Introduction to Management

University of Cassino and Southern Lazio
Prof. Ylenia Cavacece
A.A. 2020/2021

Ansoff Matrix

Models and strategies

Ansoff Matrix

The Ansoff Matrix

Ansoff describes four growth alternatives for companies that want to grow in existing or new markets, with existing or new products. Each alternative presents different levels of risk for an organization

The Ansoff Matrix is a strategic planning tool that provides a framework to help executives, senior managers, and marketers devise strategies for future growth.

Market penetration

In market penetration strategy, the organization tries to grow using its existing offerings (products and services) in existing markets. In other words, it tries to increase its market share in current market scenario. This involves increasing market share within existing market segments. This can be achieved by selling more products or services to established customers or by finding new customers within existing markets. Here, the company seeks increased sales for its present products in its present markets through more aggressive promotion and distribution. This can be accomplished by:

Price decrease

Increase in promotion and distribution support

Acquisition of a rival in the same market

Modest product refinements

This is the least risky growth option.

Market development

In market development strategy, a firm tries to expand into new markets (geographies, countries etc.) using its existing offerings and also, with minimal product/services adaption.

This can be accomplished by:

Different customer segments

Industrial buyers for a good that was previously sold only to the households;

New areas or regions of the country

Foreign markets.

This strategy is more likely to be successful where:

The firm has a unique product technology it can leverage in the new market

It benefits from economies of scale if it increases output

The new market is not too different from the one it has experience of

The buyers in the market are intrinsically profitable.

This strategy increases uncertainty and the risk.

Product development

In product development strategy, a company tries to create new products and services targeted at its existing markets to achieve growth. This involves extending the product range available to the firm's existing markets. These products may be obtained by:

Investments in research and development;

Acquisition of rights to produce someone else's product;

Buying products by other producers to sell them with the own brand;

Creating partnerships with other companies which need access to the firm's distribution channels or brands.

This is riskier than Market penetration and has a similar risk of Market development strategy.

Diversification

In diversification an organization tries to grow its market share by introducing new offerings in new markets. It is the most risky strategy because both product and market development is required.

Related Diversification— there is relationship and, therefore, potential synergy, between the firms in existing business and the new product/market space. Concentric diversification, and Vertical integration.

Unrelated Diversification: This is otherwise termed conglomerate growth because the resulting corporation is a conglomerate, i.e. a collection of businesses without any relationship to one another. A strategy for company growth by starting up or acquiring businesses outside the company's current products and markets.

Diversification consists of changing both markets and products so it is the riskiest growth option.

Uses

The Ansoff Matrix is a useful tool for organizations wanting to identify and explore their growth options. Although the risk varies between quadrants, with Diversification being the riskiest, it can be argued that if an organization diversifies its offering successfully into multiple unrelated markets, its overall risk portfolio is lowered.

Criticisms

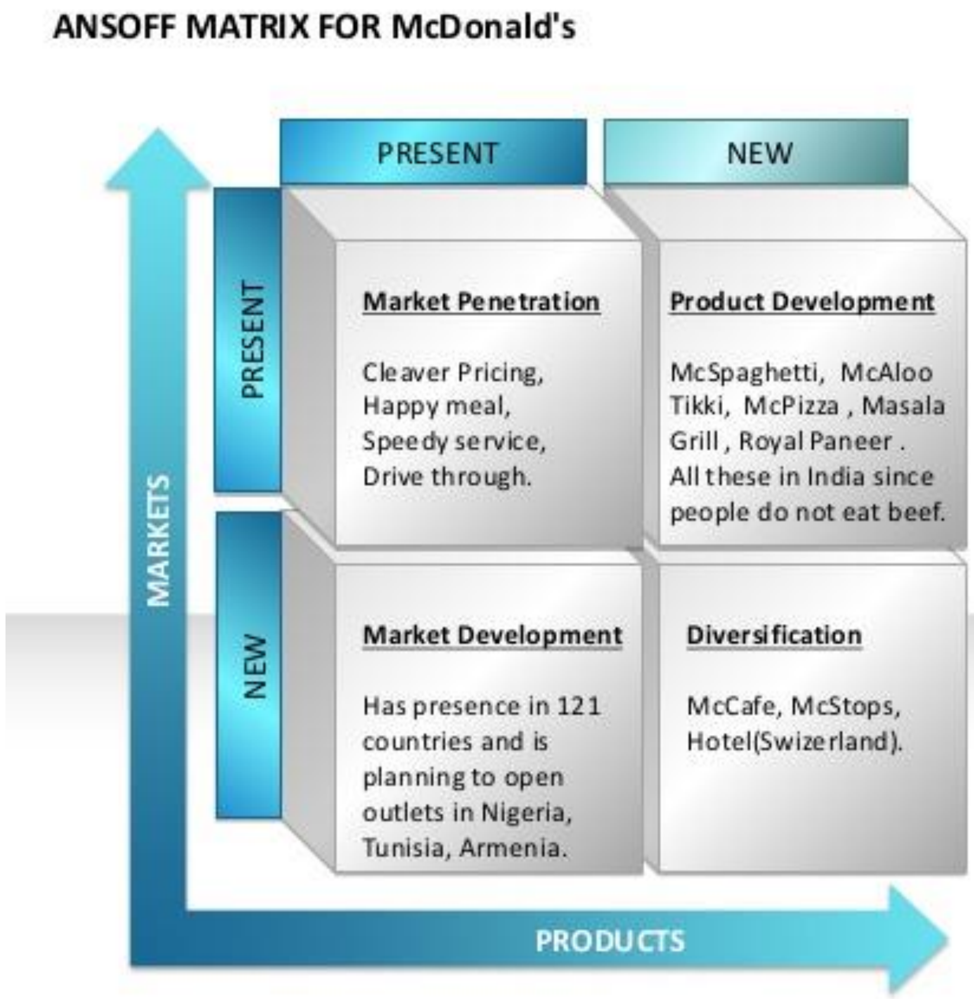
Isolation challenges

Used by itself, the Ansoff matrix could be misleading. It does not take into account the activities of competitors and the ability of competitors to moves into other industries. It also fails to consider the challenges and risks of changes to business-as-usual activities. An organization hoping to move into new markets or create new products (or both) must consider whether it possesses transferable skills, flexible structures, and agreeable stakeholders.

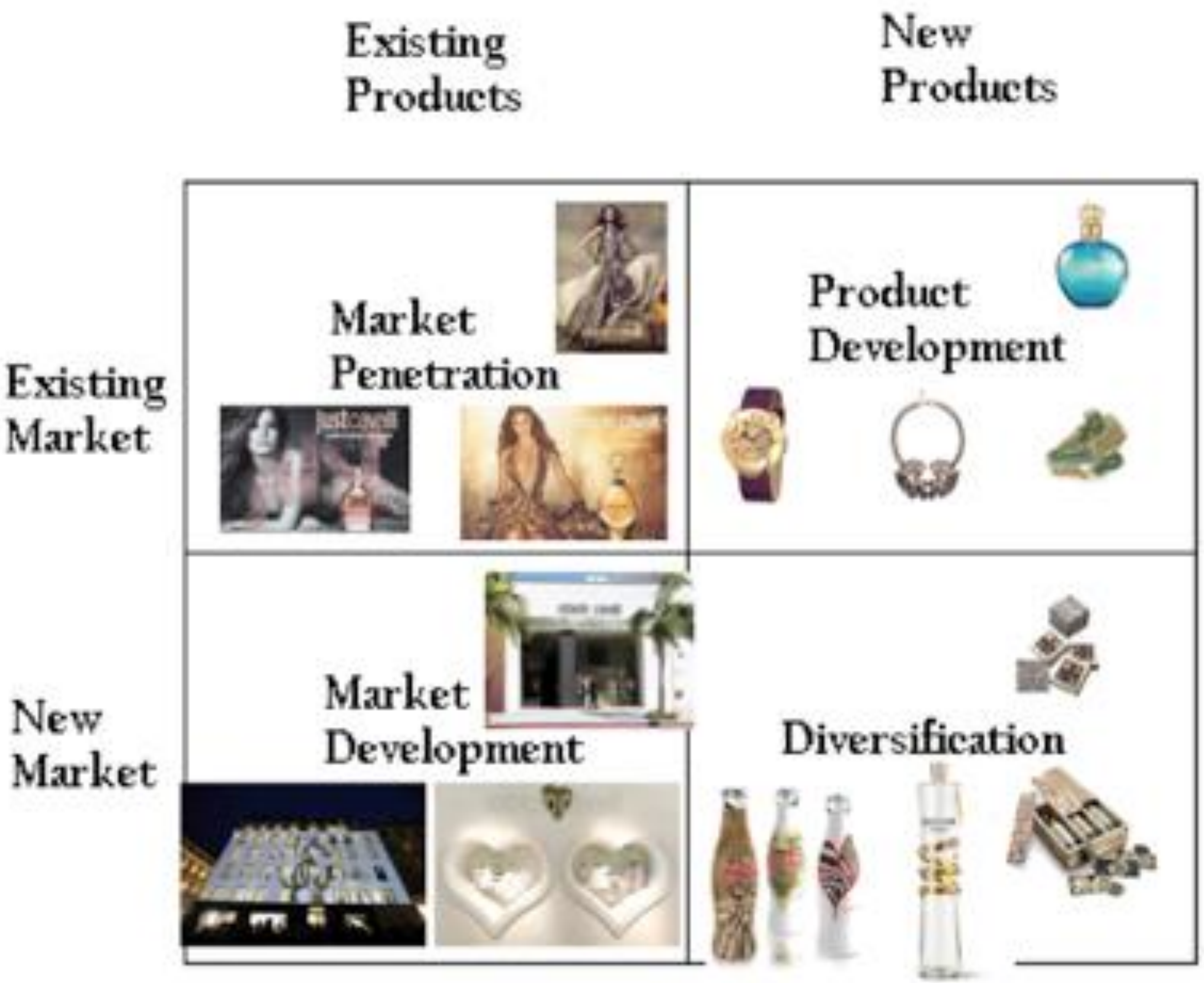
Logical consistency challenges

The logic of the Ansoff matrix has been questioned. The logical issues pertain to interpretations about newness. If a new product really is new to the firm, in many cases a new product will simultaneously take the firm into a new, unfamiliar market. In that case, one of the Ansoff quadrants, diversification, is redundant. Alternatively, if a new product does not necessarily take the firm into a new market, then the combination of new products into new markets does not always equate to diversification, in the sense of venturing into a completely unknown business.

Ansoff Matrix McDonald’s



Ansoff Matrix Just Cavalli



Ansoff Matrix Coca Cola

<table>
<tr><td></td><td>Existing</td><td>Market</td><td>New</td></tr>
<tr><td>Existing

Product

New</td><td colspan="1"><u>Market Penetration</u>
</td><td colspan="2"><u>Market Development</u>
</td></tr>
<tr><td></td><td><u>Product Development</u>
</td><td><u>Related Diversification</u>
</td><td><u>Unrelated Diversification</u>
</td></tr>
</table>