BCG MODEL

Boston Consulting Group (BCG) Matrix (also known as the Boston Consulting Group analysis, the Growth-Share matrix, and the Boston Box or Product Portfolio matrix) is a four celled matrix (a 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 businesses in its portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU's (Strategic Business Units). In other words, it is a comparative 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.

Relative Market Share = SBU Sales this year leading competitors sales this year.

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

The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

The main purpose of the BCG Matrix is therefore to make investment decisions on a corporate level.

Depending on how well the unit and the industry is doing, four different category labels can be attributed to each unit: Dogs, Question Marks, Cash Cows and Stars. This article will cover each of these categories and how to properly use the BCG Matrix yourself.

Example: Samsung's Product Portfolio

Samsung is a conglomerate consisting of multiple strategic business units (SBUs) with a diverse set of products. Samsung sells phones, cameras, TVs, microwaves, refrigerators, laundry machines, and even chemicals and insurances. This is a smart corporate strategy to have because it spreads risk among a large variety of business units. In case something might happen to the camera industry for instance, Samsung is still likely to have positive cash flows from other business units in other product categories. This helps Samsung to cope with the financial setback elsewhere. However even in a well balanced product portfolio, corporate strategists will have to make decisions on allocating money to and distributing money across all of those business units. Where do you put most of the money and where should you perhaps divest? The BCG Matrix uses Relative Market Share and the Market Growth Rate to determine that.

1. 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 lead. 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 star will become a cash cow when the industry matures.

2. 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 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 stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.

3. Question Marks-

Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. 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.

4. 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.

Advantages of BCG Matrix

- It is simple to implement and easy to understand. Larger companies can use it for the seeking volume and experience effects. It predicts the future actions of a company. Hence, the company can decide its proper management strategy.
- Helpful for managers to evaluate balance in the firm's current portfolio of Stars, Cash Cows, Question Marks, and Dogs

- The matrix indicates that the profit of the company is directly related to its market share. Therefore, a company can increase market share if it seems profitable.
- It has only four categories that make it in simple form to operate efficiently.

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.

2. Market is not clearly defined in this model.

3. High market share does not always leads to high profits. There are high costs also involved with high market share.

4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.

5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.

6. This four-celled approach is considered as to be too simplistic.