

Ansoffs product market expansion grid making tool



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Strategy plays a huge role in a business's success or failure. A strategy has to be chosen in accordance to a company's vision, mission, goals and objectives. One of the major decisions that today's marketing managers have to take is to follow what strategy and when is the right time to implement the strategy. With the ever-increasing competition in the market, along with the continually changing customer interests, it has become difficult for managers to decide upon a strategy which can ensure a substantial amount of success, even if steps are taken carefully. The more than ever informed customers are also forcing managers to change on a regular basis.

This report explains the basic fundamentals of Ansoff's Product Market Expansion Grid and the four strategies that can be deployed after using the

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grid. The grid can be used to predict any growth opportunities that may exist in the market for the company to expand its business, either in terms of market or in terms of products. Based on the strategy indicated to by the grid, the managers can decide on further actions which should be taken to be more profitable. The later phase of the report describes how Etisalat, the United Arab Emirates telecom giant, entered the Nigerian market in the fifth place and still were able to penetrate the market deeply within a significant small amount of time. The managers could successfully learn from their experiences in the Egyptian market they had entered before embarking their journey of Nigeria, and that proved to be very helpful. The report also discusses the various promotions that were undertaken by Etisalat and the reason those promotions were chosen. The report emphasises on the importance of research and using the findings of the same to enhance business profitability and success.

Introduction

With the ever-changing lifestyles of customers in the contemporary world, businesses have realised the importance of customers in the success or failure of the organization. To get along with the changing business environment and customer interests, companies are transforming themselves. Today, customers are ruling the business practices and telling the companies about the type of products and services that they desire. As a result, companies have also transformed from being product oriented to being customer oriented. They are now focusing on customers, tracking them, collecting personal information about them, which would help them to

understand them better and provide customized offers. Bottomline: customer is the king.

One of the main reasons for this is the fierce competition existing in the markets in which these businesses operate. With the on-going changes in the organizational practices, there resides the need to revive the strategies that a company work upon, of which marketing forms a major part. Good marketing has evolved to be vital component for any successful business. It needs careful planning and execution. To increase the probability that a business will succeed, companies are continually revamping and reforming their marketing practices. One of the tools helping the companies to refine their business practices is the Product-Market Expansion grid, proposed by Ansoff, to detect new intensive growth opportunities.

Product-Market Expansion Grid

The fact that most businesses in the world desire higher sales and thus increased profits, defines the need for a company to grow, to expand constantly. While assessing growth opportunities a company might think about planning new businesses, as well as downsizing or terminating older businesses. A company also projects its total sales and profits on the basis of its plans for its existing businesses. And in case there is a gap between future desired sales and projected sales, there is a need for the corporate management to develop or to acquire new businesses to fill the gap that has cracked in. Jack Welch realised the importance of change in the organization and repeatedly warned his company: “ Change or Die.” But this change should not be abrupt and needs a thorough market research, constant evaluations on a regular basis, and a number of other factors.

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A company can grow its business in three ways:

Identify opportunities to achieve further growth within the company's current business.

Identify opportunities of building or acquiring currently-related businesses.

Identify opportunities to add currently-unrelated, yet attractive businesses.

When a company desires to expand its footprints within the company's current business it may do so either in terms of product improvement or in terms of market development. A number of tools exist to analyse the situation and tell the companies as to what action should be performed to make sure that their strategy will succeed. One of the most successful and most commonly used tools is the Ansoff's Product-Market Expansion Grid. A diagrammatic representation is shown below:

Existing Products

New Products

New Markets

Existing Markets

Figure 1: Ansoff's Product-Market Expansion Grid

A company has to choose the strategy keeping its mission, vision, goals and objectives in mind. These objectives commonly include increasing sales, increasing profit, enter into new market, develop new product and enter into

new business. The four types of strategy that a company may choose after using this grid are:

Market Penetration-Existing Products in Existing Markets: In this strategy, a company targets to increase its market shares in the market it currently operates in using its current products only. This strategy is focused on driving existing customers to buy their products in larger quantities or more frequently, to acquire customers from the competitors as well as those who are non-users by providing them attractive offers. A company adopts this strategy to increase the sales and profits. The major steps that a company might undertake when adopting this strategy include cost-cutting without compromising on the quality of the products, decrease in product prices, improved advertising practices, increase the number of selling channels to enable faster and more reach to the consumers. E. g. Pakistan State Oil penetrated into the Pakistan market from 40% to 65% in the duration of 4 years by developing new retail outlets.

Market Development-Existing Products in New Markets: A company may want to know if they can find or develop new markets for the existing products. These new markets could be developed on various segmentation bases such as demographics which include age, gender, income, education, class etc or geographic which include country, state, city, town, region etc. Developing the market and segmenting them is always the most important step that can be taken in a strategy formulation. Segmentation enables the company to properly target the customers and develop/modify the products according the target market's needs and wants.

Before implementing a market development strategy, answers to a few questions should be thought and analyzed. Some of these questions are: Will the market be profitable? Would there be a need or is there a possibility to introduce of new or modified products? Have the customers and the channels been researched and understood thoroughly? E. g. Chinese products successfully developed markets for them in India.

Product Development-New Products in the Existing Markets: When the company launches new products into the same market or modifies its existing products so that they can have better value proposition to its customers, it is termed as a product development strategy. The company might change the products in terms of styles, packaging, sizing etc or even bring out new products into the market itself. This might be a result of falling sales signifying the loss of customers' interests in a company's products and thereby forcing the company to make changes or to lose the customers to competitors.

This task, however, is not an easy one. It requires a substantial amount of money and time. A marketing manager needs to analyze the market, and evaluate all the possible options on criteria such as Feasibility (will it fall under the cost and time constraints?), Acceptability (will the new products be accepted in the market?), and suitability (Is it suitable to launch this product in the market that we intend to work in?) etc. E. g. Google launched its new web browser, Chrome, while there were many existing players in the market such as Mozilla Firefox and Internet Explorer. This launch was aimed to acquire competitors' customers as well as to exploit the fact that internet's popularity was growing by leaps and bounds and the number of customers

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using internet was constantly increasing. These new potential customers were more likely to use Chrome if properly targeted and positioned.

Diversification-New Products in New Markets: This strategy involves development of new products in new markets. A company may start up or buy new businesses outside its current products and markets. It is generally adopted by a company when the current markets it operates in are saturated and thus there is a decrease in revenues and profits. Even at the corporate level, entering a new business outside the scope of existing business units is considered very interesting. E. g. Virgin Media expanded its foot prints from the music industries to mobiles, travel (both airlines and train), finance, entertainment, etc.

This grid is used by the companies all across the world to make decisions for expansion strategies and has been successfully aiding companies.

Etisalat-Expansion Strategy

Company Background

Emirates Telecommunication Co. (Etisalat) was established in 1976, and it maintains and develops the national and international fixed-line network, mobile telephony and internet access in the UAE. Its subsidiaries include E-marine (wholly-owned), which is involved in submarine cable installation, maintenance & repair, and E-vision (wholly-owned), which is a cable TV provider and Thuraya (35% owned), which is the Abu Dhabi based mobile satellite telecom company. It got listed on Abu Dhabi Stock Exchange in 2002 and has been constantly acquiring various companies in the past few years. It is constantly expanding its global footprints and continues to do so.

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The company entered Egyptian market first, gained phenomenal success and then entered the Nigerian Market in the late 2008 after acquiring Emerging Markets Telecommunication Services (EMTS) in partnership with Mubadala Development Company. The Nigerian telecom market was too crowded for a new entrant as there were firms who had been operating in the market for as long as 8 years and had been “imprinted” on people’s minds that it would be hard for the new entrant to start. But Etisalat was determined on the success that they had in Egypt. In a capital intensive market as that in Nigeria, budget is not all that matters. Businesses should be capable of creating balanced strategic mix and applying resources effectively and efficiently so as to get the maximum out of them. Etisalat aims at attracting between 2.4 million to four million subscribers by the end of year 2010.

Existing Products

New Products Strategy Used

New Markets

Existing Markets

Since Etisalat was aiming to launch its existing products into new markets, according to the Ansoff’s product-market expansion grid, it was in the best interests of the organization to follow a market development strategy.

The impact of this strategy was evident from the fact that Etisalat was able to amass a subscriber base of 1 million within nine months of entering the telecom market in Nigeria. According to Prof. Ben Oghojafor, Dean of Business Administration, University of Lagos, “Etisalat is the latest GSM provider to enter into the Nigerian telecommunications market, but was able

to penetrate and establish itself in the market using innovative marketing strategies like the 0809uchoose campaign and its 0809ja theme, which resulted in brand switch and quick subscriber base build up.” (Etisalat As Case Study For Business Success In Nigeria, 2010) This speedy growth proved the fact that the Nigerian customers were accepting Etisalat in the market and were satisfied with the quality superior service provided to them by this newly launched operator. Despite entering the Nigerian telecom market after there were four existing players, they were able to achieve this astonishing number of customer base within a year of commencement of commercial operations. This wide acceptance of the Etisalat as one of the preferred service provider was a proof of the thorough research carried out by the Etisalat marketers, evaluating all their options on the above said criteria and choosing what would be the best option. This was probably the main reason due to which Etisalat was able to successfully enter the Nigerian market and sustain in the fiercely competitive arena.

The previous entrant in the market, Glo, walked into the market with two of the most innovative features to provide them with the customers. So, there was hardly anything for Etisalat to do to have an impact on people’s minds. Etisalat however, took an advantage of the undergoing revolution in the Nigerian entertainment industry, which played a big role in Etisalat’s market development strategy. The youth of Nigeria had begun to find expressions in music which had led to the fast paced growth of the music industry. For this generation of Nigeria, Nigeria was “ 9ja”. So they developed there market on the basis of demographics particularly aiming at the new potential members, the youths of the country, which were more likely to go for a new service

provider. Researches had shown that this hip-hop population of Nigeria constituted over 60% of the total population of the country. Another major factor that was very much responsible for Etisalat's growing popularity was the fact that this population was the one with changing lifestyles and they were the ones who were ready to spend money and time on telephones, just to stay connected to their friends. Etisalat found a young Nigerian musician with whose ability to connect to the Nigerians, they were able to position themselves in their target market effectively. Research was carried out to see what would be the target market and what steps should be taken so as to effectively position themselves in their minds, thereby increasing the possibility of increased sales, revenue and subscriber base.

With the "0809choose promo", Etisalat gave a feeling of recognition to its customers, that there was something given to them specially created for them, "treating" them differently. This was able to have a substantial impact on the young minds of the country and carving themselves on the hearts of Nigerian people. Etisalat was also able to achieve strong brand visibility with the \$1 million to the winner sales promotion, which although didn't earn them any money but had a successful impact.

At launch, as much as 2 billion USD was the amount that was expected to be invested in the development of the firm. 800 million USD were spent in the first 15 months itself, while 700 million USD were set aside for expansion plans in 2010. All this investment was done keeping in mind that expectation that Etisalat will not be able to generate any profit till 2011, as then only it shall be able to have a subscriber base so large which would be enough to generate profits. This again proves the importance of thorough research and <https://assignbuster.com/ansoffs-product-market-expansion-grid-making-tool/>

expectations from the business whenever a company embarks to enter a new market.

Conclusion & Recommendations

From the above facts, it is clear that an extensive research is required for any organization to expand itself either in terms of products or in terms of market. And Ansoff's product market expansion grid aids the same to a large extent. The decision making capabilities of a firm for expansion strategies are enhanced forcing the company to make a better informed decision. Based on the requirements of a company, Ansoff's grid shows them the pathway for success, if followed carefully. To follow any expansion strategy of the company, the company has to undertake research practices and based on the findings of these researches, further actions should be taken so as to have a deep impact on the minds of the people, be it for any of the four strategies, namely – Market Penetration, Product Development, Market Development and Diversification. Ansoff's product market expansion grid has been one of the best strategic decision making tools designed and will continue to be one of them.