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# A three-step matrix method for strategic marketing management

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## Keywords

Strategic business units,  
Strategic marketing,  
Strategic management

## Abstract

This paper proposes a simple three-step matrix method to assess the situations in the marketplace. First, an industry perspective matrix is developed to assess the opportunities and threats in the operating environment. Next, a competitive position matrix is constructed, to determine the strength and weakness of the strategic business unit. Then, the two are combined to produce a market situation matrix. Any firm can locate its strategic business unit into these matrices, and thereby assess its current and predicted future position in a given marketplace. This approach is very easy to implement in practice, and provides a clearer assessment of strategic options than any single decision matrix alone.

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## Introduction

When a company decides to formulate a marketing strategy, the managers responsible need to assess the status of its strategic business units in the marketplace. That aim can be achieved by external assessment of opportunities and threats in the operating environment, and internal assessment of the company's relative strengths and weaknesses.

Many previous studies have implemented structured approaches to these tasks. For example: the Boston Consulting Group developed a four-cell share/growth matrix; the GE/McKinsey multifactor matrix considered two broad categories; Robinson *et al.* (1978) proposed a "directional policy matrix"; Sheth and Frazier (1983) used a financial model; Capron and Glazer (1987) developed a "technology portfolio". The objective of these approaches is to help a company to assess its situation in the marketplace, and to provide a framework for decisions about the effective allocation of limited resources. However, the use of a single matrix alone may in practice provide a limited picture of the true situation.

This paper proposes a simple three-step alternative. First, the second half of the familiar SWOT analysis is deployed to produce an industry perspective matrix that assesses opportunities and threats in the external business environment. In the second step, financial indicators are applied to the first half of SWOT, to construct a competitive position matrix. This identifies the relative internal strengths and weakness of the strategic business units concerned. The final step is to combine these two matrices into a composite market situation matrix. The marketing manager locates the strategic business unit in that matrix and thereby has

a structured framework for strategic decisions about the deployment of marketing resources. This practical approach to the formulation of marketing strategy is very easy to implement, and provides a clear assessment of the company's situation in the marketplace.

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## The industry perspective matrix

Companies operate in many different kinds of external conditions, typically analysed in terms of the PEST acronym, which summarises the five most basic environmental forces on the company: political, behavioral, economic, social, and technological (see, for example, Cooper (2000)). For a systematic assessment of opportunities and threats in the marketplace, these factors need to be quantified. For that purpose, the industry-perspective matrix shown in Figure 1 adapts the Boston Consulting Group's four-cell share/growth matrix and GE/McKinsey's multifactor matrix.

The horizontal axis plots the opportunities in the behavioral, economic, and social environments, and corresponds to the industrial attractiveness dimension of the GE/McKinsey matrix. Factors relevant to this criterion are, for example, market size, market growth rate, and product life-cycle period. Relative importance weightings can be applied, to obtain an overall scale of opportunity. It is important to note that this measure should take account of both present and future environments. A high-scoring opportunity criterion indicates high long-term profit potential.

The vertical axis of Figure 1 plots threats posed by factors in the political and technological environment. Porter (1985) has identified six generic threats: the economies



Marketing Intelligence &  
Planning  
20/5 [2002] 269-272

© MCB UP Limited  
[ISSN 0263-4503]  
[DOI 10.1108/02634500210441512]

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**Figure 1**  
 The industry perspective matrix

		External opportunity criterion	
		High	Low
External threat criterion	High	Hot market	Merchandise market
	Low	Niche market	Degenerate market

of scale, product differentiation, capital requirements, switching costs, access to distribution channels, and other factors unrelated to scale. Moreover, established players may well erect economic barriers to entry against would-be new entrants, while a short product life-cycle or stringent externally-imposed regulations can pose a large threat in practice. Relative importance weightings can again be applied, to assess the overall threat.

Note that both the horizontal and the vertical axes in Figure 1 increase towards the top left-hand corner of the matrix. In a “hot market”, many companies compete because of the scale of the opportunities. However, the ease of entry imposes a correspondingly large threat. It results in a large market size and rapid growth rate, and permits every entrant to win market share by product differentiation or price competition. In the “niche market” at bottom left, low barriers to entry permit early entrants to realize the opportunities, but a high level of potential threat is created by competition for the profit potential.

At the upper right-hand corner of Figure 1 is a “merchandise market”. The combination of low opportunities and high threats results in fierce competition. When the market growth rate decreases, only a few competitors can survive. The bottom-right cell represents a “degenerate market”, which has low opportunities and threats, but also competitive pressure from substitute products. If the company cannot invent attractive alternatives, its consumer may disappear.

Although the industry-perspective matrix can define the opportunities and threats in the marketplace, it cannot shed light on resource-allocation decisions because the strengths and weaknesses of the strategic business unit are unspecified. Only when those are defined against the competition can marketing resources be allocated efficiently to strategic options.

### The competitive position matrix

A corporate strength results from a competitive advantage, and results in a long-term higher profit. Though there is no convincing standard measure of competitive advantage, activity-based cost accounting can easily compute the profit of a strategic business unit (Cooper and Kaplan, 1991). Higher profitability than the competition must confer a competitive advantage, and measures of profit are thus the surrogates used for the vertical and horizontal axes of the competitive position matrix. Measurement can take many forms, such as return on investment and return-on-assets. This paper chooses the latter, because it is easy to measure and can avoid ambiguity. It derives from two factors: profit margin and asset turnover, i.e.

$$\begin{aligned} \text{return on assets} &= \text{profit margin} \\ &\times \text{asset turnover} \\ &= \frac{\text{net income}}{\text{total assets}} = \frac{\text{net income}}{\text{sales}} \times \frac{\text{sales}}{\text{total assets}} \end{aligned}$$

The Du Pont company was a forerunner in stressing that return on assets could be achieved through high profit margin and/or rapid asset turnover. A higher profit margin than the competitor results in good cost control, higher quality of goods, or rapid product innovation. A higher asset turnover than the industry level demonstrates efficient use of assets. Sheth and Frazier (1983) used “targeted return and margin” to assess the competitive situation of the strategic business unit in the marketplace. However, the data on margin and return may correlate, making their model a potentially unreliable guide to the true position.

Combining profit margin and asset turnover produces the competitive position matrix in Figure 2. The horizontal axis plots asset turnover and the vertical axis profit margin, both quantified by comparison with the industry average or leading competitor. This analysis needs to be not only posterior

**Figure 2**  
 The competitive position matrix

		Asset turnover	
		High	Low
Profit margin	High	Leader	Nicher
	Low	Penetrator	Follower

but also anterior, because the status of competitor advantage must reflect future competitive situations.

When a company has a higher asset turnover and profit margin than the competition, it stands as a leader of the industry, as in the top-left cell of the matrix. In order to do so, it must innovate continuously from R&D through production to marketing. The bottom-left cell represents a penetrator, which has a higher asset turnover and lower profit margin than the industrial average or its main competitor. Such companies often lower price to win market share, resulting in a low profit margin and high asset turnover. The top right-hand corner of the matrix depicts the “nicher”, which occupies a protected area in the marketplace by means of market segmentation or product differentiation. Such companies can resist competition from the leading players, because the niche is small, which is why they exhibit high profit margins and low asset turnover. At the bottom right-hand corner is the follower, with low profit margin and asset turnover. When a company decides to follow the market leader or use product imitation, it will find it hard to raise either of these measures to higher levels.

### The market situation matrix

By combining the industrial perspective and competitive position matrices into this composite matrix, the marketing manager can plot the position of a strategic business unit in the marketplace. In Figure 3, the horizontal axis represents the four cells of first-step matrix, measuring external opportunities and threats. The vertical axis contains the four cells of the second-step matrix of competition, assessing internal strengths and weaknesses. Locating a strategic business unit within this framework provides a firm guide to the allocation of scarce resources to marketing strategy. For a complete discussion of

strategic alternatives, see for example Kotler (1998) and Porter (1998).

The first column of Figure 3 shows the strategies for various competitive situations in a “hot” market, characterized by its high levels of opportunity and threat. The market is growing, but is also easy to enter. The market leader has to devise defence tactics to protect or increase its market share, and the nicher needs an attack strategy. A penetrator also needs to attack, raising its market share and lifting its profit margin by price competition or product differentiation. The follower must avoid the rigours of competition by finding a niche.

The second column of the table compares strategic options in a “merchandise” market, characterized by limited opportunities or unlimited threats. Here, the best strategy for a leader is to harvest, which maintains market dominance and generates cash flow to invest elsewhere. This strategy is also appropriate for the nicher, unless a new niche can be found in which to avoid the competition. The optimal strategy for a penetrator in the merchandise market is to lower costs or to find a protected niche. If a follower cannot find such a niche in this kind of market, the best strategy is to divest.

The different strategies for a “niche” market, with promising opportunities and limited threats, are displayed in the third column of Figure 3. To avoid the threat of potential entry, a leader is well advised to innovate continuously, though it could also raise its market share by defensive tactics. If a nicher wants to increase its market share, it needs to catch up the innovative speed of the leader. This strategy also suits the penetrator, which further needs to lower its cost and differentiate its product, to raise its profit margin. The follower has not only to find a niche or lower its costs, but also to increase market share by attacking the market.

In the case of a “degenerate” market, both opportunities and threats are low, so it makes sense for the leader to harvest and

**Figure 3**  
The market situation matrix

		Industry perspective			
		Hot	Merchandise	Niche	Degenerate
Competitive position	Leader	Raise market share	Harvest	Innovate	Harvest
	Nicher	Expand market size	Harvest	Catch up	Find a new niche
	Penetrator	Lower cost or differentiate product	Lower cost	Catch up or lower cost	Innovate or divest
	Follower	Find niche	Find niche or divest	Find niche or attack	Divest

generate cash for new investment. This strategy is also appropriate for a nicher that cannot find a new niche as a source of increased market share. The penetrator needs to pursue product differentiation to achieve a higher profit margin, or to divest. The follower has little option but to divest.

### Conclusion

To construct a successful marketing strategy, a manager needs to understand the nature of external opportunities and threats, and internal strength and weaknesses. Many decision matrices have been offered for this purpose, but it is doubtful that any one alone is enough to explore the complicated situations of an actual marketplace. This paper has proposed a composite three-step matrix method as a practical alternative. The first step follows previous studies to offer a matrix of external opportunities and threats. The second uses financial data to construct a matrix assessing internal strengths and weaknesses, at the level of the strategic business unit. The third step combines the two, to display the range of strategic options available in different market situations. This approach is more complete than existing

decision matrices, but very easy to implement in practice.

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