Growth Opportunities Matrix
Growth Opportunities Matrix

- Generally credited to Igor Ansoff, circa 1965

- Other names: Ansoff Matrix, Corporate Strategy Matrix, Product/Market Expansion Grid

- Objective: Distinguish among 4 generic growth strategies by categorizing them along 2 intersecting dimensions based on whether they are “established” or “new” products and markets.

- Each of the quadrants has implicit tactical implications … and can be linked to supplementary frameworks.
The Axes ...
• Original simply referred to “Markets”; “Customers” adds optional granularity

• “Old” is shorthand for “Established” … those customers and markets already being pursued … sometimes called “served markets”

• “New” are markets and groups of consumers that are not being currently pursued … e.g. a company may be selling to commercial accounts but not to the consumer market … or may be doing business in the U.S. but not in Mexico.
The Quadrants...
Increase profitable sales of existing products to customers already being pursued (but not necessarily buying at the current moment).
\[
Sales = \sum_{i=1}^{n} \frac{C_{\text{act}}}{C_{\text{pot}}} \times \frac{S_{\text{cust}}}{TP_{\text{cust}}}
\]

- \( n \): Served market(s)
- \( C_{\text{act}} \): active customers
- \( C_{\text{pot}} \): potential customers
- \( S_{\text{cust}} \): sales per customer
- \( TP_{\text{cust}} \): total purchases (served)

Market penetration
Share of wallet
Customer Penetration: Basic Model

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<thead>
<tr>
<th>Markets / Customers</th>
<th>Old</th>
<th>New</th>
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<tbody>
<tr>
<td>Products / Services</td>
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Increase these rates:
- **Target Market** $\times$ Penetration %
- **Current Users** $\times$ Usage Rate
- **Consumption** $\times$ Share
- **Company Sales**
Customer Penetration: Increase number of users (adopters)
Customer Penetration: Increase number of users (adopters)

Target Market: \(x \cdot \text{Penetration } \%\)
Current Users: \(x \cdot \text{Usage Rate}\)
Consumption: \(x \cdot \text{Share}\)
Company Sales

Related Frameworks:
- Bass Diffusion Model
- Tech Adoption Framework
- “Crossing the Chasm”

Estimated Market Penetration
Selected Consumer Electronics

Products / Services

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Loyalty Ladder
Customer Penetration: Increase usage (by current users)

Target Market: Penetration %
Current Users: Usage Rate
Consumption: Share
Company Sales

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Customer Penetration
Customer Penetration: Increase usage (by current users)

- New use occasions
  - OJ – not just for breakfast

- Increase volume per use
  - Super-size it

- Shorten replacement cycle
  - New toothbrush every 30 days

- Create new uses
  - Baking powder in the fridge

Markets / Customers

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Target Market
- Penetration %

Current Users
- Usage Rate

Consumption
- Share

Company Sales
Customer Penetration: Increase share of customer purchases

Goal is to build high customer loyalty, i.e. high, sustained share of customer purchases (at “full” price, high margins)

Upward Migration Ladder

- **Committed**
  - Regularly buys all total purchases and doesn’t consider alternative sources

- **Exclusive**
  - Regularly buys all total purchases but shops around and entertains other offers

- **Primary**
  - Regularly buys a clear majority of total purchases

- **Secondary**
  - Regularly buys a minority of total purchases for insurance against price gouging or supply discontinuities

- **Opportunistic**
  - Buy occasionally when need arises, e.g. regular supplier is out-of-stock

- **No Loyalty**
  - Regularly buys occasionally when need arises, e.g. regular supplier is out-of-stock

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Committed customers often exhibit a “Loyalty Effect” … using more of a product, buying higher-end products, paying full price, promoting products to other potential customers, and buying more products from the company.
Customer Penetration: Increase Customer Lifetime Value (CLTV)

**Ultimate measure of Customer Penetration is Customer Lifetime Value (CLTV) … the NPV of a customer’s profit stream over time (versus on a single transaction), adjusted for acquisition (and retention) costs and the customer’s projected retention rate – which is usually considered inversely as a churn or defection rate.**

### Customer Lifetime Value (CLTV)

\[
CLTV = \frac{M}{d + i} - AC
\]

- **M** = the annual profit margin attributable to a customer
- **d** = annualized defection rate (annualized churn rate)
- **i** = annualized cost of capital
- **AC** = customer acquisition cost
Growth Opportunities Matrix

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- **Old**
  - Customer Penetration
  - Increase profitable sales of existing products to groups of customers who are not currently being pursued

- **New**
  - Market Development
Market Development: Extend to new geographic markets or to new customer segments within existing geographies.

Examples: A regional company “goes national” or a national company establishes a commercial presence in another country.

Market Development Grid

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<table>
<thead>
<tr>
<th>Geographic Market</th>
<th>Customer Segment</th>
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<tbody>
<tr>
<td>&quot;Home&quot;</td>
<td>Current</td>
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<tr>
<td>Geo Market A</td>
<td></td>
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<td>Geo Market B</td>
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<td>Geo Market C</td>
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<td>Geo Market E</td>
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Example: Power Tools company selling to professional tradesmen begins offering products to consumer DIYers.
Market Development: Extend to new geographic markets or to new customer segments within existing geographies.

Ties to Product Life Cycle (PLC) …

Specifically, to “PLC Regeneration”, driving the PLC higher and longer
**Growth Opportunities Matrix**

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- **Sell a wider variety of products to current (existing) customers or upgrade products currently in use**
Product Development: New Product Strategies

### 4 Rs Matrix

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<th>To the World…</th>
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**Products / Services**

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**To the Company…**

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<tbody>
<tr>
<td>React</td>
<td>Revolutionize</td>
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<tr>
<td>Follow the Leader</td>
<td>Radical Innovation</td>
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**Refine**

- Incremental Improvement
- Adjacent Opportunities

**Reposition**

- Upgrade features
- New uses
- Reduce costs
- New contexts

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Unrecognized needs
Applied capabilities
New technology

Custom applications
Line Extensions
Product Development: Expanded product line

Goal: Increase sales by leveraging established product positions into logical adjacencies.

Product Line Expansion

- **Adjacent categories**
  *Coffeemakers, Tea Kettles*

- **Accessories**
  *Thermal carafes*

- **Consumable Supplies**
  *Coffee filters*

- **Services**
  *Extended warranty*
Product Development: Upgrade cycles

Goal: Rejuvenate the PLC by introducing new and improved product versions.

PLC Regeneration - Gillette
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Diversification
(Venturing)

- Principle: leverage “power alleys” and/or opportunistic innovations
- “Grass is always greener …”
- Tendency to overrate strengths and gloss over weaknesses
- Individually more risky, collectively less

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- **Old**
  - Customer Penetration
  - Market Development

- **New**
  - Product Development
  - Diversification (Venturing)
Core Business Adjacencies
Many Types of Adjacencies Can Radiate from the Core

- New Geographies
- New Value Chain Steps
- New Channels
- New Businesses
- New Customer Segments
- New Products
Many Types of Adjacencies Can Radiate from the Core

- Global expansion
- Local
- Forward integration
- Backward integration
  - Sell capability outside
- New Value Chain Steps
- New Businesses
- New-to-world needs
  - New substitutes
  - New models
- New to world
- Complements
- Next generation
- Support services
- Internet
- Distribution
- Indirect
- New Channels
  - New Geographies
  - New Customer Segments
  - Unpenetrated segments
  - New segments
- Microsegmentation of current segments