

INTERACTIVE EFFECTS OF ANSOFF GROWTH STRATEGIES AND MARKET ENVIRONMENT ON FIRM'S GROWTH

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ABSTRACT: *The basic purpose of this paper was to investigate the impact of various Ansoff growth strategies on firm's growth and moderating effect of market environment between these linkages in fast food sector of Pakistan. Results revealed that all growth strategies of Ansoff matrix significantly contribute in firm's growth except diversification. Moreover, market environment did not moderate relationship between firm's growth and any of Ansoff growth strategy, except market penetration. It is suggested that firm should avoid diversifying its business because it may reduce their growth. It is also recommended that firm should consider market environment before penetrating in market so that changes in customers' requirements may be fulfilled perfectly. It would definitely help firms to soar its growth.*

KEYWORDS: Fast foods, Environment, Market penetration, Market development, Product development, Diversification, Market growth, Pakistan.

INTRODUCTION

Fast food sector has grown tremendously (Fanning et al., 2010) with the fast moving pace of business environment on globe today (Ball, 1999). Owners of these fast food industries are primarily concerned with providing them superior consumer need based products because customers of fast food sector are on a run. There are people all around the city including corners of streets, off the side of interstates, airports, malls, schools, gas stations, your local shopping center, and even in hospitals who symbolize themselves as fast food consuming nation (Lee and Ulgado, 1997). Consumers' preferences have changed due to busy life styles (Davies and Smith, 2004) as we do not go for full lunch or dining but money is spent on French fries! In this fast paced society eating habits have also changed to fast food consumption (Kara et al., 1997). The consumption rate of fast food is on increase in young generation (Kobayashi, 2009) and in children especially as they feel it more hygienic, tasty, easy to consume (Darian and Cohen, 1995) and providing more in lesser time (Pereira et al., 2005; Liu and Chen, 2000). Fast food sector has developed special product regarding children's health as it can also have a negative impact on their health (Ludwig et al., 2004). At the moment, fast food has turn out to be a style (park, 2004; Slovic, 2002), as consumers are not only intake, they are enjoying the milieu, not only adults, children (Goyal and Singh, 2007) are also dotting to the fast food restaurants for celebrating their unforgettable events

like birthdays, results and even get together parties (Bagwell and Doff, 2009; Park, 2004). It is necessary to run to stay at the same place in business environment; therefore, it is necessary to provide customers with products that satisfies their demand in changing environment.

Pakistani fast food sector comprises of a tough rivalry in the marketplace. The owners are providing not only viable products and services but the value and ease are ensured to maintain their position in market. The people mostly pay for quality, quantity and ease. The expertise used by the fast food industry has enabled the owners to generate the products for ultimate consumers and fast food lovers. Franchised outlets of major competitors are providing the services to the market but these are still in big cities. The fast food foodstuffs are consumed by all age groups of intakes.

Pakistani research itself is on its starting phase yet as research orientation among research institutions is still very low (Bhatti and Qureshi, 2007). Academic research has very low contribution in policy regulations and in practitioners' strategies. Overall there is a lack of intent to figure out problems and to take guide lines from scholars. Research recommendations have rarely been taken seriously and due to this lack of research orientation students and scholars do not have feasible environment for conducting research work. People usually are not willing to give responses to these kinds of efforts. Trickle down effect of this research orientation, there seems totally unexplored fast food sector in Pakistan. A person working for fast food sector does not have proper guidelines based on research work about how to invest and where to invest.

This study therefore is an addition to overall research literature in Pakistan and secondly it makes a solid base to explore hidden truths about fast food sector of Pakistan. Moreover, current study will help and guide practitioners to efficiently manage their businesses in Pakistani fast food sector. Finally, this paper gives a practical guide to future researchers for further exploring fast food sector market of Pakistan.

LITERATURE REVIEW

The fast food consumption in is a bit expensive in country like Pakistan where consumers have very less buying power. Even then quality and ease make the consumers to buy fast food for their ease and style. High quality food is preferred and for that reason importance of new products and consumption patterns have increased a lot (Ball, 1999). Growth is essential to run a business for profit and to study the growth, Ansoff matrix is a planning technique used for deliberate judgment about firm growth through product and market extension networks. Ansoff's matrix is one of the most well known frameworks for deciding upon strategies for expansion. It was presented by Igor Ansoff in 1957 in his article 'Strategies for Diversification' and gave four market growth strategies. Ansoff (1957) concluded a business firm must continuously grow and change. The growth vectors are market penetration, market development, product development and diversification (Hall and Lobina, 2007). This matrix is used by marketers who have valor to grow in market and create competitive advantage. Ansoff matrix offers strategic alternatives to accomplish these objectives.

The environment conditions have an effect on company sales (Block et al., 2004) however, these are hard to foretell. According to Flores (1976), the product novelty and expansion has larger impact on growth of the firms environmental both internal and external aspects affect business performance. For optimal product-market actions, the firms need resources (Warnerfelt, 1984; Levesque et al., 2010).

Market Penetration

Market penetration is the simplest and first option for a good number companies. They are already in the market with a present or on hand product. Market penetration is an attempt to increase company sales without leaving from an original product-market strategy at the cost of rivals in the market (Ansoff, 1957). The corporation will recuperate business performance by either mounting the quantity of sales to its on hand customers or by finding fresh customers for at hand products. This means mounting our income by, for example, promoting the product, repositioning the product, and so on. However, the product is not changed and we do not look for any new consumers. This involves taking your on hand products, and advertising more of them to either your existing customers, or new clients who fit your target market (Eagle and Brennan, 2007).

Hypothesis 1: Market penetration has significant positive relationship with firm's growth of fast food sector of Pakistan.

Market Development

Marketing your existing product range in a new market is a technique used for growth by the owners (Ansoff, 1957). This means that the product remains the identical, but it is marketed to newly targeted customers. Ideas include exporting the product, or marketing it in new regions. Porac, Pollock and Mishina (2004) argued that product extension and market development notably and significantly affects firm's growth, and more assets are required for above purposes. More franchises play a key role in Fast Food development. This looks at alternatives you can amplify sales by selling your on-hand products or services to fresh markets. Geographical reach, Guest posting on blogs in different niches (Kwate et al., 2009); Language, other industries and different use for your product are different growth options through market development. Markets can be explored outside the current markets or unexplored needs and wants (Johns and Pineb, 2002) of current market's segments.

Hypothesis 2: Market development has significant positive relationship with firm's growth of fast food sector of Pakistan

Product Development

Fast Food businesses are unlike from usual food preparation methods. Making an effort to deal with the design, conception, and promotion of new products is a large playing field of product development or new-product development (NPD). NPD discipline pays attention on developing organized ways of guiding all the processes concerned with having a new item for consumption to market. New product to be marketed to existing customers, increases growth vector of the firm where there is a decline to existing products in current market segments. We can develop new products or offerings to replace existing ones to boost market share in comparison to rival firms (Ansoff, 1957). To solve customers' problems (Aarnio and Hamalainen, 2008), you have to give those solutions and for this you need to be aware of

their underlying needs (Davies and Smith, 2004), wants and demands, which will consequently give you an opportunity to develop new solutions (Johns and Pineb, 2002) for existing customers (Mishina et al., 2004). This is potentially a very well-paid area, if you get a right solution for your targeted customers. Gima et al. (2001) concluded that product innovation strategy and performance of new technology are closely correlated. Environmental affects these growth strategies. According to Porac, Pollock and Mishina (2004), there is a significant and significant relationship between new-product development and firm's growth. Cheap, tasty, trend setting, quick, convenient, comfortable, and healthy Fast Food eatables enhance growth plus people compensate for quality too.

Hypothesis 3: Product developments have a significant positive relationship with firm's growth of the fast food sector of Pakistan.

Diversification

The product diversification strategy involves creating a new customer base product which expands the market potential of the original product, and that is why it is quite different from product development. Diversification includes brand extensions or new brands and in sometimes through product modification can create a new market by introducing new uses for the product. However, it is the final option to pursue, if following the preceding strategies of market penetration, product development and market development does not produce good results, and original objectives do not meet (Ansoff, 1957). Growing through diversification strategy is the most dangerous to all the strategic choices as it relates to entering into new unknown markets. It calls for a real-time going away from the at hand product line and present market configuration. This is possibly the toughest one to get things right. It involves touching into a totally diverse line of business selling different products to a different market. The extent of boost in a diversification resultant in enhanced effectiveness depends significantly on, the asset utilization (Lichtenthaler, 2005) by the firm in comparison to single segment firms and also on the type of industries, whether related or unrelated with the present activities (Martin and Sayrak, 2003).

Hypothesis 4: Diversification has a significant positive relationship with firm's growth in the fast food sector of Pakistan.

Market Environment

The market environment is a marketing expression and refers to all the forces outside of marketing that influence marketing management's capability (Nichter and Goldmark, 2009) to put together and preserve winning interaction with target consumers (Flores, 1976). The market environment consists of both the macroenvironment and the microenvironment. Environmental dynamism, stability and change (Miller, 1987; Sohn et al., 2003) can have a significant impact upon growth strategies adopted for firm's successful run in any business (Ansoff, 1957).

Gima and Li (2001) summed up that product innovation strategy and performance of new technology are closely correlated, and the environment affects these strategies. Mintzberg (1978) argued that strategies are plans for making strategic business decisions keeping in view the environmental and bureaucratic style. Three forces of strategy formulation evolve around environment, organizational operations system and leadership (Fleming et al., 2009). Environmental factors affect food choices of children and adults. There are certain

environmental circumstances which, if they take place, have immense effect on sales; however, we cannot foresee their occurrence with conviction (Gima and Li, 2001). Based on current literature we can hypothesize the same impact in the Pakistani fast food sector.

Hypothesis 5: Market environment moderates the relationship of Market Penetration and firm's growth of the fast food sector of Pakistan

Hypothesis 6: Market environment moderates the relationship of Market development and firm's growth of the fast food sector of Pakistan

Hypothesis 7: Market environment moderates the relationship of Product Development and firm's growth of the fast food sector of Pakistan

Hypothesis 8: Market environment moderates the relationship of Diversification and firm's growth of the fast food sector of Pakistan.

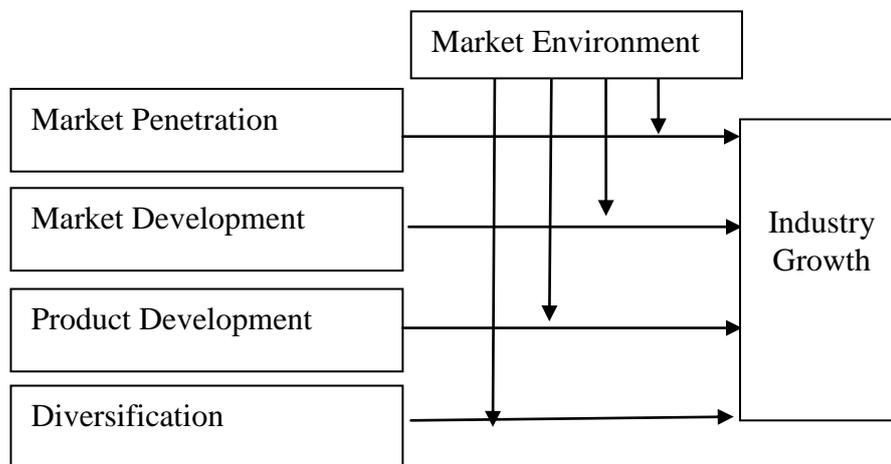


Figure 1: Theoretical Framework

METHODOLOGY

The population under investigation was the fast-food industry of Pakistan. We have targeted 15 major fast-food outlets from five big cities of Pakistan (Rawalpindi, Islamabad, D.I. Khan, Karachi and Peshawar) for data collection purpose. Convenient sampling technique was used due to the difficulty in data collection, and 65 standardized questionnaires were distributed among managers of selected fast-food outlets. 48 Questionnaires were returned, and response rate was 75%.

The Market penetration, market development, product development and diversification were taken as an independent variable while firm's growth as dependent variable. The Market environment was taken as a moderating variable. For measurement of Ansoff growth strategies, the study used Ansoff et al. (1993) five item for each strategy with five-point likert scale using 1 for strongly disagree to 5 for strongly agree. The study used Flores, (1976) growth measurement scale with five-point likert scale using 1 for strongly disagree to 5 for

strongly agree. The study also used Ansoff et al. (1993) five item for measurement of market environment with five-point likert scale using 1 for strongly disagree to 5 for strongly agree.

Overall reliability of scale was 0.87 and data collection was done by personally administered questionnaires. Data collected was analyzed by using SPSS (Statistical Package for Social Sciences), Version, 17.0). Descriptive Analysis, correlation analysis, regression analysis and moderated regression analysis tests were performed for explaining the results of basic relationship and linkage proposed in our model in this study.

RESULTS AND DISCUSSION

The study findings suggest that growth in the fast food sector of Pakistan is quite good but it is not too high (Mean = 3.7625; S.D = 0.44177). The fast food sector is using market penetration (3.5917, S.D = 0.31679), Product Development (Mean = 3.8417, S.D = 0.32475), Market Development (Mean = 3.8458, S.D = 0.43318) and Diversification (Mean = 3.9333, S.D = 0.49737) but intensity of these strategy implementations is not too high. It may be due to a moderately dynamic environment (Mean = 3.6597, S.D = 0.20316) that companies feel reluctant to implement any of strategy too blindly. It can also be seen in moderate growth in the fast food sector of Pakistan.

Table 1: Correlations Matrix

	Mean	Standard Deviation	Firm's Growth	MP	PD	MD	Div	ME
Firm's Growth	3.7625	.44177	1					
MP	3.5917	.31679	.582**	1				
PD	3.8417	.32475	.266	.094	1			
MD	3.8458	.43318	.658**	.220	.004	1		
Div	3.9333	.49737	.240	-.068	.471**	.425**	1	
ME	3.6597	.20316	.152	-.001	.168	.416**	.512**	1

MP = Market Penetration PD = Product Development MD = Market Development

Div = Diversification ME = Market Environment

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Correlation results depict that growth in the fast food sector has clear relevance with Market penetration (0.582, $p < 0.01$) and Market Development (0.658, $p < 0.01$). Market development

and Product development were more significantly correlated with diversification (0.471, $p < 0.01$ and 0.425, $p < 0.01$) respectively) which is in align with theory of Ansoff growth strategies. Environment was correlated with Market development (0.416, $p < 0.01$) and Diversification (0.512, $p < 0.01$).

Table 2: Regression analysis: Ansoff strategies and market growth

Variables	Beta	Standard Error	t – value	Significance
Constant	-1.767**	.638	-2.770	.008
MP	.569**	.126	4.510	.000
PD	.391**	.138	2.832	.007
MD	.636**	.104	6.126	.000
Div	-.118	.101	-1.167	.249

$R^2 = 0.693$

$F = 24.246^{**}$

$N = 48$

MP = Market Penetration PD = Product Development MD = Market Development

Div = Diversification ME = Market Environment

** Significant at the 0.01 level (2-tailed).

* Significant at the 0.05 level (2-tailed).

Overall regression analysis results (Table 2) show this model to be a good fit ($F = 24.246$) and these variables explained 69.30% of total growth in the fast food sector of Pakistan ($R^2 = 0.693$). Therefore, remaining 33.70% of variance needs to be explained but this was not in scope of this paper.

Linear regression analysis revealed that market penetration is highly significantly and positively related with the fast food firm's growth in Pakistan ($\beta = 0.569$, $p < 0.001$). This result is consistent with the findings of Ansoff (1957). Product development was positively and significantly related to firm's growth in Pakistani The fast food sector with $\beta = 0.391$ & $p < 0.001$. This is consistent with the findings of Gima et al., (2001) Similarly Market Development revealed firm's growth in the fast-food sector of Pakistan with a very high significance level of 0.000 and β value of 0.636. This quite parallel to the findings of Johns and Pineb (2002) However, diversification demonstrated negative correlation with growth as predicted but significance of this result was not up to the mark ($\beta = -0.118$, $p < 0.249$). Hence, first three hypotheses are accepted but we rejected our fourth hypothesis due to insignificant results. There is a need to further explore diversification strategy and its impact on growth with larger sample that may give us significant results.

Table 3: Interactive effects Ansoff strategies and environment on market growth

Sr. No	Specification	Step 1 β	Step 2 β
1	Market Penetration	0.811**	5.205
	Environment	0.332	4.324
	Market Penetration x Environment		-1.172
	ΔR^2	0.361**	0.019
2	Product Development	0.240	3.229
	Environment	0.337	3.249
	Product Development x Environment		-0.769
	ΔR^2	0.083	0.106
3	Market Development	-0.321	7.852**
	Environment	0.734**	8.155**
	Market Development x Environment		-2.013**
	ΔR^2	0.452**	0.565**
4	Diversification	0.085	2.298
	Environment	0.195	2.559
	Diversification x Environment		-0.650
	ΔR^2	0.059	0.092

** Significant at the 0.01 level (2-tailed).

* Significant at the 0.05 level (2-tailed).

We performed moderated regression analysis for each strategy separately and in first step, we performed moderation with linear regression and in second step we performed moderated regression analysis for each strategy with the interaction term of that strategy so that unique effect of environment can be found.

Table 3 explains the moderating effect of environment on each of Ansoff Growth Strategies. Significant and positive relationship of market penetration ($\beta = 0.811$, $p < 0.01$) on growth turned into a significant and positive relationship (5.205). R^2 change, which was significant (0.361, $p < 0.01$) turned into insignificant (0.019). Hence, we can say that environment does not moderate the relationship between market penetration and firm's growth in Pakistani the fast food sector. Therefore, hypothesis 5 of study is rejected. Logically, it seems alright that

market environment may not have any effect while penetrating in current market with same products because pace of change in single market is not as rapid as moving into another market.

Significant relationship of market development after moderation of environment the result is same as significant with ($R^2 = 0.565^{**}$), as market newness and technological newness are related to up to date consumer demands. Therefore market development may be affected while moving into another market because of change of environment. Results conclude that hypothesis 6 is accepted.

Insignificant relationship between product development ($R^2 = 0.083$), and diversification ($R^2 = 0.059$) remained insignificant after moderation of environment as R^2 Change was insignificant ($R^2 = 0.106, 0.092$ respectively). Therefore, in accordance with results our hypothesis 7 and 8 were rejected.

Diversification at last needs to be studied at larger sample size as regression analysis did not predict the growth and negative relationship with growth were not significant.

CONCLUSIONS

This study is a base attempt to explore firm's growth and role of Ansoff growth strategies in predicting growth of Pakistani fast food sector. This study will help practitioners to run their business in a good manner. Moreover, it will contribute into literature of the fast food sector of Pakistan. Lastly, this study extends the generalizability of Ansoff Matrix growth strategy. Future researchers need to further explore and extend the literature of Pakistani food sector especially by a larger sample size.

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