Strategic management ansoff matrix

Business, Management

1. INTRODUCTION

Corporate strategic decisions are usually based on the methods through which an organization could leverage its existing competitive advantage in promoting value and ensuring growth (Lynch, 2009), while sustainable competitive advantage depends largely on how well a company performs these actions (Porter, 2008). The need for companies to grow and expand has been known to drive product and marketing innovation, which in turn prompts them into adopting different organisational strategies, based on the products they sell and markets they target (Ansoff, 1984).

The Ansoff Matrix, developed by Igor Ansoff in 1957 highlights four major strategic options (Figure 1) through which an organisation could adapt its new or existing products into a new or existing marketplace. The matrix is employed by businesses in decision-making processes surrounding product offerings and market growth strategies. The matrix is also known as the Product/Market growth matrix and it major function is to help organisations in evaluating available options for growth given their product and market mix. Johnson et al (2008) also depict it as a method of ascertaining the benefits or risks associated with each strategic option. The major strategic options available, as depicted in Figure 1, are for an organisation to penetrate its existing market, develop its market, develop its products or diversity completely with a new product into a new market.

Ansoff matrix

Figure 1: Ansoff Matrix. Source: Ansoff (1957), adapted from Lynch (2009)

2. QUADRANTS

2. 1. MARKET PENETRATION

As stated earlier, there are four output options for the Ansoff Matrix. The first of which is market penetration. This is a strategic option for an organisation seeking to expand its market share in an existing market, with an existing product. Mercer (1996) states that the growth strategy inherent in the Market Penetration option is for an organisation seeking to maintain or increase share of its existing products within the market place, gain marketleadership, change competitive processes within a matured market, or increase awareness amongst existing consumers. According to Hooley et al (2004), the option to penetrate deeper within the marketplace is a low risk option that makes use of existing resources.

A typical example of an organisation using this strategy would be Southwest Airlines. Southwest Airlines aggressively offers low cost flights within small distance cities. The company’s existing product is low cost travel, which is an industry dominated by several companies and witnessing high competitive pressures across all major markets. However, through its combination of aggressive marketing and low cost pricing, the company is able to dominate the market within Southwest United States (Shaw, 2007).

Another example of market penetration strategy would be that of Pakistan State Oil. The company experiences competition from local and foreign oil companies that sell petroleum through retail petrol stations. However, it has been able to increase its market share from 40% to 65% over a period of 4 years by opening new retail outlets and investing in

externaladvertisement(Economic Review, 2005). The strategy adopted by Pakistan State Oil is similar to that of Southwest Airlines, in that they operate within competitive markets, but by investing competitively, they are able to maintain market share and grow within their respective industries.

This strategy also illustrates the low risk advantage of market penetration. The companies utilise existing products in an already known market. They do not have to invest in research and development or excessively advertise within a new market in order to create awareness. Adopting this strategy would cement the organisation’s position within the industry and increase the barriers for entry for new competitors (Porter, 2008). Since market penetration is focused on retaining existing customers, it is a lot cheaper than acquiring new customers in an unknown market.

However, a major disadvantage of this strategy is that it does not promote corporate growth into other potentially higher earning sectors (Watts et al, 1998). By focusing simply on retaining existing customers, Watts et al argue that the company loses out on the new investment potential, while Fifield (1998) also depicts that expanding market share within an existing industry poses a significant risk as the industry growth may decline and the organisation has lower growth potential.

2. 2. MARKET DEVELOPMENT

The option to develop a market is recommended by Ansoff to organisations that aim to offer an existing product into a new market. The various alternatives available would be to leverage an existing product into a new geographical region, using different product dimensions, distributing the

products through new channels, or adopting different pricing strategies (Proctor, 2000). The major goal of market development would be to attract a new customer segment, using a slightly different strategy, into consuming an existing product (Ansoff, 1984). The risk associated with this strategy has been depicted by Watts et al (1998) to be moderate, due to the risks associated with entering a new market.

According to acase studyin Christensen et al (2005, p. 51), Arm and Hammer owned a small business selling baking soda product and were able to attract a new segment of customers by identifying new uses for baking soda. They realised that apart from being used solely for baking, the products could be used as a household cleaning and deodorizing product, so they repackaged its contents and marketed them to supermarkets and corner shops as effective cleaning agents. Due to the relative infancy of the market, they had to engage in a series of advertisement that helped to communicate the relevance of their product and methods through which it could be used for other purposes. Through this strategy, they were able to increase revenue and adapt one product to different market segments. This case study confirms previous assumptions that through market development, a company could leverage an existing product into a new market (Collis and Montgomery, 2008).

The market development actions they engaged in were essential in building product awareness amongst the new customers. According to Fifield (1998), companies engaging in market development would gain new customers, increase turnover and profits, and ensure corporate growth due to the

relative potential for growth within the new segment. However, Hooley et al (2004) also discuss the risks associated with market development. The option to foray into a new market segment entails the cost of developing this new market, which consists of market costs and a potential change to the company's marketing mix. If the strategy fails, then the company would have lost the substantial capital utilised in marketing and pushing this product into the new market.

2. 3. PRODUCT DEVELOPMENT

The product development strategy is directed at organisations seeking to offer a new product into an existing market. This definition entails any new or modified product aimed at an existing market. Lynch (2009) asserts that the decisions to develop the product prior to delivery into the market is based on the company's intention to exploit newtechnology, protect market share by introducing innovative products and also to utilise excess production capacity. This strategy entails a moderately high risk due to the level of product development and research required to develop a new product for a market that is already used to an existing product (Watts et al, 1998).

The Apple iPod is a real life example of a new product delivery into an existing market. Prior to its introduction, most individuals usually listened tomusicon cassette players, desktop computers and the Sony Walkman (CNet, 2008). There was no innovative product in the market that allowed individuals to carry their music library on a digital device without the need for cassettes or compact discs. The iPod is a typical example of product

development due to its innovative approach to playing music. It consisted of the sleek wheel navigation system that was relatively easy to use and display methods, which made scrolling through vast amounts of music much easier. Due to the product innovation method employed during its development, the Apple iPod quickly gained market share and is now the market leader in music devices (CNet, 2008).

In accordance to Johnson et al’s (2008), the product development strategy associated with the delivery of the Apple iPod enabled the organisation to increase its customer base, brand awareness, brand into the music business, and utilise the iPod’s success as a platform in establishing the iTunes Music Store. Also confirming Hooley et al (2004) view that if a product development strategy for entry into a new market is successful, it may lead the company into introducing more innovative products into the same market or parallel markets, such as in the introduction of iPhone into the smart phone market, and most recently the iPad into the slate PC market.

However, the benefits associated with such a strategy seem to be limited to strong brands with an already existing brand image in similar markets. Watts et al (1998) depict that smaller firms aiming to introduce a new product into an existing market may face shortfalls in marketing the product and investing in product development. Doyle (1997) also states that the high costs and time related in developing a new product for an existing market may be discouraging. Lynch (2009) thereby concludes that careful research needs to be undertaken before an organisation can implement a product

development strategy, due to the lack of guarantee regarding market success.

2. 4. DIVERSIFICATION

The final quadrant in the Ansoff's Matrix is a diversification strategy. Such a strategy entails offering a new product in a new market and is often used when a market has become saturated and profits are limited (Lynch, 2009). Doyle (1997) asserts that diversification strategies are usually in three forms: full diversification, backward diversification, or forward diversification. The diversification form adopted by the organisation usually depends on whether they are entering a completely new market, integrating backward and competing with suppliers or integrating forward and competing with buyers. Diversification, whatever form it entails has a generally high risk due the fact that the company would be offering an entirely new product in a new market.

The Virgin Group is a typical example of a company that has consistently diversified into new markets. It forayed into the credit card industry with VirginMoneyoffering competitive credit card rates to customers; it diversified into travel and offers holiday packages to holiday goers, it also diversified into the mobile phone market with Virgin Mobile and most recently into Fitness with its range of Fitness centres. Forward diversification is being utilised in all these business ventures and have proved successful for the company. It is able to consistently leverage its brand image across different market segments. Johnson et al (2008) argues that Virgin's main product is

its brand, which it sells across different markets, and not necessarily the businesses its runs.

Holbrook and Schindler (1996) state that companies that consistently practice diversification strategies are usually large with a reputable brand image such as Apple, General Electric and Virgin. They are able to leverage their brands across different markets due to high customerloyalty(Hooley et al, 2004). Therefore it seems that this strategy, just like that of Product Development is practised best by organisations with a reputable brand and resources required to develop and market a product effectively, be it an actual product or a brand. Lynch (2009) highlights that the potential benefits of diversification could be numerous. The company enjoys the benefits of operating within diverse markets, thereby ensuring improving profitability and customer loyalty. The company is also able to attain market leadership if the market is not crowded and if it has a unique product to sell. However Mercer (1996) criticises diversification strategies as a jack of all trade practice of venturing into several markets and not being the master of one, a statement that is typical of Virgin’s position. It is not a market leader in any of its markets.

3. CONCLUSION

The Ansoff matrix has proved useful, and with the use of real life evidence, it accurately depicts the most effective strategies that businesses could use depending on their market and customer segment. Though the four strategies apply differently to companies depending on their market and product intentions, it also depends hugely on firm specific capabilities such

as brand image and research capabilities. Organisations seeking to adopt its usage when seeking strategic direction should therefore do so in due consideration of their firm specific strengths and benefits and how these could also be applied to the products being offered and markets being targeted.

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