**Ansoff’s matrix**

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| **Meet the author** |
| Igor Ansoff was born in Vladivostok, Russia. His mother was Russian and his father was an American diplomat. At the age of 18 he moved to the United States where he studied Mechanical Engineering and Physics in New York. After a period of time in engineering, working on NATO projects and at Lockheed, an aerospace company, where he became Vice President, he moved into academic life. After two short spells at American Universities he moved to Brussels and worked at the European Institute of Advanced Studies. It was during this time that he wrote *Strategic Management*. He ended his career as Professor of Strategic Management at the United States International University in California. He died in 2002. |

Igor Ansoff is widely known for his writing on the topic of Strategic Management. His most famous theory is his matrix which considers the strategic alternatives that a firm can adopt.

**Ansoff matrix**

New products

Current products

New markets

Current markets

|  |  |
| --- | --- |
| Market penetration | Product development |
| Market development | Diversification |

The matrix is essentially a planning tool which provides the firm with four alternative marketing strategies. These depend upon whether they’re looking at developing new or existing markets and whether the product in question is a new or existing one.

The four strategies are called:

• Market penetration

• Product development

• Market expansion

• Diversification,

1. **Market penetration**

This strategy is where the firm seeks to achieve growth with existing products in their existing market segments. The aim of this strategy is to increase the market share of the product in its current form. This is often achieved by simply selling more existing products to existing customers, perhaps through a price reduction or discovering new customers within existing market segments. This marketing strategy carries little risk for the firm.

1. **Product development**

Product development is a strategy where the firm aims to develop new products in existing market segments. This involves undertaking market research to discover how to meet existing customer’s needs more successfully. There might need to be investment in research and development which will initially be a drain on profits. An example of this product development is how Nestle have developed various types of Polo Mints. There is a moderate degree of risk associated with this strategy.

1. **Market expansion**

If a firm deploys a market development strategy it looks to take existing products and target them at a different market segment. In other words, the firm aims to discover new markets for existing products in its portfolio. An example of this is Lucozade which extended the target market for its glucose drink from simply children who were feeling sick towards fit and healthy children and adults engaged in playing sport. As with product development, there is a moderate degree of risk associated with this strategy.

1. **Diversification**

The final alternative is diversification. Here the firm is introducing new products into new markets. This is the strategy which carries the most risk as the firm cannot rely on its past experiences within the market. However, it might be argued that diversification allows a firm to spread risk across different products within varied markets. An example of a firm employing this strategy is the Virgin Group which has a presence in markets as varied as train operating, soft drinks, music, gyms, banking, mobile communications and airlines.

Ansoff’s product/market growth matrix suggests that a business’ attempts to grow depend on whether it markets new or existing products in new or existing markets. The output from the Ansoff product/market matrix is a series of suggested growth strategies which set the direction for the business strategy. These are described below:

**Market penetration**

Market penetration is the name given to a growth strategy where the business focuses on selling existing products into existing markets.

Market penetration seeks t**o achieve four main objectives:**

* Maintain or increase the market share of current products – this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resource**s dedicated to personal selling**
* Secure dominance of growth markets
* Restructure a mature market by driving out competitors; this would require a much more aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors
* Increase usage by existing customers – for example by introducing loyalty schemes

A market penetration marketing strategy is very much about “business as usual”. The business is focusing on markets and products it knows well. It is likely to have good information on competitors and on customer needs. It is unlikely, therefore, that this strategy will require much investment in new market research.

**Market development**

Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets.

There are many possible ways of approaching this strategy, including:

* New geographical markets; for example exporting the product to a new country
* New product dimensions or packaging: for example
* New distribution channels (e.g. moving from selling via retail to selling using e-commerce and mail order)
* Different pricing policies to attract different customers or create new market segments

Market development is a more risky strategy than market penetration because of the targeting of new markets.

**Product development**

Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

A strategy of product development is particularly suitable for a business where the product needs to be differentiated in order to remain competitive. A successful product development strategy places the marketing emphasis on:

* Research & development and innovation
* Detailed insights into customer needs (and how they change)
* Being first to market

**Diversification**

Diversification is the name given to the growth strategy where a business markets new products in new markets.

This is an inherently more risk strategy because the business is moving into markets in which it has little or no experience.

For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks. However, for the right balance between risk and reward, a marketing strategy of diversification can be highly rewarding.