 1, the potential for significant volume growth exists if the ban of Material 1 and Material 2 takes effect as expected. In contrast, Category 2 presents a more constrained growth outlook, where regulatory-driven substitution alone will not generate sufficient demand to justify the full extent of the proposed capacity expansion. Consequently, successfully filling the additional capacity for Category 2 would require the case company to capture a larger share of the existing Material 5 market or substitute other competing materials within the category.

Current profitability

Having evaluated both the current and expected future size of the market, the third dimension of the profit pool lens requires an examination of the current profitability of the market. Rather than constructing a detailed bottom-up model to map out the profit pool, which is beyond the scope of this thesis, a more practical approach is taken. Specifically, the profitability of competitors within the industry is used as a proxy for assessing overall market profitability.

This approach, while not ideal, should be justified under the assumption that, sustained profitability of firms in a given market generally reflects the underlying economics of that market. If multiple players are able to consistently generate healthy margins, it suggests that the market supports profitable operations. Conversely, if most players are operating at break-even or at a loss, this signals that the market may be structurally unattractive. In this sense, profitability functions as a "hygiene factor" for expansion: while it may not be sufficient on its own to justify entry, its absence would raise serious concerns about the viability of the opportunity.

Table 8 summarizes the production capacities of three leading players in Category 1 and Category 2 markets. Competitor 1 and Competitor 2 are both based in Country 5, while Competitor 3 operates in Country 6. While Competitor 1 is focused on Category 2 production, Competitor 2 and Competitor 3 also hold meaningful capacity in Category 1. These players together account for a significant share of the region's Material 5 capacity, particularly in Category 2, where each holds 100–250 million pieces of annual production volume.

Competitor	Location	Production capacity (Mpcs per year)
Competitor 1	Country 5	• Category 2 (250)
Competitor 2	Country 5	• Category 1 (150) • Category 2 (100)
Competitor 3	Country 6	• Category 1 (140) • Category 2 (100)

Table 8. Key competitors.

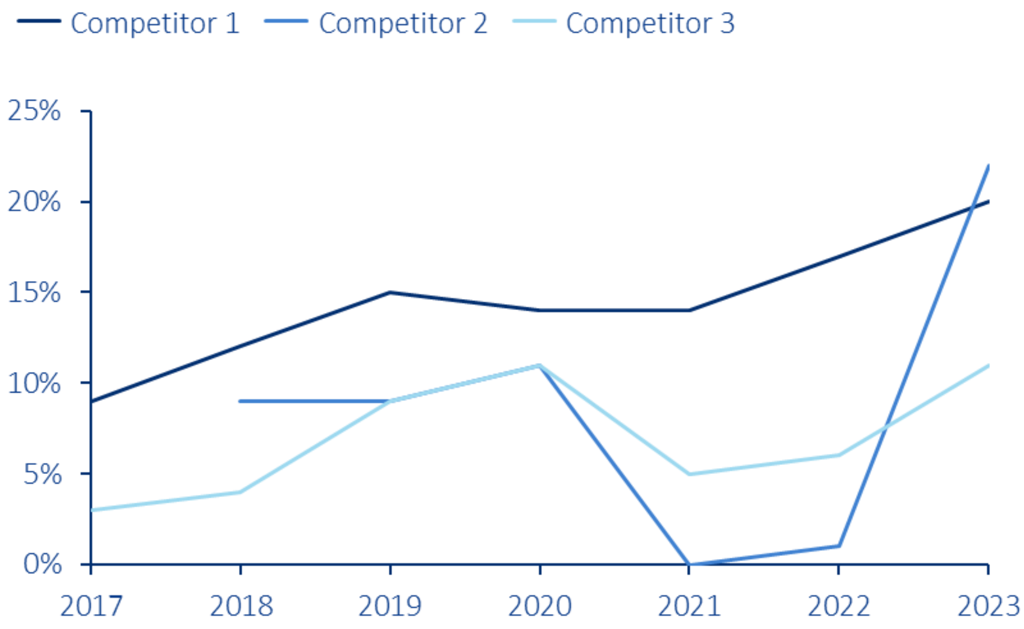

Figure 9. Competitors' profitability development, EBITDA%, 2017-2023

Figure 9 shows the EBITDA margin development of these players over the period from 2017 to 2023. Although the range of profitability is relatively wide at around 5-25% EBITDA, the overall trend is clear. All major players appear to be profitable, and there is no indication of systemic losses in the market. Since the leading firms are able to generate healthy returns, it would suggest that the market remains fundamentally attractive from a profitability standpoint. It does not, however, guarantee that profitability will persist. The next section addresses this by analyzing the market's competitive dynamics.

Competitive dynamics

The final component of the profit pool lens concerns the expected development of profitability in the industry. A useful way to approach this question is through the lens of competitive dynamics (Zook, 2004; Pidun, 2019). The basic premise is that there is an inverse relationship between the degree of competition and the level of profitability in an industry. Where competition is fierce, profits are generally lost, whereas in industries or segments with barriers to competition, profits tend to persist. (e.g., Peteraf, 1993; Mao, 2003) Therefore, even if current margins are healthy, their durability depends on whether competitive intensity will increase over time, or whether structural advantages continue to shield incumbent players from new entrants.

As discussed in the literature review, one approach to assessing the durability of competitive advantage in an industry is to identify so-called capability gaps; structural advantages or frictions that currently enable the leading players to sustain above-average profits. Drawing on Coyne's (1986) typology, four types of gaps were considered: business system gaps, position gaps, regulatory gaps, and organizational gaps. To explore their relevance in the case at hand, a set of internal expert interviews was conducted. Interviewees were introduced to the four gap types during the interview to support structured reflection, though they were first asked to comment on the nature of competition in the market more broadly. The following subsections discuss each of the identified gap types. The findings are summarized in Table 9.

Business system gaps refer to a firm's ability to perform key functions such as manufacturing, product development, or delivery, more effectively than competitors, in a way that is difficult to replicate. Product quality was first hypothesized as a potential differentiating factor. However, interviewee responses were largely aligned in downplaying this source of advantage. While some newer entrants had struggled to consistently meet required product quality standards, these standards function more as a basic requirement than a significant differentiator. As one interviewee put it:

"Everyone can hit the specs now—either you qualify or you don't, but it doesn't really separate anyone anymore."

Manufacturing products from Material 5 was generally described as commoditized, enabled by production assets that are readily available for lease or purchase. Based on these insights, product quality does not appear to constitute a meaningful barrier to competition.

Position gaps result from prior decisions, actions, and circumstances. It was proposed by multiple interviewees that an important position gap in this market could simply be the location and quantity of existing production capacity. This is due to multiple coinciding factors. As previously discussed, capacity must be added in sizeable increments of approximately 300 million pieces per year to achieve reasonable economics:

"You can't just drop a single [asset] somewhere and test the market. You need to build all the infrastructure to go along with it, which requires you to build more [assets] — or you won't hit the cost structure."

Additionally, it was brought up that the products do not travel efficiently, making long-distance transportation costly. As a result, only a limited number of players can viably operate within a given geographical market. This limits competition by new entrants, as adding a full increment of 300 million pieces of capacity may not be profitable, as they would risk introducing significant overcapacity. Consequently, historical capacity decisions, particularly the quantity and location of existing capacity, likely limit competition and contribute to the maintenance of an oligopolistic market structure that enables current players to remain profitable.

Another likely relevant position gap that was raised by one interviewee is product portfolio breadth. This is because competitors with a wider product portfolio are likely able to bundle together the needed 300 million pieces of incremental demand first. If they choose to invest in capacity to fulfil this demand, they effectively make expansion by competitors unprofitable, as they would risk introducing significant overcapacity:

"If you're only playing in one category, you're never going to fill a factory. You need Category 1, Category 2, maybe even Category 3 – to make the economics work."

Furthermore, the same production capacity and supporting infrastructure can (not optimally, but to a limited extent) be utilized to produce across multiple product categories. This means that in addition to being able to pool together demand more quickly, the firm with a wider product portfolio is able to a degree cross-produce between products, allowing it to hedge against shortfalls in one category, likely lowering the threshold to commit to the investment.

Regulatory gaps refer to formal rules or standards that restrict participation in a market. In this case, they were considered relatively insignificant. While products in Category 1 and Category 2 must comply with certain standards, interviewees did not view these requirements as a meaningful hurdle. As one interviewee put it:

"The paperwork's there, sure—but it's not stopping anyone"

Rather than deterring entry, upcoming regulatory shifts, such as potential bans on the use of Material 1 and Material 2, are more likely to stimulate demand and attract interest. Thus, regulation was seen as a driver of volume growth, not a barrier to competition.

Organizational gaps, which concern internal structures or cultures that allow a firm to respond more quickly or operate more efficiently, were not discussed in detail during the interviews and are thus excluded from further consideration.

In summary, it would seem that historical positioning of the current players, specifically location and quantity of existing production capacity, along with product portfolio breadth, function as capability gaps that reinforce an oligopolistic market structure and limit competition.

It is not immediately obvious whether the existence of capability gaps supports or discourages the case company's expansion. As Porter (1986) notes, barriers to entry can cut both ways. On one hand, if incumbent advantages are modest, entry might be easier, but profitability would be at risk of erosion. On the other hand, if durable gaps do exist, entry is more difficult but profitability for those who succeed is likely to be more sustainable. Here, the key issue becomes whether the case company can credibly overcome these position gaps, or establish its own capability gaps, to secure a profitable position in the market. This question is explored further in the next section.

Gap type	Potential gap(s)	Assessment / Quote
Business system gaps *Ability to perform individual functions more effectively than competitors and the inability of competitors to follow suit*	Product quality	Manufacturing product from Material 5 is commoditized, and product quality is seen as a **requirement rather than a competitive differentiator**. One interviewee noted: *"Everyone can hit the specs now—either you qualify, or you don't, but it doesn't really separate anyone anymore."*
Position gaps *Result from prior decisions, actions, & circumstances*	Existing production capacity	**Significant gap**. Capacity must be added in large increments, and logistics constraints make it unprofitable to serve distant markets. Historical capacity decisions limit viable competition within a given geography. As one expert stated: *"You can't just drop a single [Asset] somewhere and test the market."*
	Product portfolio breadth	**Significant gap**. Firms with broader Material 5 portfolios can bundle enough demand to justify capacity expansion, making it more difficult for new entrants to follow. As one interviewee put it: *"If you're only playing in one category, you're never going to fill a factory."*
Regulatory gaps *Result from limiting the competitors who can perform certain activities or the degree to which they can perform activities*	Consumer safety regulation	Viewed as hygiene factor. Standards must be met but are **not seen as a barrier to entry**. One interviewee summarized: *"The paperwork's there, sure—but it's not stopping anyone."*
	Product regulation (e.g., Bans or taxes)	**Not a limiting factor.** Regulation is expected to expand market demand, not restrict it. Seen as an enabler for Material 5 growth rather than a competitive barrier.

Table 9. Summary of capability gaps enabling profitability.

4.2.2 Analysis of company ability to compete

As discussed in the beginning of this chapter, the decision of whether the case company should pursue the expansion is dependent not only on the attractiveness of the related market, but the ability of the case company to realize the potential to reap profits (i.e., "win") in the market.

Thus, here we attempt to determine whether the case company could achieve a favourable competitive position were it to enter the market. Based on the literature review this question was further broken down to three sub-questions. First, is the case company able to claim a sufficient share of the market, second, would it be able to do so profitably, and thirdly, would doing so critically divert management attention away from the firm's existing businesses?

Key purchase criteria

The first question, "is the case company able to claim a sufficient share of the market?", can simply be seen as a question of whether a potential customer chooses to buy from the case company or from a competitor. As learned in the literature review, the customer's decision to purchase from one supplier instead of another is based on a positive differentiation against competitors in the product or delivery attributes which the customer views as important. These attributes constitute the key purchase criteria for a given market or segment, and a competitive advantage in this market is the result of meeting the criteria better than competitors (Coyne, 1986).

To assess the key purchase criteria for both product categories under consideration, interviews were conducted with potential customers and other industry experts. Following this, internal expert interviews were used to evaluate the case company's and competitors' performance against these criteria. As explained earlier, because products made from competing materials can substitute for one another, the assessment compared the case company not only against other Material 5 competitors but also against producers using alternative materials. A summary of the key purchase criteria for Category 1 and Category 2 is presented in Table 10 and Table 11, with comparative performance against competitors shown in Table 12 and Table 13. A brief discussion of the findings follows below.

In Category 1, five key purchase criteria emerged from customer interviews. Unsurprisingly, price was emphasized by nearly all interviewees, reflecting the highly commoditized nature of the market. As one customer put it:

"At the end of the day, it's still largely a cost game — whoever can give a good enough product at the best price wins."

Durability was also a major concern. Customers shared experiences of products that became compromised during transport and storage, highlighting the importance of structural integrity throughout the supply chain. Compatibility with the customer's existing assets surfaced as another critical factor. Several interviewees stressed that if changing to the new product required costly upgrades or replacements to their assets, it was an investment that they were reluctant to make. As one interviewee noted:

"If it doesn't fit the [assets] we already have, it's just a non-starter."

Sustainability was mentioned as relevant but ranked below economic and functional considerations. Interviewees indicated that customers prefer more sustainable options, provided core functional and cost requirements are satisfied. Lastly, regulatory compliance was mentioned as a mandatory baseline rather than a source of competitive differentiation, but if the regulation development were to materialize, the customers would obviously need to comply with it.

Having identified what potential customers prioritize in choosing Category 1 suppliers, the offerings of competitors were compared against these criteria, both within Material 5 and with other substitute materials. When comparing performance across the different materials, three primary insights emerged. Firstly, for evident reasons, should proposed regulations take effect, Material 1 and Material 2 will cease to be a viable option, narrowing the competition to products made from Materials 3, 4, or 5. Second, although products from Material 3 and Material 4 offer sustainable alternatives, they are currently too costly for mass-market adoption. As one potential customer explained:

"For premium products, sure, but for the bulk of the market, the cost just doesn't make sense yet."

Third, products from Material 3 were seen as less compatible with high-speed industrial production, slowing down production processes. These dynamics position Material 5 as the most logical material choice for Category 1 going forward, particularly if regulatory pressures and sustainability preferences continue to strengthen.

Furthermore, comparing the performance of the case company against competitors within the same material, there is a strong belief that the case company should be able to develop a product from Material 5 that outperforms competitors withing the same material. First, the case company is expected to benefit from more competitive pricing due to its proximity to key markets and lower logistics costs. Second, its long-standing expertise in designing and manufacturing products from Material 5 supports strong performance in terms of durability, the second key criteria.

In category 2, the key purchase criteria were broadly similar, with a few notable differences. Again, price and durability were consistently ranked among the most important attributes, and sustainability was seen as a secondary but growing consideration. One interviewee summarized this as:

"We look to replace Material 2 and Material 2 where it makes sense – economically and practically."

However, as discussed above in the market growth analysis, unlike products in Category 1, upcoming regulation is not expected to directly impact Category 2. Therefore, compliance was not raised as a major concern. Instead, a new purchase criterion emerged: flexibility. Customers emphasized the importance of a supplier's ability to accommodate shorter production runs and adjust to fluctuations in demand at a short notice.

Assessing the performance in the key purchase criteria across materials revealed no single material that outperforms all others in every attribute. Material 1 and Material 2 continue to dominate in functional performance but faces growing sustainability pressure. Material 5, on the other hand, is well-positioned to serve the more sustainability-conscious segments, although it may still face some cost challenges. This trade-off aligns with earlier findings on the relatively even material distribution in the Category 2 market. Despite these trade-offs, internal experts believe the case company is well-positioned to succeed. Similar to Category 1, the case company's proximity to the target market is expected to yield a price advantage. Furthermore, its long track record in manufacturing Material 5 products supports strong performance in durability. Most importantly, the factory where the proposed capacity addition is planned, is already experienced in managing short production runs in other product categories. This flexibility aligns directly with a key customer priority, offering a potential sustainable competitive advantage. Furthermore, flexibility, unlike basic product quality or even cost, is thought to be harder for competitors to replicate, given the operational and organizational changes it requires. One internal stakeholder noted:

"Not everyone can manage short runs without delays or quality slips, it's definitely more difficult than getting the product right"

In conclusion, the case company's offering is considered to outperform competitors in both product categories overall. In Category 1 this positions the case company to benefit from the significant upside if the regulation development materializes. The outperformance is considered to be particularly strong in Category 2, where performance in the flexibility key purchase criterion is thought to be difficult to replicate. As a result, the case company is expected not only to capture a significant share of the existing Category 2 - Material 5 market but potentially to expand the market by substituting competing materials.

Table 10. Key purchase criteria in Category 1.

Country	Purchase criteria								
	Durability	[Criteria 1]	Price	Flexibility	Aesthetics	Sustainability	[Criteria 2]	Regulation requirements	Compatibility with existing
Country 1 (N=2)	Rank 2		Rank 1		Rank 4		Rank 3		
	Rank 2		Rank 1			Rank 3		Rank 4	
Country 2 (N=2)	Rank 1		Rank 3			Rank 4			Rank 2
		Rank 4	Rank 2					Rank 3	Rank 1
Country 3 (N=1)		Rank 3	Rank 1		Rank 2			Rank 4	

Table 11. Key purchase criteria in Category 2.

Country	Purchase criteria								
	Durability	[Criteria 1]	Price	Flexibility	Aesthetics	Sustainability	[Criteria 2]	Regulation requirements	Compatibility with existing
Country 2 (N=2)	Rank 3		Rank 2	Rank 1			Rank 4		
	Rank 2		Rank 3	Rank 1		Rank 4			
Country 1 (N=2)	Rank 3		Rank 1	Rank 2		Rank 4			
			Rank 1	Rank 2		Rank 4	Rank 3		
Country 4 (N=1)	Rank 1	Rank 3	Rank 4			Rank 2			

Key purchase criteria	Material 1	Material 2	Material 3	Material 4	Material 5 (competitors)	Material 5 (case firm)
Price	Good	Intermediate	Bad	Bad	Intermediate	Good
Durability	Good	Good	Good	Intermediate	Intermediate	Intermediate
Fit with existing assets	Good	Good	Intermediate	Good	Good	Good
Sustainability	Bad	Intermediate	Good	Good	Good	Good
Regulation compliance	Bad	Bad	Good	Good	Good	Good

Table 12. Performance in key purchase criteria vs competitors in Category 1.

Key purchase criteria	Material 1	Material 2	Material 3	Material 5 (competitors)	Material 5 (case firm)
Price	Good	Intermediate	Bad	Intermediate	Good
Durability	Good	Good	Intermediate	Bad	Intermediate
Sustainability	Bad	Intermediate	Good	Good	Good
Flexibility	N/A	N/A	N/A	N/A	Good

Table 13. Performance in key purchase criteria vs competitors in Category 2.

Leadership economics

The above analysis concluded that if the case company was to enter the market, it would likely be able to claim a sizeable share of the market. The following question in the evaluation framework asks: "would it be able to do so profitably?" Indeed, in the literature review it was proposed that to justify expansion to a market, a company should have visibility into how it is going to achieve long-term profitability equivalent or higher than the market leader, i.e., leadership economics. An analysis of leadership economics thus calls for an identification of the factors that enable a company to compete profitably in a given market, and a benchmarking against competitors in these areas. Only if the case company is able to overcome the barriers to competition set by the current players, or construct its own barriers to competition, does the market expansion make sense.

In the before analysis on competitive dynamics, it was proposed that the existing capacity location and product portfolio breadth underpin the profitability of the current players in the market, as they create barriers that reduce competition. Here we attempt to first quantify whether these propositions hold true and then assess whether the case company would be able to overcome these competitive barriers.

The location of production capacity was seen as a key source of leadership economics, as it directly impacts the distance to the market and, consequently, logistics costs, a key driver of unit cost economics and profitability. The competition reducing barrier is thought to arise because serving markets from afar becomes unprofitable, thereby limiting the number of viable competitors within a given geography. To assess this effect, profitability as a function of shipping distance was analyzed using internal case company data. As illustrated in Figure 10, contribution margin declines with increasing distance to market in both categories, due to rising logistics costs that increase unit variable costs.

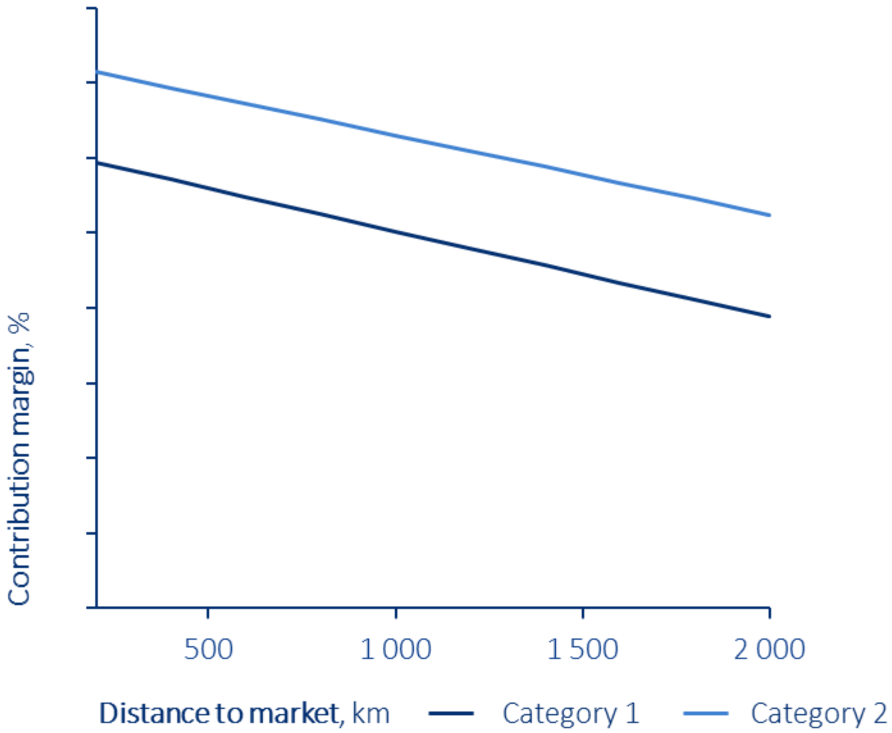

Figure 10. Contribution margin as function of distance to market.

Building on this, the resulting EBIT margin development was also estimated using internal data. EBIT margins were simulated with varying capacity utilization and shipping distances. As shown in Figure 11, profitability is significantly affected by distance, highlighting the importance of proximity to the end markets.

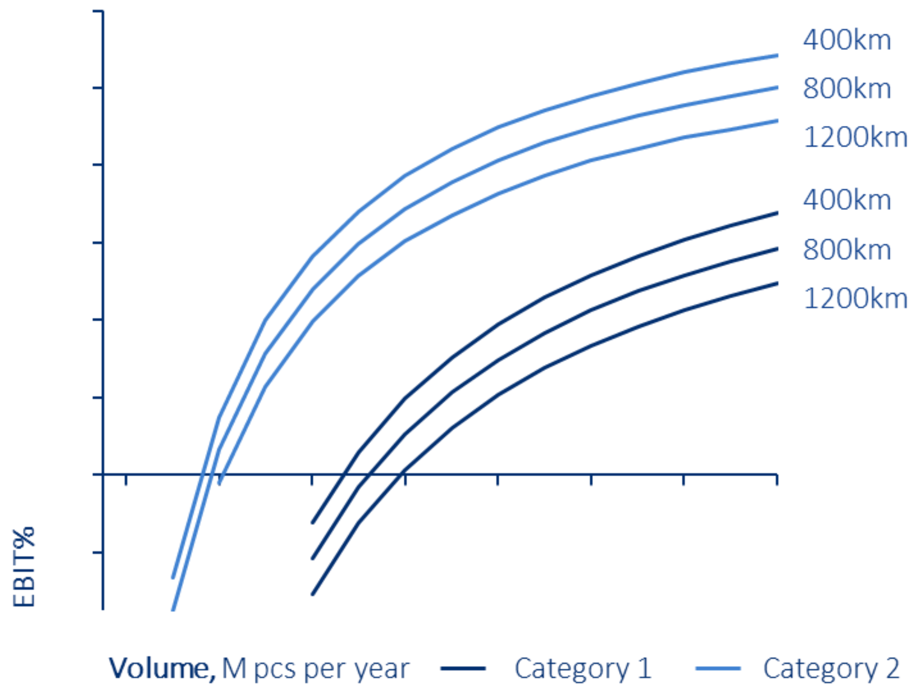

Figure 11. EBIT margin as function of capacity utilization and distance to market.

The analysis shows that distance to the end markets is indeed a key driver of leadership economics, as it enables the case company to either sell the product at a lower cost, resulting in outperformance in the price key purchase criteria and thus higher market share, or enables it to reap higher profits, which it can invest to further solidify its leadership position. With the proposed site for the expansion being located closer to the end markets compared to competitors, the case company would be able to overcome this barrier and erect its own.

However, superior cost economics alone are not sufficient. The fact that Material 5 production capacity must be added in large increments combined with the need for geographic proximity means that existing capacity serves as a strong deterrent to entry. A new entrant would risk creating overcapacity and eroding margins for all players. Because of this apparent first mower advantage, it was proposed that the product portfolio breadth of the current market players is another source of leadership economics, as it allows being the first to add production capacity in the market.

To assess the role of product portfolio breadth, a simplified illustrative analysis was conducted. Three competitors with varying levels of portfolio breadth were modelled: one present in a single category, one in two, and one in three. Assuming all the markets are of equal size and grow at a uniform rate, the analysis shows differing "time-to-capacity addition" across players. As shown in Figure 12, the player active in three categories reaches the required volume threshold for a new investment by period 6, while the player with two categories reaches it only by period 9, and the single-category player does not reach the threshold at all within the timeframe. In practice, this means the broadest-portfolio player would likely be the first to add capacity and, by doing so, deter other players from investing, as they would need to restart the incremental volume accumulation from zero.

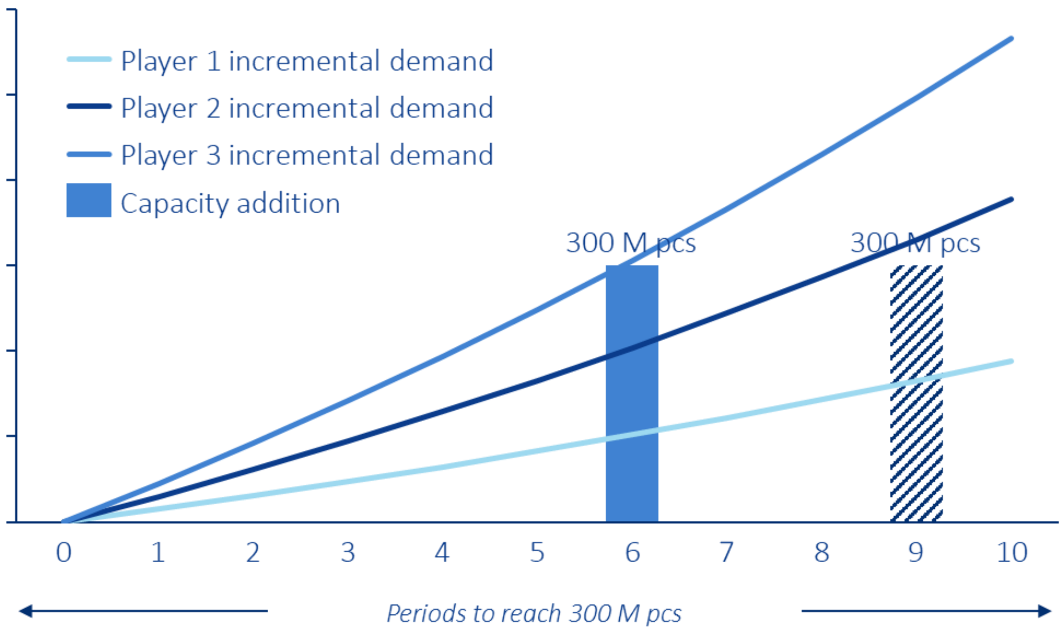

Figure 12. Product portfolio breadth and time to capacity addition.

This is thought to reflect the case company's position. As noted earlier, the competitors are present in either Category 2, or both Category 1 and Category 2. In contrast, the case company, with the proposed expansion, would be present in Category 1 and Category 2, in addition to already being active in a third and fourth category as part of its core business. This broader portfolio gives the company a clear advantage in aggregating demand and reaching investment scale more quickly than competitors.

In conclusion, the case company appears well-positioned to establish a favorable competitive position in the market, as it looks to be able to enter the market so that it overcomes the barriers that enable the current players to generate profits. Specifically, its proximity to customer markets enables it to achieve superior unit cost economics, which can be leveraged either to offer more competitive pricing or to maintain higher profitability. Furthermore, its broader product portfolio allows the company to pool incremental demand across categories and reach investment thresholds for capacity expansion more quickly than competitors.

Economic distance from the core business

Finally, based on the literature review, the would-be new business created by entering Categories 1 and 2 should maintain a clear connection to the case company's core business. This is because empirical evidence suggests that the probability of success for the new business declines as the level of relatedness between the new business and the core business decreases. Consequently, the final component of the evaluation framework concerning the firm's ability to compete involves assessing the degree of relatedness between the two businesses.

To assess this, the concept of economic distance, as introduced by Zook (2004), is employed as a proxy for relatedness. In line with Zook's approach, the comparison focuses on five key dimensions: customers, competitors, cost structure, distribution channels, and singular capability. If the characteristics in a given dimension are identical, the distance from the core is zero; if they are somewhat similar, a distance of one-half step is assigned. The outcomes of this comparison are presented in Table 14, followed by a brief discussion of each dimension.

Dimension	Distance from core	Rationale
Customers	1 step	Customers are different, requiring new capabilities such as flexibility.
Competitors	0,5 steps	Competitors are similarly regional manufacturers.
Cost structure	0 steps	Same production technology results in identical cost structures.
Distribution channels	0,5 steps	Distribution channels differ in specifics but are structurally similar.
Singular capability	0 steps	Both categories mainly rely on gathering large volumes and producing at low cost.

Table 14. Estimate of economic distance between the new business and the core business.

The customers of the new business are different from those of the core business. As such, serving them may require additional capabilities, such as the flexibility mentioned earlier in the analysis of key purchase criteria. The competitors are somewhat similar, since both the new business and the core business mainly face competition from smaller regional manufacturers. The cost structure is identical, as the products in both businesses are made using the same technology, which involves high fixed costs and low marginal costs. The distribution channels are somewhat similar. While the distributors are again not the same per se, they are structured in a similar way. Finally, the key capability needed to succeed, being able to gather large enough volumes and produce them at a low cost, is also the same in both businesses.

According to Zook (2004), an economic distance of two to three steps is generally considered acceptable. Beyond this threshold, the likelihood of success tends to decline substantially. In this case, the estimated economic distance between the case company's core business and the would-be new business is approximately two steps. This suggests that the opportunity lies within a manageable range of relatedness. Given the similarities across several dimensions, it is likely that the management team can oversee the new business without becoming overly burdened or distracted from the core business.

5 Discussion and conclusions

The previous chapters have presented the relevant theoretical perspectives, synthesized a decision-making framework, and applied that framework to the case company's expansion opportunity. This chapter now brings those elements together to fulfil the objective of the thesis in providing a recommendation for the case company and to answer the broader research question of how firms should evaluate growth opportunities beyond their existing business.

To achieve this, the chapter begins with a synthesis of the case-specific findings and the resulting recommendation. It then moves to explore broader implications, aiming to support generalizability and provide value to other firms facing similar strategic decisions. Finally, since the thesis is positioned within a relatively underdeveloped area of academic literature, the discussion concludes by outlining potential avenues for future research.

5.1 Case specific implications: recommendation for the case company

Having now conducted the analyses proposed by the evaluation framework, it is appropriate to step back and synthesize the findings to arrive at a recommendation for the case company.

To assess whether the case company should further pursue the expansion into the new product-market, the framework was structured around two questions: first, is the target market attractive overall, and second, can the case company establish a favorable and sustainable competitive position within it? Based on the evidence gathered, the answer to both questions appear to be affirmative. Therefore, the recommendation is that the **case company should continue to pursue the identified growth opportunity**. Table 15 summarizes the findings of the analyses, and the rationale for this recommendation is elaborated on below.

Key question	Sub-questions to answer	Analyses done	Outcome
Should the case company expand into the new product-market category?	Is the target market attractive overall?	Market size	Current market size is modest in both categories
		Market growth	Base growth is modest; however, potential Material 1 and Material 2 substitution offers growth in Category 2 if regulatory developments proceed.
		Current profitability	Existing players are generally profitable, suggesting value-creating operations are possible.
		Competitive dynamics (barriers to competition, etc.)	Profitability expected to persist due to strong incumbent advantages (capacity location, product portfolio breadth) limiting competition.
	Can the case company compete profitably (i.e., achieve a favourable competitive position) in the market?	Key purchase criteria and benchmark against competitors	Case company is expected to outperform competitors on key purchase criteria, especially price, durability, flexibility, and sustainability. Category 1 offering particularly competitive due to flexibility advantage.
		Source of leadership economics and benchmark to competitors	Proximity to customer markets and broader product portfolio expected to deliver unit cost advantages and flexibility in capacity utilization.
		Economic distance from core business	Proposed expansion closely related to existing capabilities and technology base, suggesting low risk.

Table 15. Summary of analysis results.

To evaluate market attractiveness, the framework applied a simplified profit pool lens, assessing four dimensions: current market size, expected growth, current profitability, and anticipated profitability based on competitive dynamics. The results of the analysis were mixed but overall cautiously positive.

In Category 1, the current market size is modest due to Material 5's low share and limited base market growth. However, regulation-driven substitution from Materials 1 and 2 to Material 5 presents significant potential upside. If anticipated regulatory developments proceed as expected, the proposed capacity addition could be filled relatively easily. As such, the market outlook for Category 1 is positive, though it is subject to external policy uncertainty. Category 2 category is similarly limited in market size, as while the current share of Material 5 is higher than in Category 1, the market is a lot smaller overall. Furthermore, there is no comparable regulatory development, and base market growth is similarly modest. Thus, filling the proposed capacity addition in this category requires gaining share from competitors or encouraging substitution from other materials.

The profitability of the target markets was proxied through an analysis of competitor performance. On average, existing players were found to be profitable, indicating that the industry is capable of supporting value-creating operations. More importantly, profitability is expected to persist, as it appears to be underpinned by competitive barriers that are difficult to replicate—most notably, historical capacity decisions and broad product portfolios that enforce oligopolistic capacity conditions and allows first mower to deter capacity investment by competitors.

While the market size and development especially in Category 2 certainly left something to be desired, the analysis of the case company's ability to compete suggests that it is well-positioned to establish a favourable and sustainable competitive position in the new markets, particularly in the Category 2. This conclusion rests on three key factors. First, regarding the ability to capture market share, the company's offering aligns well with key customer purchase criteria in both categories. It is expected to outperform not only existing Material 5 competitors but also substitute materials, particularly on attributes such as cost efficiency, sustainability, and flexibility. This is especially true in Category 2, where the firm's advantage in flexibility appears to stem from a capability gap that is difficult to replicate. This outperformance is expected to compensate for the more modest market growth in Category 2 in that the case company is expected to be able to claim share from competing materials, not only Material 1 and Material 2, but also Material 3, thus likely filling the proposed capacity for Category 2.

Second, the company is likely to overcome incumbent advantages and achieve profitability. Its proximity to the target markets enables superior unit cost economics, which can be used to support competitive pricing or to capture higher margins. In addition, its broader product portfolio enables two benefits. It allows for pooling of incremental demand across categories, improving the likelihood of reaching the volume thresholds necessary for profitable capacity expansion. Moreover, although cross-production between categories is limited, it nonetheless provides a valuable hedge. If one category underperforms, due to, for instance, a delay in regulation, the company can partially repurpose its capacity, thereby preserving asset utilization and mitigating downside risk.

Third, the similarity between the existing business and the proposed new business, particularly in terms of technology, cost structure, and process requirements, suggests that execution risk is low. The expansion does not represent a fundamental shift in business model but rather a related adjacency, and the management demands of the new business are unlikely to overwhelm the organization.

Taking into account that the business case must be evaluated jointly across both product categories, the two categories can be viewed as complementary in their risk-return profiles. While Category 1 offers stronger upside potential, it is also subject to greater regulatory uncertainty. Category 2, on the other hand, would provide more stable baseline demand, as stronger fit in the key purchase criteria likely allows for substituting other materials independent of external regulation development. As such, Category 1 would contribute option value and upside, and Category 2 would contribute higher predictability volumes.

In summary, the case company is recommended to continue pursuing the proposed product-market expansion. The results of the analyses indicate that the opportunity offers access to a stable and profitable market with considerable upside, and that the company is competitively well-positioned to capture that value. It is therefore recommended that the case company continue pursuing the growth opportunity. As a next step, management should proceed to develop a more detailed business case, with key assumptions informed by the findings of this study. In doing so, the company should also move with haste, as securing a first-mover advantage and deterring capacity investment by competitors may require beating competitors to market.

5.2 Generalizable implications

Although this thesis focused on a single case, many of its insights are applicable beyond the immediate context. The main research question of the thesis was: How should a manufacturing firm combine analysis of market-related factors and competitive advantage to evaluate whether to pursue a growth opportunity beyond the scope of its existing business? This section outlines the broader implications of the study, both in terms of theoretical contributions and managerial insights.

On the theoretical side, this thesis was positioned as contributing to the relatively underdeveloped literature on adjacency growth. That literature has highlighted three recurring factors that tend to explain success in expanding beyond a firm's existing business: proximity to the core business, a sufficiently large and profitable market, and the potential to achieve leadership economics. While these concepts offer useful strategic direction, they have generally remained somewhat high-level and only loosely connected to more established academic literature.

This thesis contributes to the development of this stream in several ways. First, it links the key success factors from adjacency growth literature to more established concepts in strategy and corporate growth. For example, it became apparent that the concept of economic distance, used to evaluate how far a new business is from the firm's core, is closely related to the concept of relatedness in corporate diversification theory. Recognizing this connection helps ground adjacency growth on firmer theoretical footing and allows researchers and practitioners to evaluate proximity using better-defined constructs.

Second, the thesis adds depth to the original success factors. For instance, the idea of achieving leadership economics was analysed in terms of the firm's ability to overcome competitive barriers (from a competitive strategy perspective) or avoid imitation (as understood in the resource-based view). These refinements make the original success factors more actionable in real-world decision-making.

Third, and most importantly, the thesis introduces a practical evaluation framework that synthesizes these ideas and applies them to the central research question. This framework brings together concepts that are often studied separately, and structures the evaluation around two key questions: "Is the target market attractive?" and "Can the firm establish a favourable competitive position within it?" Framing the assessment in this way helps firms move from abstract strategy discussion to a more coherent and disciplined decision-making process when evaluating growth outside their existing business scope.

The findings also carry several implications for managers, which are summarised in Table 16. Most broadly, the study underscores the importance of evaluating market attractiveness and firm competitiveness in tandem. The analysis shows that looking at either dimension in isolation risks missing critical aspects of the opportunity. A market that appears attractive based on size and growth may still be a poor choice if the firm cannot compete effectively, while a strong internal capability fit is not enough if the underlying market is stagnant or structurally unprofitable.

In addition to this general recommendation, the study provides more specific guidance on how the evaluation should be conducted. Two of the insights relate to managing uncertainty, an issue, as discussed in the literature review, that is particularly prevalent when firms pursue growth beyond their existing portfolios. One key finding is the value of working with assumptions and scenarios rather than relying on deterministic forecasts. Rather than trying to predict a single number, the analysis focused on defining what would need to be true for the investment to be viable and estimating the level of confidence in that assumption. For example, instead of forecasting exactly how much of the Material 1 and Material 2 would convert to Material 5, the study calculated how much substitution would be needed to fill the proposed capacity addition. This way of thinking makes it easier to structure decisions around thresholds and breakpoints, and ultimately supports more robust decision-making.

A second insight also relates to managing uncertainty: designing for flexibility where possible. In this case, the ability to cross-produce between the two categories, Category 1 and Category 2, even if limited, was established to be valuable. It provides a hedge against shortfalls in one category by enabling partial reallocation of capacity. From an evaluation perspective, this highlights the need to look beyond category-specific business cases and consider the broader system-level fit between demand patterns, operational capabilities, and production logic.

A final insight concerns the importance of aligning customer purchase criteria with the firm's unique sources of strength. Competitive advantage only matters if it reflects what customers actually care about. The case showed that analysing purchase criteria in detail and comparing the firm's offering to both direct competitors and substitutes, can help identify where the company is well-positioned and where it is not. While the logic itself is not new (see Coyne, 1986), this thesis demonstrates its relevance in the context of evaluating an expansion opportunity beyond the firm's core business.

Key result	Evaluate market attractiveness and firm competitiveness in tandem
Other	Use assumption-driven and scenario-based evaluation rather than point forecasts
	Design flexibility into capacity and product strategies
	Align competitive advantage with customer purchase criteria

Table 16. Implications for managers.

5.3 Recommendations for further research

This thesis aimed to develop a structured way for firms to evaluate whether to pursue a product-market expansion opportunity beyond the scope of their existing business. In doing so, it also pointed to several areas where future research could help develop and test the ideas presented here.

One area that would benefit from further research is how to best combine the analysis of market factors with the analysis of firm-specific competitive advantages. This thesis proposed that evaluating the two together, rather than separately, produces a more accurate and practical view of an opportunity. Future studies could further explore how this combined analysis works in different industries, product types, or organizational settings, and how managers prioritize the different types of information when making real-world decisions.

Another topic worth further attention is how firms deal with uncertainty during the evaluation phase. In this case, regulatory uncertainty played a central role in shaping the opportunity. Instead of trying to forecast an exact market size, the approach used in this thesis focused on identifying what would need to be true for the opportunity to be viable, and how confident the firm could be in those conditions materializing. This assumption-based approach could be further explored in future research. It would be especially useful to study how firms apply this logic in practice: what kinds of assumptions they make, how they assign levels of confidence, and how these judgments influence the decision to proceed or not.

A third area for future research is how firms build or adapt the capabilities needed to succeed in a new product-market. This thesis focused on assessing whether the company already had the right capabilities in place. But in many cases, firms may decide to enter a new market even if they don't yet have everything they need, expecting to build the missing capabilities over time. It would be valuable to study how companies approach this kind of capability development, how they track progress, and how these efforts affect the success of the expansion.

Finally, the framework proposed in this thesis could be tested and developed further by applying it to other cases. For example, it would be useful to examine how the framework performs when used to evaluate different types of expansion opportunities, either in different industries or at different points in time. Following up on actual outcomes after firms make their decisions would also help show whether the kinds of analyses proposed here are linked to long-term success. This would strengthen the empirical base of the framework and improve its usefulness for both researchers and practitioners.

5.4 Limitations and evaluation of the study

The value of this study should be evaluated in relation to both its academic aims and its relevance to the case company. From an academic standpoint, the study is considered successful if it answers the research question in a way that is valid, transparent, and grounded in theory. From the case company's perspective, the study has been useful if it provides a structured, well-reasoned recommendation supported by credible analysis.

Again, the main research question of the thesis was: How should a manufacturing firm combine analysis of market-related factors and competitive advantage to evaluate whether to pursue a growth opportunity beyond the scope of its existing business? This question was approached through a case study, using a framework developed from adjacency growth, diversification, and competitive strategy literature. The resulting evaluation framework was then applied to a real-world product-market expansion opportunity.

The thesis successfully provided an answer to the research question, both by applying the framework in practice and by discussing how the findings generalize to similar settings. The central theoretical idea that market attractiveness and competitive position must be assessed together was consistently used to structure the analysis, and the recommendation to the case company followed directly from this logic. In this regard, the study's internal consistency and coherence support its validity.

Nonetheless, the thesis is subject to several limitations. First, as with any single-case study, the generalizability of the results is inherently constrained. While the case context, that is, a global B2B manufacturing firm evaluating a growth opportunity beyond the scope of its existing business, is relevant for many similar companies, the specific findings may not apply in settings with different market structures, product types, or competitive dynamics. That said, the framework itself is designed to be flexible and could be applied in a range of comparable decisions.

Second, while the identification of key purchase criteria was based on interviews with potential customers, the comparative evaluation of the case company's performance on these criteria was based solely on internal estimates. No customer interviews, focus groups, or third-party validation was conducted to assess the case company's perceived performance against competitors or substitute materials. This introduces uncertainty into the competitive benchmarking and may affect the accuracy of the firm's assessed competitive position.

Third, the evaluation of profitability and competitive dynamics relied in part on proxy data and reasoned assumptions. Market-level financial data in this category is not easily accessible, and many of the profitability assessments were based on competitor-level information, cost structures, and inferred margins. While care was taken to avoid overly deterministic conclusions, these limitations affect the precision of the market attractiveness assessment.

Fourth, the evaluation of the firm's ability to compete was based on current capabilities and assumed stability in the company's offering. The analysis did not include a full roadmap for how the company would close any identified capability gaps or adapt its value proposition over time. As a result, the framework is best suited for evaluating near-term opportunities where the strategic and operational fit is already reasonably strong. For more transformative moves, further work would be needed to incorporate capability-building timelines and investment requirements.

From the case company's perspective, the study provided a structured and replicable way to assess the proposed growth opportunity. The two-part framework and accompanying analyses created a clear decision logic that helps clarify when, why, and under what conditions the opportunity should be pursued. The findings were also grounded in commercial realities, including capacity scale thresholds. In this sense, the study met the case company's original expectations: to support an informed go/no-go decision with clear logic.

In summary, the study achieved its objectives both academically and practically, while also being transparent about its limitations. The results should be interpreted with the typical caution applied to case-based research. Nonetheless, the structured approach developed and tested here is expected to provide useful guidance for both the case company and other firms facing comparable growth decisions.

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A. Appendix: Interview guide – competitive dynamics (internal experts)

Purpose:

The purpose of this interview is to understand the competitive dynamics among current players in [Category 1/Category 2], specifically whether their profitability is underpinned by capabilities that are difficult for others to replicate. These types of advantages are often referred to as capability gaps, and the interview explores whether such advantages exist in the market.

Introduction (to be shared with interviewee):

This interview is part of a broader evaluation of whether the case company should enter [Category 1/Category 2]. One of the key questions we're examining is whether the current profitability of leading players is underpinned by capabilities that are hard to imitate or whether it's simply the result of temporary market conditions. To support this, we'd like to explore several types of potential capability gaps and reflect on whether they are present in this market.

Part I: General observations on competitive dynamics

1) How would you describe the level of competition in [Category 1/Category 2] today?
2) Have you observed any trends over time, e.g., new entrants, pricing pressure, or consolidation?
3) In your opinion, what explains why certain players are more successful than others?

Part II: Capability gaps

We'll now walk through four types of capability-based advantages. These are drawn from strategy literature and are often used to explain sustained differences in firm performance. For each, we'll ask whether this type of advantage might be relevant in this market, and whether it applies to any of the current players.

Business system advantages: These refer to capabilities in areas such as manufacturing, product development, or logistics that lead to superior cost efficiency, reliability, or product performance, and that are hard for competitors to copy.

4) Do any players have distinctive strengths in how they operate or deliver that could give them a lasting edge?

Position-based advantages: This includes advantages tied to past decisions or accumulated assets, for example, production capacity located close to customers, well-established customer relationships, or brand recognition.

5) Are there any legacy advantages that make it hard for new entrants to compete on equal footing?

Regulatory or compliance-related advantages: Some companies are better at navigating regulatory environments, securing certifications, or adapting to compliance requirements.

6) Are any players advantaged due to how they manage regulation or certification requirements?

Organizational or managerial advantages: These refer to a firm's ability to manage complexity, respond quickly to changes, or consistently execute better than others—often due to culture, systems, or leadership.

7) Do you see any players with particularly strong organizational capabilities that are difficult for others to match?

B. Appendix: Interview guide – key purchase criteria (potential customers / external experts)

Purpose:

To identify the most important criteria that influence customer purchasing decisions in the target product categories. The goal is to understand how customers evaluate competing offerings and what they prioritize in supplier selection.

Introduction (to be shared with interviewee):

The purpose of this interview is to better understand what matters most to customers when choosing products and suppliers. Your input will support an internal evaluation of a potential market expansion by helping to identify what customers expect from suppliers and products. We are not here to sell anything; this is purely for internal strategic analysis.

Part I: Decision-making process

1. Could you walk me through how purchasing decisions are typically made for [Category 1 / Category 2] in your organization?
2. Who is usually involved in the decision-making process, and at which stages?
3. Are there any formal procedures or criteria you typically follow when selecting suppliers?

Part II: Key purchase criteria

4. When choosing between different products and suppliers, what are the most important considerations that influence your choice?
5. Could you give examples of things that have mattered in recent supplier or product decisions?
6. Are there any product or supplier features that would immediately disqualify a candidate in your view?
7. Looking ahead, do you anticipate that the importance of certain factors might increase or decrease in the coming years?