'I begged, borrowed and stole concepts and theoretical insights from psychology, sociology and political science. And I attempted to integrate them into a holistic explanation of strategic behaviour.'

Igor Ansoff, the 'father of strategic management'

Ansoff's Matrix (Figure 3.2) is constructed to illustrate the risks involved in strategic decisions. These risks relate to a firm's level of knowledge and certainty about the market, the competition and customer behaviour – both now and in the future. The key issue is that risk becomes ever greater the further a firm strays from its core of existing products/existing customers (i.e. the top left-hand corner of the matrix).

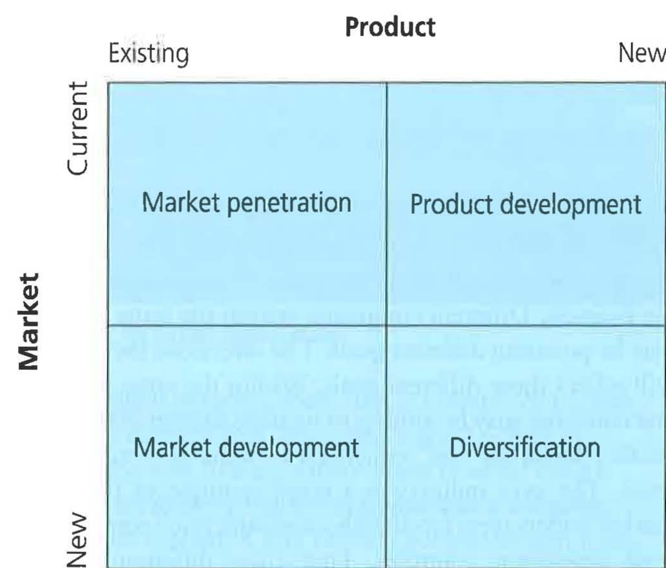

Figure 3.2 Ansoff's Matrix

Ansoff identified four types of strategy within his matrix; these are described below.

Market penetration

This is about increasing market share by concentrating on existing products within the existing market. It is the most common and safest strategy because it does not stray from what the company knows best. If Tesco has opened 400 stores in towns all over Britain, and all are profitable, it is a simple matter of market penetration to open store 401 in a good-sized town that has not yet got its first Tesco.

Market penetration opportunities arise by:

- finding new customers, perhaps by widening the product's appeal to attract additional buyers
- taking customers from competitors; this may be achieved by aggressive pricing or by offering additional incentives to the customer
- persuading existing customers to increase usage; many food companies give recipes with their products to suggest additional ways of using the product; shampoo manufacturers introduced a frequent-wash shampoo to boost product usage.

Market development

This is about finding new markets for existing products. It is more risky because the company must step into the unknown. For Cadbury to start selling chocolate in China requires a huge effort to learn to understand the Chinese consumer. Yet that is exactly what Cadbury is doing. Market development can be carried out by the following means.

- **Repositioning** the product: this will target a different market segment. This could be done by broadening the product's appeal to a new customer base. Land Rover's traditional market was farming and military use; it has now repositioned the product to appeal to town dwellers.
- Moving into new markets: many British retailers have opened up outlets abroad. Some, such as Tesco and Burberry, have opened up their own outlets. Others have entered into joint ventures or have taken over similar operations in other countries.

Moving Tesco into America was a major market development decision taken in 2006. Although backed by more than £1 billion of investment, Tesco 'Fresh & Easy' proved a disaster. In 2013, Tesco paid an American company to take the business off its hands. Even the mighty Coca-Cola has struggled to achieve success in India.

Why the difficulty? Surely market research can reveal whether customers in America want the same things as those in London? The answer to that is 'up to a point, perhaps'. But the skill with market research is to know what questions to ask and how to interpret the answers. This requires a degree of market knowledge that cannot always cross county boundaries, let alone national ones. This was why, over 80 years ago, the Ford Motor Company chose to set up a factory and offices in Britain, instead of relying on exporting from America. The rush of US firms that followed (for example, Heinz, Gillette and Mars) was followed much later by Japanese companies such as Sony and Honda. All took huge risks at the start, but believed they would only succeed in the long term by getting a deep understanding of local habits and needs. Famously, Sony budgeted for a 15-year payback period when it started up in Britain.

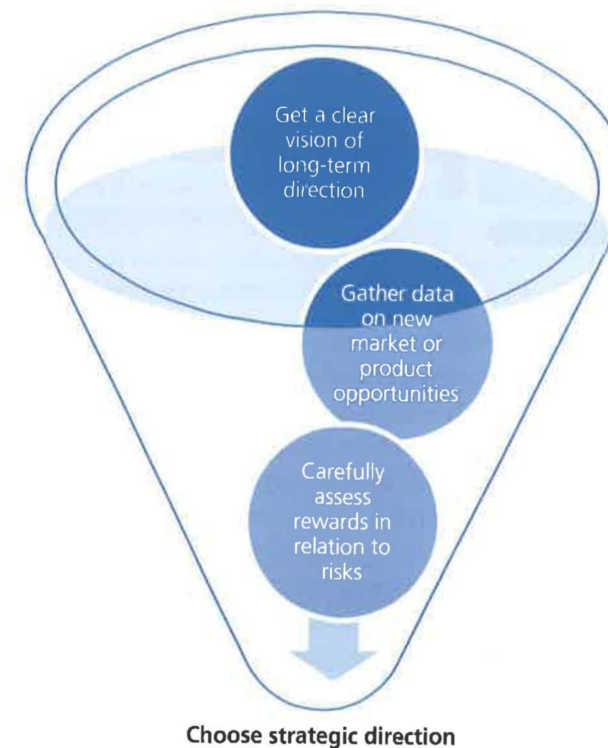

Figure 3.3 Logic funnel: implementing Ansoff's Matrix

Product development

Product development means launching new products into your existing market (for example, L'Oréal launching a new haircare product). Hard though market development can be, it could be argued that product development is even harder. It is generally accepted that only one in seven new products succeeds; and that is a figure derived from the large businesses that launch new products through advertising agencies. In other words, despite their huge resources and expertise, heavy spending on product development and market research, plus huge launch advertising budgets, companies such as Mars, Walls and L'Oréal suffer six flops for every success.

In highly competitive markets, companies use product development to keep one step ahead of the competition. Strategies may include those listed below.

Changing an existing product

This may be to keep the products attractive. Washing powders and shampoos are good examples of this. The manufacturers are continually repackaging or offering some 'essential' new ingredient.

Developing new products

The iPhone is a fantastic example of a new and successful product development, taking Apple from the computer business into the massive market for 'smartphones'.

Diversification

If it is accepted that market development and product development are both risky, how much more difficult is the ultimate challenge: a new product in a new market, or **diversification** in Ansoff's terminology. This is the ultimate business risk, as it forces a business to operate completely outside its range of knowledge and experience. Virgin flopped totally with cosmetics and clothing, WHSmith had a dreadful experience in the DIY market with Do It All, and Heinz had a failed attempt to market a vinegar-based household cleaning product.

Yet diversification is not only the most risky strategy; it can also lead to the most extraordinary business successes. Nintendo produced packs of playing cards until its new, young chief executive decided in the early 1970s to invest in the unknown idea of electronic games. From being a printer of paper cards, Nintendo became a giant of arcade games, then games consoles such as the Wii.

Ansoff emphasised the risks of diversification, but never intended to suggest that firms should fight shy of those risks. Risks are well worth taking as long as the potential rewards are high enough.

3.3 Ansoff's Matrix in international markets

Entering into international markets carries the extra risk identified by Ansoff as market development. Naturally, the extent of the risk will depend on just how different the new market is from the firm's home country. For Green & Black's to start selling chocolate in France may not be too much of a stretch. French tastes are different and the distribution systems are very different from those in Britain, but there are many similarities in climate and affluence. But what about selling organic chocolate to Saudi Arabia? Or China? Or Sierra Leone? Figure 3.4 shows the way Ansoff would indicate the increasing level of risk involved.

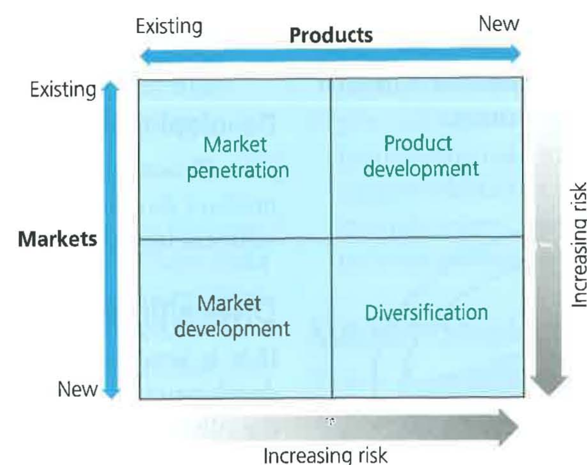

Figure 3.4 Ansoff's Matrix and risk

It is also possible that the product will need to be modified in order to be successful in the new market. International markets are littered with products and businesses that tried to shift their existing products and business models into overseas markets but failed. So even a business that plans to launch existing products into new overseas markets may find it has to adapt. In which case it will end up with a new product for the new market: diversification. More than 20 years ago Sony devised the corporate slogan: 'Think global. Act local.' It remains a valuable way to think.

	Risks	Rewards
Market penetration	• Few risks should arise, other than decline in the product life cycle • But lack of ambition may make your best staff look for more challenge elsewhere	• You know the customers and the competitors, so should make error-free decisions • Returns on extra investment will be predictable
Market development	• Subtle cultural differences add hugely to risk, e.g. many UK retailers who've flopped in the US • Practical differences matter too, such as distribution channels, consumer legislation and differences in managing staff	• There are huge potential economies of scale if your product succeeds elsewhere, e.g. Fever-Tree • If you take the time to understand the cultural differences, you may be able to localise your product range effectively, as McDonald's does
Product development	• Most new products fail (at a rate of about 6/7 in the UK) so the risk level is very high • Because new product success is tough, companies put their best people on it; this can mean too little brainpower devoted to ordinary brands (or, in Tesco's case, its UK supermarket heartland)	• As shown by Apple, nothing adds value and creates differentiation more than innovative product development • Continuous, successful product development should mean the organisation lives forever
Diversification	• Not knowing the market and having a brand new product means the risk level is multiplied by two • Therefore it's vital to plan for the operational risk of diversifying by making sure your financial position is especially secure	• When diversification works, it can transform the size of and opportunities for the business, e.g. Apple in the era since the iPod breakthrough • Radical diversification (Google making cars) can be hugely exciting for the workforce, helping you recruit the best

Table 3.1 Risks and rewards in different strategies

'The thing is, continuity of strategic direction and continuous improvement in how you do things are absolutely consistent with each other. In fact, they're mutually reinforcing.'

Michael Porter, theorist of competitive advantage

'There's danger of paralysis by analysis.'

Igor Ansoff

Five whys and a how

Questions	Answers
Why is it critical for a business to choose the right strategic direction?	Because a new direction is likely to tie up financial and human resources for several years – making the opportunity cost very high.
Why is it hard for businesses to move away from their customer heartland?	Because customer understanding is at the core of every business success; move away and you've lost your competitive advantage
Why might a UK retailer struggle to transfer its business model to another country?	Why not? Why should the Americans, or French or Brazilians want exactly what the British want?
Why is diversification a word that must be used with great caution?	Because although Ansoff showed that it's the riskiest strategic direction, successful diversification reduces the risk of over-dependence on one product or market.
Why might Ansoff's theory be of value to government as well as businesses?	Because governments often stray into territory they don't really understand, e.g. British foreign policy in Iraq and Libya.
How should a business such as ASOS use Ansoff's Matrix to help it evaluate its future strategic direction?	Ansoff would insist on the need for deep market knowledge before, for example, ASOS chose to move into the market for furniture – or to open a division in Africa.

3.4 Ansoff's Matrix – evaluation

Of all the business theories, none has been quite as illuminating as Ansoff's Matrix. The huge financial crash of 2007–2009 can be attributed to high street banks developing products and entering markets that they didn't really understand. And past corporate failings at Tesco (USA and China) and at Greggs (trying to open Starbucks-style coffee shops) may not have happened if the managements were sufficiently alert to the problems of straying from the core of the business.

Yet one should not focus purely on risk when considering strategic direction. Ansoff could see the huge benefits that might accrue from successful diversification. Among the great diversifications remains Nintendo's path from a producer of playing cards to one of the world's most successful designers of games consoles and the accompanying software. Another famous diversification – Nokia going from producing car tyres to become the world's biggest mobile phone maker – has had a less happy ending.

Key terms

Diversification: when a company expands its activities outside its normal range. This may be done to reduce risk or to expand possible markets.

Repositioning: changing a product or its promotion to appeal to a different market segment.

Further reading

Ansoff, I. (1965) *Corporate Strategy*. New York: McGraw-Hill.

3.5 Workbook

Revision questions

(30 marks; 30 minutes)

1 In the way business uses the terms, distinguish between 'strategy' and 'strategic'. (4)
2 How does strategic direction relate to the objectives of a business? (4)
3 Explain why strategic direction has to be company specific. (4)
4 Why is it important for a firm to examine its internal resources before deciding on a change of strategic direction? (3)
5 Explain the difference between market development and product development. (4)
6 Why is market research an important part of Ansoff's thinking? (4)
7 Why is market development more risky than market penetration? (4)
8 What might Ansoff mean by 'paralysis by analysis'? (3)

Revision activities

Data response

Morrisons' strategic direction

In the twelve weeks to 30 March 2014, sales at UK grocery discounter Aldi rose by 35.3 per cent while at rival Morrisons they fell by 3.8 per cent. This compounded a wretched two-year period for Morrisons – the worst since Dalton Philips took over as chief executive in January 2010 (see Figure 3.5). On 8 May 2014, the *Daily Telegraph* reported that:

'The supermarket chain slashed the price of 1,200 lines by 17 per cent last week to counter the rise of the discounters and to reignite its two-year attempt to report like-for-like sales growth. "I'm very confident we are doing the right things," Mr Philips said. "My job is to make big, bold decisions. The proof will be when there are more items in more baskets; how could it not be the right strategy to tackle this on price?"

Sainsbury's outgoing chief executive, Justin King, accused Morrisons of "playing catch-up" in lowering prices and said customers were enticed by ethically sourced products rather than simply price.'

Later, Phillips said that shareholders would 'hold our feet in the fire' if the price-cutting strategy proved unsuccessful, but he was convinced that this was the right long-term positioning for Morrisons.

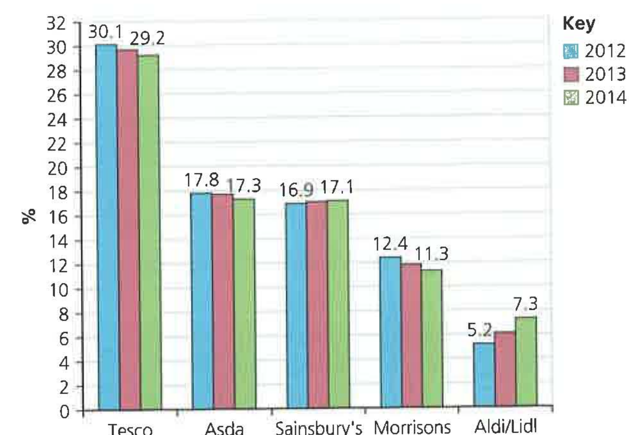

Figure 3.5 UK grocery market share 2012–2014, December–February data (source: Kantar Worldpanel)

Questions (30 marks; 35 minutes)

1 Explain why price cutting in this case can be called a strategy rather than a tactic. (4)
2 Explain two factors that may determine whether Morrisons' 2014 strategy proves successful. (8)
3 Assess one possible weakness in the strategy as outlined in the data provided. (8)
4 In Morrisons' circumstances, assess whether Ansoff would consider its new strategy to be 'market penetration' or 'market development'. (10)

Extended writing

1 Evaluate the extent to which the use of Ansoff's Matrix would eliminate the risk involved in Cadbury launching a new range of crisps in the UK. (20)
2 Scoop is an ice cream business with a production unit, four shops and 24 ice cream flavours. Its owners are ambitious for the company's future. Evaluate whether it would find the Boston Matrix or Ansoff's Matrix the more useful for its future development. (20)

4 SWOT analysis

Definition

SWOT analysis investigates a company's current Strengths and Weaknesses and uses them to help foresee future Opportunities and Threats (hence SWOT analysis).

Linked to: Corporate objectives, Ch 1; Ansoff's Matrix, Ch 3; Impact of external influences, Ch 5; The competitive environment, Ch 6; Corporate influences, Ch 15; Causes and effects of change, Ch 22

4.1 The purpose of SWOT analysis

When the appointment of new Tesco boss Dave Lewis was announced in July 2014, it was said that Lewis would conduct a 'root and branch', objective review of the whole Tesco operation. In effect Lewis was conducting a SWOT analysis – to try to gain insight as quickly as possible into the business he was now in charge of.

Dave Lewis's three predecessors had been Tesco career men, with decades of experience from the shop floor to the boardroom. Lewis had been appointed from outside – and with no retail experience. But he had to make sure that he knew enough about the business to not only make the right strategic decisions, but also to have full credibility when discussing Tesco issues with other staff who had decades of experience with the business.

By January 2015, Lewis was ready to announce his new corporate strategy for Tesco. This would emerge logically from the SWOT process. After all, once you've uncovered the firm's strengths and weaknesses, you can start to think about what should come next for a business. And that's the purpose of SWOT analysis: to provide sufficient insight into the current and potential position of the business to enable senior executives to make sound decisions based on good evidence.

4.2 How to conduct a SWOT analysis

There are two main ways to undertake a SWOT. The first is a top-down process, controlled by the boss and probably carried out by management consultants, answerable only to the boss. This has the advantage of being dispassionate, that is unaffected by emotion or tradition or 'the way we do things round here' – the culture. In a business such as Tesco, with half a million staff, it may be possible for an outsider to see opportunities for cutting 100,000 jobs. Unfortunately, long-established staff will know the threat posed by the outside consultants, and therefore try to hide weaknesses that might lead to job losses. So there is a risk that a top-down process will lack the insight required for a really helpful SWOT analysis.

The ideal SWOT would be conducted in a consultative manner, with the boss spending time in every key department, chatting to staff in an informal manner. There might also be elements of democratic delegation, in which middle managers are invited to conduct their own SWOTs – and then discuss the findings with the boss. This scenario highlights the benefit of appointing an outsider to the top job. No staff member need feel worried about what they say, when the blame for any blatant weaknesses can be pinned on the previous leadership team. A SWOT conducted by a long-established leader would be a very different beast.

TV programmes such as *Undercover Boss* (Channel 4) make a big thing of a boss being disguised to get an authentic flavour of working lives at the bottom of an organisation. A new outsider leader needs no disguise; staff will love to say what's been wrong in the past and how to improve things.