The Ansoff Matrix

Understanding the Risks of Different Options

(Also known as the Product/Market Expansion Grid)

There are rewards and risks with growth strategies.

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Successful leaders understand that if their organization is to grow in the long term, they can't stick with a "business as usual" mindset, even when things are going well. They need to find new ways to increase profits and reach new customers.

There are numerous options available, such as developing new products or opening up new markets, but how do you know which one will work best for your organization?

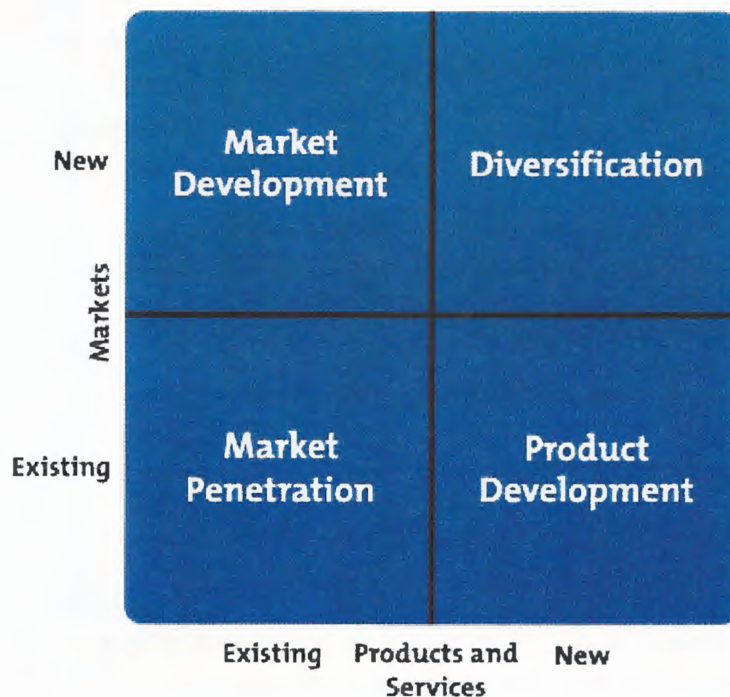
This is where you can use an approach like the Ansoff Matrix to think about the potential risks of each option, and to help you devise the most suitable plan for your situation.

Understanding the Tool

The Ansoff Matrix was developed by H. Igor Ansoff and first published in the Harvard Business Review in 1957, in an article titled "**Strategies for Diversification**." It has given generations of marketers and business leaders a quick and simple way to think about the risks of growth.

Sometimes called the Product/Market Expansion Grid, the Matrix (see Figure 1, below) shows four strategies you can use to grow. It also helps you analyze the risks associated with each one. The idea is that, each time you move into a new quadrant (horizontally or vertically), risk increases.

Figure 1: The Ansoff Matrix



The Corporate Ansoff Matrix

Let's examine each quadrant of the Matrix in more detail.

Market penetration, in the lower left quadrant, is the safest of the four options. Here, you focus on expanding sales of your existing product in your existing market: you know the product works, and the market holds few surprises for you.

Product development, in the lower right quadrant, is slightly more risky, because you're introducing a new product into your existing market.

With market development, in the upper left quadrant, you're putting an existing product into an entirely new market. You can do this by finding a new use for the product, or by adding new features or benefits to it.

Diversification, in the upper right quadrant, is the riskiest of the four options, because you're introducing a new, unproven product into an entirely new market that you may not fully understand.

How to use the Tool

It's fairly straightforward to use the Ansoff Matrix to weigh up the risks associated with a number of strategic options.

Step 1: Analyze Your Options

Download our free **Corporate Ansoff Matrix Worksheet**. Then plot the approaches you're considering on the Matrix. The table below helps you think about how you might classify different approaches.

Here, you're targeting new markets, or new areas of your existing market. You're trying to sell more of the same things to different people. Here you might:

- Target different geographical markets at home or abroad. Conduct a **PEST Analysis** or use the **CAGE Distance Framework** to identify opportunities and threats in this different market.
- Use different sales channels, such as online or direct sales, if you are

This strategy is risky: there's often little scope for using existing expertise or for achieving economies of scale, because you are trying to sell completely different products or services to different customers

Beyond the opportunity to expand your business, the main advantage of **diversification** is that, should one business suffer from adverse circumstances, another may not be affected.

Market Development	Diversification

currently selling through agents or intermediaries.

- Use **Market Segmentation** to target different groups of people, perhaps with different age, gender or demographic profiles from your usual customers.
- Use the **marketing mix** to understand how to reposition your product.

Market Penetration	Product Development

Market Penetration

With this approach, you're trying to sell more of the same things to the same market. Here you might:

- Develop a new **marketing strategy** to encourage more people to choose your product, or to use more of it.
- Introduce a loyalty scheme.
- Launch price or other special offer promotions.
- Increase your sales force's activities.
- Use the **Boston Matrix** to decide which products warrant further investment, and which should be disregarded.
- Buy a competitor company (particularly in mature markets).

Product Development

Here, you're selling different products to the same people, so you might:

- Extend your product by producing different variants, or repackage existing products.
- Develop related products or services.
- In a service industry, shorten your time to market, or improve **customer service** or quality.

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Step 2: Manage Risks

Conduct a **Risk Analysis** to gain a better understanding of the dangers associated with each option. (If there are a lot of these, prioritize them using a **Risk Impact/Probability Chart**.) Then, create a **contingency plan** that addresses the ones you're most likely to face.

Step 3: Choose the Best Option

By now, you might have a sense of which option is right for you and your organization. You can make sure it really is the best one with one last step: use **Decision Matrix Analysis** to weigh up the different factors in each option, and make the best choice.

Using a Nine-Box Ansoff Matrix

Some marketers use a nine-box grid for a more sophisticated analysis. This puts "modified" products between existing and new ones (for example, a different flavor of your existing pasta sauce rather than launching a soup), and "expanded" markets between existing and new ones (for example, opening another store in a nearby town, rather than expanding internationally).

This is useful as it shows the difference between product extension and true product development, and also between market expansion and venturing into genuinely new markets (see Figure 2, below).

However, be careful of the three "options" in orange, as they involve trying to do two things at once without the one benefit of a true diversification strategy: completely escaping a downturn in a single-product market.

Figure 2: The Nine-Box Grid

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