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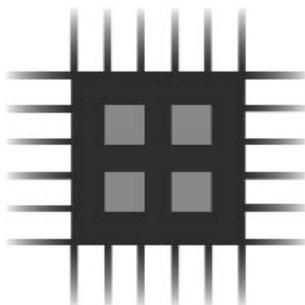
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STRATEGIC OPTIONS FRAMEWORKS



What are our main strategic options? How do we differentiate our offerings? How do we tailor our offerings for different markets?

The core of strategy is design of the value proposition and how it is competitively positioned and delivered. Debate about these points in organizations can be extensive and heated, with many people convinced that they are right and others are not. Ultimately, direction must be set, and unanimity of support and understanding for the strategy can spell the difference between winning execution and lackluster performance.

Strategic Options frameworks offer criteria for generating and prioritizing ideas. Paradoxically, limiting the field of focus spurs the imagination and improves the richness of output. More than the other matrices in this book, these frameworks support collaborative efforts where many views are aired in a noncompetitive atmosphere, and the best ideas can be selected and built on by interdependent members of teams and larger communities.



Corporate Strategy

H. Igor Ansoff

Of course much that is new and different has been added, but the rock on which everything has been built was provided by Igor Ansoff.

—David Hussey²³

Ansoff's 1965 classic, *Corporate Strategy*, contains one of business's most important and enduring strategic formulations. Before becoming a distinguished academic, writer, and consultant in the mid-1960s, Ansoff progressed through a series of planning positions at the Rand Corporation and Lockheed, ending this

phase of his career as vice president and general manager of the Industrial Technology Division at Lockheed Electronics. Experience with diversification planning helped him formulate key issues and tensions that firms face in choosing a growth strategy. The operating problem is akin to determining the best way to milk a cow. The strategic challenge is of a different order: “But if our basic interest is not the cow but in the most milk we can get for our investment, we must make sure that we have the best cow money can buy.”²⁴ In strategic terms, this translates into product-market combinations that are most advantageous to the firm. The Product-Market matrix (sometimes called the Corporate Strategy matrix) defines the options for achieving this (Figure 6.21).

The Two Dimensions and Their Extremes. The Product-Market matrix explores two key dimensions: Product and Market:

Product. Businesses are built around products and services that define their value offering. Most offerings are limited in at least two ways: time, in that their relevance diminishes and redesign or renewal is usually required, and transferability, in that they tend to work best under certain market conditions. Ansoff noted that modifying the core offering is a key strategic choice.

Market. Generally applied as Market options, this dimension distinguishes between customer markets that are well established and known to the firm versus all the rest that are not.

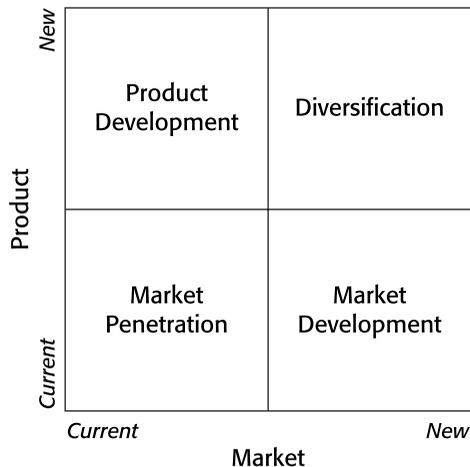


Figure 6.21. Product-Market Matrix

The Four Quadrants. In Ansoff's terms, each of the four possible options defines a core strategic response to a different set of internal and external conditions. Careful assessment leads to better understanding and decision making:

- Upper left: Product Development. Marketers understand the enormous value of a positive customer relationship and the goodwill and trust that go with it. This relationship capital allows a company to make new product offers more effectively and inexpensively to existing customers than to new ones. The advantages of this must be weighed against the possible damage resulting from negative spillover from the new to the existing product experience should it not be entirely satisfactory. When Stihl, the maker of the world's top chain saws began to sell augurs, hedge trimmers, and complementary items such as cut-retardant leg chaps, it was practicing Product Development. Heineken has achieved great success by introducing over eighty brands around the world.

- Lower left: Market Penetration. This is the de facto strategy: change nothing and sell more of the same to existing customers. When a business does not consciously select a growth or diversification strategy, it is doing this. When Stihl sells to the forestry industry, it is in this quadrant, as is Heineken when it supplies beer to European drinkers. This is the preferred strategy when a company's product is performing well and there is room to increase market share.

- Lower right: Market Development. A well-developed product can be introduced into new markets to extend its value. This is ideal when little modification is required and room for growth in the original market is restricted. Products as diverse as food, pharmaceuticals, and automobiles fit this category. When Stihl reached out to recreational users and North American buyers, it was employing a Market Development strategy, as was Heineken when it began exporting its beer outside Europe, with great success.

- Upper right: Diversification. Diversification represents a near total strategic overhaul, simultaneously trading in both Product and Market. It is the most challenging, costly, and risky of the options. New skills and relationships need to be developed. Companies choose this strategy in conjunction with one or more of the others or when they have recognized a crisis. Ideally, there is a gradual migratory path leading from the known to the unknown. It would be easier for Stihl to evolve into a retail hardware supplier, say, than a candy manufacturer or entertainment company. The recent misfortunes of Seagram's Distillers' and Vivendi's (historically a water and utility company) painful transformation into a communications, media, and entertainment company are a reminder of the riskiness of Diversification.

Example: Green Mountain Coffee Roasters. Green Mountain Coffee Roasters (GMCR) began as a house brand at a small café in Waitsfield, Vermont, in 1981.

Brewed from high-quality beans roasted on the premises, the coffee quickly became a favorite of locals and vacationers. Before long, it had expanded far beyond the café walls to become one of the top specialty coffee companies in America, generating annual revenues of \$97 million with a growth rate close to 20 percent.²⁵

It is hard to think of a more generic item than coffee, the second most highly traded commodity in the world after oil. The \$55 billion industry in the United States is dominated by four global companies (Nestlé, Procter & Gamble, Sara Lee, and Kraft) that buy almost 50 percent of the world's coffee. The specialty category of excellent brewed coffee took shape in the 1970s, with several brands and retail chains gaining great popularity. Starbucks has emerged as the category gorilla, growing from a single outlet in 1971 to almost six thousand locations worldwide today.

Green Mountain Coffee Roasters has followed a different path to success, staying clear of the fiercely contested retail outlet market space, which coincidentally would not have fit the company philosophy of matching quality product and experience with ecological and ethical practices.

In Ansoff's terms, GMCR started life as most start-ups do, with an attractive value proposition that the originators were uniquely qualified to deliver (Figure 6.22). Their first expansion efforts took the form of Market Penetration. The popular coffee almost sold itself: visitors bought bags to take home with them and eventually began to order by mail. GMCR sold more of the core

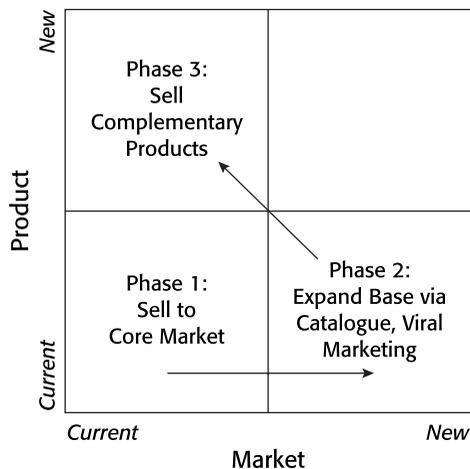


Figure 6.22. Green Mountain Coffee Roasters Strategy

product to existing customers to max out its return on the original business platform.

Success with the core business led to a second strategic phase, Market Development. The demand for high-quality, ethically produced coffee was expanding, and this demographic segment of the population was not opposed to paying a premium to attain what they wanted. With excellent positioning and word-of-mouth viral marketing in their favor, they expanded the customer base through mail order sales, eventually producing an on-line and paper catalogue.

The third strategic phase, Product Development, grew in conjunction with catalogue-based sales, as customers welcomed a range of complementary item offers, from cups to roasters.

Context. The Product-Market matrix is one of the most intuitive and flexible strategic frameworks, applied by planners and decision makers in organizations of all sorts and sizes. The ideal time to use the framework is at the start of the planning cycle or to help in making tough decisions about business focus.

Method. The Product-Market matrix presents a structured approach to investigate and prioritize four basic strategic options for expanding a business. The method typically starts with what is and ends with what is imaginable. Risk increases as strategy moves further from the current situation:

- Step 1: Diagnose. Define the product-service focus for analysis. A company with multiple offerings is advised to consider each separately at first.
- Step 2: Envision. Consider each of the four strategic options, beginning in the lower left quadrant. The prime questions are, “Should the offering stay the same or should it change?” and “Should we focus on current customers or new ones?”
- Step 3: Decide. Assess the attractiveness of each of the four strategic options. In most cases, pursue the easiest path as the top priority.
- Step 4: Design. Build a clear action plan to implement the chosen strategy.

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