A NOTE ON THE PRODUCT-MARKET GROWTH MATRIX

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The product-market growth matrix is a standard feature of marketing textbooks despite its being described inconsistently and in some cases illogically. This paper reports on a revised matrix that clarifies the definitions of product growth strategies.

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BACKGROUND

While companies can grow sales through corporate-level actions such as diversification (e.g., purchasing another company) or strategic business unit-level actions such as the integrative growth strategies of backward or forward integration, the principal ways that companies can grow the sales of a brand are captured in the "product-market growth matrix." The product-market growth matrix was created by Igor Ansoff (1957) as a way to think about how a company could increase its sales. It is found in most marketing and strategic management textbooks (although the discussion and examples vary greatly). With a few important modifications it can be very useful as a guide for brand or product managers who are interested in increasing brand sales.

Almost every marketing textbook explains the product-market growth matrix in a different way, and many of the explanations are inconsistent or don't make sense. In a study of marketing textbooks (see Appendix) this is what we found:

- Definitions were inconsistent between books
- Definitions were inconsistent within books
- Examples were inconsistent within books

In other words, not only did different authors interpret the product-market growth matrix in different ways, but the same authors often used inconsistent definitions and examples in their own textbooks!

Here are some examples. Aaker (1988) says that selling to nonusers is an example of market development but Guiltinan and Gordon (1982) say that selling to nonusers is market penetration. Lewison (1996) says that serving new groups of customers (new market segments) is market development, giving the example of a fashion designer who develops a less-expensive line of clothing for the mass market, which surely is a strategy to "identify unmet consumer needs and develop new products to meet those needs," this being his definition of product development.

Dalrymple and Parsons (1995) say that "promotion of more frequent and varied usage among current users" (market penetration) involves finding and promoting new *uses* (italics added) among existing customers, which seems like it would be finding new target markets for the product, Lamb, Hair and McDaniel's (1992) definition of market development. For example, the makers of Silly Putty have found a new target market in adults who use the product as a stress reducer, so in this case the new use implies a new target market.

Aaker says that developing new products for existing markets such as Arm & Hammer introducing a new laundry detergent is product development even though laundry must be a new market since it is a new market segment, his definition of market development. Aaker further notes that developing new generation technologies is product development, but Booth (1990) gives the example of developing an entirely new product based on new technology as one showing "diversification" (product diversification).

Urban and Star (1991) describe "enter new markets with new products" (product diversification) as undertaking major product design and implementation programs, something that virtually everyone else calls product development, even them! Their definition of "new products to serve existing markets better" (product development) is "emphasis on product development," exactly the same thing.

For the most part, any discussion of product diversification in these textbooks is about corporate diversification or without any examples at all. And so it goes with the marketing textbooks.

Even the originator of the product-market growth matrix, Ansoff (1951), is inconsistent. He describes market development as "a strategy in which the company attempts to adapt its present product line (*generally with some modification of the product characteristics*)—italics added—to new missions but then goes right on to describe product development as a strategy that "retains the present mission and develops products that have new and different characteristics such as will improve the performance of the mission." (p.114). To be fair, he's talking about different missions, but the fact of the matter is that everyone else is talking about product changes as the point of differentiation between the two concepts.

Our conclusion was that, after more than 50 years of confusion, it was time to do product development on the product-market growth matrix itself.

A REVISED MATRIX

The revised product-market growth matrix is shown in Table 1.

Insert Table 1 about here

To simplify, consider a brand and a product to be the same thing, i.e., a named product (brand). Unless discussing the product life cycle—where product will refer to product category—this will make it easier to understand and use the product-market growth matrix.

Each separately-named product in a product line can be considered a different product. For example, Cheerios and Honey Nut Cheerios are two products. But some brands cover multiple “models,” as in automobiles. Honda Civic is a brand (separate from Honda Accord), but Honda Civic DX and Honda Civic LX are models of the brand. The keys to understanding this distinction are where the marketing focus is and how brand management is organized. The Honda Civic is marketed separately from the Honda Accord, probably using different product management groups for each brand. But this would not be the case for different models of Civic or Accord any more than it would be the case for different package sizes of Cheerios.

What is different in our use of the product-market growth matrix concept is the cell on new products for new markets. This is called here *product diversification*—not just diversification—to signify that it is an aspect of product management decision making, not corporate decision making.

A company would pursue product diversification only if the product managers (possibly the group product managers or managers of the strategic business unit that the product is in) wanted to grow sales in this way. In other words, like other cells in the product-market growth matrix, it is a way to manage a brand—in this case by basically redefining "brand" strategy. In some cases, product diversification may even result in a new brand management group.

GETTING NEW PRODUCTS AND MARKETS STRAIGHT

The first thing to remember is that the product-market growth matrix is always used from the point of view of a company. So a "new" product is one that is new to the company, not necessarily to the market. When Mercedes-Benz brought out their new SUV, the M-Class, it was an example of product development because they had never sold an SUV before. Before considering what constitutes a new market, let's look more closely at what new products are.

A new product is simply any modification of a current product. The modification could involve no change in brand name, a new brand name that is a "brand extension" or a new brand name with a separate identity.

For example, Duracell added the feature of a battery-life indicator to its batteries, but didn't change the name under which the product was sold nor did the feature itself have a special name. The feature was described on the packaging and in advertising copy, but not "named." However, sometimes a product is modified and the modification or new feature is named to bring more attention to the feature. American Express added a new feature to all of its charge and credit cards called Private Payments, which allowed its customers to use randomly-generated numbers for each separate purchase occasion rather than their card number itself. Both are examples of product development.

Sometimes a company thinks it can better serve a market by creating a brand extension. Duracell did this when they created a new line of batteries called Duracell Ultra. Fiskars, on the other hand, decided to create a separate brand identity for their lower-priced alternative to Fiskars scissors and named the new product DuraSharp. These are both examples of product development too.

A "new" market is also defined in terms of the company's point of view: one that is new to the company. The current market that the company is selling the brand in has a certain market potential. A new market would be any market that expands that potential because it offers the company a chance to market to a new customer base or to its current customer base with new uses for the product.

Several years ago, Packard Bell NEC, then the leading marketer of personal computers to consumers through retail outlets such as Best Buy, decided to sell some of their current products to business customers—a new institutional segment. An article in *The Wall Street Journal* said that they were trying to attract new customers and went on to explain how businesses buy differently from consumers. This would be an example of Packard-Bell following a market development strategy to grow sales.

Since the point of view is a company and since any one product must be either new to the company or not, the first thing to do is decide which "side" of the product growth matrix a company's strategy is on. For a new product, the only two options are product development and/or product diversification. For a current product, the only options are market penetration and/or market development. Note the "and/or." The strategy for a current product, for example, *could* be both market penetration and market development, if, say the company was both advertising in certain media to current customers and, at the same time, advertising in different media to a new customer base. Similarly, the strategy for a new product *could* involve both product development and product diversification.

MARKET PENETRATION

Traditionally we talk about four main ways that a company can increase the sales of a current brand using a *market penetration* strategy, i.e., selling a current product in a current market. They are:

- Increase frequency of purchase
- Increase amount per purchase occasion

- Sell to non-customers
- Sell to non-buyers

Non-customers are those people who buy in the product category but not your brand. Non-users do not buy in the product category at all.

The market is "current" in the sense that it is well-defined and thus has a certain *market potential*. Whenever the market potential is changed, then the market is considered "new." Burger King could increase frequency of purchase through an advertising campaign that gave consumers a reason to go there more often; they could increase amount per purchase occasion through "value meals;" they could use both of these marketing actions to gain customers from McDonald's; finally, they could use these and other marketing actions to get consumers in the market who don't eat at burger places to do so.

Any use of price reductions, expanded distribution in the current market, sales force effort or promotions would be ways to implement a market penetration strategy.

MARKET DEVELOPMENT

A company follows a *market development* strategy for a current brand when it expands the potential market through new users or new uses. This can be done through expansion to new geographic segments, new demographic segments, new institutional segments or new psychographic segments. Another way is to expand sales through new uses for the product.

The key difference between this growth strategy and market penetration is that the definition of the total market must change. In other words, the *market potential* must increase through this strategy, whereas the market size is "fixed" with a market penetration strategy. When Coca-Cola took their products to Russia, that was an example of market development since the market potential for Coca-Cola increased. One way that Neon basically doubled its

market potential was when it abandoned its initial feminine positioning (the "Hi!" campaign) and expanded their marketing to include men. If Neon further expanded into fleet sales, this would be an example of a new institutional segment adding to market potential. Finally, Evian is placing their bottled water in both the regular and health sections of grocery stores. This expands their market potential by appealing to different psychographic segments.

It is also possible for existing brands to find new uses for their products. Mica is a mineral that was originally used in industrial products. But today it's found in everything from pearlescent automobiles to sparkly cosmetics. So each producer of mica has expanded their market potential by finding new uses for the product.

Other examples of new uses for particular brands would be Chex cereal for party snacks, Heinz vinegar to clean windows and Tums for calcium.

The Danger of Market Development

The main danger facing a company following a market development strategy for a brand is that it could fail to adequately understand the new customer base.

When Office Max decided to use a market development strategy in Japan, they just built the large superstores that were successful in the United States. But this was a mistake because the Japanese consumer didn't want to shop at American-style "big box" stores. Had Office Max thought through who their target market was, they would have realized that they didn't really understand very much about the Japanese consumer, even though they understood a great deal about the American consumer.

Companies expanding to foreign markets often make errors like this. The online auction company eBay shut down its first Japanese Web site due to a major failure to recognize that Japanese consumers were different from American consumers. eBay had emphasized used collectibles, which is eBay's core business in the US, but Japanese consumers were more interested in new goods. By not heeding the main danger of a market development strategy—understanding the consumer—eBay failed in Japan.

PRODUCT DEVELOPMENT

When a company changes its product in some way with the hope of increasing sales to current customers, that strategy is known as *product development*. There are three major ways that this can be done depending on whether a new brand name is used for the new product or not:

- New feature, quality or technology, but no new brand name
- New brand name as a brand extension
- New brand name with separate identity

(Note that the second and third approaches also necessarily involve a feature, quality and/or technology change.)

The product development strategy is thus applied to the current customer base by asking whether there are any segments *of that market* that could be better served with a new product or brand.

One way to create a new product is to add or subtract a feature for an existing product. Duracell's battery tester was an added feature while Frito Lay subtracted trans fats to create healthier snacks. Notice that in both of these examples the brand name did not change. Coca Cola subtracted calories to create a brand extension called Diet Coke and added vanilla flavor to create Vanilla Coke. Duracell came up with the new technology of Duracell Ultra to meet the extra power requirements of high-drain devices such as MP3 players. These are examples of brand extensions.

While trading off the original brand's equity may be a good thing in some cases, in other cases a clear distinction between a new and old product may make more sense. That is what Fiskars did with their DuraSharp brand. They followed a product development strategy but wanted to make sure that each brand had a separate identity so that they could cover two price points in the same store. The small difference in quality, even if noticed, would not hurt the Fiskars brand's reputation under this plan.

The dangers of product development

The main dangers facing a company following a product development strategy for a brand are that any new brand name may result in loss of meaning for the original brand and/or cannibalization of the original brand, particularly if it is a brand extension.

PepsiCo's Aquafina brand of water was originally positioned as having "Nothing." It could be contrasted with Coca-Cola's Dasani brand which had minerals added. But when Aquafina used a product development strategy to launch Aquafina Essentials—which have *something added*—that brand extension could have clouded the meaning of "Aquafina." When consumers get confused about the meaning of a brand, they can omit it from their consideration set. Of course, this is not a good thing.

Gatorade's brand family includes Gatorade, Gatorade Frost, Gatorade Fierce and Gatorade Propel. Each of these is designed to quench thirst and replenish the body. The worse of a job that Gatorade does in establishing separate positionings for each of these products, the higher the chance of cannibalization.

Procter & Gamble minimizes the possibility of cannibalization among their detergent brands through the use of *benefit segmentation* with separate brand names for each benefit segment. Tide, Cheer, Dreft, Ivory Snow, Gain, Bold, Oxydol and Dash are all positioned—and named—separately since each has a particular benefit.

Another related product development strategy is where a company introduces successive generations of products over time, as when Gillette replaces current razors with new razors (Track II, Excel, Mach III, etc.) Gillette keeps the older generations of razors and blades on sale. Thus, they are using the psychographic variable of "innovators" to market the new technology to

each time they introduce a new product. This minimizes cannibalization. Indeed, some buyers continue to use multiple generations of razors.

(Note: Gillette also increases prices on earlier generations of razors and blades, thus benefiting from their business model in three ways: (1) higher profit margins on any new product vs. older products—due to the typical price premiums that new products with no or little competition can command; (2) increased prices and profit margins on older products—as a "nudge" trying to get consumers to trade up to the [even higher margin] new product; and (3) their traditional "razor blade theory of marketing" business model, namely "giving away" the razor and making money on the blades.)

The deliberate use of product obsolescence aimed at different levels of adopters of new technology might be termed *Cascading Product Development*.

The special case of retailers

Retailers present a special—and big—case of product development. That is because the retailer *is* the brand. For example, McDonald's is a brand that sells a variety of food through retail outlets. Target is a brand that sells many product items in its retail stores. In both cases, product development would, strictly speaking, refer to a modification in the brand. A new menu item at McDonald's or a new product carried in a Target store would not typically be thought of as product development. It would only be product development if any changes in what is sold *within* the stores constituted a substantial change in the brand (or its positioning) itself.

In 2004 McDonald's was attempting to change its brand identity on the evaluative dimension of healthy food. To do that they changed their menu enough that you could say that the product had changed. When Target recently added even more house-label brands sold within the store, it was attempting to change its positioning even more toward upscale discount department store. These both could be considered to be product development. But when Wal-Mart added Blimpie food outlets to its store (it already had other fast food brands in stores), this move alone did not substantially change the positioning of the brand. (Wal-Marts have always had eat-in food service either under their own brand or chains.)

PRODUCT DIVERSIFICATION

Any modification of a current product that serves to expand the potential market implies that the company is following a strategy of *product diversification*.

The product diversification strategy is different from product development in that it involves creating a new customer base, which by definition expands the market potential of the original product. This is almost always done through brand extensions or new brands, but in some cases the product modification may "create" a new market by creating new uses for the product.

Teen People is thus an example of product diversification since it was a new product that expanded the market potential of the original product, *People* magazine. Courtyard by Marriott and Fairfield Inn are other examples of product diversification since before Marriott offered those new brands they had little potential to expand sales in the business and budget categories. Of course, it should be apparent why Marriott could not expand into such different categories with their original brand name.

When Heinz realized that children play with food and it would be more fun to play with ketchup if it were green or purple rather than red, they also were following a product diversification strategy since the market potential for ketchup increased from food to food plus play. Notice in this case that the brand name was unchanged.

Sometimes product diversification takes the form of a product extension with the same brand name. Reebok, a shoe company, now sells water under the Reebok Fitness Water brand name. Clearly, Reebok's market potential has increased from the previously-defined athletic shoe market to shoes plus water.

The dangers of product diversification

The main dangers facing a company following a product diversification strategy for a brand are that it could fail to adequately understand the new customer base and that any new brand name may result in loss of meaning for the original brand and/or cannibalization of the original brand, particularly if it is a brand extension.

The risk of not understanding the new customer base is present as it is with market development. And the risks of loss of meaning and/or cannibalization are just as significant as with product development.

For every successful magazine like *Teen People*, however, there are many more that are unsuccessful. All of the women's sports magazines failed, for example. The new market (women) was not interested in the new product (new magazines with various titles) since—unlike men—women did not want to read a magazine about sports without some link to fitness. And the few who did buy the new magazines simply switched from the men's versions.

McDonald's is testing a new hotel concept in Europe: McDonald's hotels for businesspeople. Perhaps that's all that needs to be said!

The special case of retailers

Just as with product development, retailers present a special case. Thus, Subway's conversion from a ordinary sub shop to a healthy food outlet not only changed the brand's positioning substantially but also added new potential customers since, before the change, many of them would have never considered a Subway.

REFERENCE

Ansoff, I. Igor, “Strategies for Diversification, Harvard Business Review, 1957.

TABLE 1

	Current Product	New Product
Current Market	Market Penetration – No change in product – No change in market potential	Product Development – Product modification with or without a new brand name – No change in market potential
New Market	Market Development – No change in product – Change in market potential	Product Diversification – Product modification with or without a new brand name – Change in market potential

APPENDIX

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