THE USE OF ANSOFF MATRIX IN THE FIELD OF BUSINESS

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Abstract:

Reducing the risk is and always will be one of the main concerns for the management of a company. One way of reducing the risk can be diversification strategy. This concept is used very commonly in almost all areas of expertise. In terms of small companies, business diversification implies development of new products and services through their own efforts, expanding the area of action, as well as the formation of strategic alliances and licensing technologies.

The article is based on a theoretical approach of the Ansoff matrix, which is one of the most important tools in strategic planning in order to diversify risks. The strategic options on which the Ansoff matrix is based are: the sale of existing products on existing markets, the development and renewal of existing products on new markets, the development and renewal of new products on existing markets, the development of new products on new markets.

The purpose of this article is to present and describe the Ansoff matrix as a means to reduce the risks in the development of new products on emerging markets. This strategy of diversification has into consideration linking with the capacity the company achieve realistic goals.

The results that will result from this research will facilitate the analysis and the assimilaton of the information related to the Ansoff matrix, and through the general methods of scientific investigation, namely the observation, synthesis, qualitative analysis and exemplification, I will try to offer an extension of the theoretical and practical knowledge on the Ansoff Matrix.

Keywords: *Risk, diversification, Ansoff matrix, product, market*

JEL Classification: *L1- Market Structure, Firm Strategy, and Market Performance*

1.Introduction and context of the study

Igor Ansoff is one of the pioneers of strategic management planning and in 1957 he developed a matrix a vector of growth. He considered the model of a strategic management consists in conceiving a strategic plan to contain the overall strategy of the Organization, detalied into administrative and financial strategies, a strategy based on markets-products, strategied expressed as aims.

The concern regarding the current concerns in the field of the Ansoff matrix study is highlighted by the multitude of studies and specialty articles. This concept continues to be perceived and understood as one of the most important tools for business development and penetration int the business activity field. Numerous studies show that the use of Ansoff's matrix in business development is one of the effective variants that entrepreneurs successfully apply.

From this point of view, I will mention some sources in the literature in which the Ansoff matrix is the focus of the study:

► Ansoff Igor, Strategic Management, Palgrave Macmillan, New York, 2007;

► Cadle J., Paul D., Turner P., Business Analysis Techniques, 72 Essential Tools for Succes, BCS The Chartered Institute for IT, 2010;

► Doval E., Analiza strategică a mediului concurenţial, Editura FRM, Bucureşti, 2004;

►Newton Paul, Bristoll Helen, Ansoff's Matrix, Free Management Books, ISBN: 978-1-62620-950-3, 2013;

►Blecha L., Diversification strategy – concept and measurement, Ekonomicky Casopis, vol. 40, issue 9, pag. 671-684, Slovak Academic Press LTD, 1992;

►Nan Yin, Application of AHP-Ansoff Matrix Analysis in Business Diversification: The case of Evergrande Group, Business School, Nanjing Xiaozhuang University, Nanjing City, China, MATEC Web of Conferences 44, 01006 (2016).

Diversification strategy was applied in the '60 in order to ensure the development of several companies. The design started from the assumption that a good manager can manage seveal businesses even if there are no links between them. Diversification involves the presence within an organisation of two or more tasks, each of which could constitute the unique activities of specialized companies. A firm is diversified if, without entierly giving up its former productive activities, it engages in the manufacturing of new products rather different through significant differences in the activity of production or distribution. Diversification involves the participation on various markets. [9]

The present research has as a general objective the facilitation of the understanding and assimilation of general and practical information on the Ansoff matrix. As part of my scientific approach, I propose to address the following objectives:

- presentation of the concept of diversification strategy;
- presentation of the Ansoff Matrix;
-identifying the types of strategies used by the Ansoff Matrix;
-using the Ansoff Matrix by McDonald's.

The present study and its results will contribute to the development of the theory and the improvement of the economic practice in the field of business. It will be the source of various investigative directions, as well as the bibliographic source for other studies in the field. This work also complements other specialized studies, opening new study directions that could be exploited in the future.

2.Materials and methods

In starting this research, we start from presenting the link of the theme with the current concerns in the field, highlighting the importance of approaching the Ansoff matrix as a method based on two key elements (product and market) that interpenetrate in four types of strategies successfully used in business.

In economic theory and practice there is a plethora of possibilities to address and analyze this theme so that my personal approach and the analysis I have employed add to and develop the current and past studies address this topic.

In order to achieve the objectives we have used and combined some research methods specific to the economic area and here I refer to synthesis, qualitative analysis and exemplification. Also, in the presentation of this article, we have used both theoretical and practical elements.

By qualitative analysis I will emphasize the main aspects of the Ansoff Matrix, and on the basis of the given qualities I will ensure the understanding of this strategic planning tool.

The theme underlying the research will be analyzed on its component parts, each being complexly analyzed to highlight its essence. By synthesis, the elements analyzed separately are reunited, reconstituting the whole, already knowing the key element and synthesizing the main aspects of the researched theme.

The exemplification of the use of this strategic planning tool will be done by presenting the elements of the strategy using the qualitative data available to them during the approach to this theme.

The methods we have used in this study are based on a set of suitable means, rules, and means of research to present the Ansoff Matrix.

2.The concept of diversification strategy

The risk field has been, and will remain one of the most important areas of interest for any firm regardless of the business it performs. Risk management and analysis makes it possible to identify them with an impact on a company's business, being directly related to the efficiency and validity of decisions taken at the management level of the firm.

Almost any action in the economic reality gets out of the line of predicted or planned parameters and outcomes, so any manager or entrepreneur assumes a number of risks in their activities. Thus, one of the methods of risk reduction in a business is diversification.

Diversification strategies are those that help the company achieve greater performance in line with risk reduction. These lead to the expansion of the company's business by adding new services and products, penetrating new markets, licensing technologies, etc.

The diversification strategy of the company is the one which expands the scope of its activities in different areas from those of its current business. Using a strategy of differentiated marketing a company can decide to use more market segments and create separated offers for each segment. [5]

Diversification strategy at the level of a company based on Ansoff is considering two factors: products and markets, respectively, products to be manufactured and sold in the markets and to be sold. Based on those two factors, depending on the objectives, possible risks, duration, etc, one can establish several strategies for diversification. In the literature of specialty these are called concentric diversification, horizontal diversification, diversification by conglomerates. In other words, we can choose between the following variants: selling existent products on present markets, extend the existent products on emerging marktes, develop new products on existing markets, develop new products on emerging markets.

The main objective of concentric diversification is to coordinate several company actions to achieve an efficient outcome. Thus, it involves the purchase of new products or services that are related to the object of activity of the company in order to attract new clients.

This diversification technique assumes that the company can use the existing knowledge and skills to gain an advantage. The company can search for new products with technological and marketing similarities with existing production lines that may be interesting for a new group of customers. Applying a concerted diversification strategy can also benefit the triggering of business synergies, improved production capacity and a better market share. Business synergy is the ability of two or more parts of an organization to achieve a greater overall efficiency than the efficiency achieved by aggregating the efforts of each party. [10]

Horizontal diversification is the strategy used by business firms to expand business and increase profits. This involves the creation of new products or the acquisition of firms whose object of activity is not similar to the one already in place.

The purpose of introducing new products into the portfolio, products that are not related to existing products, is to try to promote and sell these products to existing customer base. This strategy, therefore, does not intend to attract other categories of clients, as is the case with other types of diversification, but focuses on offering a wider range of existing customer base products. [10]

Vertical diversification implies that a company buys other firms that act as a supplier on the acquisition chain in order to increase business influence or market share.

Every product manufactured by a company needs functional components, base materials and others that are assembled together to get the finished product. Each of these parts that make up the final product can be obtained from different suppliers. A large manufacturer can buy, for example, a part of the suppliers they work with. Thus, vertical diversification implies expansion to the production of components, parts or materials. However, the object of activity, the processes and technologies with which these providers operate are different from those of the main object of activity. That's why vertical diversification means adapting to both new products and new processes and technologies. [10]

3.The Ansoff Matrix - Theory and Methodology

The Ansoff Matrix, created by the American planning expert Igor Ansoff, ia a strategic planning tool that links an organisation's marketing strategy with its general strategic direction. It presents four alternative growth strategies in the form of a 2x2 table or matrix. One dimension of the matrix consider "product" (existing and new) and the other dimension consider "markets" (existing and new). [12]

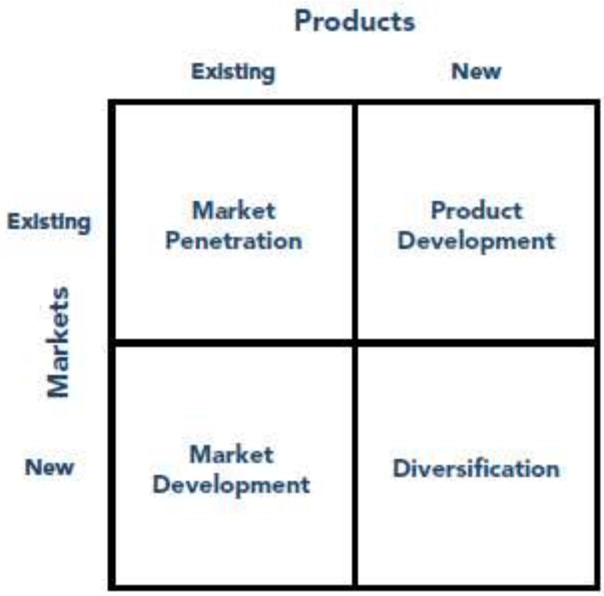

Figure no. 1 Ansoff Matrix

Source: www.free-management-ebooks.com, Ansoff Matrix. Strategy Skills, 2013

The sequence of these strategies is: [12]

1.Market Penetration – you focus on selling your existing products or services to your existing markets to achieve growth in markets share.

2.Market Development – you focus on developing new markets or market segments four your existing products or services.

3.Product Development – you focus on developing new products or services for your existing markets.

4.Diversification – you focus on the development of new products to sell into new markets.

As for the strategy of penetration, the firm aims at improving the position of existing products on offerd on existing markets. This strategy to convince as many consumers, in the current line-up, to buy the product, otherwise it will operate cost-cutting measures.

Developing emerging markets represents a risky strategy, because oned never knows all the aspects concerning the emerging markets that would sell existing products.

By offering consumers new products one builds a strategy for creating new products for the company, but not necessarily for consumers. These products must offer authentically new features in order to be really asimilated by marketplace.

Diversification is the riskiest strategy consisting in offering new products on emerging markets.

The strategy may include the following variants: horizontal diversification, vertical integration, concentric diversification or conglomerate diversification. This alternative is adopted by large firms in the processes of assimilating small companies with different profile of activity. [6]

Thus, all four strategies involve different degrees of risk, such as: market penetration involves a low risk, market expansion involves a moderate risk, product development involves a medium risk, and diversification involves the highest risk.

The Ansoff product-market matrix can be represented as follows:

PRODUCTS MARKETS	**CURRENT**	**NEW**
CURRENT	**MARKET PENETRATION**	**PRODUCT DEVELOPMENT**
NEW	**MARKET DEVELOPMENT**	**DIVERSIFICATION**

Figure no. 2 Ansoff Matrix

Source: Ansoff, 1965, Corporate Strategy, McGraw Hill, p. 109

Market penetration means by a strategy by which strategy one aims to increase market share and it is effective when the market is not saturated. Among measures that can be applied, there are: the development of distribution networks, attracting new clients, upgrading communication channels, etc.

For example, the increase of visits in a store by offering loyalty points/offers, promotions or refinancing offers, in the case of banks that want to attract customers. [8]

Product development - developing new products or modifying existing products/services markets. According to Peter Doyle, this alternative raises marketers three types of questions: [8]

Can existing products be improved to better respond to the needs of consumers?

Can the exgtensions of product lines respond to the latent needs, or attract new customers?

Are there products that can be developed, purchased or licensed to support the unique selling proposal of the company?

Market development - is a strategy by which the company identifies or creates new market segments in order to absorb the current offer of products and/or services. However, this strategy requires the involvement of risks arising from: the peculiarities of new outlets, local competition, uncertainty of the market segment that is not profitable enough, etc.

Diversification - is a strategy that is carried out either by similar products and markets, either by entirely new products and services, free markets unexplored so far. It is the riskiest of the four alternatives, especially if it is not based on the core competencies of the company. It is most often achieved through partnerships or acquisitions in order to mitigate the risks.

For example, I will present the Ansoff Matrix for McDonald's

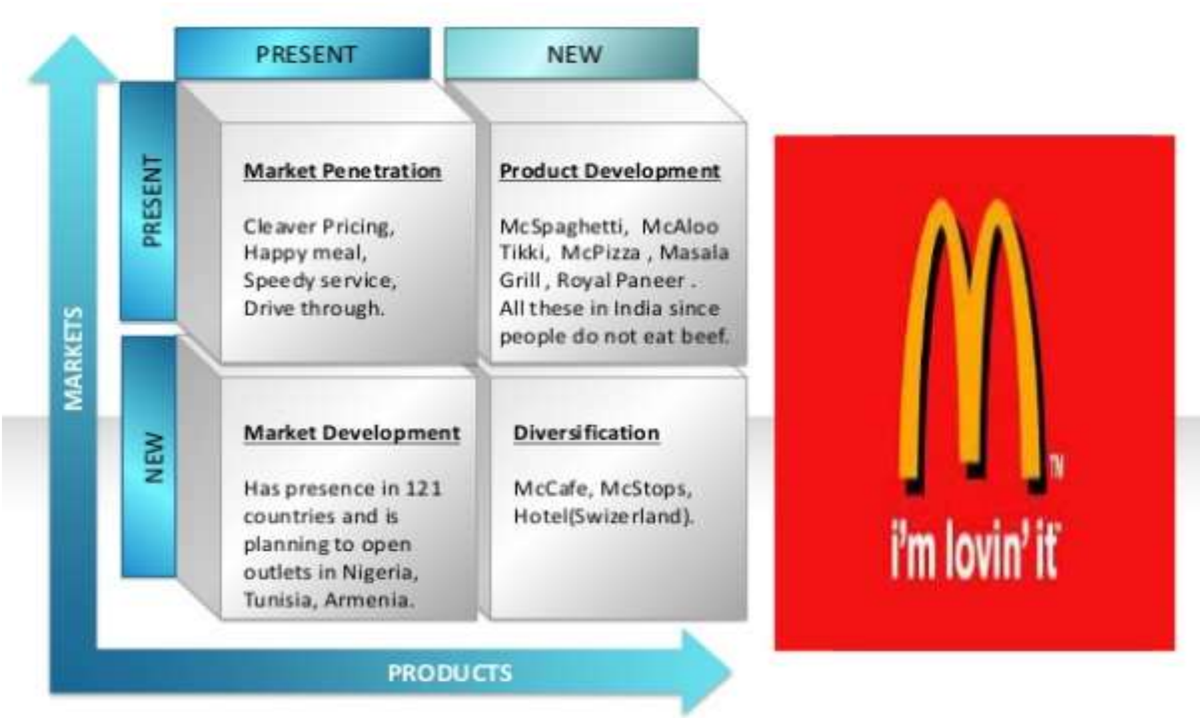

Figure no. 3 Ansoff Matrix for McDonald's
Source: https://www.slideshare.net/yashrajtahilramani/ansoff-matrix-for-mc-donalds

In terms of market penetration, McDonald's focuses on selling existing products or services on existing markets to gain market share growth. To this end, they resort to:

Happy Meal

Drive Through

Delivery Services

Speedy Services

Source: https://www.youtube.com/watch?v=z-krK7TYvCA

McDonald's product development focuses on developing new products or services for existing markets. In this regard, I mention:

Pizza McPuff

Date Pie

McArabia Grilled Chicken

McAloo Tikki

Source: https://www.youtube.com/watch?v=z-krK7TYvCA

In terms of developing the McDonald's market, it focuses on developing new markets or market segments with four existing products or services. Regarding this aspect, McDonald's is present in 121 countries, being introduced in 2015 and Kazakhstan. At the same time, McDonald's plans to double its current network in India.

Diversification at McDonald's focuses on developing new products to sell on new markets. In this regard, we have:

McCafe

The Golden Arch Hotel

McStop

Source: https://www.youtube.com/watch?v=z-krK7TYvCA

Starting from the points outlined above, we can state that McDonald's is the company that successfully implemented all four growth strategies minimizing the risks. Using the Ansoff Matrix, it has expanded to 121 countries and continues to expand to the present day.

From a geographic point of view, McDonald's uses products that fully satisfy the wishes and tastes of customers in different geographic areas.

In conclusion, applying the Ansoff Matrix can certainly represent the key to success of a business.

4.Conclusions

After analiyzing the conditions of the competitive environment no firm will afford to have commercial activities without depicting a perspective, both on short and long term in order to ensure its economic and financial conditions necessary to obtain profit. Thus, the company management is always responsible to make it possible for the establishment and adoption of strategic decisions to materialise into a strategic model that combines all interfaces of action of the company: economic, financial and accounting, human and technological aspects, etc.

There were have also been designed certain strategic analysis methods that allow diagnosing threats and opportunities occurring in activities of companies by creating the establishment of strategic activity domain who highlights four ways: [9]

1. The B.C.G. Method (Boston Consulting Group) - responds to empirical results observed on two phenomena: the effect of experience and the connection between market share and profitability;
2. The General Electric-McKinsey together with variants: Shell, A.D. Little – plurifactorial method;
3. The PIMS Method (Profit Impact of Marketing Strategy) - which constitutes a database;
4. The Porter method - which based on the five forces affecting the State of competition, identifies three strategies: global domination by means of cost, differentiation, specialization or a strategic niche segment.

Concerns relating the realization of an analytical framework for determining a market strategy have resulted in the development of models, which have contributed to other disciplines besides marketing, such as sociology, economics, financial and strategic management. [9]

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[9] ***http://ebooks.unibuc.ro/StiinteADM/sica/6.htm

[10] ***http://idei-de-afaceri.eu/wp/strategia-de-diversificare-concentrica/

[11]***https://strategii.wordpress.com/optiuni-strategice/strategiile-de-crestere/strategii-de-diversificare/

[12] ***www.free-management-ebooks.com, Ansoff Matrix. Strategy Skills, 2013.