**Market Penetration Defined**

**Market penetration** is both a measure and a strategy. A business will utilize a market penetration strategy to attempt to enter a new market. The goal is to get in quickly with your product or service and capture a large share of the market. Market penetration is also a measure of the percentage of the market that your product or service is able to capture.

**Market Penetration Tactics**

Aggressive pricing is a very common tactic. You can use **penetration pricing**, which is setting the price of your product or services lower than that of your competitors. This strategy may work well in price-sensitive markets. You may be able to maintain a decent level of profits due to the volume of sales decreasing your costs per unit for the product. Additionally, once you have obtained your market share goal and have achieved a sufficient level of brand loyalty, you may be able to increase prices.

You can also achieve market penetration through **aggressive marketing campaigns** and **distribution strategies**. For example, you may saturate the market with an aggressive advertising campaign consisting of TV, radio and direct mailing ads. You may also penetrate the market by saturating your product in the market. For example, in some cities, it seems there's a Starbucks on every street corner.

**Advantages of Market Penetration**

Advantages of market penetration pricing include:

* It may cause quick diffusion and adoption of your product in the market. If your product is cheap enough and of similar quality to competing products, it should spread out into the market and be purchased by customers quickly.
* It may create goodwill among the first customers that purchase the product due to the aggressive pricing. This may create customer referrals.
* Efficiency is encouraged because of thinner profit margins due to the aggressive pricing. Efficiency will be needed to maintain profitability.
* It may discourage competitors from entering the market.
* If there is high product turnover for a distributor due to fast sales, it may help create enthusiasm for your product from the distributors of the product, such as retailers.

**Disadvantages of Market Penetration**

Market penetration pricing does present some disadvantages:

Market Penetration

stated above, there are four output options for the Ansoff Matrix. The first of these, market penetration, combines existing products and existing markets. The growth strategy of market penetration aims to maintain or increase the market share of existing products, secure dominance, restructure a mature market, and increase usage by existing customers (Mercer, 1996). Market penetration is considered to be a low risk strategy as it utilises existing products in existing markets.

Southwest Airlines is a good example of an organisation that uses a market penetration strategy. Using this strategy, Southwest Airlines focuses on offering low cost flights between small distance cities. The company uses an existing product, namely air travel, and offers this product in an existing market, namely flights for the small distance cities. Through its competitive advantage Southwest Airlines is able to dominate the market for travel between small distance cities in the southwest market (Shaw, 2007).

Another example of market penetration is Pakistan State Oil. The company was able to increase its market share in Pakistan from 40% to 65% over a period of 4 years by developing new retail outlets (Economic Review, 2005). Again, the company was able to take an existing product, namely oil, and increase its penetration in an existing market. Both of these examples show that the strategy of market penetration invokes little risk to organisations with an existing product in an existing market.

One advantage of choosing to use a strategy of market penetration is that there is little risk associated with such a strategy. The company will be engaging in a strategy that utilises current products and markets; therefore it will potentially have an advantage over other companies. Market penetration focuses on retaining existing customers and this strategy is cheaper than attracting new ones.

A disadvantage of choosing to use a strategy of market penetration is that this strategy does not allow for any company growth. If an organisation focuses simply on retaining its existing customers, it cannot realise market or product growth. While this strategy has worked for both Southwest Airlines and Pakistan State Oil, it is not the best choice for all companies.

**2. Market Development**  
The strategy of market development focuses on offering existing products in new markets. This strategy can be achieved through several different options including: new geographical markets, new distribution channels, different pricing policies, or new product dimensions (Proctor, 2000). The goal of this strategy is to attract new customers for existing products. This strategy is seen as having moderate risk due to the fact that a company will be trying to enter into new markets.

Using the strategy of market development Arm and Hammer was able to attract a new customer set for its baking soda product (Christensen et. al., 2005). Arm and Hammer’s existing customers were able to identify new uses for baking soda that helped the company develop a new market for the existing product. The baking soda product was transformed from being used mainly for baking purposes, to being used as a household cleaning and deodorizing product.

Another successful case study of the market development strategy is that of many Chinese manufacturers offering their products to new markets. Chinese toy manufacturing companies have been able to successfully bring their products into new markets including Europe and the US. These companies were able to identify a market for their existing products, which has proven to be highly profitable.

Advantages of choosing to engage in a strategy of market development include: gaining new customers, increased revenue, and company growth. If implemented successfully market development strategies can lead to competitive advantage for some organisations. As can be seen in the example above, Arm and Hammer was able to generate new uses for an existing product. This allowed the company the advantage of attracting new customers.

The main disadvantage of choosing to employ a market development strategy is the risk associated with such a strategy. Under such a strategy a company will engage upon entering new markets for its products. Entering into unknown territory is always risky and this strategy has the added risk of cost associated with it; companies can loose large amounts of money attempting to enter new markets. While the risk is said to be moderate, this can still prove to be an unsuccessful strategy for many organisations.

**3. Product Development**  
The strategy of product development focuses on offering new products in existing markets. This can be achieved either through offering entirely new products or modified products that appeal to an existing market. A company can choose to engage in product development for several reasons including: exploit new technology, use excess production capacity, and to protect market share (Lynch, 2003). This strategy is considered to have a moderate risk associated with the time and money needed to develop new products.

Google is a good example of a company that has successfully implemented a product development strategy. Through new technology Google was able to develop and introduce a new web browser, Chrome, into the existing Internet user market. This new product development has allowed Google to sustain its competitive advantage in the Internet web browser market. The company continues to maintain a reputation as a product innovator.

Another example of the product development strategy is McDonald’s. While McDonald’s is always operating in the fast-food market, it consistently offers new products in the form of hamburgers, chicken burgers, or value menu items. Through its continual new product offerings McDonald’s has been able to increase its customer base in existing markets by offering products to customers that are not currently being catered to.

The strategy of product development can be advantageous because it can increase an organisations customer base. This strategy allows organisations to capture new customers in existing markets, customers that may not have been captured before. If successful, this strategy can lead to new product offerings, increased market share, increased revenue, and company growth.

The disadvantages associated with a product development strategy include the moderate risk of choosing to engage in such a strategy. This risk exists due to the fact that developing new products requires time and money. Careful research needs to be undertaken before a company can even think of implementing a product development strategy. Although helpful, it is not a guarantee that this research will ensure a successful new product introduction.

**4. Diversification**  
The final quadrant in Ansoff’s Matrix is diversification. The strategy of diversification entails offering new products in new markets. This strategy is often used when a market has become saturated and profits are limited. Diversification can come in one of three forms: full diversification, backward diversification, or forward diversification. Full diversification means offering an entirely new product in an entirely new market. Backward diversification takes place when an organisation begins to encroach upon the role of the supplier. Forward diversification takes place when the product producing company starts to encroach upon the products or services offered by later stage companies. An example of forward diversification happens when a photographer starts offering picture framing (Hitt et. al., 2009). The strategy of diversification is considered to have a high risk due to the fact that the company will not only be offering a new product, but it will also be entering into a new market.

Three examples of companies that have been successful implementing diversification strategies are Virgin Media, Walt Disney, and Canon. Virgin Media has been successful in offering new products in the travel and mobile phone markets. By offering these new products, the company has been able to move from the music producing market into two new markets. Walt Disney was able to move from producing animated movies into the vacation property and theme park markets. Canon has been successful in moving from an organisation that only produced cameras into an organisation that now offers a full range of office supply products.

The advantages of diversification can be great. Through successful diversification a company can enjoy increased market share, a larger customer base, increased revenue, and company growth. Diversification can also allow a company to become a product leader in new markets. If an organisation is able to identify the key factors for success it can then increase its chances of implementing a successful diversification strategy.

While the advantages of diversification can be great, so can the disadvantages of engaging in such a strategy. Diversification is considered to be a high-risk strategy due to the fact that it requires organisations to enter into new territory where the parameters are unknown. New product development is expensive and time consuming. Before entering into a diversification strategy it is important for an organisation to have clear goals and an honest assessment of the risks associated with the strategy.

**Conclusion**  
The Ansoff Matrix, first introduced in 1957, is a useful tool for businesses to use when analysing different strategies in relation to its products and markets. The Matrix includes four product/market outputs: market penetration, market development, product development, and diversification. Each of these outputs comes with its own set of advantages and disadvantages and represents a strategy choice that a business can take. It is important to note that these four outputs are not mutually exclusive and often times organisations engage in more that one strategy depending on the environment in which they operate.  
While the Ansoff Matrix is fairly straightforward and can aid an organisation in objective setting, it is important to realise that its use is limited when the Matrix is used alone. Business environments are varied and ever changing, therefore it is important to use the appropriate tools when analysing these environments. No one strategic option is suitable for all organisations at all times. The Ansoff Matrix tool should only be used as an aid and in conjunction with other tools such as SWOT analysis, GAP analysis, etc. Before entering into any strategic decision, an organisation should be clear on what are its goals and objectives and the risks associated with each.