# Limitations of ansoff matrix

Business, Marketing

Explain how the ‘ Ansoff matrix’ can be applied to help develop strategic marketing options for an enterprise. What other analytical tools and techniques can be employed to develop alternative marketing strategies? Table of contents 1. Introduction 2. The Ansoff Matrix 3. Market Penetration 4. Product Development 5. Market Development 6. Diversification 7. Limitations of the Ansoff matrix 8. Other analytical tools and techniques 9. Conclusion 10. References Introduction

From my working experience I have discovered, an organisation that knows its shortcomings, and can make relatively strategic decisions to meet the right objectives, will achieve its desire to become successful and remain relevant. Successful organisations in Nigeria always attribute their success to unique strategies which they employed efficiently. Strategies are developed at different levels within an organisation, it therefore follows that objectives (what it wants to achieve) are also set at the different levels.

The setting of these objectives will usually produce a discrepancy between what is currently being achieved and what needs to be achieved. Marketing strategies are the explanation of how this gap is going to be closed and the objectives realized. Ansoff matrix is a useful framework for looking at possible strategies to reduce the gap between where the company may be without a change in strategy and where the company aspires to be (Proctor, 1997).

The Ansoff matrix which is the focus of this work is one of the models alongside others like the Porter matrix, BCG, SWOT, PESTEL, DPM matrix and Gap analysis etc used by marketers to set objectives which assist strategic

decision making. The Ansoff matrix is also used in marketing audits (Li et al, 1999). I will attempt to explain within the limitation of word content, how the Ansoff can be applied to help develop strategic marketing options for an enterprise.

Some of these other analytical tools and techniques will also be discussed in the second section this work. The Ansoff Matrix The Ansoff matrix presents the product and market choices available to an organisation. Herein markets may be defined as customers, and products as items sold to customers (Lynch, 2003). This matrix helps companies decide what course of action should be taken given current performance. The Ansoff matrix is also used in marketing audits (Li et al, 1999).

The Ansoff matrix entails four possible product/market combinations: Market penetration, product development, market development and diversification (Ansoff 1957, 1989). Ansoff Product-Market Growth Matrix [pic] Source: Ansoff (1957, 1989) A market penetration strategy is used when and organization wants to achieve and increased share in the market. A market development strategy in contrast involves the organization searching for new markets in which to sell its current product.

A product development strategy involves identifying new needs within the existing market and developing products to meet these needs while the diversification strategy involves the organisation entering new markets with new products. I will now elaborate on these four strategies to show how they help develop strategic marketing options for an enterprise. Market

Penetration Market penetration occurs when a company penetrates a market with its current products.

It is important to note that the market penetrations strategy begins with the existing customers of the organization. This strategy is used by companies in order to increase sales without drifting from the original product-market strategy (Ansoff, 1957). Companies often penetrate markets in one of these three ways: by gaining competitors customers, improving the product quality or level of service, attracting non-users of the products or convincing current customers to use more of the company's product, with the use of marketingcommunicationtools like advertising etc. Ansoff, 1989, Lynch, 2003). This strategy is important for businesses because retaining existing customers is cheaper than attracting new ones, which is why companies like BMW and Toyota (Lynch, 2003) and banks like HSBC engage in relationship marketing activities to retain their high lifetime value customers; same applies to Diamond bank in Nigeria which won the award for Bank of the Year in Thisday Awards 2009 (Thisday Style magazine).

Diamond bank is one of the market challengers in Nigeria's banking industry and has consistently increased its market share by penetrating the market with targeted special promotions, very low interest rates on loans, and maintaining a highly receptive and comfortable atmosphere in its banking halls. Product Development Product development occurs when a company develops new products catering to the same market. Note that product development refers to significant new product developments and not minor changes in an existing product of the firm.

The reasons that justify the use of this strategy include one or more of the following: to utilise of excess production capacity, counter competitive entry, maintain the company's reputation as a product innovator, exploit newtechnology, and to protect overall market share (Lynch, 2003). Often one such strategy moves the company into markets and towards customers that are currently not being catered for. For example, McDonalds is always within the fast-foodindustry, but frequently markets new burgers.

Another good example of the product development strategy is the constant innovation within the home computer market where products can become obsolete within a matter of years. Frequently, when a firm creates new products, it can gain new customers for these products. Hence, new product development can be a crucial business development strategy for firms to stay competitive. Market Development When a company follows the market development strategy, it moves beyond its immediate customer base towards attracting new customers for its existing products.

This strategy often involves the sale of existing products in new international markets. This may entail exploration of new segments of a market, new uses for the company's products and services, or new geographical areas in order to entice new customers (Lynch, 2003). For example, Arm & Hammer was able to attract new customers when existing consumers identified new uses of their baking soda (Christensen et al, 2005). Lucozade was first marketed for sick children and then re-branded to target athletes.

Also, an organisation found that the gel they produced for removing residual oil from heavy machinery could also be used to clean domestic ovens and

baking tins. This revelation enabled them to target a new market of professional cooks and baking enthusiast. These are good examples of developing a new market for an existing product. Diversification Diversification strategy is distinct in the sense that when a company diversifies, it essentially moves out of its current products and markets into new areas. It is important to note that diversification may be into related and unrelated areas.

Related diversification may be in the form of backward, forward, and horizontal integration. Backward integration takes place when the company extends its activities towards its inputs such as suppliers of raw materials etc. in the same business. Forward integration differs from backward integration, in that the company extends its activities towards its outputs such as distribution etc. in the same business. Horizontal integration takes place when a company moves into businesses that are related to its existing activities (Lynch, 2003; Macmillan et al, 2000).

It is important to note that even unrelated diversification often has some synergy with the original business of the company. The risk of one such manoeuvre is that detailed knowledge of the key success factors may be limited to the company (Lynch, 2003). While diversified businesses seem to grow faster in cases where diversification is unrelated, it is crucial to note that the track record of diversification remains poor as in many cases diversifications have been divested (Porter, 1987).

Scholars have argued that related diversification is generally more profitable (Macmillan et al, 2000; Pearson, 1999). Therefore, diversification is a high-

risk strategy as it involves taking a step into a territory where the parameters are unknown to the company. The risks of diversification can be minimised by moving into related markets (Ansoff, 1989). Virgin Cola, Virgin Megastores, Virgin Airlines, Virgin Telecommunications are examples of new products created by the Virgin Group of UK, to leverage the Virgin brand.

This resulted in the company entering new markets where it had no presence before. Limitations of Ansoff Matrix While Ansoff analysis helps in mapping the strategic options for companies, it is important to note that like all models, it has some limitations. By itself, the matrix can tell one part of the strategy story but it is imperative to look at other strategic models like SWOT analysis and PESTLE in order to view how the strategy of an organisation is formulating and might change in the course of its future.

For example, the Ansoff analysis of Virgin Cola shows that the brand has been launched in the UK and USA using a market penetration strategy, which essentially reflects that the brand needs to increase its brand recognition (Vignali, 2001). The SWOT analysis conducted by Vignali (2001) showed an opportunity that Virgin Cola could explore diversification into new ranges of Virgin Cola products.

PESTEL analysis of Virgin Cola showed that there was need to constantly evaluate the soft drinks industry in all countries, in order to reflect customer trends, thereby allowing the brand to gain market share and also predict trends faster than the competition. Therefore, the steps to be taken while conducting a strategic analysis of an organisation include SWOT analysis, PESTEL and Ansoff matrix as fundamental models of analyses, which should

be used in conjunction and not in isolation, to view the complete strategic scenario.

Also, recommendations made on the basis on only one of the models are not concrete and lack in depth. While the role of analysis in making strategic choices cannot be undermined, it is imperative to note that judgment plays a crucial role in making critical strategic choices that may change the future of the firm (Macmillan et al, 2000). Lastly, the use of Ansoff matrix as a marketing tool may not be really useful as the matrix is critical for analysing the strategic path that the brand may be following, and does not essentially identify marketing options. Other Analytic Tools

As mentioned earlier Ansoff matrix is not all exhaustive and so there are other analytical tools and techniques which are valuable to marketers for strategic decision making and can actually be used alongside Ansoff matrix. I will just throw some light on SWOT, BCG matrix and Porter’s Generic Strategy. SWOT Swot analysis is a simple framework for generating strategic alternatives from a situation analysis. Swot (sometimes reffered to as TOWS) stands for Strengths, Weaknesses Opportunities and Threats. It is applicable to either corporate level or business unit level and frequently appears in marketing lans. Its advocates say it can be used to gauge the degree of ‘ fit’ between the organisation’s strategy and itsenvironment, and to suggest ways suggest ways in which the organisation can profit from strengths and opportunities and shield itself against weaknesses and threats (Adams, 2005). The internal and external situation analysis can produce a large amount of information, much of which may not be highly relevant. The SWOT

analysis can serve as an interpretative filter to reduce the information to a manageable quantity of key issues.

The SWOT analysis classifies the internal aspect of the company as strengths or weaknesses and the external situational factors as opportunities or threats. Strengths can serve as a foundation for building a competitive advantage, and weaknesses may hinder it. By understanding these four aspects of its situation, a firm can better leverage its strengths, correct its weaknesses, capitalize on golden opportunities, and deter potentially devastating threats. Because SWOT is such as familiar and comforting tool, many students use it at the start of their analysis. This is a mistake.

In order to arrive at a proper SWOT appraisal, other analyses need to be carrier out first. BCG Matrix BCG matrix is a management tool that serves four distinct purposes (McDonald 2003; Kotler 2003; Cipher 2006): it can be used to classify product portfolio in four business types based on four graphic labels including Stars (Stars are leaders in high growth markets. They tend to/should generate large amounts of cash but also use a lot of cash because of growth market conditions) Cash Cows (), Question Mark (Question Marks have not achieved a dominant market position, and hence do not generate much cash.

They tend to use a lot of cash because of growth market conditions) and Dogs (Dogs often have little future and are big cash drainers on the company as they generate very little cash by virtue of their low market share in a highly low growth market). [pic] According to experts (Drummond & Ensor 2004; Kotler 2003; McDonald 2003), surplus cash from cash cow products

should be channeled into Stars and Questions in order to create the future Cash Cows.

The BCG matrix can be used to determine what priorities should be given in the product portfolio of a company; to classify an organisation's product portfolio according to their cash usage and generation; and offers management available strategies to tackle various product lines. It is based on two dimensional variables: relative market share and market growth. They often are pointers to healthiness of a business (Kotler 2003; McDonald 2003). In other words, products with greater market share or within a fast growing market are expected to wield relatively greater profit margins.

Porter's Generic Strategy Companies can achieve competitive advantages essentially by differentiating their products and services from those of competitors and through low costs. Firms can target their products by a broad target, thereby covering most of the marketplace, or they can focus on a narrow target in the market (Lynch, 2003). According to Porter, there are three generic strategies that a company can undertake to attain competitive advantage: costleadership, differentiation, and focus. [pic] Source: Porter (1985)

Cost Leadership; The companies that attempt to become the lowest-cost producers in an industry can be referred to as those following a cost leadership strategy. The company with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated, and selling at a standard market price. Companies following this strategy place emphasis on cost reduction in every activity in the value

chain. Differentiation; When a company differentiates its products, it is often able to charge a premium price for its products or services in the market.

Some general examples of differentiation include better service levels to customers, better product performance etc. in comparison with the existing competitors. Porter (1980) has argued that for a company employing a differentiation strategy, there would be extra costs that the company would have to incur. Such extra costs may include high advertising spending to promote a differentiated brand image for the product, which in fact can be considered as a cost and an investment. Focus; Porter initially presented focus as one of the three generic strategies, but later identified focus as a moderator of the two strategies.

Companies employ this strategy by focusing on the areas in a market where there is the least amount of competition (Pearson, 1999). Organisations can make use of the focus strategy by focusing on a specific niche in the market and offering specialised products for that niche. This is why the focus strategy is also sometimes referred to as the niche strategy (Lynch, 2003). Therefore, competitive advantage can be achieved only in the company's target segments by employing the focus strategy. The company can make use of the cost leadership or differentiation approach with regard to the focus strategy.

Conclusion In conclusion, it has to be restated that the Ansoff matrix is a useful, though not an exhaustive, framework for an organisation's objective setting process and marketing audits. The differences in strategic choices of organisations can often be attributed to the type of market in which the

company operates. Changes in business environment play a crucial role in the strategic options that an organisation may pursue over its life stages. There are risks associated with all of the four strategic options entailed in the Ansoff matrix.

Market penetration is generally considered as a low risk strategy while diversification, on the other hand, is deemed as a high risk growth strategy as it involves moving simultaneously into new products and new markets. Diversification remains a popular strategic option for firms in today's competitive business arena. Lastly, Ansoff matrix as a strategic model has certain limitations. The use of SWOT and PESTEL analysis is recommended, along with Ansoff analysis, to be able to capture a holistic view of the strategic scenario of an organisation.

I would have elaborated more on other analytic tools but for the word limit given me. References Ansoff Analysis. Website. http://university- essays. tripod. com/ansoff_analysis. html. 27th March 2009 Ansoff, I. H. (1957), Strategies for diversification, HarvardBusiness Review, Vol. 35, No. 2, p. 113-124. Ansoff, I. (1989), Corporate Strategy, rev. edn, Penguin, Harmondsworth BCG Growth-Share Matrix. Website. http://university- essays. tripod. com/bcg_growth_share_matrix_boston_consultin g_group. html. 3rd March 2009 Christensen, C. & Cook, S. & Hall, T. 2005), Marketing malpractice: The cause and the cure, Harvard Business Review. Hill, W. L. C. & Jones, R. G. (2007), Strategic Management: An Integrated Approach, 7th ed. , Houghton Mifflin Company, Boston: New York. Li, S. & Duan, Y. & Kinman, R. & Edwards, J. S. (1999), A framework for a hybrid intelligent system in support

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