

## 2.3: The Role of Marketing in the Strategic Planning Process

### Learning Objectives

By the end of this section, you will be able to

- Explain the role of marketing in the strategic planning process.
- Discuss the business portfolio and identify planning tools.
- Describe a SWOT analysis.
- List and describe marketing strategies based on analytics.

### Explain the Role of Marketing in the Strategic Planning Process

To get a better idea of the importance of marketing in the strategic planning process, let's imagine that you're the owner of a manufacturing business that produces widgets. You've been able to recruit top engineering talent to design these widgets and source components from trusted, reliable vendors, and your manufacturing facility is efficient and can produce the widgets cost-effectively. Sounds like a winning business, doesn't it?

Well, the only thing we've left out of the equation for success is customers, and without customers, the finest engineering staff and manufacturing facility in the world won't ring the bell in terms of profits or revenue. You need to determine who your customers are, what their needs and wants are, how you're going to reach them, and how you're going to persuade them to buy your widgets. That's where marketing comes into the strategic planning process, and that's why it plays a crucial role.

Marketing in the strategic planning process has several basic but critical functions:

- First, marketers assist the strategic planning team in executing a marketing philosophy throughout the strategic planning process.
- Second, marketers assist the organization in gathering and analyzing information necessary to examine the current situation (the first step in a gap analysis).
- Third, marketers are responsible for identifying trends in the marketing environment and assessing the potential impact of those trends.

### Business Portfolio Definition

As noted above, many businesses have a single product or business unit. However, larger organizations such as Apple, Alphabet, General Electric, Meta, and Microsoft often have multiple diverse business units called strategic business units. Even though SBUs report directly to the parent company's headquarters, they typically develop their own vision statements, mission statements, objectives, and goals, and the strategic planning for these SBUs is performed separately and apart from other SBUs within the organization (Avada Commerce, 2024). When companies have multiple products or business units, these comprise the business portfolio—the total group of product lines, services, and business units the company possesses.

To give you a better sense of what a business portfolio entails, look at Figure 2.5, which illustrates Microsoft's products and services and how each offering contributes to the company's overall strategic plan (Nadella, 2021). Microsoft reported \$168 billion in revenue in fiscal year 2021, and each of its product lines (or strategic business units) contributes to this revenue in differing amounts (Nadella, 2021). It's easy to see from this breakdown why each of these businesses under the Microsoft "umbrella" would have different strategic plans to execute within the markets they serve. You likely wouldn't have one overarching marketing or business strategy for all of these SBUs because the markets for Office, Gaming, LinkedIn, and the other SBUs are likely very different and require different strategies to reach and retain customers.

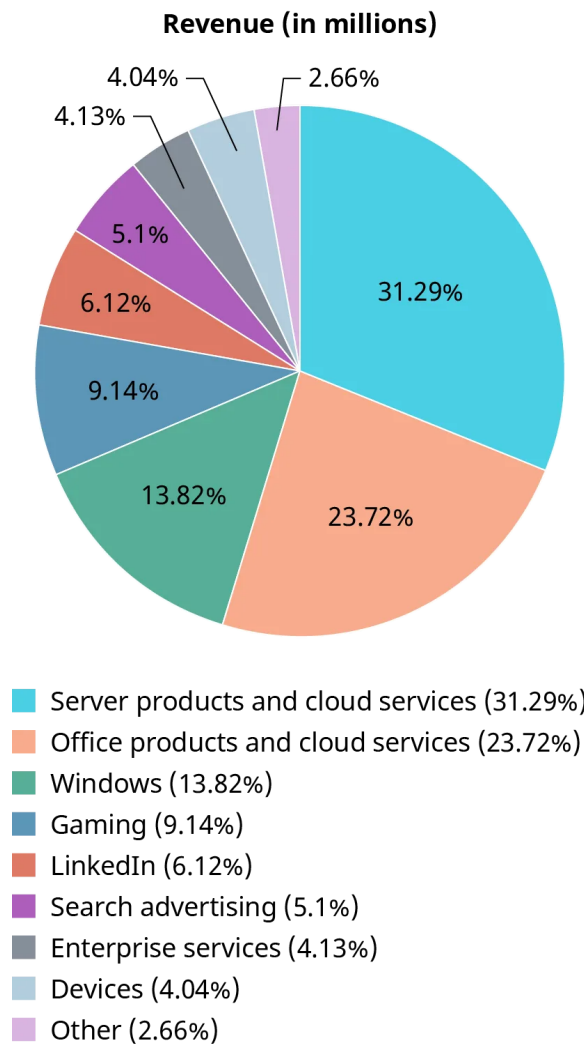


Figure 2.5 Composition of Microsoft Revenues (data source: *Microsoft Annual Report 2021*; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

### Analyze and Design the Business Portfolio

There are many reasons why an organization would establish separate business units or product lines as it grows. For example, if the current product line is in a market where growth is limited, it may choose to branch out to other product lines or markets. Alternatively, an organization may choose to expand into other product lines to take advantage of emerging opportunities.

Emerson Electric, headquartered in St. Louis, Missouri, has five business segments: Network Power, Process Management, Industrial Automation, Climate Technologies, and Commercial and Residential Solutions (i.e., tools and storage). These business segments provide products as diverse as hardware and software technologies; motors; fluid control systems; heating and air-conditioning products and services; and tools, storage products, and appliances for residential, health care, and food services

(Weedmark, 2019). When you consider divisions as diverse as these, it should be readily evident why each is a separate division with separate strategies to compete in its respective marketplaces.

Conversely, a business may choose to expand in areas where it already has experience and can use the power of its core competencies to establish sustainable competitive advantage with new products in existing markets.

There are a few tools that can help determine which course of action is best advised given the current circumstances of the organization, the marketplace, and other factors. Let's take a look at a few of them.

### Boston Consulting Group (BCG) Matrix

The BCG matrix is a model developed by Boston Consulting Group that can be used to analyze a business's product lines or SBUs and make decisions about which to invest in in the future and which they should try to minimize further investment in or even eliminate. The bottom line is that no business has unlimited funds to invest in its product lines, and the BCG matrix is a useful model for determining how to allocate money in terms of marketing and research and development (R&D) to that portfolio.

As shown in Figure 2.6, the BCG matrix considers both market share and market growth rate. The SBUs or products that have high market share in a high-growth market are called *stars* and are placed in the upper left quadrant. These are the opportunities that hold the most promise for the organization.

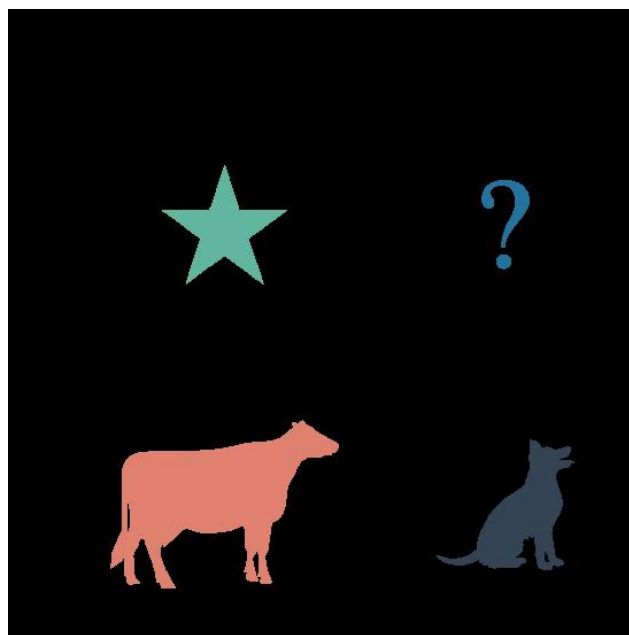


Figure 2.6 Boston Consulting Group (BCG) Matrix (CC BY 4.0; Rice University & OpenStax)

Conversely, those SBUs or products that have low market share in a low-growth market are referred to as *dogs* and are placed in the lower right quadrant. These are prime candidates for divestiture or elimination because they have relatively low growth potential, and although the business has significant funds tied up in them, they bring in virtually nothing in revenues. Divestiture could also provide needed capital for your stars or question marks.

*Cash cows*, in the lower left quadrant, are an interesting breed, so to speak. A cash cow is an SBU or product with high market share in a low-growth market. They're valuable to a business because they generate significant revenue that can fund other strategic initiatives or emerging opportunities. Incidentally, they're called cash cows because the thinking is to "milk" these products for profits.

Those SBUs or products that have a low market share in a high-growth market are called *question marks* (sometimes also called "problem children") and are placed in the upper right quadrant. Question marks are among the most complex decisions to be considered when developing a BCG matrix because a root cause analysis may be required to determine why these SBUs are, in fact, question marks. Obviously, with high-market growth, the market is strong, but there are one or more reasons why your organization hasn't been able to capitalize on it and gain market share. Does the product line need more investment to move into the "star" category? Is competition so strong in this market that additional funding for advertising campaigns or other marketing

tactics render them useless? Is the question mark just a trend in which you can expect high growth without a lot of market share for a short time?

Once you have categorized each of your SBUs or products on the BCG matrix, you'll have a crystal-clear vision of where each stand and can identify which you should prioritize and which need to be divested.

To better understand the BCG model, let's create a simplified matrix for Apple and some of its products (see Figure 2.7). Because Apple has so many products and services, we're showing only four hardware products in this matrix.

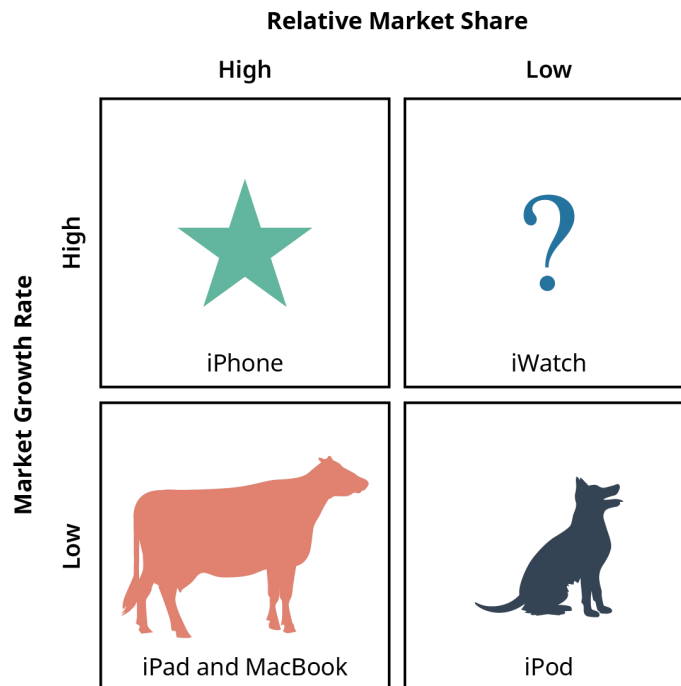


Figure 2.7 BCG Matrix of Apple's Portfolio (CC BY 4.0; Rice University & OpenStax)

In this sample matrix, we'll place the Apple iPhone in the star category. You'll recall from our discussion above that stars have relatively high market share in a growing market. Let's face it: the iPhone is the shining gem of Apple's portfolio. Even though Apple has diversified its product line, the iPhone is still responsible for 52% of the company's revenue, raking in an astounding \$192 billion in 2021 (Curry, 2022).

Next, we'll put the iPad and the MacBook in the cash cow category. Remember that the BCG matrix is built on two parameters—market share and market growth. Both the iPad and the MacBook have relatively high market share compared to competitors, but the market for these products is not growing much anymore (Geoghegan, 2019). The Apple iPad had a 31.5% share of the global tablet market during the first quarter (down from 38% in the previous quarter), and the MacBook still holds popularity, garnering 15.3% of the market share (Statista, 2022). Both the iPad and the MacBook are well-established products that continue to generate substantial income for Apple, and these products require relatively little additional investment for them to remain profitable.

Let's move on to the question mark category. Remember that question marks have a low market share in a high-growth market. We'll place the Apple iWatch in this category. The iWatch has the potential to become as big of a hit as the iPhone, but the jury is still out because there are too many unknowns in the market. Global sales of smartwatches increased by 13% in the first quarter of 2022, and the Apple iWatch continues to lead in market share (Gallagher, 2022). However, Apple will need to analyze its iWatch vis-à-vis its other products to decide if it should continue to invest in the product (Gallagher, 2022).

Finally, let's move on to the dog quadrant of the matrix. We'll place the iPod in this category because market growth has slowed considerably as people use their phones to listen to music or podcasts. The iPod has experienced a shrinking market share as a result, and it wouldn't make sense for Apple to continue to invest in the iPod (Geoghegan, 2019). In fact, Apple announced in May 2022 that it would discontinue the iPod Touch, while the touch-screen model launched in 2007 will remain on sale until supplies run out (Geoghegan, 2019).

Link to Learning: BCG Matrix

Would you like to learn more about the BCG Matrix? Watch this brief video from Solve It Like a Marketer.



### SWOT Analysis

SWOT is an acronym for a business's strengths, weaknesses, opportunities, and threats, and it is a useful aid for zeroing in on a feasible marketing strategy. The purpose of a SWOT analysis is really quite simple. Marketers want to identify the strengths and weaknesses in the organization's *internal* environment as well as the opportunities and threats that exist in the organization's *external* environment. It is generally presented in the format seen in Figure 2.8. You would complete the template with bullet points in each of the four quadrants.

<p><b>Strengths</b></p> <p><i>Internal capabilities that may help a company reach its objectives</i></p> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Strong brand identity</li> <li>• Technological innovations</li> <li>• High market share in industry</li> </ul>	<p><b>Weaknesses</b></p> <p><i>Internal capabilities that may interfere with a company's ability to reach its objectives</i></p> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Outdated technology</li> <li>• Strong brand identity of competitors</li> <li>• High employee turnover</li> </ul>
<p><b>Opportunities</b></p> <p><i>External factors that a company may be able to exploit for its advantage</i></p> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Competitor goes out of business</li> <li>• Low interest rates</li> <li>• Favorable exchange rates</li> </ul>	<p><b>Threats</b></p> <p><i>External factors that may create barriers or challenges to the company's performance</i></p> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Rising interest rates</li> <li>• Pending legislation</li> <li>• Price war with competitor</li> </ul>

Figure 2.8 Common SWOT Analysis Template (CC BY 4.0; Rice University & OpenStax)

A SWOT analysis will aid in taking advantage of the organization's strengths and opportunities while avoiding (or at least minimizing) weaknesses and threats to its success. Realistically, some of the factors are in the control of the company (i.e., strengths and weaknesses), but other factors are outside the control of the company (i.e., opportunities and threats). Let's consider each of these in a little more detail.

Strengths can be factors such as company patents or trademarks that hinder competitor participation in the market; a better cost structure than those of competitors; a talented, innovative staff; or strong brand recognition in the market. Strengths are internal to the organization, and they're also positives. Questions to ask when developing this section may be: What do you do well? What unique resources can you draw on? Consider a company like Starbucks. If you were preparing a SWOT analysis for Starbucks, its strengths might include a strong brand image, solid financial performance, impressive growth in the number of stores, and an extensive international supply chain (Gupta, S. 2022).

Weaknesses are also factors within a company's internal environment, but these are hindrances to your success, so they're categorized as negatives. Weaknesses may be difficulty accessing capital or funding, outdated technology, an unmotivated workforce, weak brand recognition, or high debt levels. Let's go back to Starbucks. If you were preparing a SWOT analysis for Starbucks, some of its weaknesses may be high prices versus the competition and the limitability of its products (Gupta, 2022).

Now, we'll switch over to external factors that affect the business. Opportunities are openings for something positive to happen if (and only if) you can capitalize on them. Opportunities can be moving into a new market segment that offers improved profits (like a snack food manufacturer moving into the health foods sector), competitors that have quality or delivery problems, or impending legislation that would favorably affect your organization if you're able to capitalize on it. Once again, let's go back to Starbucks. If you were preparing a SWOT analysis for Starbucks, some of its opportunities might be expansion in developing markets, a coffee subscription service similar to that offered by Panera Bread, and the introduction of new products and holiday flavors (Gupta, 2022).

Finally, threats are anything external to your organization that can negatively impact your business. These may include supply chain problems, ongoing staffing problems, new competitors entering the market, or impending legislation that would negatively impact your organization, like tariffs. If you were doing a SWOT analysis for Starbucks, you might identify threats such as competition with lower-cost coffee sellers, tightening discretionary spending due to inflation, or the rising price of coffee beans (Gupta, 2022).

#### Link to Learning: SWOT Analysis

Check out this video for a very simple example of a SWOT analysis.



When preparing a SWOT analysis, it is also helpful to compare elements by ranking strengths and weaknesses (internal factors) in terms of relative competitive importance. Marketers can also rank threats and opportunities (external factors) in terms of their likelihood and magnitude (Gupta, 2022).

### Strategy

Earlier in this chapter, we pointed out the differences between corporate-level strategy, business-level strategy, and functional strategy. If you're a fan of movies like *Other People's Money* or *Wall Street*, you might think corporate strategy focuses on hostile

takeovers, mergers, and ruthless acquisitions.

#### Link to Learning: *Moneyball*

The movie *Moneyball* is about a baseball general manager assembling a team using computer analysis to hire new players. This is a great example of using analytics to inform strategy. Watch a clip of the movie here, where you see the analytics applied:



### Market Penetration

When a company focuses on growing its market share in its existing markets, it is using what's known as a market penetration strategy. This approach generally entails significant expenditures in advertising and other marketing efforts to influence consumers' brand choice and create a brand reputation for the company, thereby increasing its market share.

In some mature industries (like soap, laundry detergent, or toothpaste), a market penetration strategy becomes a way of life because nearly all competitors are also engaged in intensive advertising and battle for market share. It becomes a way of life because companies fear that if they don't advertise as much as or more than their competitors, they will lose market share.

To give you an idea of how fierce the competition is with a market penetration strategy, consider Procter & Gamble, which spent \$4.7 billion on advertising in 2020 (Statista, 2022a).

### Product Development

As noted above, a market penetration strategy focuses on existing products and existing markets. By contrast, a product development strategy involves the creation of new or improved products to drive growth in sales, revenue, and profit. Although the advertising expenditures involved with a market penetration strategy may be significant, they often pale compared to those involved in a product development strategy. This is because product development generally requires significant investment in R&D activities (Hill & Jones, 2012).

The automobile industry provides a good illustration of the product development strategy. Car makers generally refresh their models every few years to encourage car owners to trade in their old vehicles and buy the redesigned cars with the latest tech features such as driver assist, Wi-Fi hotspots, Apple CarPlay, and Android Auto (Daniels, 2020). At the same time, all the manufacturers are spending billions of dollars developing new electric vehicle models to meet ambitious goals for phasing out gasoline-powered engines.

Another great example of a product development strategy is Tide laundry detergent. Tide has undergone more than 50 formulation changes over the past 40 years in an effort to continually improve its product's performance. The name always stays the same, but Tide has a "new and improved" formula with each new product release (Hill & Jones, 2011).

If you doubt the power of a product development strategy, the next time you go to the grocery store or supermarket, just look at how many "new and improved" products are on the shelves!



## Market Development

A market development strategy involves searching for new market segments and uses for a company's products. This strategy can involve the launch of its existing products into new markets or different geographical areas. In doing so, the company attempts to capitalize on the strength of the brand name it has developed in the existing markets and find new markets in which to compete.

Facebook is a great example of a market development strategy. It's difficult to remember when Facebook wasn't a household word, but Facebook started out as a small platform that enabled Harvard University students to compare headshots. The popularity of the platform spread to other college campuses (which became all the rage in 2008!), and eventually, Facebook allowed non-students to join. It looks like the strategy worked—Facebook is now the largest social network in the world, with nearly 3 billion users and the world population at the time was 7.88 billion people, to put the numbers in perspective (Hall, 2021).

To help you better understand these strategies, let's consider each one from the perspective of one company—Harley-Davidson. If Harley-Davidson were to adopt a market penetration strategy, the company would focus on selling more Harley-Davidson motorcycles in the US market. If the company were to adopt a product development strategy, it would begin selling a new product such as biker clothing for children under the Harley-Davidson brand in the US market. Harley-Davidson is currently pursuing a market development strategy with plans to develop a new motorcycle to manufacture and sell in China. Harley-Davidson's diversification strategy might entail selling new products like children's biker clothing in China for the first time.

## Product Diversification

A product diversification strategy is another tool that companies can use to improve profitability and increase sales of new products. This strategy can be utilized at both the business level and the corporate level. At the business level, marketers would expand into a new segment of an industry in which the company is already operating (Moorhouse, 2021). For example, consider Apple. The company launched its revolutionary iPhone in 2007, but it didn't stop there. It has since diversified into tablets and other technology-related products (Corporate Finance Institute Education, 2022). At the corporate level, let's consider a dine-in restaurant that adds corporate catering and perhaps a fleet of food trucks—both businesses outside the scope of its existing business.

There are three types of diversification techniques, as shown in Figure 2.9.

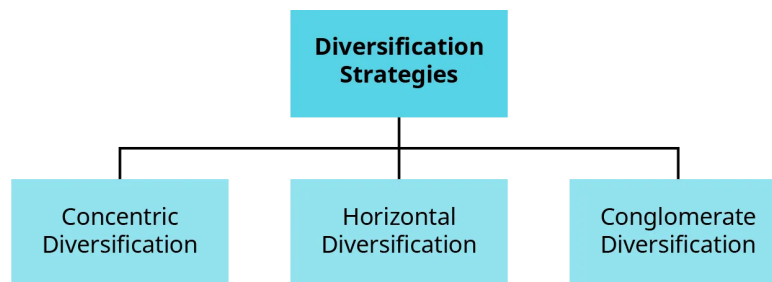


Figure 2.9 Types of Diversification Strategies (CC BY 4.0; Rice University & OpenStax)

Let's look at each of these strategies in a little more detail.

The concept of concentric diversification revolves around the addition of similar products or services to an existing business (Harappa Learning, 2021a). If a picture is worth a thousand words, then an example has to be worth even more, particularly an example to which you can easily relate as a student. As you're reading this chapter, consider book publishers, like Harper Collins, Simon & Schuster, or Penguin/Random House. These book publishers don't only print the works of one author; rather, they have hundreds or perhaps thousands of authors' works in their arsenals. These publishers will publish print books, e-books (like the one you're reading right now), and audiobooks and may even sell the rights to some of the books for film and TV adaptations, allowing them to garner additional streams of revenue for one product (Harappa Learning, 2021a).

Conversely, the concept of horizontal diversification involves making available to existing customers new and perhaps even unrelated products or services so that you can garner a larger customer base (Indeed, 2021). For example, consider a company that produces dental hygiene products like toothbrushes and dental floss. To increase sales to existing customers, the company may decide to introduce into the market a line of oral irrigators or teeth whiteners. These products are new to the company, but they still serve the same customer base as its existing products.

Finally, conglomerate diversification takes horizontal diversification one step further. Conglomerate diversification involves the development and addition of new products or services that are significantly unrelated. You're not only introducing a new product,



you're introducing a new product completely unrelated to your existing line of business (Harappa Learning, 2021b). Consider General Electric when looking for an example of conglomerate diversification. General Electric started out as a lighting business, but over the years, it has diversified into medical devices, household appliances, aircraft engines, financial services, and more. That's taking conglomerate diversification to a whole new level!

#### Link to Learning: Blue Ocean Strategy

Learn about market-creating strategies known as the Blue Ocean strategy from *Harvard Business Review*, where it uses Cirque du Soleil as an example.



#### Knowledge Check

It's time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Marcus is preparing a SWOT analysis for the health club he owns. One of the factors he has identified is that the health club is the only facility in the area that offers water aerobics classes. In terms of a SWOT analysis, how would this factor be characterized?

- a. Strength
- b. Weakness
- c. Opportunity
- d. Threat

2.

What key metrics does the BCG matrix use to show the relative attractiveness of different offerings?

- a. Market share and market growth rate
- b. Market size and market share
- c. The ratio of dogs to cash cows in the product portfolio
- d. The potential for question marks to cross over and become stars

3.

Hoffman Enterprises has a portfolio of businesses in various unrelated industries. One of its strategic business units (SBUs) has high market share in a low-growth industry. How would this SBU be characterized in terms of the BCG matrix?

- a. Star
- b. Dog

- c. Cash cow
- d. Question mark

4.

Sanjay is creating a SWOT analysis for the vegan restaurant he owns in a small college town. Until recently, there has been only one competitor in the vegan market, but that restaurant has recently closed temporarily due to health code violations. How would this development be characterized in terms of the SWOT analysis?

- a. Strength
- b. Weakness
- c. Opportunity
- d. Threat

5.

Which strategy involves the creation of new or improved products to replace existing ones to improve a company's competitive position and sales?

- a. Market development
- b. Product diversification
- c. Horizontal diversification
- d. Product development

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