

A Framework for Growth Strategy Deliberations and Decisions

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The Aim of the Game is Growth

A wonderful executive I worked with for years was fond of saying to the senior team at each year's strategy review meeting, "You can't stand still on a bicycle. It's either forward or backward, and forward means growth. Let's find the high-growth routes for the future." The exec would then remind the group of the central questions to tackle:

- Where are the most attractive opportunities for growth the next three-to-five years?
- What are our best opportunities to strengthen our revenue and profit streams, create new ones for the long-term, or gain market share and enhance our margins?
- Which of the many growth opportunities out there are we best suited to dominate, or at least differentiate, given our core competencies and what we've done well in the past?

Answers to these, and other questions, are at the heart of effective strategic planning; but, how to get there? How does a group – at the corporate, division, or functional level – navigate the labyrinth of routes that can lead to a realistic, actionable set of outcomes: Strategic Goals, Supporting Core Strategies, Execution Plans, and Operating Plans?

In this brief article, let me introduce you to Igor, a very old friend – of the process. We can't cover the dozens of ways to lead or facilitate a strategy development or strategic planning process: this is not the place-with-the-space for that. However, I can introduce you to Igor Ansoff and one of many productive tools to facilitate your brainstorming, debate, and analysis sessions. Such tools are high-value for a group attempting to categorize and prioritize potential growth opportunities they have identified in the early stages of a strategic planning process.

Igor Ansoff Said ...

It was 1957 when Mr. Ansoff, a Russian writer, thinker, and business person, offered the world his simple framework as a tool for considering where to explore and invest for growth opportunities.

Though not essential in every strategy process, the tool has been a useful device facilitating groups as they try to categorize, sort, and prioritize the array of opportunities to be considered. The simple four-square matrix requires disciplined thought, research, and discussion to get the most from it, as it is deceptively simple.

Take a moment to review it, and then we'll hit a few highlights that should help bring it to life, along with an example.

The Ansoff Matrix

		PRODUCTS AND SERVICES	
		NEW	CURRENT
MARKETS AND CUSTOMERS	NEW	<p>#4 CHOICE</p> <p><i>THE MOST DIFFICULT: TAKING PRODUCTS/SERVICES NEWLY DEVELOPED, NEW TO OUR OWN PEOPLE INTO MARKETS THAT ARE ALSO NEW TO US, WHERE WE PROBABLY HAVE LITTLE BRAND RECOGNITION OR ESTABLISHED DISTRIBUTION CHANNELS.</i></p> <p>Diversification Strategy</p>	<p>#3 CHOICE</p> <p><i>TAKING CURRENT PRODUCTS/SERVICES TO NEW MARKETS OR CUSTOMER GROUPS: WE KNOW THE P/S, HOW TO PRESENT THEM, WHERE THEY'RE APPROPRIATE, ETC. THE RISK IS UNDERSTANDING THE NEW MARKETS, COMPETITORS ALREADY THERE, AND THE DIFFICULTY OF GAINING CREDIBILITY AND A Foothold.</i></p> <p>Market Development Strategy</p>
	CURRENT	<p>#2 CHOICE</p> <p><i>TAKE NEW PRODUCTS AND SERVICES TO OUR EXISTING CUSTOMER BASE. THEY KNOW US, TRUST US, AND ARE MOST LIKELY TO CONSIDER ADDITIONAL OFFERINGS.</i></p> <p>Product/Service Development Strategy</p>	<p>#1 CHOICE</p> <p><i>BE SURE WE'VE FULLY MINED THE POTENTIAL AMONG THE CUSTOMER BASE AND CURRENT MARKET SEGMENTS: WE HAVE GREATEST FAMILIARITY AND BRAND RECOGNITION RIGHT HERE.</i></p> <p>Market Penetration Strategy</p>

Ansoff's matrix is a lovely framework for considering the four basic growth strategies a group can explore. The **Market Penetration Strategy** calls for filling the gaps where we currently play: gain share by selling more P/S to current customers, or gaining more such customers in our current markets. Basic tactics underlying this growth strategy include:

- Invest more in marketing, sales, advertising, promotion
- Price and terms adjustments
- Acquisitions
- Modifying or customizing P/S lines to attract specific, larger customers

Basic tactics for the **Product/Service Development Strategy** include:

- Invest in R&D to develop new P/S
- Acquire new P/S, or the rights to them, that will appeal to current customers

- *Execute a joint venture or outright acquisition*

If we try to enter new markets (i.e. geographic, customer groups, industries) with our current P/S lineup, we'll pursue a **Market Development Strategy**, where the basic tactics include:

- *Invest in sales and marketing talent to create awareness and interest*
- *Tailor the P/S lineup to ensure high appeal*
- *Execute a joint venture or outright acquisition to gain entry*
- *Focus on market segments that are similar to the current ones where we have success*

Most difficult of the four growth strategies is **Diversification**, where we attempt to develop and introduce new P/S into markets that are also new to us. In this, the company takes on a dual challenge of development. Pursuing "related diversification" rather than unrelated diversification can mitigate the risk somewhat, but this remains the riskiest of the four strategies. In the extreme, consider the conglomerate organization that grows by collecting businesses which may or may not be related to one another. Basic tactics include:

- *Acquisitions of products, service lines, or whole businesses*
- *Investing in R&D to develop new P/S targeted to new markets*

And Then ...

Assuming the team can identify one or more growth opportunities to consider seriously, the process moves forward with a deeper analysis of each. We want to ensure a fit with the company's available investment dollars, talent, competencies, and so on. A good, solid business case would be drafted supporting each selected opportunity. These would fuel the group's review, discussion, and debate. These cases should include financial modeling as well as strategy execution and operational planning elements. But all of that is for future articles; for now, let's close with ...

One Example

Twenty-odd years ago, a successful, family-owned, regional landscape maintenance company sought to expand and grow. At the time, their Ansoff Matrix looked like this:

The Ansoff Matrix

		PRODUCTS AND SERVICES	
		NEW	CURRENT
MARKETS AND CUSTOMERS	NEW		
	CURRENT (Condo's/ Apt's)		Cut grass Flower beds Disease Mgt Mulching Fertilizer Tree planting & maintenance

Over several years, with a strategic review and update each year, the company moved to this picture ...

The Ansoff Matrix

		PRODUCTS AND SERVICES	
		NEW	CURRENT
MARKETS AND CUSTOMERS	NEW Industrial Parks Multi-Unit Owners Two New States minimum each year	Online ordering and payment system Snow removal Landscape architecture	Cut grass Flower beds Disease Mgt Mulching Fertilizer Tree planting & maintenance
	CURRENT Condo's/Apt's	Online ordering and payment system Option of our personnel on-site full-time Snow removal Property management Landscape architecture	Cut grass Flower beds Disease Mgt Mulching Fertilizer Tree planting & maintenance

Over time, the company added new Services (online ordering, snow removal, etc.) to their current markets and customers; then took three of the five new services, along with the original "Current P/S" set to new markets and customers (industrial parks, multi-unit owners, etc.).

This company became the largest in the U.S., and national in scope by (a) focusing first on a Market Penetration Strategy; then (b) developing competencies in new services and offering them to current markets and customers [Product/Services Development Strategy]; followed by (c) a double-edged approach of taking most of that set of services (old and newly added) to new markets and customers – both geographic and by segment, combining a Market Development Strategy and Related Diversification.

This tool, the Ansoff Matrix, was a simple device to launch and guide the strategy development efforts over a five-year growth arc that enabled the company to become the market leader nationally. In future articles we can explore additional tools for your kit that can enhance your strategic planning efforts.