

The Ansoff Matrix – marketing strategies with differing degrees of risk.

Instead of focusing on profitability or sales, the Ansoff Matrix outlines the options open to firms if they wish to grow, improve profitability and revenue. These options indicate to how to manage the development of the product range.

We can see from the matrix, that a business looking to increase sales and create growth is faced with four choices for action (these can be combined or mixed).

Market Penetration—Existing products for existing markets.

Focusing on existing products for existing markets, means that the firm aims to increase sales within its present market place. To be successful at market penetration firms must be aware of what has made the product a success in the first place. The firms marketing strategy should be based on this existing relationship.

There are several penetration strategies open to firms. These strategies include:

- The easiest method is to attract customers who have not yet become regular users, but are occasional users. This can be a successful strategy where there is fast market growth and new consumers are just 'testing the water'.
- Attack competitor's sales. This will often happen in mature markets, where increased sales will have to come from competitors. The strategy in this case will be adjustment of the marketing mix, altering one or more of the elements such as price or promotion techniques. Tesco has been successful in this type of strategy over the last 10 years, taking customers from all its supermarket rivals. Internet service providers are continually trying to win customers from competitors.
- A third strategy can be to increase consumption amongst existing users. This can work very well with both consumption goods and consumer durables. Examples of this strategy includes BT's attempts to encourage more phone calls, (Friends and Family), and the probably apocryphal story of a toothpaste company that increased the size of the nozzle on its tube by 30% and saw an increase in sales of 25%. In consumer durable markets, the introduction of new and rapidly changing technologies can encourage further purchases. This is now clearly seen in the mobile phone market, where a model only remains on the market for as little as six months,

Market Development—Develop markets for existing products.

If the business takes the option of market development, the objective will be to find new markets for the firms existing products.

There are two broad market development strategies. These are:

- Identify users in different markets with similar needs to existing customers.
- Identify new customers who would use a product in a different way. One method of achieving the first of these, different markets, is to find new geographical markets. The original Beetle car which ceased

production for the UK market, around 1975, was still being sold in Mexico 1990. Another example of identification of new customers is the targeting of Lucozade as a sports drink rather than something to have next to your bed when you have flu or measles. Any launch into a new geographical market is an example of the first of these options.

Product Development—new products for existing markets.

A third option available is to develop new products for existing markets. In this case the business will attempt to increase profitability and growth by introducing new products targeted at the existing customer base. The first and most popular option of product development in the consumption goods market is to produce and market new products which are closely associated with the products or brands which customers already consume. So Mars confectionery, now produces Mars Ice Cream, Mars drinks etc. Virgin is another good example. For the teenage market we had Virgin Mega stores and Virgin Cola - two products targeted at the same market. A further example is the move into financial services and banking by firms such as Marks & Spencer and Tesco.

There are also product development strategies that can be used with industrial or producer markets. These strategies are based on examining the purchasing habits of customers and then expanding the product range to match these habits. For example a company producing caravans may group heating and lighting component purchases as one category. The supplier of heating components and parts may then provide new products for existing markets by also supply lighting components and parts.

Diversification—Develop new products for new markets

The final option available is to develop new products for new markets. This may be attempted if the firm sees a new opportunity, and has investment funds available or alternatively the firm may be forced into this type of action because of pressures in existing markets or on existing product ranges.

This diversification option comes with the greatest level of risk, as it is not based on existing knowledge within the firm. Virgin's move into trains has not been as successful as was initially hoped, and the criticisms of the service provided may have some effect on the overall strength of the brand. On the other hand Nokia, Europe's most successful mobile phone manufacturer, started out life as a producer of paper products. In this case diversification has been incredibly successful.

Conclusion

The Ansoff Matrix is:

- A model for outlining the range of marketing options open to a firm
- A method of managing the marketing of a product or brand over its life cycle.

The final decisions, new markets, new products etc. are of course down to the firms involved, but the role of the matrix is not to make decisions but to provide an outline of alternative methods of achieving the final goal – growth.