IIT ROORKEE

NPTEL ONLINE CERTIFICATION COURSE

Project Management for Managers

Lec – 08

Methods of Project Selection - I

Dr. M.K. Barua
Department of Management
Indian Institute of Technology Roorkee

Model for project selection: Methods for selection run on continuum, from highly **qualitative or judgmental to quantitative**. The screening models should have:

Model for project selection: Methods for selection run on continuum, from highly qualitative or **judgmental to quantitative**. The screening models should have:

1. **Realism**: organization's objectives, constraints on money and resources.
2. **Capability**: flexible enough to respond to changes in conditions under which projects are carried out. Comparison of projects should be there (time, technology, commercial aspects).

3. **Flexibility**: model should allow tax rate and tax laws, building codes.

4. **Ease of use**: simple enough, help people involved in project roles and functional roles

5. **Cost**: model should be cost effective

6. **Comparability**: broad enough to be applied to multiple projects

Methods of project selection/evaluation

- Sacred cow: Senior and powerful people
- Operating necessity: Shortage of power - power generation unit, effluent disposal issue – effluent treatment plant
- BCG
- CE/McKINSEY
- SPACE diagram

Methods of project selection/evaluation

Boston Consulting Group (BCG) Matrix: is a four celled matrix (2 * 2 matrix) developed by BCG, USA.

It is the most renowned corporate **portfolio analysis tool**.

It provides a graphic representation for an organization to **examine different <u>businesses</u> in it's portfolio** on the basis of their **<u>related market share and industry growth rates</u>.**

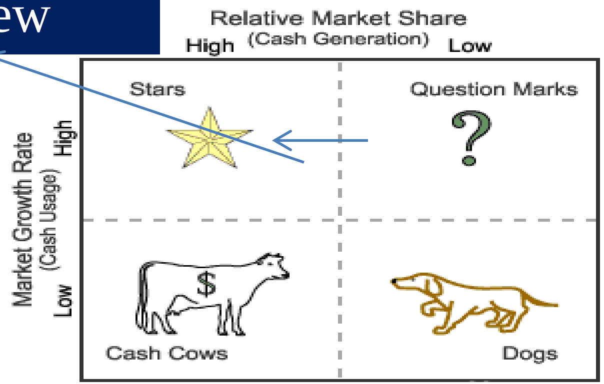
It is a two dimensional analysis on management of SBU's (Strategic Business Units). In other words, it is a <u>comparative</u> analysis of **business potential and the evaluation of environment.**

According to this matrix, business could be **classified as high or low** according to their industry growth rate and relative market share.

Market Share???(Reltv)? = SBU Sales this year / leading competitors sales this year.

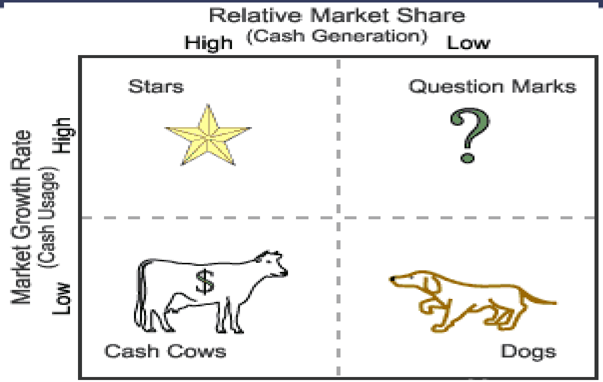
Market Growth Rate = Industry sales this year/ Industry Sales last year.

Select few



Stars- Stars represent business units having **large market share** in a **fast growing** industry. They may generate cash but because of fast growing market, stars **require huge investments to maintain their leads**. Net cash flow is usually modest.

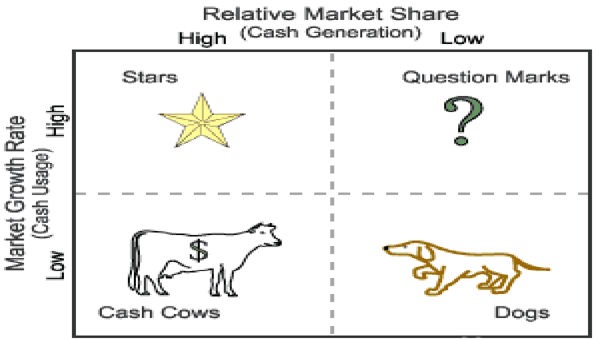
SBU's located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. **If successful, a <u>star will become a cash cow</u> when the industry matures.**



Cash Cows- Cash Cows represent business units having a **large market share in a mature, slow growing industry**.

Cash cows **require little investment** and generate cash that can be utilized for **investment in other business units**. These SBU's/products are the corporation's key source of cash, and are specifically the core business.

They are the base of an organization. **These businesses usually follow <u>stability strategies</u>.** When **cash cows loose their appeal** and move towards deterioration, then a **retrenchment** policy may be pursued.



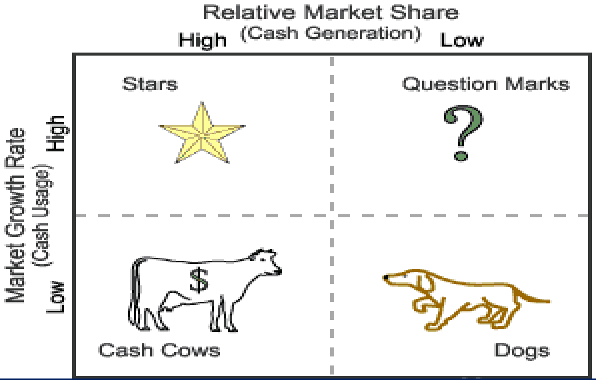
Divest others

Question Marks- They **require huge amount of cash** to maintain or gain market share. They require attention to determine if the venture can be viable.

If the firm thinks it has **dominant market share**, then it can adopt **expansion** strategy, else **retrenchment** strategy can be adopted.

Most **businesses start as question marks** as the company tries to enter a high growth market in which there is already a market-share.

If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.



Liquidate

Dogs- Dogs represent businesses having weak market shares in low-growth markets. **They neither generate cash nor require huge amount of cash.** Due to low market share, these business units face **cost disadvantages**. Generally **retrenchment strategies are adopted** because these firms can gain market share only at the expense of competitor's/rival firms.

These business firms have **weak market share because of high costs, poor quality, ineffective marketing, etc**. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. **Number of dogs should be avoided and minimized in an organization.**

As a particular industry **matures and its growth slows**, all business units become either ***cash cows* or *dogs***.

The **natural cycle** for most business units is that they start **as *question marks*, then turn into *stars*.**

Eventually the market stops growing thus the business unit becomes a ***cash cow*.**

At the end of the cycle the cash cow turns into a ***dog*.**

BCG looks at only growth–share, ignores other elements.

RELATIVE MARKET SHARE

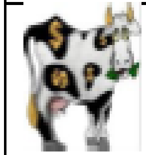
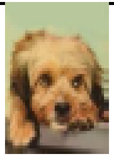
HIGH — Cash Generation — LOW

MARKET GROWTH RATE — Cash Usage (HIGH / LOW)

	HIGH	LOW
HIGH	**STARS** Earnings: *low, stable, growing* Cash flow: *neutral* Strategy: *invest for growth*	**QUESTION MARKS** Earnings: *low, unstable, growing* Cash flow: *negative* Strategy: *invest ,if has potential, otherwise sell*
LOW	**CASH COWS** Earnings: *high & stable* Cash flow: *high & stable* Strategy: *invest to maintain current level or harvest*	**DOGS** Earnings: *low, unstable* Cash flow: *neutral or negative* Strategy: *divest*

Relative market share

Business Growth Rate

Business Growth Rate \ Relative market share	High	Low
High	 Safari Dicor, Indica Vista, Starbus, Ace, Manza, Winger, Magic, Tata Prima, Other LCE's	 Nano, OneCat, Versa, Essota & other new inventions
Low	 Safari, Sumo, Indigo CS, Indigo XL	 Indigo Sedan, Safari, Sierra, Estate

MARKET GROWTH

	High	Low
High	**Star**  ▪ Agri Business ▪ Hotels ▪ Paperboards & Packaging	**Question mark**  ▪ FMCG-Foods ▪ ITC Infotech
Low	**Cash Cow**  ▪ FMCG-Cigarettes	**Dog**  ▪ Branded Apparels ▪ Packaged foods

MARKET SHARE

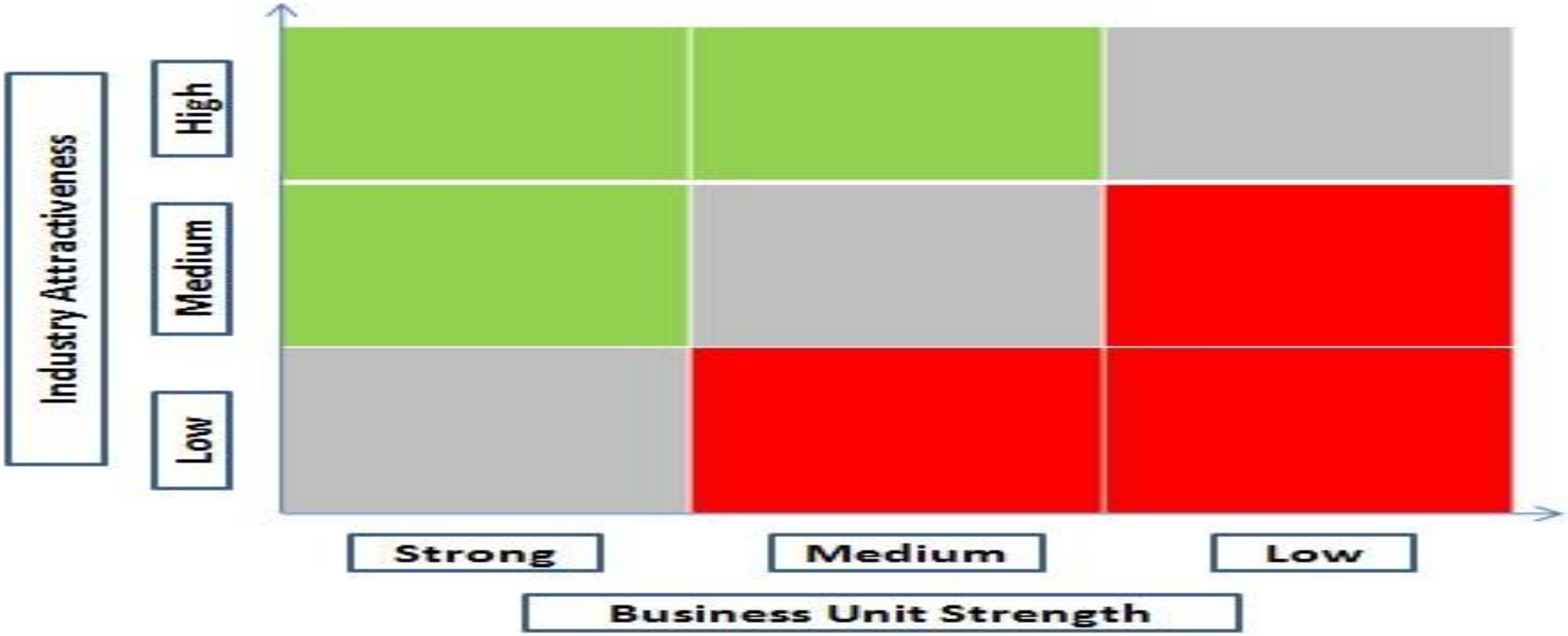
McKINSEY/GE Matrix:

GE / McKinsey Matrix is an extension of the BCG Matrix. This tool compares different businesses on "**Business Strength**" and "**Industry/ Market Attractiveness**" .

This Matrix is divided **into nine cells** - nine alternatives for positioning of any SBU or product offering. **Based on the strength of the business and its market attractiveness each SBU will have a different position in the matrix.**

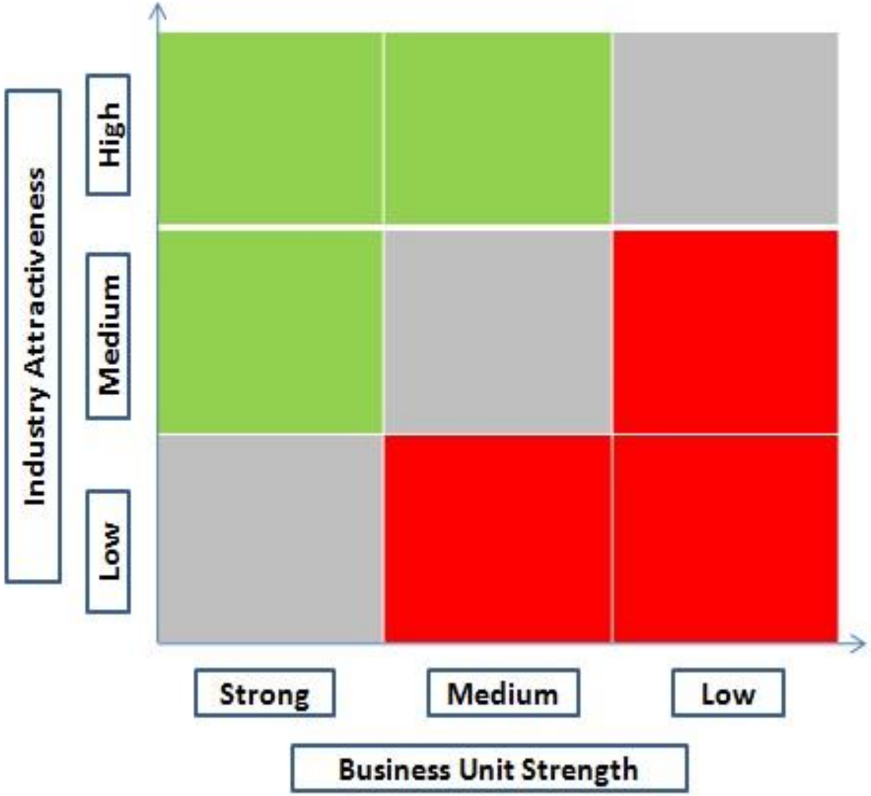
Industry Attractiveness??????

Business Unit Strength??????



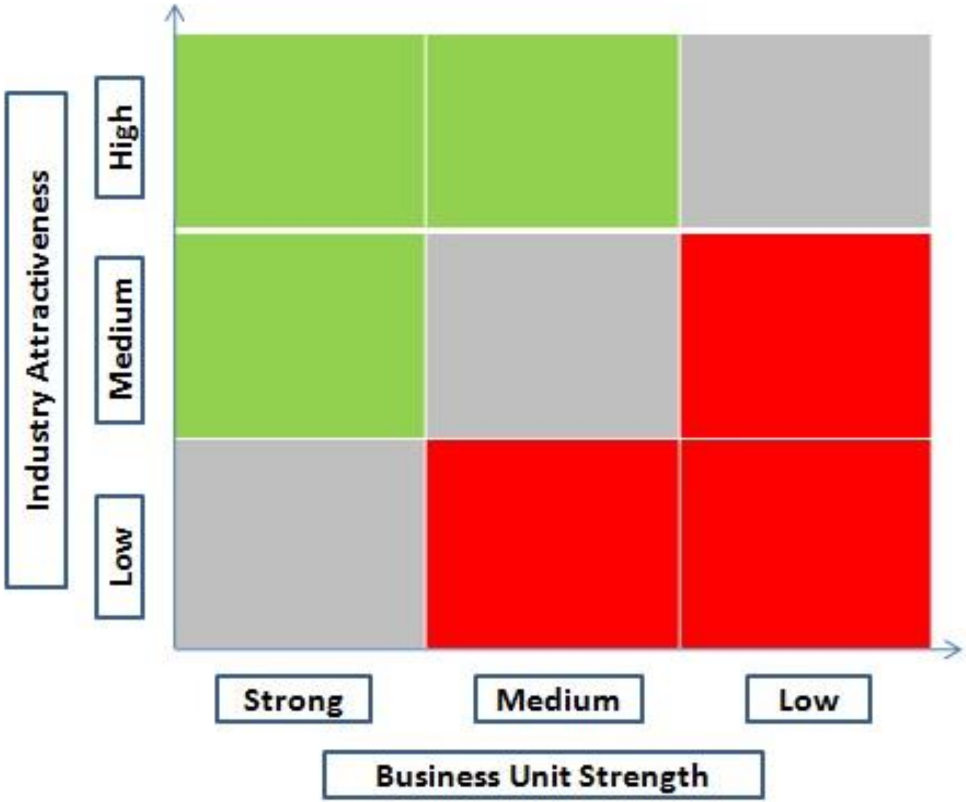
Industry Attractiveness

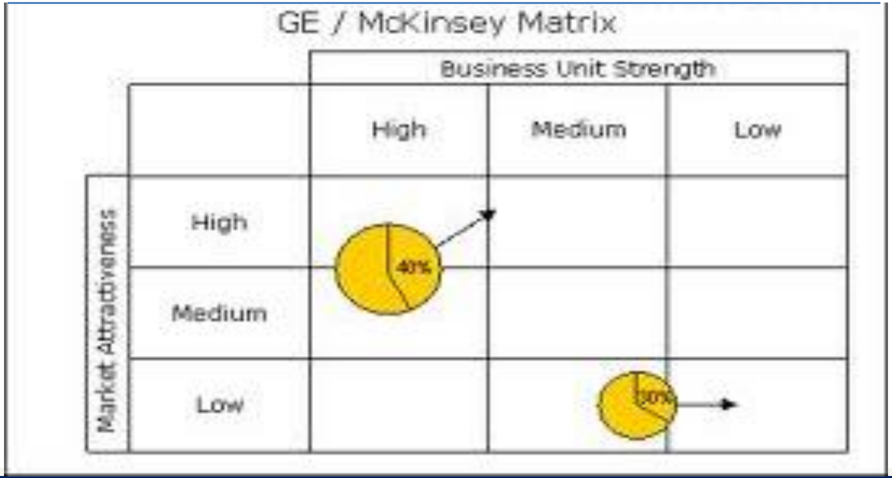
- Market size
- Market growth rate
- Govt support (????)
- Global opportunities
- Industry profitability
- Industry rivalry
- Demand variability
- Macroenvironmental factors



Business Unit Strength

- Market share
- Growth in market share
- Customer loyalty
- Brand equity
- Distribution channel access
- Production capacity
- Profit/cost margins relative to competitors
- Financial and channels' strength



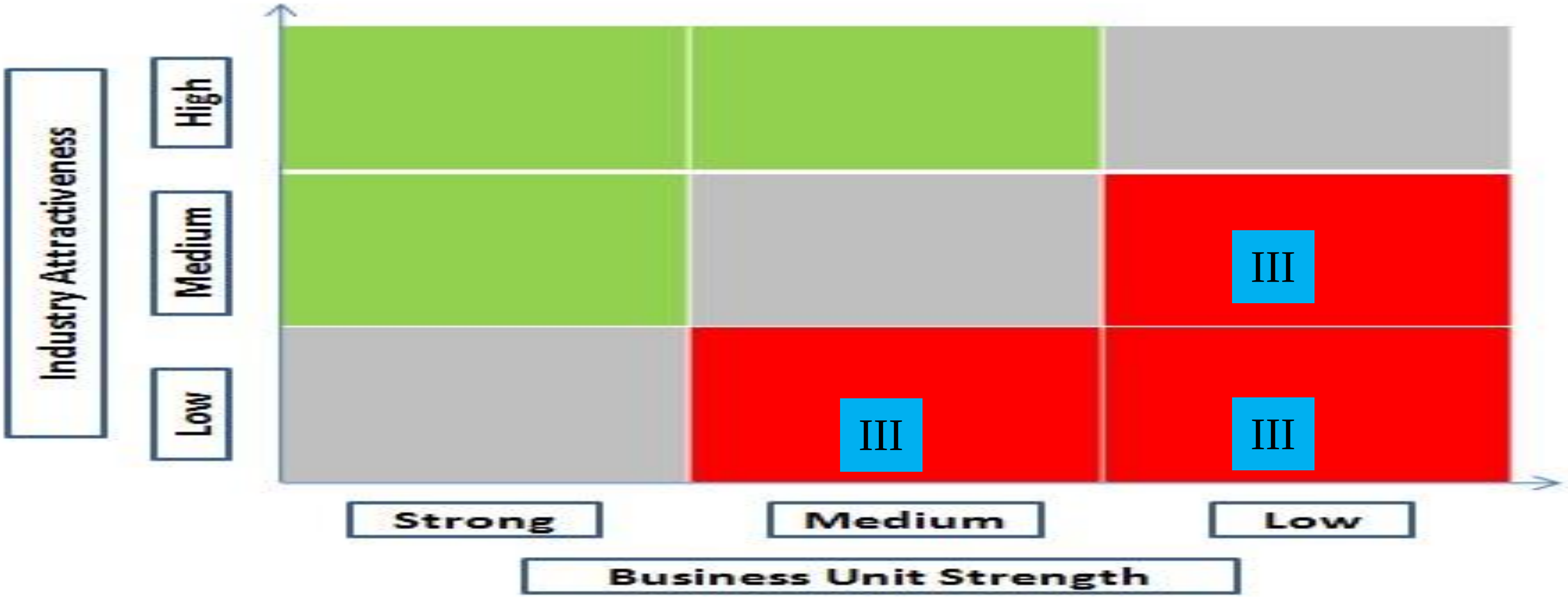


Plotting the Information: Each **business unit can be portrayed as a circle** plotted on the matrix, with the information conveyed as follows:

- Market **size** is represented by the size of the circle.
- Market **share** is shown by using the circle as a **pie chart**.
- The expected <u>future position</u> of the circle is portrayed by means of an arrow.

Segment I: This is the **best segment**. The business is strong and the market is attractive. The company should **allocate resources in this business and focus on growing the business and increase market share. (Similar to which cell of BCG????)**

Segment II: The **business** is either **strong but the market is not attractive or** the **market is strong** and the **business is not strong** enough to pursue potential opportunities. **Decision makers should make judgment on how to further deal with these SBUs**. Some of them may consume to much resources and are not promising while others may need additional resources and better strategy for growth. **(Similar to which cell of BCG????)**



Segment III: This is the **worst segment**. Businesses in this segment are **weak and their market is not attractive**. Decision makers should consider either **repositioning these** SBUs into a different market segment, develop **better cost-effective offering**, or **get rid of these SBUs** and invest the resources into more promising and attractive SBUs. (**Similar to which cell of BCG????)**

GE matrix

Industry attractiveness – Size, Market Growth, Pricing, Mkt. Diversity
Competitive Structure, Industry Profitability

Business strength - Size - Growth - Share - Position - Profitability - Margins - Tech. Position - Image - People		**High**	**Medium**	**Low**
	High	Investment and growth (G) SWIFT	Investment and growth (G) ALTO	Selectivity/ Earnings A STAR
	Medium	Investment and growth (G) SWIFT DEZIRE	Selectivity/ Earnings SX4	Harvest BALENO
	Low	Selectivity/ Earnings WAGON R	Harvest VERSA	Harvest OMNI

Prepare GE Matrix of ITC ?????