Winter 12-13-2019

Strategic Success: The Ansoff Matrix vs. The Balanced Scorecard

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THE ANSOFF MATRIX VS. THE BALANCED SCORECARD

An Undergraduate Honors Thesis
Submitted in Partial fulfillment of
University Honors Program Requirements
University of Nebraska-Lincoln

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December 13, 2019

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Abstract

Academic and professional research has proven that strategic planning and management frameworks have tremendous impact on an organization's success. However, these studies do not opine on the usability and fit of strategic frameworks within an organization. This paper examines the composition of two popular frameworks, the Ansoff matrix and the balanced scorecard, and illustrates the various ways that these frameworks have found success in the corporate world. It also compares and contrasts the frameworks' differing structures and offers recommendations for how these frameworks may be applied to companies with diverse goals and missions.

Key Words: Strategy, planning, management, strategic framework

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As the world of business evolves, managers must approach business planning and strategy with a contemporary mindset. According to Dess, McNamara, Eisner, and Lee (2019), managers must be willing to adapt to the modern business environment by going beyond "'incremental management', whereby they view their job as making a series of small, minor changes to improve the efficiency of the firm's operations" (p. 6). Being able to effectively use strategic management as a leader is crucial because most businesses that fail in the United States each year fail due to a lack of strategic focus or direction (Juneja, n.d.). The rate of failure for businesses with poor strategies shows that strategic planning and management is key to a business's strength and longevity, injecting the critical factors of growth and direction into a company's business plan.

Two of the significant strategic planning and management frameworks that companies can use are the Ansoff matrix and the balanced scorecard. While these frameworks have unique purposes and use-cases, they can both effectively help an organization grow and compete.

THE ANSOFF MATRIX

The Ansoff matrix is one of the most effective frameworks for companies who want to focus on increasing sales revenue or profitability (Meldrum & McDonald, 1995). This framework uses a two-by-two figure to show the four strategic options for companies to use in this framework: market penetration, market development, product development, and diversification (see **Figure 1**). The x-axis focuses on the firm's markets and also determines if the firm is looking to enter new markets or innovate in its current markets. The y-axis of the Ansoff matrix focuses on the firm's products and determines if the firm wants to pursue strategies around their existing products or explore new products.

To illustrate the Ansoff matrix, Coca-Cola will be used since it is a mature company that has utilized countless management strategies over the last 133 years (Eschner, 2017). The most straightforward strategy in the Ansoff matrix is to focus on existing products in existing markets, also known as market penetration (Meldrum & McDonald, 1995). Coca-Cola has used market penetration by promoting their existing products in existing markets, such as the names found on Coke bottles or seasonal Coke designs. The second strategy, product development, uses existing markets to introduce new products so that the firm can better meet customer needs (Oakley, 2015). Coca-Cola used this strategy when they have introduced new sodas such as Lime Coca-Cola.

Conversely, market development extends existing products into new markets in an attempt to increase the number of buyers. An interesting way that Coca-Cola used this strategy comes from the stigma that Diet Coke is a woman's drink (Oakley, 2015). Coca-Cola introduced Coca-Cola Zero, which contained the same nutritional content as Diet Coke, but came in a dark black can (Oakley, 2015). The final strategy of the Ansoff matrix, diversification, is more difficult than the others since it involves new markets and new products. This strategy can be broken up into related diversification, which relates closely to the firm's core business, and unrelated diversification, which is not related to the firm's core business but can introduce benefits or reduce risk (Olsen, 2011). Coca-Cola's most apparent example of related diversification is its acquisition of Glaceau and Vitamin Water, which expanded their drinking lines of business (Oakley, 2015). Finally, an illustration of Coca-Cola’s unrelated diversification is its commitment to continually offer merchandise in addition to their drinks (Oakley, 2015).

Not all companies want to use as many different strategies as Coca-Cola has done. One of the most famous and recent companies to primarily grow through marketing and advertising is Apple Inc. Apple uses both the product development and market penetration strategies simultaneously to create a unique growth path (Daykin, 2018). Apple’s primary strategy, product development, is considered riskier than other approaches due to the uncertainty of consumer reactions (Daykin, 2018). However, with Apple’s unique customer insight and capital, they are able to invest effectively in such opportunities. It is those unique strategies that have allowed Apple to become known as a leader of innovation in the consumer tech industry. Further, Apple uses market development to enable their products and the Apple ecosystem to become more common around the world (Daykin, 2018). With these two strategies combined, it becomes easier to see why Apple became the world’s first trillion-dollar company (Davies, 2018).

The extreme end of diversification is home to companies such as Johnson & Johnson, a healthcare company that has developed a business portfolio of more than 60,000 different products (Lemke, 2019). Johnson & Johnson’s dedication to continuous diversification has led them to a balance sheet rating of “AAA”, industry recognition for diversification, and increases in their investor dividends for 57 consecutive years (Johnson & Johnson, 2018).

THE BALANCED SCORECARD

The balanced scorecard is a strategic management framework that focuses on financial and non-financial performance results to identify areas of improvement within the company (2CG Limited, 2014). The balanced scorecard works by setting quantitative goals for certain performance areas, and then measuring the results against those goals, taking corrective action when the goals are not met (2CG Limited, 2014). The balanced scorecard works so well because managers create a unique collection of measures by determining which outcomes and performance drivers are most important to the company (Norreklit, 2000). However, these measures must come from the four main objectives of the balanced scorecard: financial, customer, internal process, and organization capacity (Perkins, 2018). See **Figure 2** for an example of a company's balanced scorecard.

The balanced scorecard begins with the company's vision, purpose, and strategic priorities, which drive the company's decisions. A company's vision should already be defined prior to the creation of a strategic framework but if not, it should state the company's future vision of itself (Kenny, 2014). The purpose of the company is quite different; it should "express the organization's impact on the lives of [...] whomever you're trying to serve" (Kenny, 2014). The balanced scorecard in **Figure 2** also incorporates strategic priorities and the ideal strategic results. The core part of the balanced scorecard revolves around the four strategic objectives and which Key Performance Indicators (KPIs) the company has identified as critical to their success. For each of the strategic objectives, the company needs to identify clear and relevant KPIs, specific and measurable targets, and any company initiatives that will help reach those targets.

While early implementations of this framework focused solely on performance measurement, the original authors, Robert Kaplan and David Norton, released an updated guide in 2001 to show companies how they can use this approach to create an effective performance management strategy (Kaplan & Norton, 2001). This new guide allowed companies to understand how to define useful measures, align their strategy throughout the organization, integrate the strategy into the daily jobs of the employees, as well as continually update their processes based on measured results (Kaplan & Norton, 2001).

Recently, the West Virginia Department of Education released an updated balanced scorecard for the educational measures throughout the state so that parents and teachers can track the progress being made in their schools (Adams, 2019). Using a numerical system to measure performance in classes has allowed the state to find useful conclusions about whether students were performing better or worse than previous years, rather than using the standard A through F grading scale (Adams, 2019). One performance measure that the state has pinpointed to correct is the percentage of schools that are not meeting attendance standards, which has jumped from 30.5 percent to 38.6 percent (Adams, 2019).

In the case of West Virginia's Department of Education, the benchmarks used for comparison in the balanced scorecard are set both by previous years and the ELA (English Language Arts) standards. Organizations, such as schools, which have rigid performance measures or guidelines already set in place, are prime candidates for implementing the balanced scorecard approach. While other organizations may find the implementation of such a rigid structure to be difficult, they can still benefit from customizing the framework to enhance their strategic vision (Schneier, Shaw, Beatty, & Baird, 1995).

Framework Comparison

Frameworks such as the Ansoff matrix and the balanced scorecard have disparate approaches to strategic management, but there are also many fundamental similarities. To use either framework, managers need to formulate corporate goals and objectives. Without goals and direction, management frameworks do not present much practical utility. Further, both options require the managers involved to make tactical decisions and create a path for the company to take toward their goals. Lastly, both the Ansoff matrix and balanced scorecard consider internal and external perspectives throughout the strategy formulation process.

While both of these frameworks can be very useful, they are suited for specific situations and companies. Not all companies can adopt these strategies without modification. The Ansoff matrix is usually best suited for companies who use their marketing and advertising portfolio to increase sales and profits. This framework focuses mostly on the external environment and how a company can take advantage of it. On the other hand, the balanced scorecard is used for companies that want to focus on internal processes, efficiency, and quality to improve their company's operations. This contrast between external and internal views can present unique opportunities to managers who want to approach their company's current strategy from a different perspective.

One interesting probability is that companies will be using multiple strategic planning and management frameworks at the same time. While this may sound like it could crowd the management process, there are numerous reasons to do so. For example, the two frameworks presented in the paper were chosen due to their relative popularity and the fact that they cover entirely different parts of a company's strategy. Using the results from the balanced scorecard could inform a company of the potential product and market demands, such as from customer or supplier survey results, to help the company determine which Ansoff matrix strategy to pursue. However, a combined approach at this level would require mature frameworks and focused managers who are able to strategize at a high level.

CONCLUSION

While both the Ansoff matrix and balanced scorecard frameworks have unique purposes and use-cases, they can both effectively help an organization grow and compete. Companies with marketing strengths should use the Ansoff matrix to determine which product and market strategies to take. Companies who want to focus internally and improve from the inside should utilize the balanced scorecard to find areas of improvement.

However, it should be noted that the author of the Ansoff matrix, Igor Ansoff, often used the term "paralysis by analysis" to explain the mistake of companies who overuse analysis and spend too much time planning. Companies need to understand the utility of a strategic management framework while ensuring that the company is poised to execute as efficiently as they have planned.

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Appendix

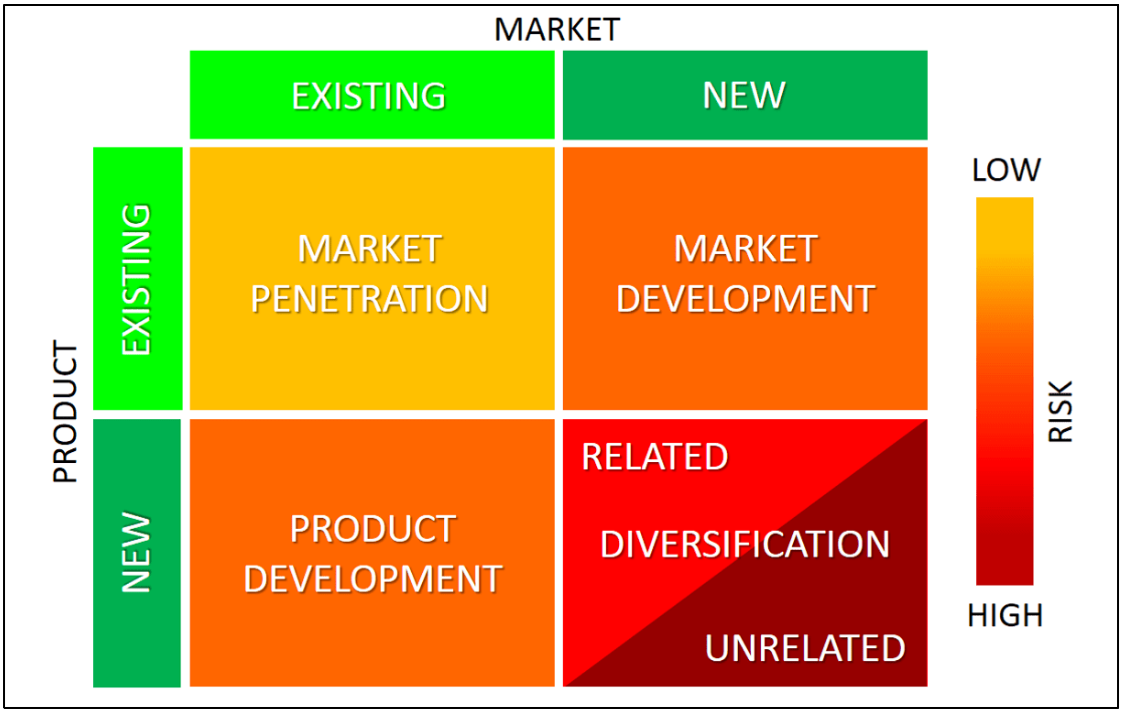

Figure 1: The Ansoff Matrix

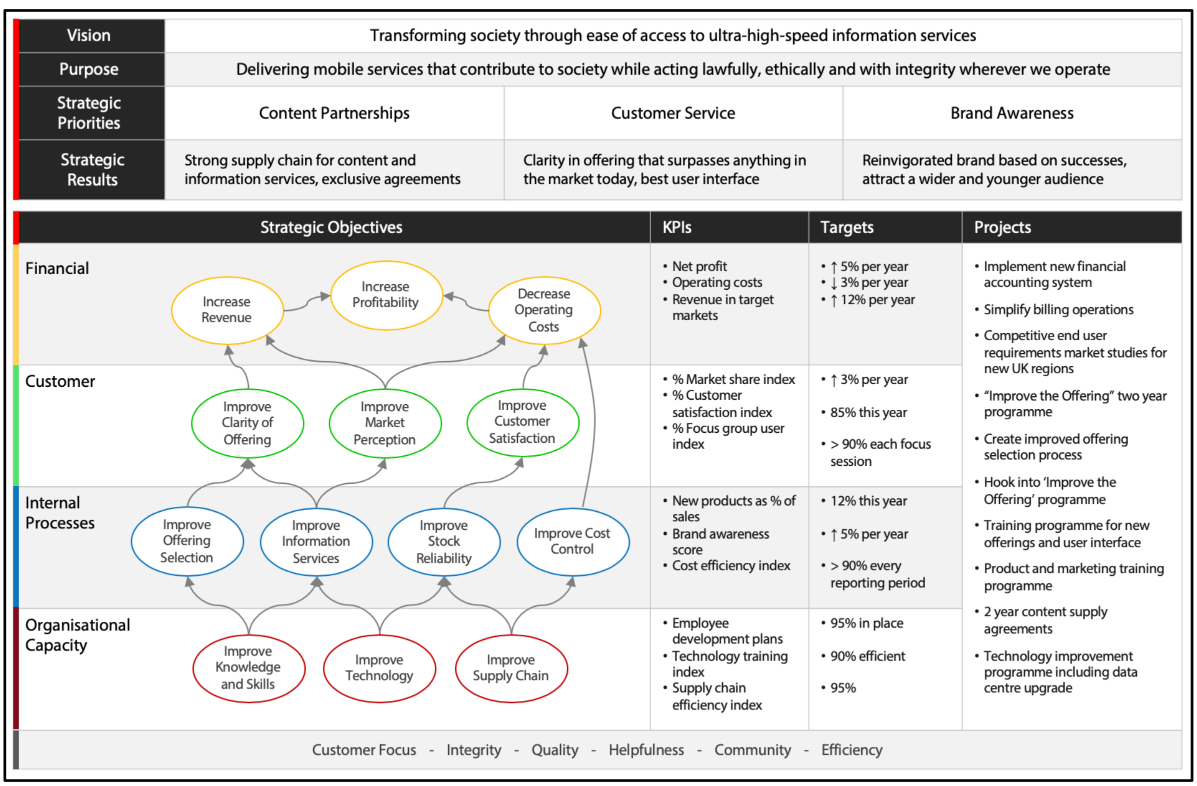

Figure 2: The Balanced Scorecard