Product Portfolio Analysis Models

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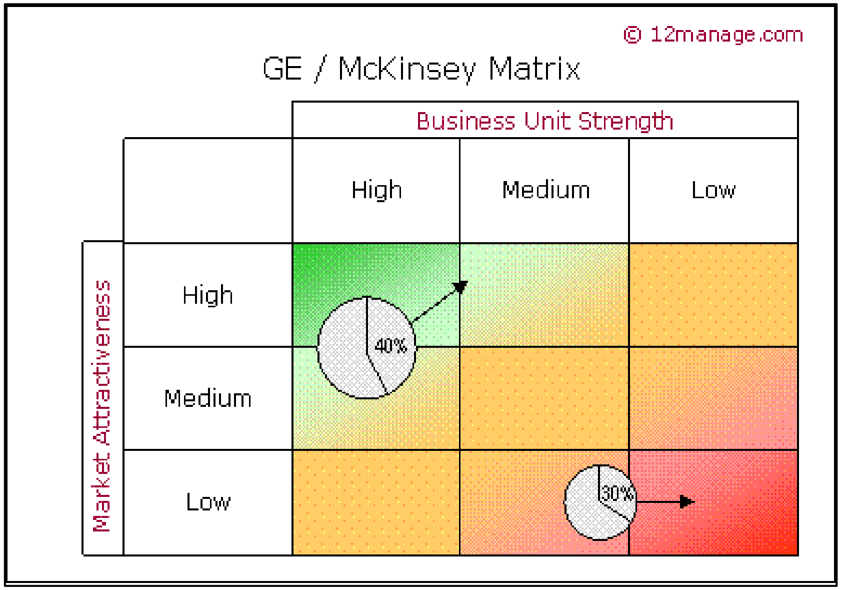
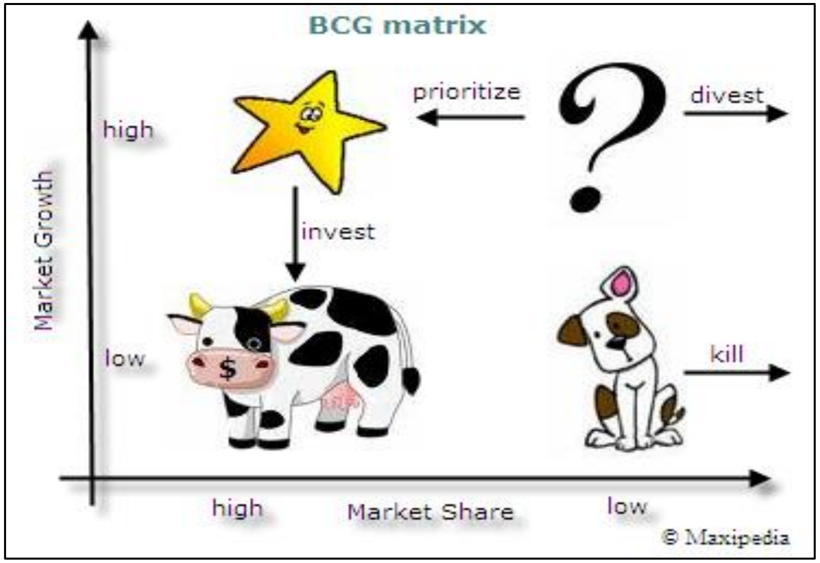
Product Portfolio Analysis Models

- BCG and GE Matrix





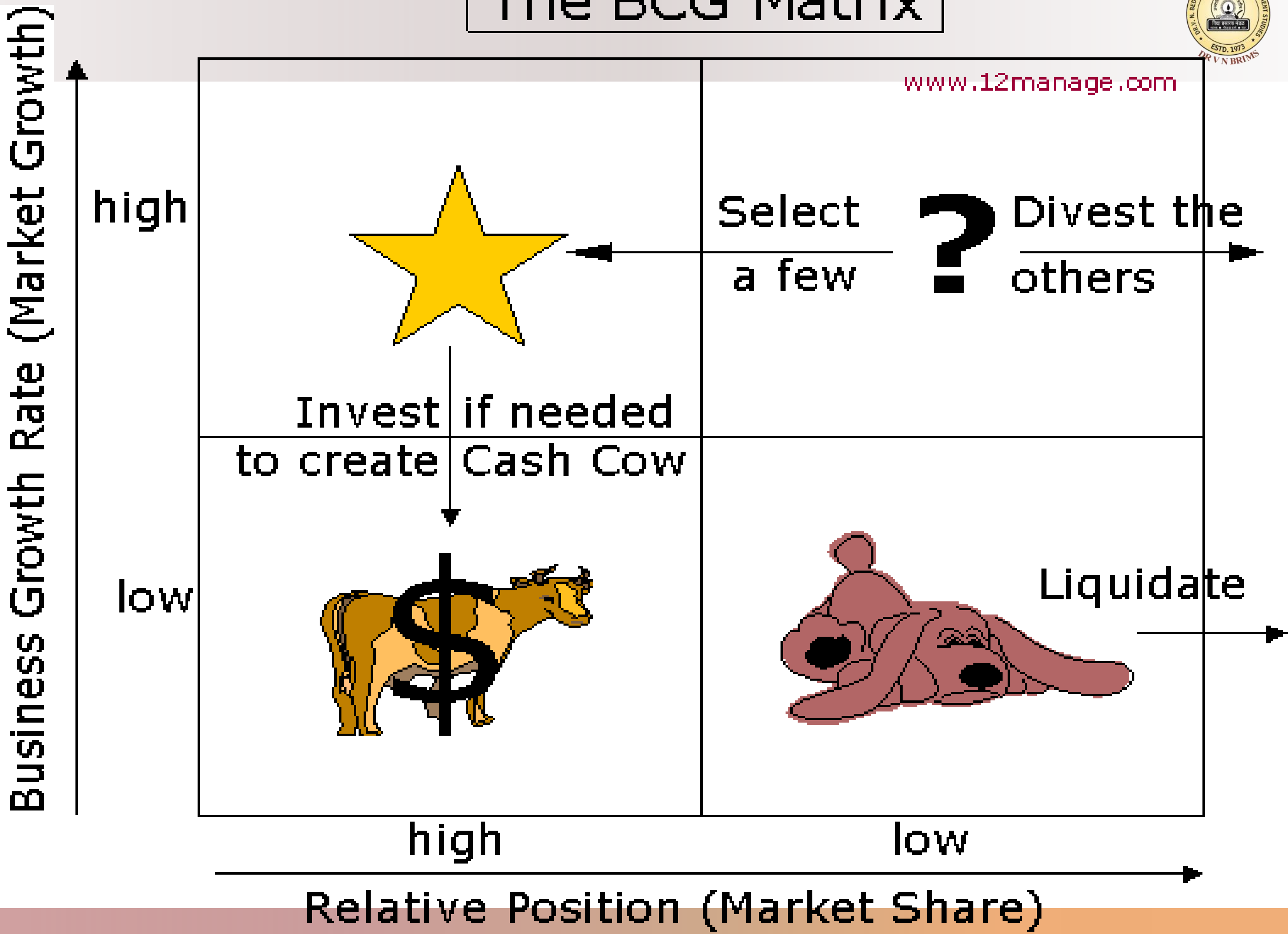
Product Portfolio Analysis

- A **product portfolio** is the collection of all the **products** or services offered by a company. **Product portfolio analysis** can provide nuanced views on stock type, company growth prospects, profit margin drivers, income contributions, market leadership and operational risk.
- Traditionally BCG matrix and GE McKinsey matrix is used, though today a wide array of soft-wares available to companies for analysing their products; below link provides list of few such leading soft-wares
- https://www.capterra.com/project-portfolio-management-software/

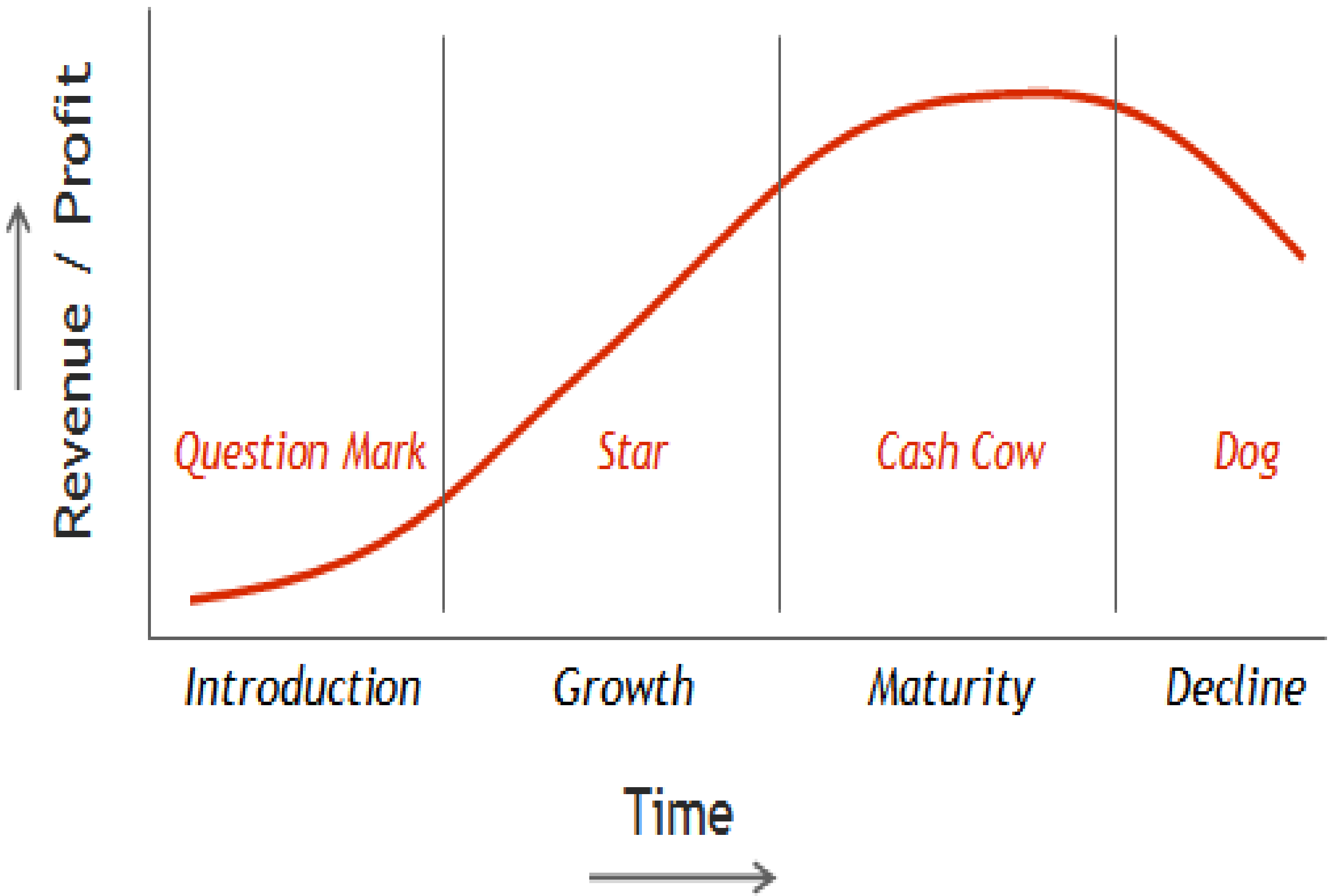
BCG Matrix

- BCG Matrix also known as Growth-Share Matrix is **strategic tool for portfolio planning and analysis**. BCG Matrix is used for current portfolio analysis, portfolio planning and development, and new strategy development - developing and positioning new businesses and repositioning your current businesses.
- The overall **goal** of using the BCG Matrix is **understanding the marketplace, portfolio optimization, and effective resource allocation**.

The BCG Matrix



BCG positions throughout the product life cycle:



1. Question Marks

- The business unit has low market share compared to competitors, however it is doing business in high-growth market.
- Most of the **new businesses start in this quadrant**.
- There are well established businesses in this market and new businesses try to grow and capture more market share. This market is growing and there are opportunities for new businesses.
- At the same time **there is risk involved with investing in this business – because of that these businesses are called question marks**. Question Marks have to develop and grow by investing and continuously improving their business.
- ***STRATEGY****: Grow sales by increasing market share. Use cash from Cash Cows to support required investments.*

2. Stars

- The business has high market share compared to competitors and it is doing business in high-growth market. This business is a market leader.
- Successful Question Marks will grow their business and capture more market share and will hopefully become Stars (move from the Question Marks quadrant to the Stars quadrant).
- Successful and competitive organizations have at least one star business unit or product.
- Stars have to improve their business continuously in order to keep their position in the marketplace. As long as this market is growing new question marks will try to capture new business.
- ***STRATEGY: Invest*** *for sales growth and market share. Use cash from Cash Cows to support required investments.*

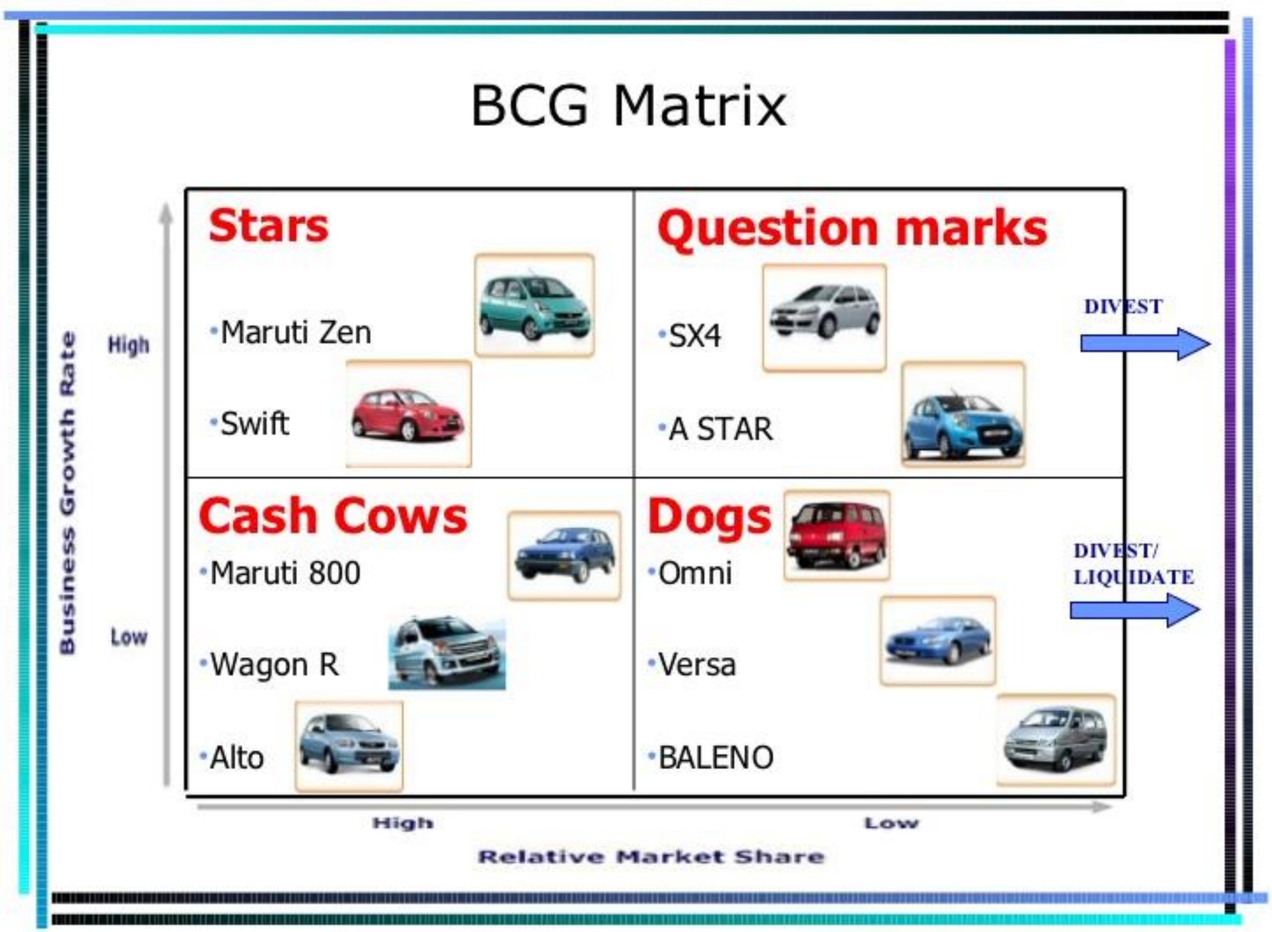
3. Cash Cows

- The market is not very attractive – low market growth rate, however the business has **high market share** compared to competitors.
- This business **generates a lot of cash** and **helps the organization invest in other businesses.**
- Since the market does not attract new players, this business does not need substantial investments to keep the market share.
- Cash Cows have to protect and keep the market share and maximize cash flow.
- ***STRATEGY:*** *Maintain the strong market position and defend your market share. Take advantage of sales volume and leverage the size of operations. Support other businesses.*

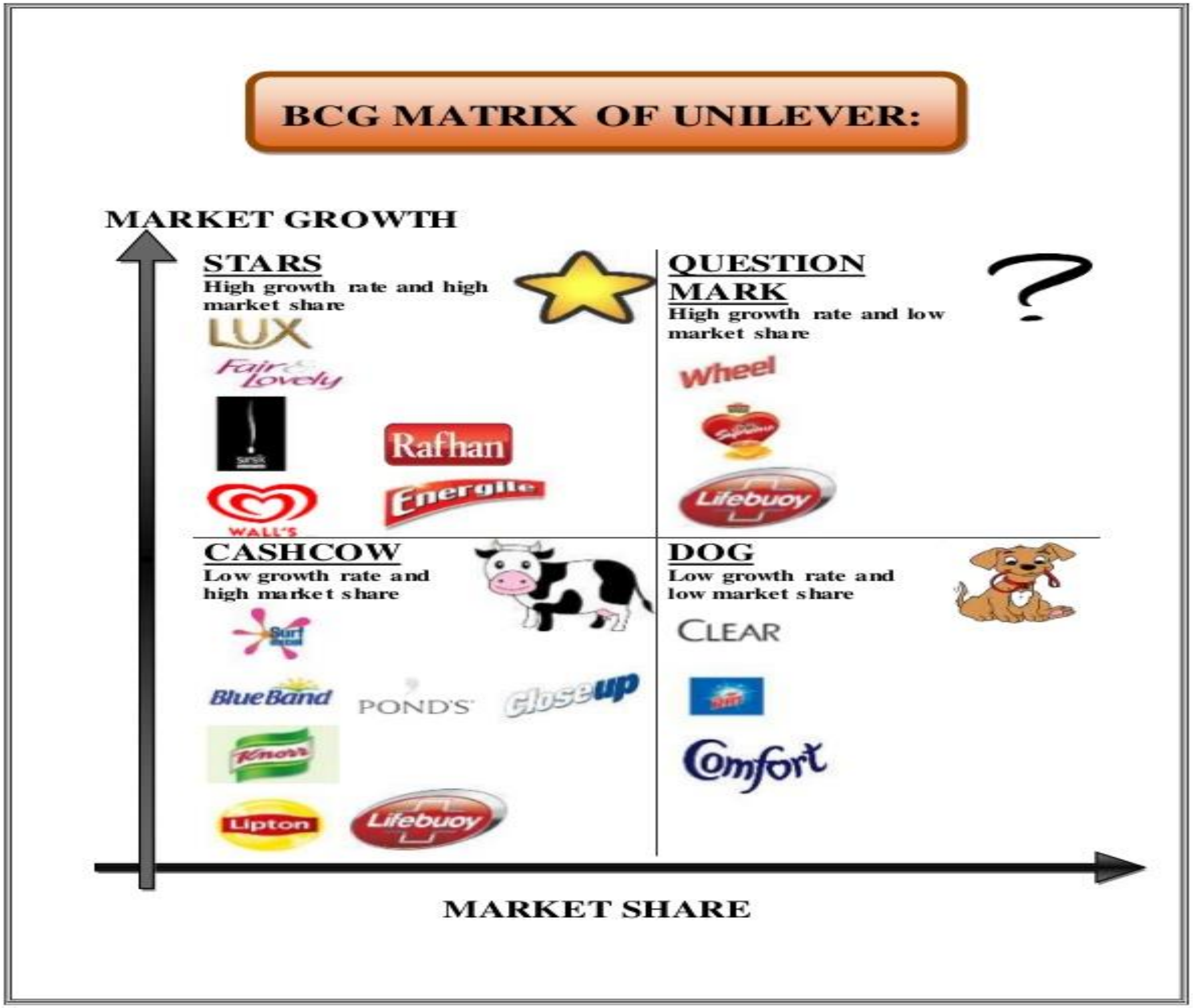
4. Dogs

- This business has low market share and operates in low-growth market.
- It is unlikely that this business is very profitable – more likely this business is a **loser**. Such a business needs consideration and new strategy development.
- Potential strategies are **withdrawal, selling the business, repositioning** the current business, and **operating cost reduction.**
- ***STRATEGY****: Optimize your current operations. Get rid of all non value added activities and features. Reposition your offering to generate positive cash flow or sell this business.*

An old BCG matrix for maruti Suzuki



BCG MATRIX FOR COLGATE


BCG MATRIX OF UNILEVER:
MARKET GROWTH
STARS
High growth rate and high market share
LUX
Fair & Lovely
Rafhan
Energile
WALL'S
QUESTION MARK
High growth rate and low market share
Wheel
Lifebuoy
CASHCOW
Low growth rate and high market share
BlueBand
POND'S
Closeup
Knorr
Lipton
Lifebuoy
DOG
Low growth rate and low market share
CLEAR
Comfort
MARKET SHARE

Class Activity# 3

- Conduct a product portfolio analysis by designing a simple BCG matrix for a company of your choice/ the portfolio you created in previous session.

Product Portfolios


PEPSICO
MIRINDA
Brisk
Ocean Spray
MUG
Mtn Dew
SoBe
7UP
AQUAFINA
Lipton
AMP
Tropicana
pepsi
Dole
Ruffles
Mrs Vickie's
Cheetos
Cracker Jack
Fritos
Tostitos
Rold Gold
Sun Chips
Lay's
Doritos
QUAKER
Life
Aunt Jemima
Crispy minis
Harvest Crunch
Chewy
Yum!
A&W
East Side Mario's
KFC
Taco Bell
Pizza Hut


KRAFT
Cote d'Or
TOBLERONE
Milka
BAKER'S
OREO
LU
Newtons
Chips Ahoy!
Stove Top
SHAKE'N BAKE
MAGIC
Oscar Mayer
POLLY-O
Mr. Christie's
Honey Maid
DR PEPPER
SNAPPLE
A&W
Welch's
Canada Dry
Snapple
Squirt
Schweppes
MOTT'S
Hawaiian Punch
Crush
CLAMATO
Cadbury
Sour Patch
Maynard's
Crispy Crunch
Caramilk
crunchie
Trident
Clorets
Dentyne
Stride
HALLS
Chiclets
CERTS
Kool-Aid
Del Monte
Capri-Sun
TANG
Crystal Light
Mr. Freeze
PLANTERS
Triscuit
PREMIUM
Wheat Thins
RITZ
CLUB SOCIAL
Maxwell House
NABOB
Kenco
JACOBS
Velveeta
P'tit Québec
Philadelphia
Cracker Barrel
Singles
MAYO
Miracle Whip
JELL-O
Cheez Whiz
Cool Whip
A1


MARS
whiskas
Pedigree
ROYAL CANIN
Freedent
5 GUM
WRIGLEY'S SPEARMINT
excel
DOUBLEMINT
Juicy Fruit
Big Red
Extra
Hubba Bubba
Orbit
WRIGLEY
LIFESAVERS
Starburst
Skittles
ALTOIDS
Uncle Ben's
Mars
m&m's
SNICKERS
MilkyWay
Maltesers
Dove
BOUNTY
Twix

GE/McKinsey Matrix- Brief History

In the late sixties and early seventies, while the Boston Consulting Group were devising the BCG or Growth Share matrix, General Electric, a leading corporation in the United States, were also looking at concepts and techniques for strategic planning.

They became interested in the Growth-Share matrix and liked the visual approach depicting the positioning of a firm's businesses on the matrix.

General Electric, from all their own strategic planning research, objected to the two dimensional matrix which relied on market growth for industry attractiveness and relative market share for business strength.

GE asked McKinsey and Company, a consulting company in the USA, to develop a portfolio approach with a wider dimension than the BCG matrix.

In 1971 McKinsey and Co developed the business screen for General Electric to differentiate the potential for future profit in each of the 43 strategic business units. This matrix is also known as the industry attractiveness – business strength matrix and the nine-box matrix.

Strategic Emphasis

This matrix was designed to overcome the shortfalls that companies were encountering with the BCG matrix

A multifactor portfolio model and it has a greater flexibility compared to the BCG

It also introduces the forecasted positioning of businesses/products on the matrix facilitating the strategic planning process.

The matrix has nine cells compared to the BCG four cells and the scores on the axis can be rated low, medium, high compared to the BCG high and low.

The Approach

- This model suggests that the **long run profitability of each unit** is influenced by the unit’s **business strength** and
- **The ability** and incentive of a firm **to maintain or improve its position** in a market depends on the **industry attractiveness.**

GE Matrix

Industry Attractiveness

- **Growth**
- **Diversity**
- **Competitive Structure Change**
- **Technology Change**
- **Social Environment**

GE Matrix

Business Strength

- Size of Market & Share
- Company Growth Rate
- Profit
- Margins
- Technology Platform
- Image
- People

Strategy Formulation

GE Multifactor Business Portfolio Matrix

Business Position			
HIGH	Selective Investment	Invest / Grow	Invest / Grow
MEDIUM	Harvest / Divest	Selective Investment	Invest / Grow
LOW	Harvest / Divest	Harvest / Divest	Selective Investment
	LOW	MEDIUM	HIGH
	Industry Attractiveness		

Source: GE & McKinsey & Co.

1000ventures.com

Factors that Affect **Industry Attractiveness**

Whilst any assessment of Industry attractiveness is necessarily subjective, there are several factors which can help determine attractiveness. These are listed below:

- **Industry size**
- **Industry growth**
- **Market profitability**
- **Pricing trend**
- **Competition intensity**
- **Overall risk and returns in the industry**
- **Opportunity to differentiate products and services**
- **Distribution structure**

- Each factor is assigned a weighting that is appropriate for the industry.
- The industry attractiveness then is calculated as follows:
- Industry attractiveness = factor value_1 x factor weighting_1 + factor value_2 x factor weighting_2 .

  .

  .

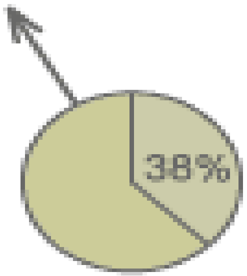
  + factor value_N x factor weighting_N

Factors that Affect **Business Strength**

- Strength of assets and competencies
- Relative brand strength
- Market share
- Customer loyalty
- Relative cost position
- Distribution strength
- Record of technological or other innovation
- Access to finance and other investment resources

Plotting the Information

- **Each business unit** can be portrayed **as a circle plotted** on the matrix
- **Market size** is represented by the **size of the circle**.
- **Market share** is shown by using the circle **as a pie chart**.
- The **expected future position** of the circle is portrayed by means of an **arrow**.
- The following is an example of such a representation:



Strategic Implications

Resource allocation recommendations can be made to grow, hold, or harvest a strategic business unit based on its position on the matrix as follows:

Grow strong business units in attractive industries, average business units in attractive industries, and strong business units in average industries.

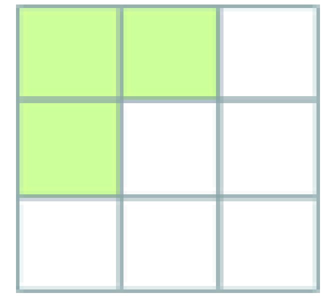
Hold average businesses in average industries, strong businesses in weak industries, and weak business in attractive industies.

Harvest weak business units in unattractive industries, average business units in unattractive industries, and weak business units in average industries.

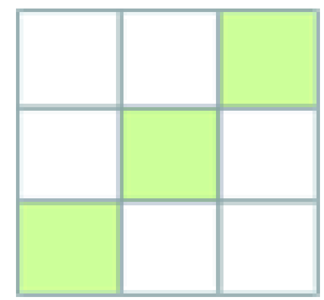
There are strategy variations within these three groups. For example, within the harvest group the firm would be inclined to quickly divest itself of a weak business in an unattractive industry, whereas it might perform a phased harvest of an average business unit in the same industry.

Nine cell matrix

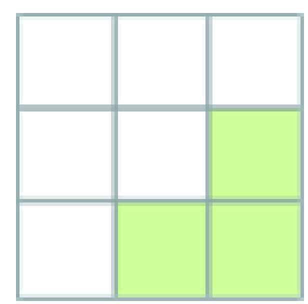
- The nine cells in the matrix can be grouped into three major segments:
- **Segment 1:** This is the **best segment**. The business is strong and the market is attractive. The company should **allocate resources** in this business and focus on growing the business and increase market share.



- **Segment 2:** 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.



- **Segment 3:** 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.



Steps

The GE matrix has 5 steps:

* One - Identify your products, brands, experiences, solutions, or SBU's.

* Two - Answer the question, What makes this market so attractive?

* Three - Decide on the factors that position the business on the GE matrix.

* Four - Determine the best ways to measure attractiveness and business position.

* Five - Finally rank each SBU as either low, medium or high for business strength, and low, medium and high in relation to market attractiveness.

Limitations

There is no research to prove that there is a relationship between market attractiveness and business position.

The interrelationships between SBU's, products, brands, experiences or solutions is not taken into account.

This approach does require extensive data gathering.

Scoring is personal and subjective.

There is no hard and fast rule on how to weight elements.

The GE matrix offers a broad strategy and does not indicate how best to implement it.

Example of application of GE McKinsey Matrix

Market Attractiveness \ Business Unit Strength	High	Medium	Low
High	**Tablets:** The iPad has first mover advantage and a dominant share in a fast-growing market. However, competitors are gaining strength. Release of the iPad 2 in spring 2011 reinforced Apple's position.	**Smartphones:** the iPhone trails Nokia and RIM in market share, but this is a high-growth market. A new version of the iPhone will likely be released in summer 2011.	
Medium	**iTunes:** Despite the appeal of peer-to-peer sharing, Apple has the dominant position in paid online music purchases. **iPod:** Sales have flattened out, but Apple has the dominant market share	**Laptops:** Apple has strong revenue growth (Apple laptop sales have exceeded desktop sales since 2006)	
Low		**Desktops:** Apple has 8% market share, sales declined from 2008 to 2009 **Peripherals and Software:** Apple sales have been relatively flat; strength comes from custom products to support other Apple devices	

Class Activity- Assignment

- Perform portfolio Analysis (both Models) for a conglomerate of your choice by identifying its SBU’s first and then suggest your recommendation for that SBU/ Brand/ Product category to make a strategic decision.