Ansoff's Matrix, pain and gain

Growth strategies and adaptive learning among small food producers

Gerald Watts, Jason Cope and Michael Hulme
Lancaster University Management School, Lancaster, UK

Introduction

This paper arises from a programme of research among food sector SMEs in the North West of England. The research project included both qualitative and qualitative phases and its primary focus was on the growth and development needs of the sample firms.

The first part of the title derives from the focus on growth and, more specifically, strategies for growth relative to the four quadrants of Ansoff's matrix (Ansoff, 1965): market penetration, market development, product development and diversification (Figure 1). In the analysis, we used this framework to categorise growth strategies and then attempted to relate them to other variables such as growth history and expectations.

The second part of the title is a reference to the inter-relationship between the "personal" and the "business", in that all of the sample were owner-managed businesses. It is well understood that owner-management has significant implications at the qualitative level (Bolton, 1971) and that many aspects of the business, including objectives and strategy are closely related to the personal characteristics and goals of the owner-manager. (Carson *et al.*, 1995).

As a specific focus, we wanted to explore the usefulness of the Greiner life-cycle model (Greiner, 1972) in interpreting the relationship between personal and business experience and learning in a small firm. Greiner's model depicts growth as occurring through phases of relatively stable expansion interspersed with periods of "crisis" which may result in successful adaptation and learning, facilitating a further phase of growth (Figure 2).

At a broader level, we have set out to refine our understanding of the complex relationship between the owner-manager and his or her business, in terms of such factors as growth, horizons, aspirations, limitations and learning.

Theoretical overview

Enterprise growth

A basic problem exists in understanding growth, in that larger, developed firms are so different from small firms "that in many ways it is hard to see that they are of the same genus" (Penrose, 1959); the same author likens this growth to the transformation from caterpillar to butterfly. To explain this metamorphosis in

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	Current Products	New
Current Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Source: Iqor Ansoff. “Corporate Strategy”, McGraw-Hill. 1987

Figure 1.
Anshoff’s product/market growth

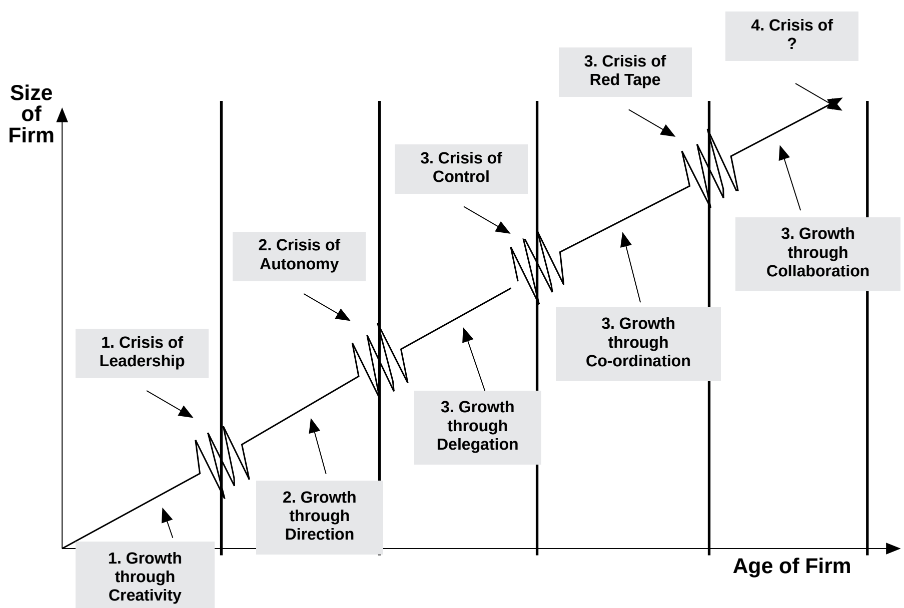

Figure 2.
Greiner’s life-cycle

more gradual terms, patterns of enterprise growth are frequently conceptualised in the form of a business life cycle, comprising a number of phases or stages (Churchill and Lewis, 1983; Miller and Friesen, 1984; Scott and Bruce, 1987). These stages are then associated with generic management problems and organisational characteristics.

There is an intuitive descriptive reasonableness in such stage models and some longitudinal studies, such as that of Miller and Friesen (1984), have managed to substantiate these general patterns of transformation, albeit in a descriptive sense. Greiner's model (Greiner, 1972) includes an element of causal explanation in hypothesising growth as occurring in relatively stable phases, interspersed with "crises"; at the crisis point, the organisation either successfully adapts or fails. In this sense, the crisis may be seen as a necessary catalyst of learning and further growth.

Adaptation and learning

The "crises" elaborated in the Greiner model are essentially internal; to continue the lepidopteral metaphor, they may be likened to "growing pains" within the protective case of the pupa. However, a business is very much an open system (Bertalannfy, 1950) and, in this sense, a basic prerequisite of survival and growth is "successful" adaptation to the environment.

There are many issues of conjecture here, not the least of which is how we define the "environment" and to what is the adaptation being made. In the discussion here, environmental change may occur gradually or rapidly; not all "crisis-inducing" change is sudden or unexpected. In biology, extinction of a species represents the ultimate in adaptive failure. Biologically such failure is more likely to be the result of an inability to adapt to a series of local environmental changes, often occurring gradually, rather than to single moments of crisis – a macro-level parallel to Handy's "boiled frog" (Handy, 1989).

What do we really mean by "successful adaptation" in the business context? Not all adaptation is directional. In particular, the concept of learning implies directionality or purpose: "the creature that learns is not the mythical amphisbaena of the ancients, with a head at each end and no concern where it is going. It moves ahead from a known past into an unknown future and this future is not interchangeable with that past" (Wiener, 1950, p. 45).

The concept of purpose, intentionality of life span or the "survival instinct" is closely related to notions of strategy and planning. It is at such a fundamental level that concepts of strategy and learning might usefully be discussed in relation to SMEs. Dawkins (1988) has suggested that "complicated things have some quality, specifiable in advance, that is highly unlikely to have been acquired by random chance alone" (Dawkins, 1988, p. 9), a quality of adaptive ability.

One central concept relevant to this discussion is the notion of system boundary – where does the "environment" start and end? Adaptive ability can be linked to the idea of horizon or "range of vision"; Simon (1956) observed that "we see that the organism's modest capacity to perform purposive acts over a short planning horizon permits it to survive easily in an environment where random behaviour would lead to rapid extinction" (Simon, 1956, p. 134).

What becomes increasingly important is the notion of the interactive relationship between the enterprise and its many micro environments. In systems terms, the "environment and system do not just co-exist side by side. They interact to the point of mutual inter-penetration. Some aspects of the environment become "internalised by the system and some aspects of the system become externalised to become features of the environment" (Emery and Trist, 1975, p. 43). A central concept here is the extension of the environment in relation to the enterprise. Behind this lie notions of degrees of environmental knowledge, degrees of specialised adaptation and limits placed on knowledge of extended environments. Such limits may be completely explicit, having a basis in knowledge of the extended environment and therefore constituting a "knowledge strategy", or may be implicit or even "instinctual" with significant knowledge localised. However we conceptualise this, we should be aware that we are talking here in terms of relative degrees, rather than in any absolute sense.

Growth strategies

In the context discussed above, marketing strategy is a form of purposive adaptation, in most circumstances (but not necessarily) informed by learning. It might typically be proactive in nature, but the degree of proactivity is a relative concept; SME strategy is often characterised as primarily "reactive" (Fuller, 1994).

Carson (1990) combines the concepts of limited proactivity and personal management in the concept of an "involved" marketing style, describing how small firm marketing is often characterised by a high level of direct involvement on the part of the owner-manager and how it "relies heavily on intuitive ideas and decisions and probably most importantly on common sense" (Carson, 1990).

Addressing the problem of strategic choice, Cravens et al. (1994) hypothesise that "choice of marketing growth strategy (in an SME) is a function of strategic situation, organisational characteristics, and entrepreneur motivations" (Cravens *et al.*, 1994, p. 247). Many authors have commented on the typical limitations of strategic alternatives available to the small firm by virtue of such factors as small market share and limitations of resources and skills (e.g. Carson, 1985).

Because of these limitations, it has been suggested that certain strategic alternatives are typically more appropriate for a small firm, namely those that avoid direct competition with larger firms and that involve the development of close customer relationships and product adaptation (Storey and Sykes, 1996). In the specific language of Ansoff's Matrix, it has been suggested by Perry (1987) that for SMEs the most appropriate growth strategies are therefore product development and market development.

Primary research and findings

Methodology

The primary research included three phases: a number of exploratory interviews, a quantitative survey by means of a postal questionnaire supported by telephone introductions and prompts, and a series of 25 face-to-face interviews with a selected sub-sample of the respondents.

Sample profile

As defined by the sponsors, the sample frame included non-primary food producers in rural areas of Cumbria, Lancashire and Cheshire. A sample of 256 firms was selected as the respondents of the mail questionnaire and 79 completed questionnaires were returned. The profile of the sample was as follows:

- *Age of firm.* As shown in Table I, compared with the SME population as a whole, the sample was older than average, with a flatter age distribution than might be expected. This reflects the origin of many of the sample businesses in the agriculture sector.
- *Origins.* A total of 68 per cent were founder-owners, while a further 16 per cent were continuing a family firm.
- *Turnover.* The distribution of annual sales is shown in Table II.
- *Employment size.* Employment ranged from self-employed to a maximum of 395, with median employment at four full time and two part time. As might be expected in this industry, employment reflected seasonality of sales, with 51 per cent of respondents reporting fluctuation in employment throughout the year.

Growth patterns and aspirations

Recent historical growth (last two years). As shown in Table III, most of the sample (77 per cent) had experienced some sales growth over the last two years, with 36 per cent reporting growth of over 10 per cent and 12 per cent reporting growth of over 50 per cent.

Age (years)	<5	5-10	10-20	20-40	>40
Per cent	19	23	23	12	20

Table I. Age of firm

T/O (£m)	<0.25	0.25-0.5	0.5-0.75	0.75-1.0	1.0-1.5	>1.5
Per cent	53	19	4	6	4	13

Table II. Distribution of annual sales

Decrease	Stable	>10	10-25	25-50	>50
8	14	41	19	5	12

Table III. Percentage growth patterns (over past two years)

Short-term growth expectations (next two years). Respondents were somewhat more optimistic about future growth, with 47 per cent expecting to grow by more than 10 per cent over the next two years, as shown in Table IV.

Of those forecasting growth, 76 per cent expected to create new jobs (full time or part time).

Objectives and growth strategies

Business objectives. Respondents were asked to rank their objectives for the business. The results are shown in Table V.

Sales growth took precedence, with 68 per cent of respondents naming growth as the primary objective. Surprisingly few respondents appeared to want to increase their personal (i.e. discretionary) time.

Growth strategy. Respondents were asked to rank their priority growth strategies, according to the categories of Ansoff's Matrix (the alternatives being specified in familiar business language). Results are shown in Table VI.

Respondents placed a high priority on finding new customers for their existing product range (penetration and market development), whereas they gave a lower priority to the offering of new products to existing customers (product development). On balance, there is limited support for Perry's (1987) hypothesis that product and market development would be favoured strategies.

Table IV.
Percentage short-term growth expectations

Decrease	Stable	>10	10-25	25-50	>50
1	17	36	36	3	8

Table V.
Objectives and growth strategies

Objective (rank)	1 (%)	2 (%)	3 (%)	4 (%)	5 (%)
Grow substantially	14	12	5	2	0
Grow moderately	54	6	6	0	1
Stay about the same size	3	0	2	3	1
Increase profit margins	22	31	11	1	0
Obtain more finance	5	13	18	11	5
Increase personal time	2	7	18	9	6

Table VI.
Priority growth strategies

Growth strategy (rank)	1 (%)	2 (%)	3 (%)	4 (%)
Market penetration	22	15	7	11
Market development	55	21	5	3
Product development	12	25	24	2
Diversification	121	7	15	22

Table VII.

Growth strategy	Negative	0	0-10	10-25	25-50	>50
	Sales growth expectations (%)					
Market penetration	0	30	35	25	0	10
Market development	2	15	33	42	4	4
Product development	0	36	36	18	0	10
Diversification	0	20	40	20	0	20

Priority growth strategies were then cross-tabulated with growth expectations, as shown in Table VII. This table therefore depicts the relationship between favoured growth strategy and growth expectations, i.e. the outcome of these strategies.

In exploring this relationship, one might expect to see an association between high growth expectations and the more radical or higher-risk strategies and vice versa, i.e. a strategy of market penetration being associated with lower growth expectations. On the basis of these findings, however, there does not seem to be much evidence of a clear relationship between strategy and growth expectations. One interpretation of this could be confusion about the language used to describe strategic alternatives; although a number of pre-tests were carried out in developing the questionnaire, this may have been a factor. Another explanation is that the adopted strategies were equally well developed; there is no reason why a strategy of market penetration should not yield significant growth. A further explanation is that at least some of the sample did not have an elaborated business strategy in the conventional sense. This issue was one object of exploration in the qualitative phase of this research.

Qualitative evidence

Interview focus

The interview objective was to review the historical development of the sample businesses through the personal account of the owner-manager, exploring the concept of "crisis" and attempting to understand the basis and meaning of "strategy" in each context.

The overall picture was one of immense diversity: of evolutionary pattern of the business and of personal background, values and aspirations of the owner-managers. What became strikingly apparent were the frequently occurring accounts of "chance" incidents causing changes in business direction, not all of which could be reasonably described as "crises". On the other hand, there was clear evidence among some businesses of a consistent strategy with relatively long-term horizons. A full analysis of the interviews is beyond the scope of this paper but the following vignettes will serve to illustrate a number of relevant issues.

Case 1: personal and business crisis
One interviewee ran a catering business but developed a small “traybake” operation as a secondary venture. She was visited by someone who, by chance, was the father of a major competitor. A few weeks after this incident, the son (i.e. the competitor) visited the main customer and took away the business. At the same time her mother died; the outcome of these two incidents was a period of depression. However, the interviewee recounted how she came out of this experience thinking “I’ve got lots to live for” and resolved, with later success, to develop the tray-bake venture as an alternative main business.

Case 2: reframing of personal motivation and aspirations
Another interviewee had become bored with his current business – a delicatessen. He was buying an important ingredient from a local company and found that the business was about to be sold. He bought the business and operated it in parallel with the original venture but soon found that he enjoyed it much more, in terms of the challenge and the pattern of working life. He decided to concentrate on this venture and successfully developed it to become the premier regional supplier; in retrospect, he observed that this incident “changed his life”.

Case 3: an operational crisis leading to critical learning
Another respondent recounted a critical incident in which his freezer broke down, effectively bringing his business to a halt. He felt obliged to go round all of his customers and apologise for the disruption. This incident taught him both the importance of maintaining vital equipment and the value of customer relationships. More generally, he learned “not to take things for granted” and that he “should do it properly if he’s going to do it at all”.

Case 4: unplanned acquisition forcing adaptive learning
Another interviewee was a farmer, one of whose customers, a specialist fish and game retailer, got into financial difficulties and defaulted on payment. The farmer acquired the business in lieu of debts and, although he had no experience of a retail business, operated it in parallel with the farm. He made it work after an uphill struggle: “it was a shock not to have a guaranteed customer … I was stung a few times – a very expensive learning curve.”

Case 5: long-term market development strategy
Another farmer was a producer of very high quality lamb, which, as is practice, was sold at auction; however, he always wanted to market his own product. He could also see subsidies coming to an end, which increased his resolve. He experimented with direct sales from his house, gained experience and confidence and now sells through three channels: direct, mail order and specialist dealer.

Case 6: successful opportunistic diversification
The proprietors of an historic water mill generated revenue by offering tours and producing specialist flour. Soon after acquiring the business, they realised

that large numbers of people passed the door on the local train and on the bridleway, representing an attractive potential market, although walkers were not previously made welcome on the site. They built a tea-room and have successfully expanded the business.

Case 7: financially driven diversification

A producer of cakes found that competition had increased to the point that, although he had increased output tenfold, profits had barely doubled. Seeking a route to higher margin products, he started designing new product ranges from the customers' perspective and is now successfully exporting to Canada.

Conclusions

Strategy and adaptation

All of the cases discussed here are examples of successful "adaptation"; most resulted in what could be described as a new "strategy". They represent diversity in many dimensions: timescale, motivation, degree of proactivity and impact, both positive and negative, on the owner-manager and on the business.

Some of these are clear examples of "strategy that happened" or "emergent strategy" (Mintzberg, 1994) rather than the deliberate, logically planned or "intended" notion of strategy often espoused within the planning literature.

What has earlier been described as the "instinctual" combines concepts of learning and action as strategy in one node within the enterprise's environmental network. Such a strategy may not be explicit but rather tacit and localised. Importantly, at this level of discussion there is little or no distinction between tactics and strategy: "we find that the optimal strategy is just the simple tactic of attempting to do one's best on a purely local basis" (Schutzenberger, 1954, p. 98). Ashby (1960) takes this argument further to suggest that within such micro environments "the best tactic in the circumstances can be learnt only on a trial and error basis and only for a particular class of local environmental variances" (Schutzenberger, 1954, p. 197).

The business life cycle and "progress"

Scott and Bruce (1987) describe the birth phase of the business life cycle as being characterised by "owner-run firms trying to establish a niche for themselves through much product innovation". In this sense, many of the firms studied might be described as permanently in the birth phase.

This serves to illustrate one fundamental problem inherent in the very concept of the life cycle. Key words in this discussion have been environment and growth; an underlying but unspoken concept is that of unilinear development or "progress" . A consistent theme in our discussion, illuminated by our research, is that "growth" should more usefully be placed within an environmental context and should not be confused with progress, if the latter is seen as an imposition upon environmental change. Indeed, growth here can be characterised as symbiotic within environments, i.e. growth is not an "imposition" but rather an adaptation.

We have earlier used the term "instinctual" to characterise enterprises operating in a purely local environment. Learning and strategy is task based and the level of local adaptation is high. However we must avoid the common mistake of regarding such enterprises as in "non-progressive" stasis and lesser "successes" when compared to enterprises actively seeking to extend their environment. The act of survival in this view is itself an active notion – indeed to maintain the Emery and Trist line one may go further and relate extinction to a failure of the enterprise to act symbiotically over time. Therefore the sole measure of "success" may well be nothing more than temporal survival related to the enterprise's intended life span.

Boundaries, learning and intervention

So often it seems that the owners' boundaries of vision, in both lateral and longitudinal senses, were simply too narrowly defined and that substantial benefits might derive from their expansion. Uexküll (1920) wrote that "every organism cuts out a special part of the environment which part then becomes its reality. The rest of the environment simply does not exist for the organism" . In this sense, the bakery in Cumbria supplying within a 30-mile radius has a more limited environment than the national producer.

However, the local enterprise is embedded within many networks within this environment and indeed "the firm's effectiveness will be a function of how well it integrates the various types of network relationships" (Gibb, 1996). While these networks "attach" to wider environments, it is their specific localised manifestation which forms the immediate topography of the local environment.

Based on the environmental adaptation model it is reasonable to argue that a key role of training in small firms becomes one of extending environmental awareness such as to stimulate generative learning beyond its naturally occurring level.

The owner-manager and the business

Clearly, the frequently-acknowledged "overlap" of the "personal" and the "business" is much more than this; instead, it is a super-complex system of evolving experience and learning that is informing horizons, goals and strategies, sometimes subtly, sometimes radically.

Rather than a unidirectional influence of the owner-manager over the business, we find it useful to characterise the relationship as mutual and interactive: owners share learning with their businesses and there is mutual cross-influence in this process. Similarly, the development process can more usefully be conceived as multilinear or multi-directional, therefore also complicating the idea of growth itself.

In this context, the concept of "crisis" is clearly problematic, in that the causality of learning and growth is much more complex than that suggested by the Greiner model. This was borne out by our research, in that most interviewees found it difficult to recount specific crises of this nature.

Instead, we recommend that the "systems" view of the firm that we have developed throughout this discussion provides a richer and more useful framework for understanding these complex processes.

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