MARKETING GENERICS

Ansoff's Matrix

Introduction

Ansoff's Matrix was developed by Professor Harry Igor Ansoff, and is used as a strategic planning tool by managers, strategists and marketers to devise and evaluate options for future growth. This Application Note explains what Ansoff's Matrix is, and how you can use it to develop your strategic thinking and options.

The Matrix

Ansoff's Matrix plots the options against 2 axes: using markets and products for growth and development, and this provides the user with the possibility to consider what business development options ha faces into markets, products or both. It uses a simple and very clear 2x2 matrix, thus presenting the user with immediate and simple to grasp options:

Markets	Products / offer: Existing	Products / offer: New
New	**Market development** (Sell existing products into new markets / territories)	**Diversification** (Grow market entering completely new markets, with new, different products)
Existing	**Market penetration** (Penetrate further existing markets > market share growth)	**Product development** (Grow market share by selling new products into existing new markets)

The four options in the Ansoff's Matrix

Market penetration

In this option, the company uses its existing products and tries to grow or penetrate further in its existing markets. In other words, it tries to grow market share (MS), usually by taking MS from its competitors. This is a typical strategy for when a company is in a mature market, and/or doesn't have the money, desire or capacity for whatever reason to invest in new, innovative products. MS growth will typically come from reducing prices, thus undercutting competition, increasing above-the-line and/or sales promotion activities, acquiring a complementary product, brand or company which already has market share, increasing sales channels or making a 'sales push', or making modest (usually incremental) product improvements, and promoting them as being 'new'. Whilst never being easy, this option requires the least capital investment, and because the company is operating in 'home territory' is the most 'comfortable' / least risk, and could be considered to be the 'easiest' of the 4 options.

Marketing Application Note

Market development

In market development, the company tries to grow by using its existing products /offerings but expand into new markets where it doesn't currently operate, typically either new geographical territories (such as a Chinese company starting to export and sell aboard), or new applications for the same product (such as looking at a component or materials which is currently sold into one application /segment, and seeing if it could be used in another).

If successful, the new territories or applications will mean larger volumes, thus better economies of scale, although there will be additional set-up and operating costs for supporting the new sales channels or marketing effort into the new applications. Because the company is leveraging existing products, capital investments may be low, and this is often considered the second most 'easy' option.

Product development

In this option the company develops completely new products as its strategy to grow. Apple has been very successful in doing this, developing iPhone as a completely new revenue stream, then more recently the Watch. In such cases, if the new product is radical, the company is also in effect creating a new category as well as product.

Sometimes, the product development will not be so radical, making product extensions or variants of existing products, or combining existing products (i.e. Mondelez combining their Oreo biscuits with Milka chocolate and thus creating a new [hybrid] product).

Given that product development tends to take a long time, (1-2 years in many industries) and requires R&D, innovation and often OpEx and CapEx investments, this option is considered more difficult. Alternatively, a company might try and buy a brand or product to shorten timescales, or make joint product development with other companies, or even competitors (such as Ford KA and Fiat 500 sharing the same chassis).

However, given the fact that many new products fail, it could be considered a risky option.

Diversification

In this option the company offers new products or offerings in new markets/ segments / applications. This generally is a high risk option, because the company is operating in both new markets and new markets, thus often out of its comfort zone, and usually OpEx and CapEx investments are needed in both products and markets, thus requiring high investment with quote possibly low chance of success. For some companies this option might be an act of desperation when the existing products and markets are not yielding the growth they need. However, companies may select diversification option as a deliberate decision to build adjacent, non-complimentary businesses, such as when they build a broad-based, conglomerate type business.

Conclusion

Ansoff's Matrix is very visual, clear, and simple to use. It will not provide you with a strategic answer, but is more a planning tool – useful for helping you think through your current situation and what could be the options for growth going forward.

If you are interested in knowing more about Marketing and Marketing Planning, contact Marketing Generics at
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