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Marketing and Corporate Strategy

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Abstract
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Until recently, marketing and strategic planning have been distinct fields of endeavor. Marketing has had its greatest impact on the tactical operations of lover-level management, particularly in the management of individual products. Strategic planning, on the other hand, has been the concern of top management and its ancillary planning staff. The two activities have been characterized by distinct methodologies and relatively little cross-fertilization.

Disciplines
Business | Business Administration, Management, and Operations | Business Intelligence | Marketing | Strategic Management Policy

Marketing And Corporate Strategy

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UNTIL recently, marketing and strategic planning have been distinct fields of endeavor. Marketing has had its greatest impact on the tactical operations of lower-level management, particularly in the management of individual products. Strategic planning, on the other hand, has been the concern of top management and its ancillary planning staff. The two activities have been characterized by distinct methodologies and relatively little cross-fertilization.

One of the emerging opportunities of this decade is the potential for improvement in both fields resulting from an increased interface. We are only at the very beginning of this process, and it is hardly inevitable that the two fields should come together. However, corporate strategy could be greatly enhanced if it were approached more from a marketing perspective and utilized the concepts and methods developed by marketing science. Similarly, marketing has to extend its focus from tactical to strategic considerations, and from product management to corporate strategy.

To understand how the interface might work, we need to look first at the current state of the two fields.

Corporate strategic planning may be defined as the decision-making process which governs the overall direction of the corporation. At the moment, corporate strategy is still largely lacking a marketing orientation. Despite the inevitable inclusion in any strategic plan of marketing considerations (Should the company enter a new market? Should it drop an old product? Add a new one?), many key marketing concepts (for instance, market segmentation and product positioning) and techniques of empirical analysis have been ignored by strategic planners. Consider, for example, the following observations:

Most of the strategic planning paradigms do not incorporate key marketing concepts and approaches. Similar neglect

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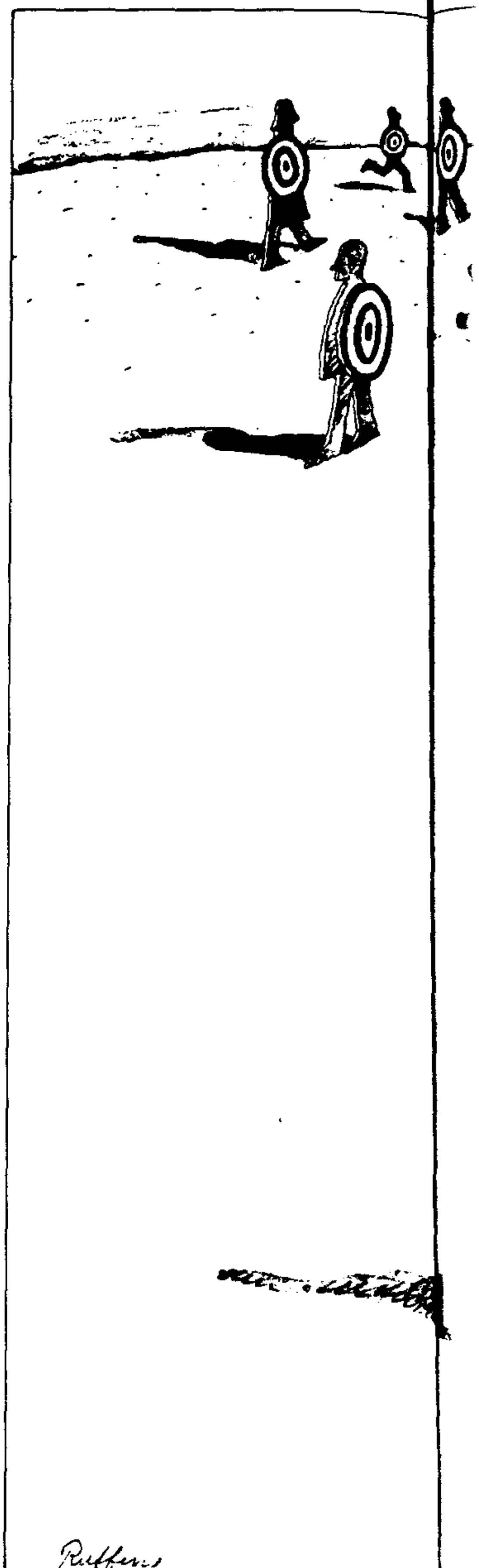

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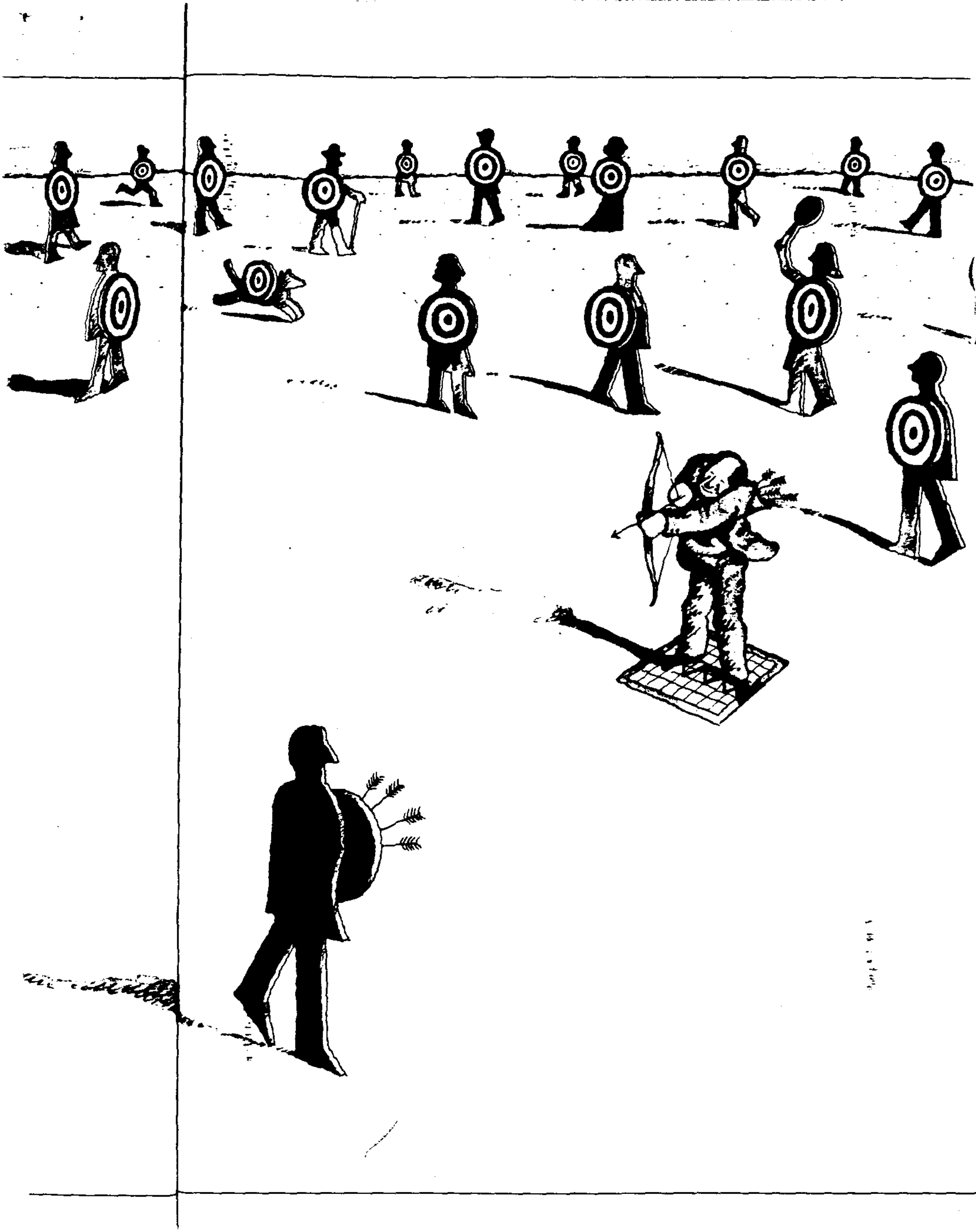

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also characterizes most of the business portfolio models.

The merger and acquisition area has been dominated by financial considerations, and rarely has it been subjected to a systematic marketing-oriented modeling effort.

Corporate strategies tend to rely on relatively superficial analysis of secondary data, not subjecting it to appropriate statistical analysis and ignoring consumer-based data.

The neglect of marketing considerations is not limited to the "softer" strategic planning literature, but is also characteristic of the more analytical quantitative strategic planning modeling efforts. Note, for example, the general neglect of marketing considerations in most of the strategic planning models presented in T.H. Naylor's book, *Corporate Planning Models* (1979).

DESPITE an increased recognition that corporate strategy should take into account the needs and perspectives of stakeholders of the corporation who could affect the survival and growth of the firm, little effort has been directed at the empirical study of stakeholders. The same concepts and methods employed in the study of consumer behavior may also be directed at the corporate stakeholders.

Many of the corporate strategy models, and especially those concerned with business portfolios (such as the Boston Consulting Group Growth-Share Matrix, or the A.D. Little Business Profile Matrix) tend to offer rather specific strategic generalizations. These strategic guidelines are based primarily on the existing position of the aggregate business or product according to selected portfolio dimensions, while ignoring other relevant considerations – such as the differential performance of specific products (within the existing product line or business) by market segment, the interdependency among the products or businesses studied, and other important dimensions for the evaluation of a portfolio (such as projected profitability and responsiveness to marketing strategy instruments). In other words, these models assume a static independent entity which is doing as well as it can, and don't take into account the potential for change which can result in improved performance in the relevant performance dimensions.

On the marketing side of the interface, things are not much better. Despite a recent increase in "Marketing Strategy" courses in business schools, most of the marketing activities of most firms are still focused on relatively short-term, product-level decisions and not on top management decisions. Similarly, marketing research has often been criticized for its lack of relevance to the concerns of senior managers. Consider these observations:

Most marketing research activities are devoted to tactical rather than strategic concerns, to brand and advertising management decisions rather than to corporate-level decisions, and to the study of relatively minor strategy variations rather than significantly different strategic options. For example, advertising research tends to focus on the testing of minor copy variations rather than distinguishable positioning strategies, or on the much more fundamental question of whether the firm should advertise at all.

Most of the marketing modeling effort has been at the brand, advertising, or sales manager level, ignoring the more critical strategic marketing decisions. Consider, for example, such decision calculus models as MEDIAC (Little and Lodish 1969), CALL PLAN (Lodish 1971), ADBUG (Little 1970), DETAILER (Montgomery, Silk, and Zaragoza 1971), and BRANDAID (Little 1975).

Most marketing programs at the product *and* strategic business unit level tend to lack a long-term orientation, contingency plans, and inter-product (or inter-SBU) interaction.

Most marketing methods, despite their high level of sophistication, are not appropriate for forecasting new consumer needs, and especially those built around new technological developments and basic changes in our environment. For example, the analysis of consumer preferences for different automobiles in an era of gasoline abundance becomes obsolete in our era of gasoline shortages.

Marketing, for the most part, has not taken the lead in the development of innovative new products and practices. Most marketing-initiated new products are of the "me too" variety or involve only minor modifications of existing products.

Finally, little attention has been given in the marketing literature to the impact that new technological developments such as the computerized home and office of the future could have on the marketing system and its activities.

Benefits to the Corporation

My basic premise is that effective interface between marketing and corporate strategy could be of value to both fields and ultimately to the corporation as a whole. Specifically, corporate strategy could benefit in a number of ways by adopting a marketing perspective and employing some of its methodological approaches.

Corporate positioning, when applied to the corporation as a whole, could guide corporate decisions, including product and business additions and deletions, public relations, and other corporate-level activities. Lower-level decisions could benefit from synergistic interaction if guided by an overall corporate positioning.

Market segmentation – the dividing up of a market into different "target" segments based on such considerations as age, sex, income, lifestyle, or benefits sought – could be applied to stakeholder analysis and strategy. Further, the corporation could develop marketing programs aimed at various stakeholders, such as security analysts (with the aim of raising the market price of the firm's stock).

Corporate strategy could benefit in general from the empirical orientation of marketing. Because marketing has few empirical generalizations and no generalizable "laws," it has relied heavily on an empirical perspective; for example, in determining which of two options is better, the typical approach is to conduct a study aimed at assessing the likely market response to each option.

Methodologically, marketing can offer the corporate strategy area tested approaches to: *generation* of ideas and concepts (approaches which have been employed for the generation of new product ideas can also be applied to the various strategic areas); *evaluation* of ideas and strategies; *forecasting* of likely responses and outcomes; *simulation* of market responses under alternative competitive and environmental conditions; *choice models* to help executives in making better decisions; and, above all, *adaptive experimentation* – the philosophy and methodology for continuous learning and improvements of one's decisions.

The benefits of the interface are not only for corporate strategy, but also for marketing. Exposure to the concerns of corporate strategy can offer marketing an opportunity to increase its usefulness to the corporation. It also offers challenges for new conceptual and methodological developments, including:

□ systematic models to search and evaluate merger and acquisition candidates;
□ optimal portfolios of businesses (or product lines) and market segments;
□ optimal portfolios of countries in which to do business;
□ design of early warning systems to identify environmental (for instance, market, competitive, or government) turning points that could require changes in corporate strategies;
□ better organizational designs which enhance the firm's ability to achieve its objectives;
□ better fit between the marketing program and the objectives, constraints, and operations of the other management functions (for example, finance, research and development, personnel);
□ greater focus on those organizational decisions which have the greatest impact on the survival and growth of the organization as a whole;
□ better guidelines for the allocation of marketing efforts both in terms of marketing research and modeling activities as well as in terms of the allocation of the marketing budget itself. Directing marketing efforts to areas of potentially high value to the firm is critical. If the resource allocation process is not linked to the long range strategic plans of the unit (product or SBU) and the firm, the firm is likely to have a suboptimal use of its marketing resources.

TO illustrate the benefits of greater interface between marketing and corporate strategy, let us use as an example the area of business portfolios. Specifically, let's contrast the standardized corporate strategy portfolio approaches suggested by the Boston Consulting Group, A.D. Little, and GE/McKinsey, with a marketing-oriented approach based on the Analytic Hierarchy Process (AHP).

The major differences between the two approaches are summarized in Figure 1. The right-hand column represents primarily the portfolio approach of the Analytic Hierarchy Process (AHP), which focuses on those aspects which have not been dealt with by the standardized corporate strategy portfolio models. These aspects were not excluded because they were considered unimportant – rather, it was believed that they were too complex to be subjected to rigorous modeling efforts. However, recent measurement and modeling developments, like the AHP, allow for the incorporation of these conceptually appealing aspects in such efforts.

The Analytic Hierarchy Process structures any complex, multiperson, multicriterion, and multiperiod problem hierarchically. It starts by decomposing a complex problem into a hierarchy, with each level consisting of a few manageable elements and each element, in turn, decomposed into another set of elements. The process continues down to the most specific elements of the problem, typically the specific courses of action considered, which are represented at the lowest levels of the hierarchy. Then, a measurement technique is used to establish priorities among the elements within each stratum of the hierarchy. This is accomplished by asking the participants to evaluate each set of elements in a pairwise fashion with respect to each of the elements in the next highest level. This creates a matrix of pairwise comparisons, which indicate the relative strength of the elements with respect to a given criterion. This set of matrices is the input to a computer algorithm which results in a set of weighted values – priorities – for each element in the hierarchy.

These relative priority weights can provide guidelines for the allocation of resources among the entities at lower levels of the hierarchy. When hierarchies are designed to reflect likely environmental scenarios, corporate objectives, current and proposed product-market alternatives, and various marketing strategy options, the AHP can provide a framework and methodology for the generation and calculation of a number of key corporate and marketing decisions of the firm.

Allocating Resources

Compared to standard portfolio analysis, the AHP is better suited to guide the allocation of a firm's resources among the products of its target product portfolio. Most product portfolio approaches, although helpful in portraying the current position of the firm's products on the selected dimensions, do not provide explicit rules for the selection of the target portfolio (for example, what combination of "dogs," "problem children," "cash cows," and "stars" should a company have?). They are based on a small set of *a priori* selected dimensions which might not include the dimensions (criteria) critical to specific management situations – such as risk, or demand on resources. They tend to ignore the interdependencies (synergy) among the products, and the linkage between the products and their functional (finance, research and development) requirements. In contrast, the more recent AHP-based portfolio approach provides explicit guidelines for the allocation of resources among the components of the target portfolio, taking all these factors (and others listed in Figure 1) into account.

The first application of the Analytic Hierarchy Process to determine the desired business portfolio was by the Colonial Penn Insurance Company. A fast-growing company, it specializes in de-

Figure 1: Requirements for a marketing-oriented integrated portfolio system and its comparison with a typical strategic planning approach to portfolio analysis and strategy

	A typical strategic planning approach would tend to focus on:	*The proposed marketing-oriented integrated approach would focus on:*
Level of Analysis	Product classification at a single level.	Interrelated hierarchy of portfolios at the corporate, strategic business unit, and product-line levels.
Dimensions of Analysis	Product classification on a limited number (typically two) of specified dimensions.	Unlimited number of dimensions selected by management.
	Unweighted dimensions.	Weighted dimensions (including management's trade-off between short- and long-term objectives).
	Single-measure or composite-measure of the selected dimensions.	Varying definitions of dimensions depending on management preferences.
Unit of Analysis	Portfolio of existing products, product lines or businesses.	Existing and new products, markets, and distribution systems with emphasis on the generation and evaluation of creative new strategic options.
	Total product performance.	Performance by market segment and positioning to reflect the need to incorporate in portfolio analysis consumer needs (preferences) and perceptions of the offerings of the firm and its competitors.
	Domestic portfolios.	Incorporation of an international perspective leading to a portfolio of businesses by countries, by mode of entry, by product, by segments.
Scope of Analysis	Products on limited number of dimensions.	Products on all relevant management dimensions *and* on their *functional* linkages to R&D, production, finance, marketing, etc.
	Independent products and businesses—no explicit analysis of synergy among the units of analysis.	Explicit analysis of product-market synergy.
	No link to financial portfolio analysis.	Explicitly incorporating a modified stochastic dominance analysis in the portfolio system.
	No sensitivity analysis.	Extensive analysis to assess the likely impact of changes in assumptions, projections, and judgments.
Data	Heavy reliance on secondary data.	Integrating secondary data with (a) results of relevant marketing research studies on market needs and response functions, (b) subjective judgments of multiple respondents, recognizing possible conflicts among the relevant decision makers.
	Historical data.	Projected data (under various marketing, competitive, and environmental conditions).
Primary Actors	Staff or outside consultants.	The relevant management group assisted by staff/consultant.
Output	A prescriptive approach with generalized strategies.	An approach which recognizes that portfolio decisions should be based on more than the two dimensions utilized in the standardized portfolio models. No prescriptions.
	Product classification with intuitive guidelines for resource allocation.	Explicit resource allocation among the portfolio components.

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veloping and marketing automobile and homeowner's policies to the over-fifty market. Company management faced the key strategic question of determining the company's direction for future growth. Should the company continue to focus its efforts only on insurance products and, in particular, the over-fifty market, or should it diversify into other products and markets? Furthermore, given the firm's historical strength in direct-mail operations, should it focus its operations on products and markets that can be reached effectively by mail, or should it consider developing new distribution vehicles, such as telephone, stores, and agents?

The AHP was used to help guide the selection of the desired target portfolio of products, markets, and distribution outlets, and to direct the allocation of resources among the portfolio's components. A hierarchy was developed jointly with the company president and his top management group. It was based on three major levels:

Environmental scenarios: an optimistic scenario (low-risk and potentially high-return environmental conditions); continuation of the status quo; and a pessimistic scenario (high-risk and potentially low-return environmental conditions).

Corporate objectives – the criteria for the evaluation of the various courses of action. Five objectives were identified: profit level, sales growth, market share, volatility, and demand on resources.

Courses of action. Possible actions were broken down to three areas – products, markets, and distribution outlets. In each area the courses of action included both existing activities and potential ones, such as new types of distribution outlets, new market segments, and new products.

The top management group then evaluated each activity against the corporate objectives, and each objective against each environmental scenario, based on a nine-point scale. They judged distribution, for example, to be of strong importance (5) over products in leading to the achievement of the firm's target profit level, but somewhat less important when compared to customers (4). In evaluating customers against products, they judged customers to be less important than products (3). The group continued with the pairwise comparison of all of the elements of the hierarchy they generated. These included the evaluation of scenarios against the overall objectives of the firm; objectives against each scenario; the classes of activities and subactivities against each of the objectives; and cross-impact evaluation of each component, given each of the other components at the same level of the hierarchy.

THESE data provided the input for the AHP algorithm, and the results suggested explicit rules for allocating the firm's resources in developing products, markets, and distribution vehicles under three alternative scenarios. Specifically, what the analysis showed was:

- The perceived likelihood of occurrence of the three environmental scenarios was: optimistic, 0.2; status quo, 0.3; and pessimistic, 0.5. Thus, the pessimistic scenario was considered more than twice as likely as the optimistic scenario.
- The relative importance of the five objectives indicates that profit level and market share took priority over sales growth and demand on resources.
- The relative importance of the various objectives varied considerably by the anticipated environmental scenario. For example, sales growth is twice as important under continuation of the status quo as it is under the other two scenarios, while profit level, volatility, and demand on resources are most important under pessimistic scenarios.

Specific priorities for each current and potential product, market segment, and distribution outlet were developed. These priorities reflected management's evaluation of these options with respect to their ability to achieve the various objectives, and the relative importance of each.

A sensitivity analysis was conducted using alternative hierarchical formulations, as well as different assumptions concerning the likely occurrence of the various scenarios. These analyses resulted in a *range of priorities.* Given that this range suggested an allocation of resources significantly different from the firm's current resource allocation pattern, it led to a reevaluation of the firm's activities and the assignment of task forces to those aspects of the portfolio which had not been receiving the attention and resources they deserved.

Experience to date with applications of the AHP to the portfolio decisions of a number of other firms in various industries has been most encouraging. It has been readily accepted by management and has led to more and better diagnostic insights and strategic guidelines than the ones derived from the more conventional standardized portfolio models. All told, these applications demonstrate the value of a marketing perspective for corporate strategy decisions.

The obstacles to effective interface between marketing and corporate strategy are many, but are not unlike those accompanying any major organizational change. These obstacles operate at both the corporate and the disciplinary levels. In both areas, the obstacles include philosophical, organizational, and personal factors.

The *philosophical and attitudinal* obstacles center around the structure and focus of the two disciplines. Marketing has philosophically and historically focused on consumer behavior and empirical market assessment studies. Corporate strategic planning has tended, on the other hand, to place less importance on the consumer and has rarely engaged in or relied on empirical studies of market needs.

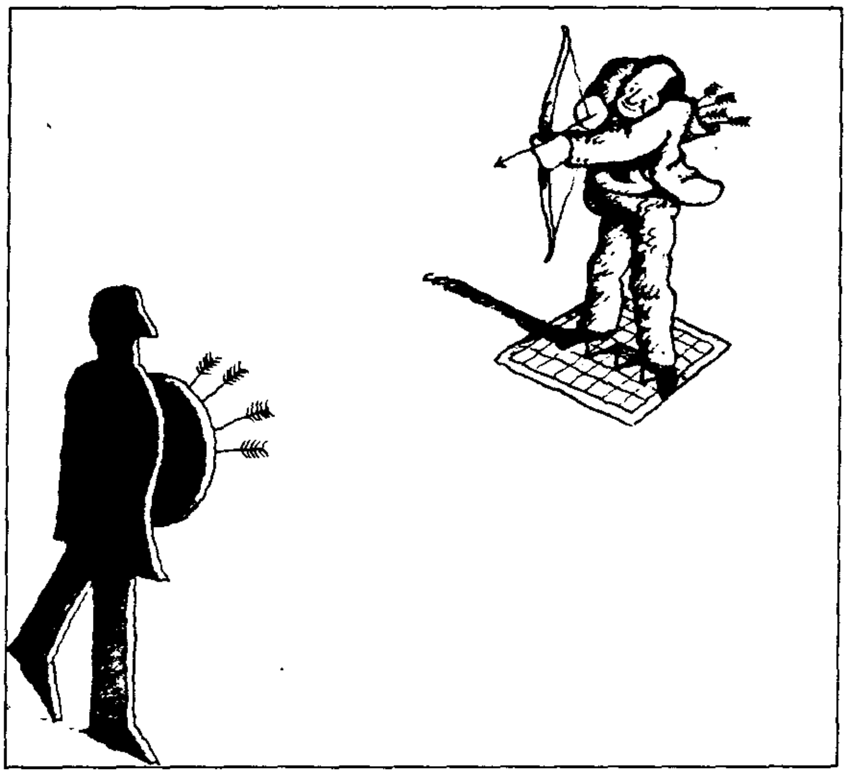
Organizationally, corporations have tended to separate the two functions, not only functionally but also spatially, and in terms of status and financial rewards. The separation is also present in universities and is clearly evident in the training for these two fields – a major emphasis of marketing programs is on methodology, which is a secondary consideration in most strategy programs.

Personal obstacles encompass the typical reasons leading to resistance to change, including the perceived risk, or adverse effects, that the change might have on one's personal standing in a firm (current position, status, financial and psychological rewards, security).

Effective implementation of the interface between corporate strategy and marketing calls for new alliances between the two fields in business firms, universities, and publications. It requires the design of an explicit implementation strategy aimed at overcoming the various obstacles to implementation. Such a strategy should recognize the implications for all the affected areas, including: organizational design, and in particular, implications for the role of top management; management education; publications and other methods of information dissemination; and marketing science and research.

Effective interface between marketing and corporate strategy (and its staff function of strategic planning) has major organizational design implications. It requires a *corporate* marketing function (distinct from marketing at the level of the strategic business unit) responsible for tasks such as consulting to top management; coordination and control of all marketing activities; centralization of certain marketing functions (such as certain aspects of marketing research and information management which cannot be justified at the SBU level); and some corporate strategic planning responsibility. It is in the latter respect that there is a high likelihood of conflict between the chief marketing officer and the corporate planner. To the extent that such conflicts arise, appropriate organizational design is a vital step toward effective conflict resolution.

Other important ingredients of the organizational design issue relate to the functions and location of the management information and support system; integration of the relevant internal and external data; corporate vs. SBU vs. functional-level planning; and the control and monitoring functions. Good organizational design will allow all of this to flow smoothly without slighting either marketing or corporate strategy departments.



The merger and acquisition area has been dominated by financial considerations.

Accepting the value of the interface between marketing and corporate strategy has a number of major implications for the role of top management. These include the adoption of a marketing perspective to supplement the current approaches to:

- portfolio analysis and strategy;
- the merger and acquisition decision;
- the optimal mix of internal (make) and external (buy) efforts as they relate to product, market, marketing, and distribution resources;
- evaluation of the marketing program of the firm;
- design and evaluation of a strategy for corporate positioning and marketing of the corporation to stakeholders;
- the other nonmarketing decisions of the firm as they relate to finance, personnel, research and development, and the other management functions; and
- the legal issues facing a firm as they relate to the possible reliance on consumer (or other) surveys and experiments.

The needed interface between corporate strategy and marketing has considerable implications for Ph.D., MBA, and executive development programs. Some of the major implications are in terms of:

- greater emphasis on integrative courses (more successful business policy courses) and continuous focus on the interrelationships among the various management functions;
- adding to marketing courses a greater appreciation of corporate strategy issues and decision options, as well as of the

Corporate strategy could benefit in general from the empirical orientation of marketing.

interrelationships among the marketing decisions at various organizational levels (corporate, SBU, product group) and the interrelationships among marketing, finance, research and development, personnel, and other management functions;

- ☐ adding greater emphasis on marketing perspectives to strategy courses (including the development of research and modeling skills and their application);
- ☐ supplementing the traditional case orientation of business policy courses with more rigorous modeling and research projects.

A Need for Research

To increase the effectiveness of the suggested interface, high-quality research should be undertaken. An important stimulant for such research is the availability of high-quality journals which reach the desired audience and encourage the publication of such papers.

Several marketing journals are now actively soliciting manuscripts relevant to this interface. The new strategy journals have not published many marketing oriented corporate strategy manuscripts, but do include recognized marketing scholars in their editorial groups and so have the potential to be an important vehicle for interface-type articles.

The more established journals which reach top executives have published only a few such manuscripts, while more technical publications, although they do occasionally publish high-quality interface papers, do not reach the relevant management audience. It is my hope that the general-management and strategy oriented publications will encourage and publish more technically based papers on relevant interface issues, and that the marketing publications will continue to broaden out into strategy areas.

The major implications of the interface for marketing science and research are for the type of marketing research studies and modeling undertaken, their primary area of inquiry, their scope, and their research design. The driving forces behind these changes are the *information needs of strategic planning*, which focuses (more than the typical marketing studies and modeling efforts) on broader considerations, longer time horizons, and the need to understand and predict *changes*.

Consider, for example, the need to develop better research designs for the study of change. Our level of marketing sophistication has reached new heights, but has our ability to cope with the changing environment improved? Our ability to use decision support systems, which integrate the latest in measurement technology with optimization and other management science procedures, has moved beyond the laboratory and has penetrated corporate life. Yet most of these approaches are *static* in nature, with little concern for questions such as:

- ☐ How likely are members of market segment X to remain in this segment in the future?
- ☐ What are the most likely future (five to ten years ahead) consumer needs?
- ☐ What is the most likely competitive response to the firm's marketing strategy?
- ☐ What is the likely impact of various environmental changes (for instance, changing economic conditions, or technological developments such as the computerized office and home of the future) on consumer lifestyles and demand?
- ☐ What is the likely impact of world events on the degree and nature of international competition and cooperation?

A stable market share can be a misleading figure. It can mask major "in" and "out" movements from the brand franchise. A stable rate of short-term profit growth can also offer misleading signals when it reflects one-time cost-cutting efforts to maintain short-term objectives at the sacrifice of long-term profitability and growth.

Deceptively, marketing concepts seem to be responsive to the need to focus on change. The marketing perspective recognizes the inherent need to monitor and forecast changing market trends. Yet, many so-called marketing-oriented firms limit their marketing orientation to an occasional consumer survey and a somewhat limited understanding of the current market structure and its market segments. More attention and resources should be devoted to the development of new concepts and methods for the study, analysis, and forecasting of change under uncertainty. This could lead toward increased relevance of marketing science and research. This in turn could result in an increased strategy orientation for marketing decisions and an improved marketing orientation for corporate strategy decisions. ■

Suggested Reading

THOMAS H. NAYLOR. Corporate Planning Models, *Addison-Wesley, 1979. A comprehensive outline of a systematic approach to the design, development, and implementation of corporate planning models.*

THOMAS ROBERTSON AND YORAM WIND, "*Marketing Strategy*," Handbook of Business Strategy, *Kenneth J. Albert, ed., McGraw-Hill, 1982. A brief review of the major concepts and approaches used in marketing strategy.*

THOMAS SAATY. The Analytic Hierarchy Process, *McGraw-Hill, 1980. A comprehensive discussion of the Analytic Hierarchy Process and its applications.*

YORAM WIND. Product Policy: Concepts, Methods and Strategy, *Addison-Wesley, 1982. Includes an explicit discussion of the interface between marketing and corporate strategy regarding product policy issues.*

YORAM WIND AND VIJAY MAHAJAN, "*Designing Product and Business Portfolios*," Harvard Business Review, *Vol. 59, No. 1, 1981. A critical review of the three sets of portfolio models – standardized models, customized approaches, and financially based approaches.*

YORAM WIND AND THOMAS SAATY, "*Marketing Applications of the Analytic Hierarchy Process*," Management Science, *26, July 1980. A brief exposition of the Analytic Hierarchy Process and its applications to the generation and evaluation of marketing strategies.*