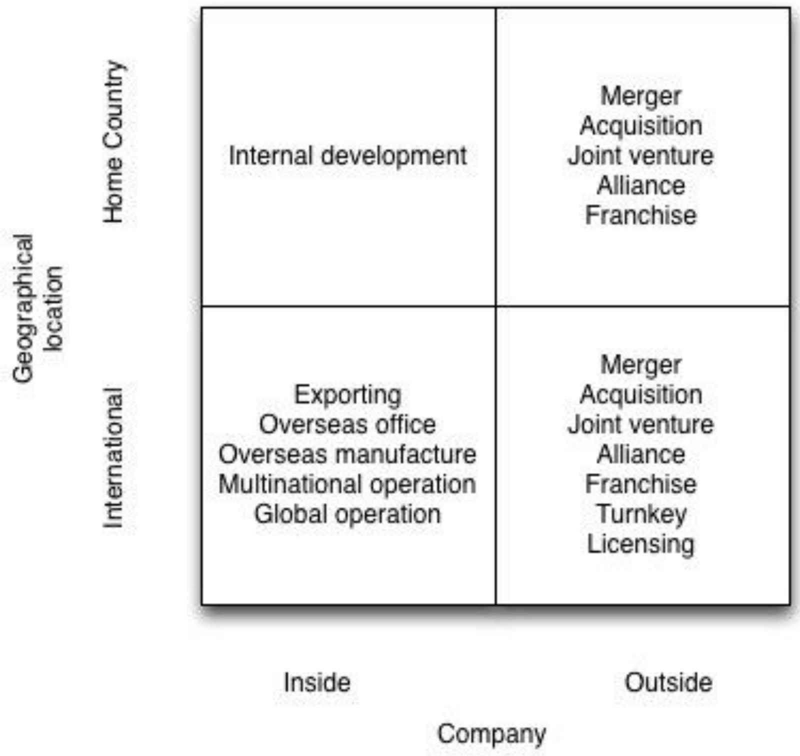
The Expansion Method Matrix

This post briefly outlines the principal methods of expansion and reviews the advantages and disadvantages of the main ones. The expansion method matrix explores in a structured way the methods by which the market opportunities associated with strategy options might be achieved. To do this, it is necessary to examine the organisation's internal and external expansion opportunities and its geographical spread of activity. It goes without saying that any of the methods shown must add value to the company if they are to justify their costs.



This post will not consider these different options, but will briefly set out the advantages and disadvantages of each.

Advantages	Disadvantages
Acquisition Can be relatively fast May reduce competition from a rival, although such a move usually has to be sanctioned by government competition authorities Cost savings from economies of scale or savings in shared overheads Maintenance of company exclusivity in technical expertise Extend to new geographical area Buy market size and share Financial reasons associated with purchase of undervalued assets that may then be resold	**Acquisition** Premium paid: expensive High risk if wrong company targeted Best targets may have already been acquired Not always easy to dispose of unwanted parts of company Human relations problems that can arise after the acquisition: probably the cause of more failures than any other Problems of clash of national cultures, particularly where target 'foreign'
Joint venture Builds scale quickly Obtains special expertise quickly Cheaper than acquisition Can be used where outright acquisition not feasible Can be used where similar product available]	**Joint venture** Control lost to some extent Works best where both parties contribute something different to the mix Can be difficult to manage because of need to share Share profits with partner
Alliance Can build close contacts with partner Uses joint expertise and commitment Allows potential partners to learn about each other Locks out other competitors	**Alliance** Slow and plodding approach Needs constant work to keep relationship sound Partners may only have a limited joint commitment to make alliance a success Unlikely to build economies of scale
Franchise Lower investment than outright purchase Some of basic testing of business proposition undertaken by franchise holder: lower risk Exclusive territory usually granted	**Franchise** Depends on quality of franchise Part of profits paid over to franchise holder Risk that business built and franchise withdrawn