Introduction to Management

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BCG Matrix

Models and strategies

BCG Matrix

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- In Boston Consulting Group Matrix, Strategic Business Units (SBUs) are evaluated on the basis of 2 elements: (a) The attractiveness of the SBU's market *(market growth)* and (b) the strength of the SBU's position in that market *(market share).*

- In BCG approach, the company classifies all its SBUs into 4 types as "star", "cash cow", "question mark" and "dog" according to their **market growth** and relative **market share**.

What is an SBU?

- The first step in the portfolio analysis is to identify the **key businesses** making up the company. The company's key businesses (a company division, a product line, or a single product or brand) are called *strategic business units (SBU)*.

- It may be less difficult to define SBUs in multibusiness organizations (such as General Electric, Christian Dior, etc) which are diversified into many different businesses.
- They can be classified by adopting the Abell's model.

How to Identify SBUs?

The following are some characteristics and attributes of a SBU:

- It is the basic competitive unit of a company.
- It has a specific and identifiable group of customers.
- It has specific and identifiable competitors.
- It can be measured as an independent entity in terms of profit and loss.
- Therefore, it may require a separate marketing strategy.

How to Identify SBUs?

- In order to identify the company's SBUs, one of the simplest way is to develop a matrix.
- On the horizontal axis, there will be the customer groups the company currently serves.
- On the vertical axis, there will be the product or product groupings the company currently serves.
- To define the company SBUs, each customer group will be needed to match up with a product.
- When the matrix is finished, there will be some blocks containing "x". X represents where the company has a strategic business unit.

How to Identify SBUs?

	Customer Group 1	Customer Group 2	Customer Group 3
Product(s) 1	X	X	
Product(s) 2		X	X
Product(s) 3		X	X

Growth and Market-Share Dimension

- The BCG growth-share matrix, being both simple and easily quantifiable, suggests that an analysis of the market can best be summarized by knowing its growth rate, and that the best indicator of a business unit's strength in a market is its relative market share.
- The growth dimension is usually set at a 10-percent annual growth rate. Thus, markets growing more than 10 percent in one year are considered as high-growth markets.
- The market-share dimension is measured as the total sales of the company's divided for the total sales of the market or of the leader in the market.

BCG Growth-Share Matrix

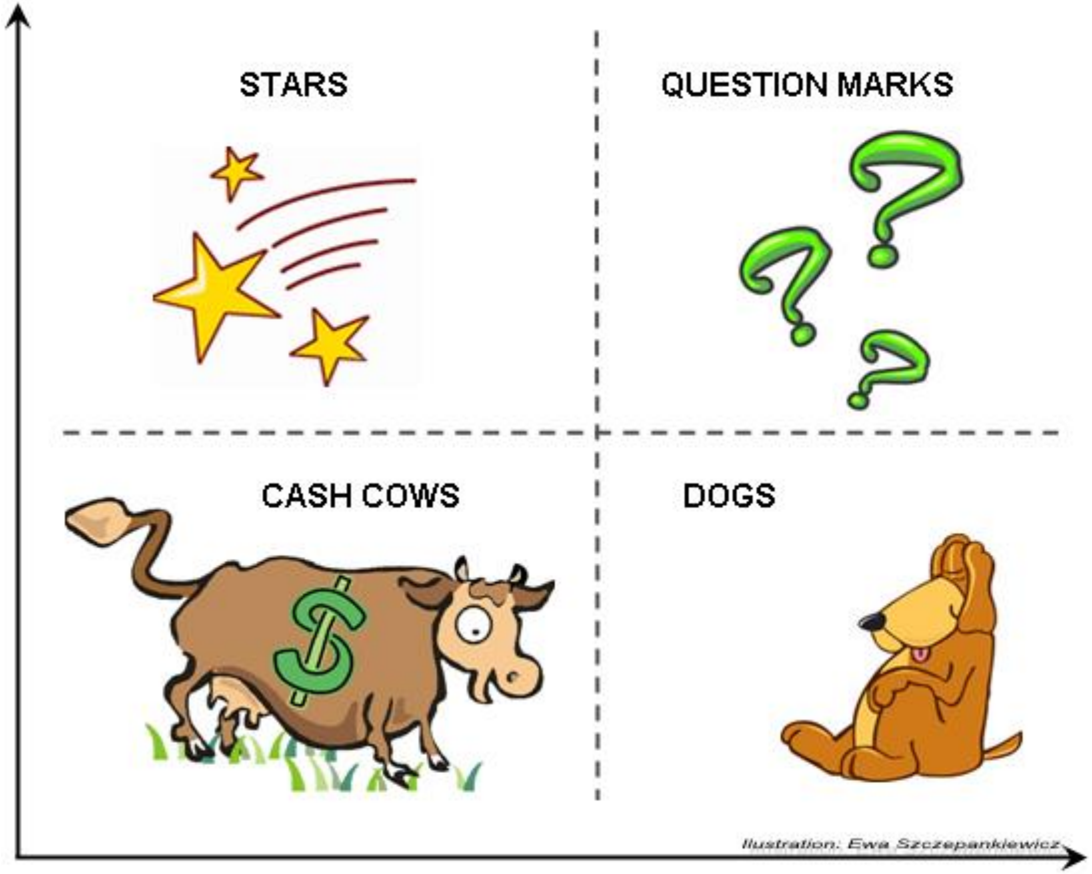
Market

Growth

Rate

high

low



high **low**

Market Share

BCG Growth-Share Matrix

RELATIVE MARKET SHARE

Cash Generation

MARKET GROWTH RATE / Cash Usage	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*

BCG Growth-Share Matrix

- **<u>Stars</u>**; are high-growth, high-share businesses or products. They often need heavy investment to finance their rapid growth. Therefore, they may not produce a positive cash flow. The business strategy is generally to support their growth by acquiring external capital. If they are not able to grow they will turn into cash cows.

- **<u>Cash cows</u>**; are low-growth, high-share businesses or products. These established and successful SBUs need less investment to keep their market share. They produce a lot of cash to be used for other business units of the company. They are either milked for investment in stars or question marks or harvested if there is little optimism for a stable future.

BCG Growth-Share Matrix

- **<u>Question marks</u>**; sometimes called problem children, are low-share business units in high-growth markets. They need a lot of cash to keep and increase their share; they can not generate enough cash themselves. Management must decide which question marks should be moved into stars and which should phase out.

- **<u>Dogs</u>**; are low-growth, low-share businesses and products. They often have poor profitability. Therefore, the business strategy for a dog is often to divest, but occasionally it could be considered a possible strategic repositioning as a question mark or cash cow.

Strategy Implications

- Once the company classifies its SBUs, it must determine what to do with them.

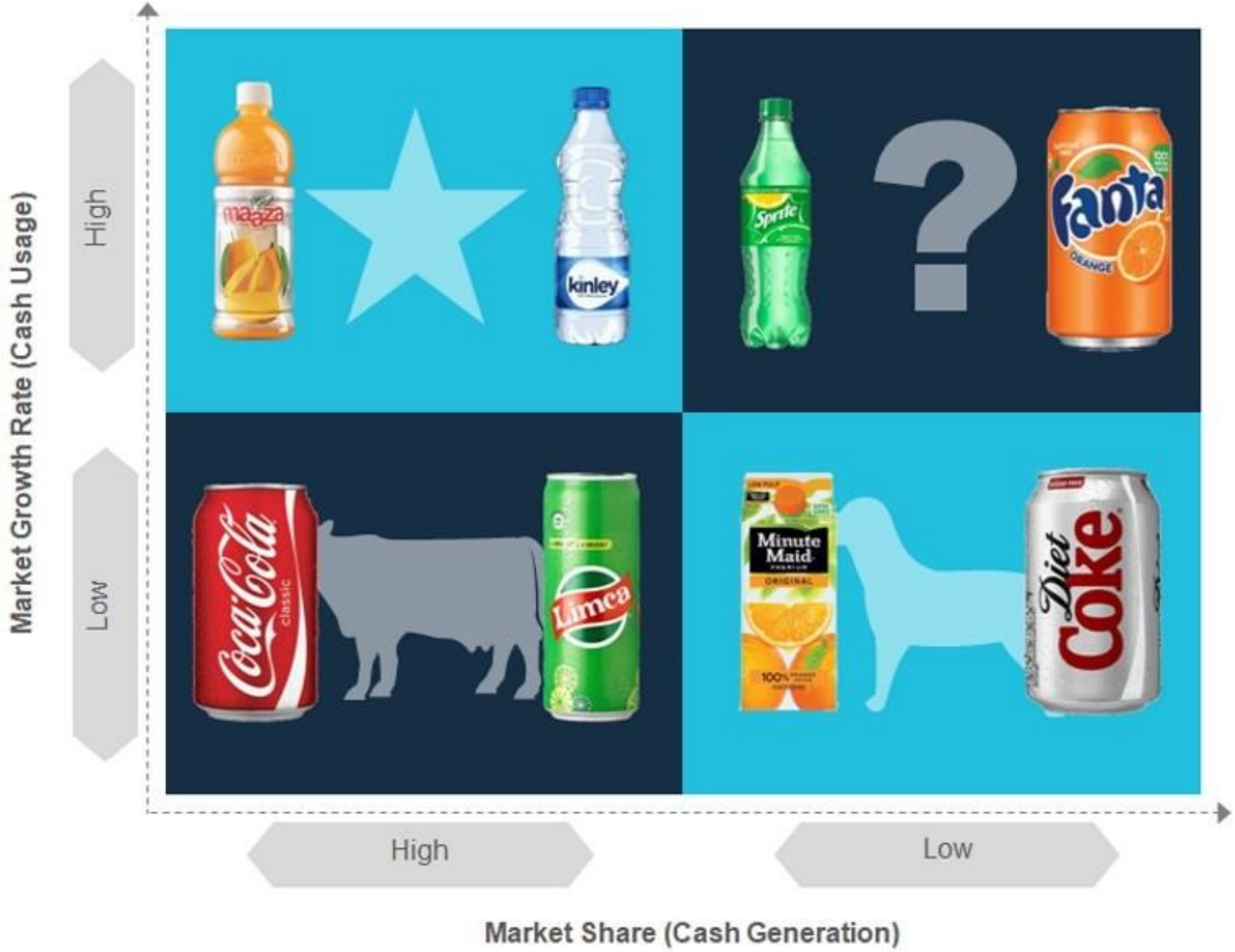
- Imagine yourself in a poker game. The other players at the table are your competitors. The cards in your hand represent your business. Each card represents a single strategic business unit. To win the game, you need to decide how strong your hand is and what you must do with each card in order to give you the highest probability of holding a winning hand.

Strategy Implications

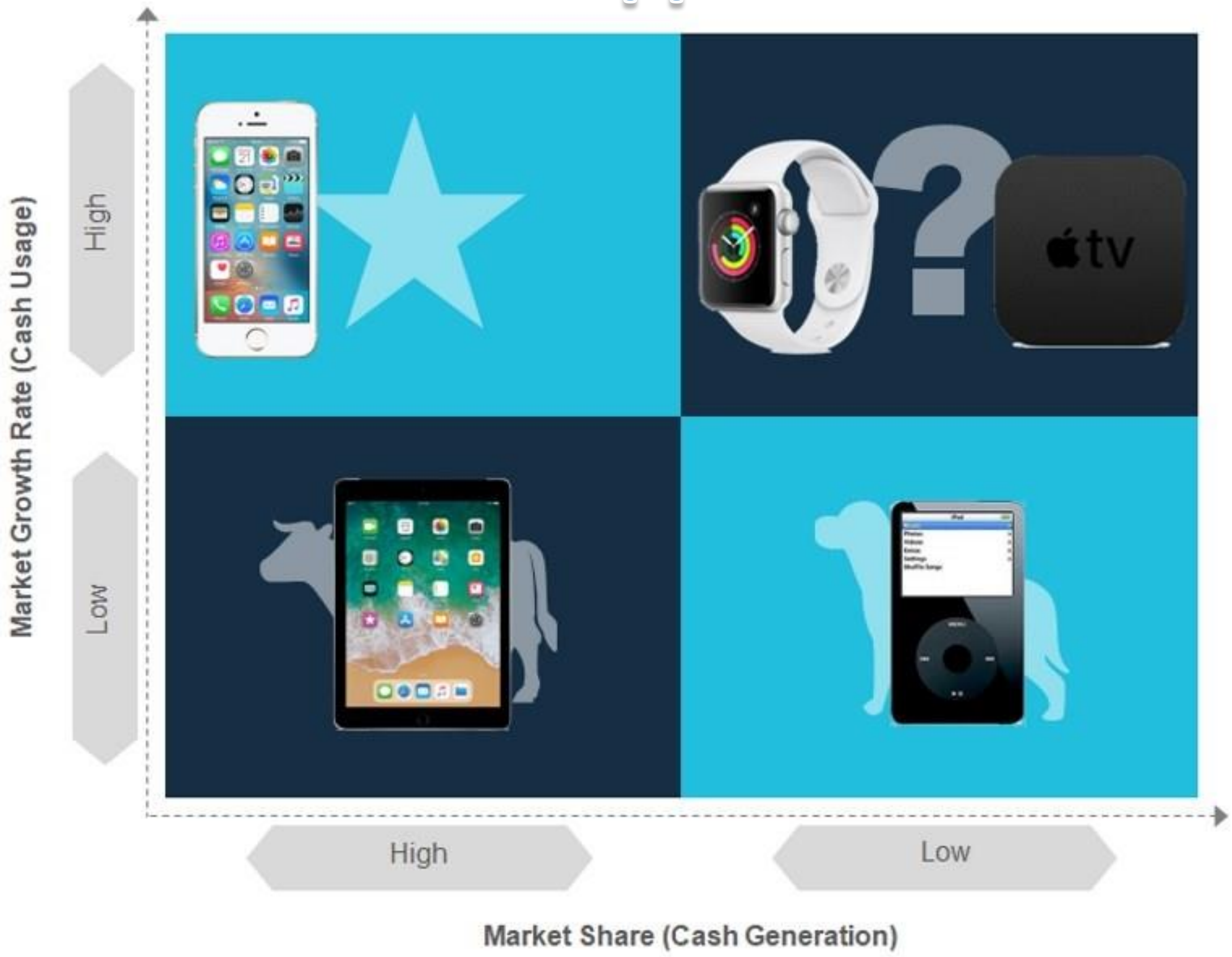
There are four strategies. The company can follow:

- invest more in the business unit in order to ***build*** (increase) its share.
- invest just enough to ***hold*** (keep) the SBU's share at the current level.
- it can ***harvest*** the SBU, milking its short-term cash flow regardless of the long-term effect .
- ***divest*** (kill) the SBU by selling it or phasing it out and using the resources elsewhere.

Coca Cola


Market Growth Rate (Cash Usage)
High
Low
High
Low
Market Share (Cash Generation)
maaza
kinley
Sprite
Fanta
Coca-Cola
Limca
Minute Maid
Diet Coke

Apple



Market Growth Rate (Cash Usage)
High
Low
High
Low
Market Share (Cash Generation)

Nestlè


Market Growth Rate (Cash Usage)
High
Low
High
Low
Market Share (Cash Generation)
NESCAFÉ CLÁSICO
Nestlé Pure Life
KitKat
3+1 FREE
Maggi
2-Minute Noodles
Masala
Nestlé Fresh Milk
Milk Pak
Milkybar
Nestlé Classic

Limitations of the BCG Matrix

- It focuses only on two dimensions - growth and market share. Although their importance, they are not sufficient to evaluate the company position in the market. E.g. a restaurant could have a low market share with minimal industry growth but be producing an excellent profit.

- It assumes that high-growth markets are attractive markets, therefore strategies are developed accordingly.

- The analysis is highly sensitive to the definition of the product market. E.g. laptop computers or all personal computers?

- It focuses on cash flow. However, ROI, sales growth, risk etc are also important.