

## 🕒 8 MIN READ

### The Ansoff Matrix

#### Understanding the Risks of Different Strategic Options

*(Also known as the Product/Market Expansion Grid)*

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 entering new or existing markets, but how do you know which one will work best for your organization?

In this article, we'll look at a model called the Ansoff Matrix which can help you to do just that by getting you to think about the potential risks of each option, and to devise the most suitable plan based on your situation.

#### What Is the Ansoff Matrix?

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." [1] It has given generations of marketers and business leaders a quick and simple way to think about the risks of growth.

Also known as the Corporate Ansoff Matrix and the Product/Market Expansion Grid, the Matrix (see figure 1, below) shows four strategies you can use to grow your business. 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**

**Tip:**

You can also use the Ansoff Matrix as a personal career planning tool. It can help you weigh up the risks of certain career decisions, and to choose the best option for you. Learn more about how to do this in our article, the **Personal Ansoff Matrix** .

**The Four Quadrants of the Ansoff Matrix**

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

- **Market Penetration (lower left quadrant).** This 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 (lower right quadrant).** This area is slightly more risky, because you're introducing a new product into your existing market.
- **Market Development (upper left quadrant).** Here, 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 (upper right quadrant).** This 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 Ansoff Matrix

Now, let's take a look at how you can use the Ansoff Matrix to weigh up the different risks involved when making strategic growth and marketing decisions:

### Step 1: Analyze Your Options

Download our free [Ansoff Matrix Worksheet](#). You can use this to plot the approaches you're considering on the Matrix. The table below helps you to think about how you might classify different approaches.

#### Market Development

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.

To do this 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 currently selling through agents or intermediaries.
- Use **Market Segmentation** to target different groups of people, perhaps who are a different ages, gender or demographic profile from your usual customers.
- Use the **Marketing Mix** to understand how to reposition your product.

#### Diversification

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

### 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).

## Diversification

### 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 risks you'll most likely face.

## Step 3: Choose the Best Option

By now, you might have a sense of which option is right for you and your organization. But to double-check your findings use the **Decision Matrix Analysis** to weigh up the different factors you've brainstormed for each quadrant.

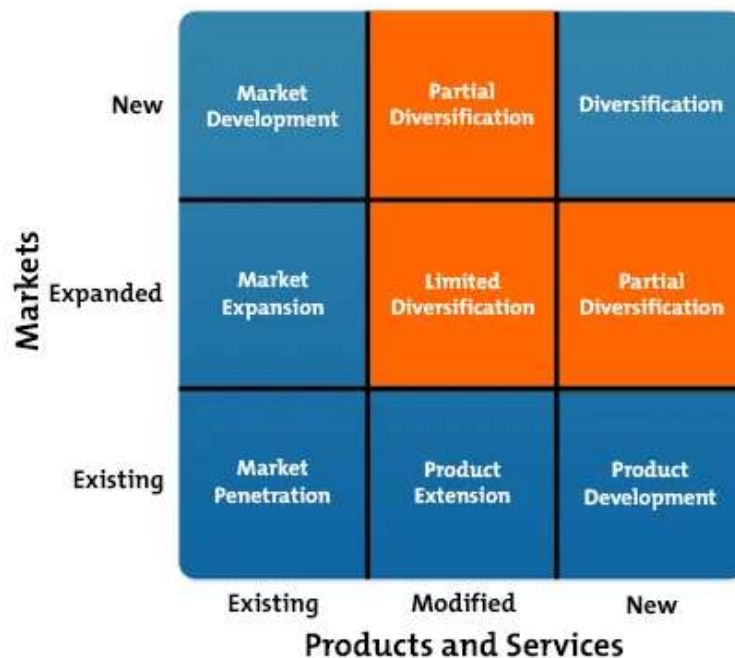
## Using a Nine-Box Ansoff Matrix

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**



## Key Points

The Ansoff Matrix was originally developed by H. Igor Ansoff in 1957. It offers marketers a simple and effective way of weighing up the options and risks involved when taking new strategic decisions.

The Matrix outlines four possible avenues for growth, which vary in risk:

1. Market Penetration.
2. Product Development.
3. Market Development.
4. Diversification.

To use the Matrix, plot your options into the appropriate quadrant. Next, look at the risks associated with each one, and develop a contingency plan to address the ones that will most likely affect you. This will help you make informed and effective strategic marketing decisions for your organization.

### **Download Worksheet**

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Details are explained explicitly & one can easily understand the tool by adding some additional suggested tools to practice Ansoff Growth Strategy Tool. Good article.

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## REFERENCES

[1] Ansoff, H. (1957.) 'Strategies for Diversification,' *Harvard Business Review*, Volume 35, Issue 5, October 1957. (Available [here](#).)

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