

product market matrix

	product	present	new
market			
present		market penetration	product development
new		market development	diversification

characteristics	
author:	Ansoff, H. Igor
country:	Russian Federation
period:	1957
type:	model
role:	consultant and manager
activity:	analyse, design and plan
topic:	strategic management, innovation & risk and marketing & sales
abstr. level:	environment
perspective:	rational
status:	final
module:	innovation
comments:	1

related models	
four principles of the marketing mix	
swot analysis	

description:

In the late 1950's, the Russian-American engineer, Igor Ansoff, a founder of strategic management, argued that strategic planning was essential for firms operating in a complex, turbulent environment. At that time, sociologists dominated the research on strategic adaptation of non-profit organisations primarily and concluded that ad-hoc management was appropriate when the demand and the technology in the firm's markets evolved incrementally. Ansoff's article, 'Strategies for Diversification', in the Harvard Business Review provided a practical framework for selecting a firm's expansion route in a growing market by reasoning that long-range planning was necessary to drive managerial decision making when the speed of change exceeded the firm's ability to respond.

Ansoff simplified the competitive position of firms by defining two dimensions:

1. the *products* - what it sold;
2. the *markets* - to whom they are sold.

Managing growth effectively required that new products fit within the firm's mission, organisational strengths and existing products. A 'common threat' between products had to exist to create synergy. A firm could make four strategic choices depending on the newness of the market and its products:

1. MARKET PENETRATION

the relatively low risk strategy growth strategy directed towards selling existing products to existing customers primarily through well- known markets and products. A market penetration strategy seeks two objectives:

- maintain or increase the market share of current products;
- increase product usage of existing customers.

This strategy works best in industries where economies of scale apply -- when the firm's average cost of producing and distributing products decreases as the size of its operations increases. To execute a market penetration strategy a firm requires a defensible competitive position to avoid likely retaliation from competitors.

2. MARKET DEVELOPMENT

the medium risk growth strategy to sell existing products to new customers. Its numerous implementations include:

- development of new geographical markets;
- addition of new distribution channels;
- adoption of different pricing policies to attract different customers;
- creation of new market segments.

Unfamiliarity with new markets and/or new market segments creates a risk counterbalanced by superior products.

3. PRODUCT DEVELOPMENT

the medium risk growth strategy to introduce new products to existing customers. The organisation needs to develop modified products that appeal to existing customers in order to encourage them to spend more on these products. This strategy is likely to develop new organisational competencies and requires improved sales coordination. Uncompetitive or immature products in the portfolio create risk counterbalanced by strong customer focus and innovation processes.

4. DIVERSIFICATION

the highest risk strategy that markets new products to new markets and requires acquiring experience in both sectors. Diversification can be further segmented into:

- *horizontal diversification* : new product, related market;
- *vertical diversification* : move into firms' existing suppliers' or customers' business;
- *concentric diversification* : new product closely related to current product in new market;
- *conglomerate diversification* : entirely new product in an entirely new market.

The selection of a growth strategy depends on the firm's level of risk, its current set of products and markets and the organisational preference for either products or markets. These strategies help management systematically prepare for the future by understanding the gap between the firm's current and desired position.

assets:



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pros:

- The matrix provides an explicit framework to deal with changing industries where an 'ad hoc' management style no longer suffices and coordination is required.
- It provides an excellent platform for communicating a growth strategy to stakeholders.
- Ansoff emphasised that customers often have a range of unrelated needs that must be taken into account by a strategy.
- The matrix stressed that as competition changes over time, so must strategy. Ansoff measured progress by the rate of turnover.

cons:

- The matrix can be used to guide business unit strategies. The model does not help plan for the implementation phase of a chosen strategy. For a conglomerate, other tools such as the BCG portfolio matrix are required to allocate and optimise resources across business units.
- The matrix stressed that a firm's product and market portfolio must be coordinated, but provided no insight on trimming products and markets.
- The model emphasised rational decision making. In the 1960's and 1970's, many multinationals founded long range planning departments that were often downsized in the 1980's because the high rate of change and unanticipated events often annulled long range plans. Strategic decision making turned out to be often an 'incremental process of muddling though'. Ansoff reexamined the planning concept of strategy in a publication in 1978. Action strategies needed to be replaced by preparedness: to have resources available to effectively respond to "unanticipated surprises".
- Initially, Ansoff's matrix did not include vertical integration as a diversification strategy. Vertical integration focused on 'value added' - the difference between a firm's total sales and its purchases to produce its products -- as a metric to measure progress, rather than simply on turnover.

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