GROWING A MANUFACTURING OR DISTRIBUTION BUSINESS

There are similarities in growing a design and manufacturing, a build to spec manufacturing company and a product distribution company. All three typically offer a range of products. One of the growth strategies is the expansion of a company's product offering.

ANSOFF BUSINESS GROWTH STRATEGIC MODEL

The Ansoff Matrix is one of the most popular models in strategic management to plan product and market growth. Developed by Harry Igor Ansoff, a Russian American applied mathematician, business manager and the father of strategic management, the matrix was first published in 1957.

The matrix, also known as the "product mission matrix", is a 2x2 matrix that provides 4 possible business growth strategies - Market Penetration, Market Development, Product Development, and Diversification. Two of these focus on the product while the other two on the market. Each of these growth strategies has a varying degree of risk.

1. Market Penetration (Existing Product, Existing Market)

Under the market penetration strategy, businesses strive to increase their market share with existing products in the current market. This is the least risky strategy as no new products and new markets are being explored. The scenario is possible if the market itself is growing. One can also grow by increasing market share by having better marketing, better service, or better pricing.

2. Market Development (Existing Product, New Market)

The market development strategy requires a business to identify new markets for the existing products. Before entering a new market, you would evaluate the possibilities of expanding geographically, or marketing to a different class of customer, different industry, etc. Since you would be venturing into new areas, this strategy is more risky as compared to the previous one.

3. Product Development (New Products, Existing Market)

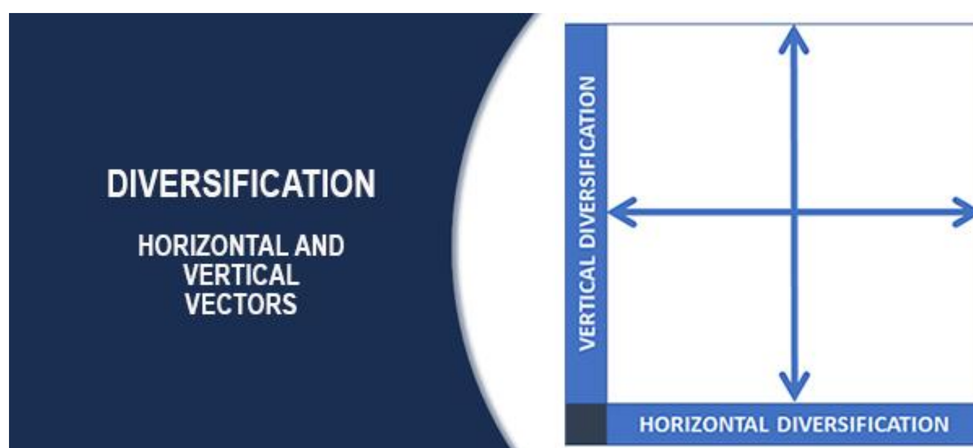
This strategy includes developing new products for the existing market. If the existing customers' needs are evolving and you wish to maximize profits by tapping into the current market only, then you can develop new products that aren't existing in the market. You can develop new solutions to unique problems of your customers. This also carries moderate risk as you would need to invest a lot of time, effort and money in developing products that may or may not work.

4. Diversification (New Products, New Markets)

The diversification strategy pushes businesses to not only diversify their product portfolio by introducing new products in the market but also enter new markets. This obviously carries the highest risk among all strategies. If business research identifies a huge market potential for a new product, a business can take the jump and establish itself as the market leader. Business diversification can either be related where they move into a familiar territory or unrelated diversification where the business takes a totally new direction.

DIVERSIFICATION VECTORS

As a further expansion of the Ansoff Matrix, one can expand a product portfolio either horizontally or vertically. This concept can be applied to the third and fourth segments of the Ansoff Matrix: Product Development and Diversification.



1. Horizontal Expansion

In horizontal expansion, the business reviews its current product offerings and capabilities and then does research on other similar products that could be added to the product line. An example is a company that designs and manufactures transformers adds power supplies to their product offerings.

The advantage of horizontal expansion is that it can take advantage of the company's current customer base. One of the first strategies in horizontal expansion would be to consider what other products your current customer purchases that goes into the same customer product or system where your current product is used.

2. Vertical Expansion

In vertical expansion, the business reviews its current product offerings and capabilities and evaluates if there is a marketing opportunity to add products lower in the design chain or higher in the design chain. An example of moving higher in a product manufacturing chain would be a company that manufactures audio transformers decides to build the entire speaker that uses the audio transformer. The reverse would be an example of moving down the manufacturing chain, i.e. the speaker manufacturer who decides to sell audio transformers.

Moving up the product manufacturing chain can require new design and manufacturing skills and equipment, so this strategy should be implemented only after considering all engineering, marketing, and production requirements.