

The evolution programme

Growth strategies – from market penetration to diversification

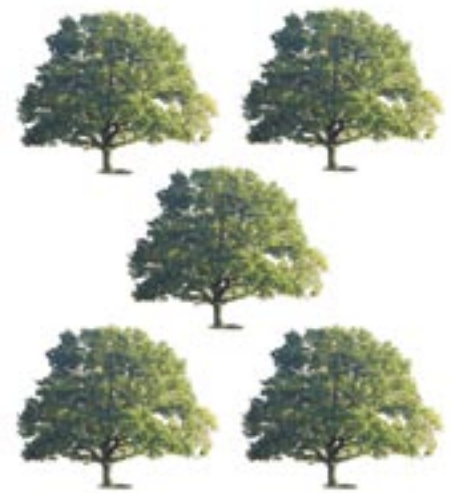
For every SME seeking to grow, there are four main strategic business development options ranging from the low-risk approach of market penetration to the high-risk approach of diversification.

The most commonly known framework used to help decide which growth option would be best for your business is the Ansoff Matrix developed by Dr Igor Ansoff, who was known as the father of strategic management.

Ansoff's product and market matrix below shows the four main options.

All of these can largely be achieved through more effective and aggressive marketing based on a good understanding of both the competition and your customers. Typical tactics to increase market penetration include advertising, sales promotions, competitive pricing strategies, editorial coverage, and loyalty schemes.

This strategy will not take the business out of its natural "comfort zone" and is likely to be effective as long as the market continues to grow. However once the market is saturated the business will have to look to other growth strategies.



You may not require any major capital investment to open up new markets as your increased costs will largely relate to distribution and local marketing. You will, however, need to spend time and resources on fully researching new markets to take into account different cultures, value systems, demographics, and pricing points. Do a desktop assessment of your target marketplace and do not assume that, just because it works in the UK, it will necessarily be effective in another market.

A classic example of this is the US baby food manufacturer which used its existing packaging featuring a beautiful smiling baby in new African markets. The product was a dismal failure because packaging in these markets typically represents the contents of the can not the intended consumer of the product!

The third option – **product or service development** – is most appropriate for businesses whose strengths are based on their relationships with their customers or their brands. For example, service companies such as facilities management companies are more likely to be successful in selling new

<p>Market development New markets Same products/services</p>	<p>Diversification New markets New products/services</p>
<p>Market penetration Same markets Same products/services</p>	<p>Product/service development New products/services Same markets</p>

Market penetration is the least risky growth strategy because it focuses on selling more existing products/services into existing markets using the business's existing resources and capabilities. The key objectives of this approach are to maintain or increase the market share of current products, secure dominance of growth markets, drive out competitors, and increase usage by existing customers.

Market development options include the pursuit of new market segments or geographical regions. If your core competencies are based on your specific products or services more than on your experience with a particular market, this strategy would be a logical progression once your existing markets have reached saturation.

services to clients who already trust them than to sell tried and tested services to potential customers with whom they have no relationship. Similarly, a consumer is more likely to buy a photocopier, printer, computer or another 'brand extension' from a company that has already supplied him with a good quality, reliable product.

At each stage in your growth, the risk increases as you venture further out of your own 'territory'. Product and service development can be costly and time-intensive involving thorough market research and investment in new skills, technologies or plant. It is therefore advisable to approach it incrementally: develop one product, launch it into a test market, and evaluate its performance before committing major investment in a whole new product range that may not be successful.

If external funding will be required for product development, you will have to provide investors with some expectations of when they can expect a return on their investment. A phased approach will help you to be more realistic about your sales targets, costs of sales and

PKF Top Tip – business development is like rock climbing. Always have one secure point before you make your next move. Start by introducing existing products in a new market segment. Then introduce new products to existing customers. Never leap into the void of new products/new markets without a link from one strategy to the next.

likely profits and provide a degree of certainty to the payback timetable.

Diversification

One of the most challenging decisions a company can confront is whether to diversify. The rewards and risks are extraordinary. There are many success stories such as General Electric, Disney, and 3M – also plenty of failures such as Quaker Oats' ill-fated entry into the fruit juice business with Snapple.

In recent years, diversification as a corporate strategy has gone out of vogue so there is a dearth of guidance for directors and owners when considering a move that could either greatly increase shareholder or seriously damage it. Diversification is undoubtedly the most risky of the four growth strategies since it requires both product/service and market development and may be outside the core competencies of the business. However, it may be a reasonable choice if the high risk can be compensated by the chance of a high rate of return.

Other advantages of this route include the opportunities to gain a foothold in an attractive industry or emerging market and to reduce the overall business portfolio risk – otherwise known as 'putting all your eggs in one basket'.

In order for a diversification strategy to have a realistic chance of success, companies need to ask themselves the following critical questions before they make the move.

- 1. What can our company do better than its competitors in its current market? You need to be certain of your unique competitive strengths – or strategic assets – before you start to apply them in different markets.*
- 2. What strategic assets do we need in order to succeed in the new market? Have we got every strategic asset that we need to establish a competitive advantage in a new market?*
- 3. If we are missing a key strategic asset, will we be able to catch up with or overtake the competition by buying it or developing it in-house?*
- 4. Will diversification break up strategic assets that need to be kept together? Do our assets rely on one another for effectiveness or can they function alone?*

- 5. Will we be simply a player in the new market or do we have the potential to be a winner? Can we create something unique?*
- 6. What will our company learn by diversifying and are we sufficiently organised and willing to learn it? Will this knowledge then help us to enter a third market more quickly and cheaply?*

By thinking hard about these questions, businesses can reduce the risks associated with diversification. The answers may not provide a definitive answer to the 'shall we, shan't we?' question, but the thought process will help to better assess the likelihood of success. When coupled with rigorous financial analysis and market intelligence, the complex and difficult decision-making process can be turned into a more structured and well-reasoned one with clear directions for the way forward.



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