

Use of portfolio matrices for marketing planning

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As might be expected from the economic theory of the firm, the use of portfolio matrices (such as the BCG matrix) will harm profits. Empirical evidence that it does so has been shown in field studies by Capon, Farley and Hulbert (1987) and by Slater and Zwirlein (1992). It was also shown in laboratory experiments using 1,015 subjects (Armstrong and Brodie 1994). To date, there are no conditions to modify this conclusion. Despite this evidence, textbooks, classes, and the mass media continue to advocate that portfolio planning matrices should play a role in strategic planning. I have used versions of the laboratory experiment as learning exercises to demonstrate how BCG harms decision making. There is a one-page case (based on the control group) and a 5-page case (based on BCG). Each case has the title "Conglomerate Inc." You can use either or both in a given class session. The exercise typically takes at least 30 minutes. I have posted overheads for instructors (based on materials from our paper). The exercise, overheads, and full-text paper are at <http://jscottarmstrong.com>. Select "Educational Materials" then go to the "Product Policy." At the bottom, you will find the "Portfolio Planning Exercise."

Beware that students are often perplexed, as they have been taught to show respect for BCG-type models.

References

Armstrong, J. S. & R. Brodie (1994), "Effects of Portfolio Planning Methods on Decision Making: Experimental Results," *International Journal of Research on Marketing*, 11, 73-84.

Capon, N., J. U. Farley & J. M. Hulbert (1987), *Corporate Strategic Planning*. New York: Columbia University Press.

Slater, S. and T. Zwirlein (1992), "Shareholder value and investment strategy using the general portfolio model," *Journal of Management*, 18, 717-732.