Stop-Light Strategy Model

The GE McKinsey Matrix, also known as the McKinsey Nine Box Matrix is a strategic tool used for business portfolio planning.

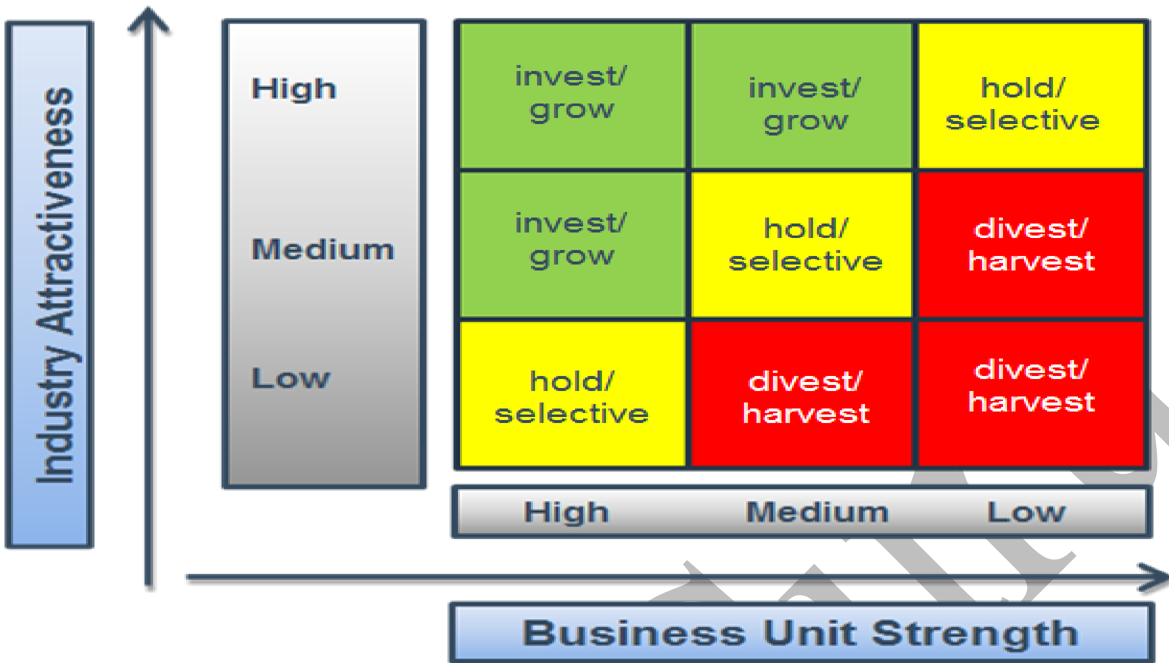
The GE matrix was developed by Mckinsey and Company consultancy group in the 1970s. The nine cell grid measures business unit strength against industry attractiveness and this is the key difference. Whereas BCG is limited to products, business units can be products, whole product lines, a service or even a brand. You can plot these chosen units on the grid and this will help you to determine which strategy to apply.

A business portfolio is a group of businesses that collectively make up a company. These individual businesses are often referred to as strategic business units (SBUs).

As an example of a business portfolio, consider Hilton Hotels. The Hilton Hotels group is made up of many SBUs including Hilton Double Tree, Hilton, Conrad Hotels, and Waldorf Astoria Hotels.

Some businesses can be very complex, even having over one hundred SBUs. In addition, no business has an infinite amount of resources to invest. The GE McKinsey Matrix allows a business to analyze their portfolio of SBUs to determine:

- Which SBUs should receive more or less investment?
- What new products or SBUs are needed in the business portfolio?
- Which products or SBUs should be divested?



The green zone suggests you to 'go ahead', to grow and build, pushing you through expansion strategies. Businesses in the green zone attract major investment. It means to invest in these businesses.

Yellow cautions you to 'wait and see' indicating hold and maintain type of strategies aimed at stability. The potential of this businesses isn't obvious. That's not to say investments won't be made in this business. However, no investment should be made in this business until after investment in the "grow" SBUs has been confirmed.

Red indicates that you have to adopt turnover strategies of divestment and liquidation or rebuilding approach, Invest just enough in this business to keep it operating or divest.

Factors that Affect Market Attractiveness

Assessing market attractiveness is in many ways subjective in nature. Despite this, there are many factors which can be ranked to help us determine market attractiveness, including:

- Market size
- Expected market growth rate
- Market profitability trend

- Pricing trends
- Competition level
- Ability to differentiate
- Demand variability

Factors that Affect Competitive Strength

Competitive strength considers whether the SBU has a material competitive advantage over competitors. Again, this is somewhat of an objective measurement. Factors to score to better determine competitive strength include:

- Total market share
- Market share growth relative to competitors
- Customer loyalty
- Relative brand strength, brand recognition
- Cost structure compared to competitors
- Distribution strength and production capacity
- Management strength

Advantages

- Helps to prioritize the limited resources in order to achieve the best returns.
- The performance of products or business units becomes evident.
- It's more sophisticated business portfolio framework than the BCG matrix.
- Determines the strategic steps the company needs to adopt to improve the performance of its business portfolio.

Disadvantages

- Needs a consultant or an expert to determine industry's attractiveness and business unit strength as accurately as possible.
- It is expensive to conduct.
- It doesn't take into account the harmony that could exist between two or more business units.