UNIT 4
CORPORATE PORTFOLIO ANALYSIS

It is a strategic management tool used to measure what product or service of the company excels or fails in its portfolio.

Objectives of Business Portfolio Analysis:

- Higher profits
  - Maximizing profits through strategic resource allocation
  - This targeted approach ensures that resources are channeled into ventures with the highest potential for returns, thereby enhancing the bottom line
- Risk spread
  - It empowers companies to diversify risk across a spectrum of products and services
  - By maintaining a well-balanced portfolio comprising offerings in different stages of the product life cycle, organizations can buffer themselves against market volatility
  - This approach minimizes the adverse impact of unforeseen fluctuations, fostering resilience and stability in the face of uncertainty
- Targeting different market segments
  - By meticulously examining the distinct needs and preferences of various customer segments, companies can craft offerings that resonate deeply with their intended audiences
  - Through segmentation and positioning strategies, organizations can seize opportunities to capture market share and fuel revenue growth, thereby solidifying their competitive advantage

BCG Matrix:

Boston Consulting Group's famous analytical frameworks include the BCG Matrix, also known as the BCG Growth Share Matrix

It is used to help companies analyze their portfolio by categorizing them into four distinct categories based on their market share and growth rate relative to their largest competitors.

Market Growth - amount of potential a product has to bring in money

Market Share - portion of an area where you conduct commercial deals that you control

- Star
  - Products that have a high growth rate and high market share
  - They lead a niche market and have monopolistic qualities due to dominant competitive advantages
  - Eventually as the industry growth rate dies down, the stars become cash cows
- Question Mark
  - Products that have a high growth rate but a low market share
  - They require huge amount of cash to maintain or gain market share
  - These are generally new goods and services which have a good commercial prospective

    - There is no specific strategy that can be adopted
    - Most businesses start as question marks
    - If ignored, question marks will become dogs, while if huge investments are made, then they have the potential of becoming stars
- Dog
    - Products that have a low growth rate and a low market share
    - They neither generate cash nor require huge amount of cash
    - Retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's / rival firms
    - Number of dogs should be avoided and minimized in an organization
- Cash Cow
    - Products that have a low growth rate but a high market share
    - They require little investment and generate cash that can be utilized for investment in other businesses
    - These businesses usually follow stability strategies

Strategic Implications:
- Companies need to maintain its competitive position in the cash cows, but avoid overinvesting
- The surplus cash generated by cash cows should be invested in star businesses first, if they are not self sufficient to maintain their relative competitive position
- Any surplus cash left can be used for selected question mark to gain market share for them
- Dogs generally have limited new investments allocated to them

Limitations of BCG Matrix:
- It classifies businesses as low and high, but generally businesses can be medium also. Thus the true nature of the business may not be reflected
- Market is not clearly defined in this model
- High market share does not always leads to high profits, there are high costs also involved with high market share
- This model ignores and overlooks the other indicators of profitability
- At times, dogs may help other businesses in gaining competitive advantage, they can earn even more than cash cows sometimes
- It is too simplistic to analyze a business

<u>General Electric (Mckinsey) Matrix:</u>

This uses market attractiveness as not merely the growth rate of sales of the product, but a compound variable dependent on different factors influencing the future profitability of the business sector

The market attractiveness index is based on a thorough environmental assessment influencing the sector profitability

Factors determining industry attractiveness:

- Size of market
- Rate of growth of sales and cyclic nature of business
- Nature of competition including vulnerability to foreign competition
- susceptibility to technological obsolescence and new products
- Entry conditions and social factors
- Profitability
- socio/political risks
- Seasonality
- Cyclicality
- barriers to entry and exit

Factors determining competitive strengths:

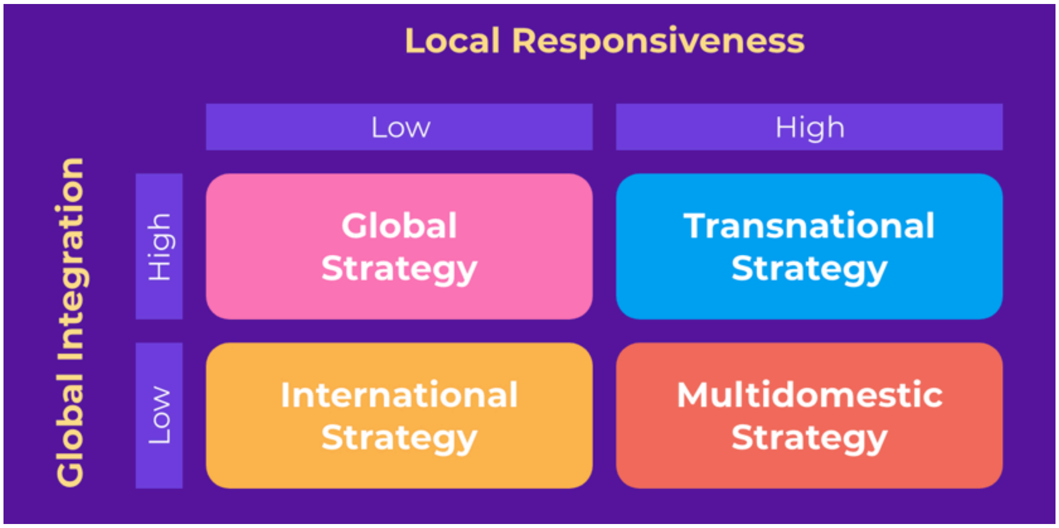
- Relative market share
- Distribution / brand strengths
- Technology strengths
- Innovation / management
- Profit margins relative to competitors
- Ability to compete on price and quality
- Knowledge of customer and market
- Caliber of management

Business strength/Competitive position			
	Strong	**Average**	**Weak**
Long-term industry attractiveness High	• Enhance leadership • Diversify product/market segment • Re-invest most aggressively in technology, capacity and marketing	• Hold leadership position • Leverage strengths into more attractive segments • Use economies of scale to outspend competition	• Maintain leadership in more attractive segments • Harvest work segments • Shrink production line
Long-term industry attractiveness Medium	• Avoid 'me too' strategy • Segment market carefully • Differentiate product, service or business approach • Concentrate on re-investment	• Increase level segmentation to differentiate strategies between growth and harvest • Avoid perpetrating high shared overheads	• Harvest by pricing up, selling shares and cutting costs aggressively through line pruning
Long-term industry attractiveness Low	• Apply high degree of segment focus • Seek advantage, e.g. proprietary technology	• Harvest by sale to larger company in market	• Divest or liquidate

Strengths and weaknesses of GE Matrix:

- The use of multiple criteria provides sounder judgment
- The criteria used can be tailored to business level or business type and the matrix is relevant to many business situations
- The analysis is not totally quantitative and judgements need to be made
- To be effective the matrix needs sophisticated users

INTERNATIONAL STRATEGY



International strategy:

Exporting strategy, is about distributing locally sourced products with minimal adaptation to foreign markets while centralizing production and operations in your domestic market

Use this in the early stages of their expansion for many reasons:

- Testing products and competitiveness in local markets before large-scale entry, minimizing investment risks
- Lowering the costs of investment infrastructure, workforce, and customer support in different countries
- Ensuring efficient supply chain management and production within a single location