Analysis of bcg matrix marketing essay

In business, there are times when an organization needs to expand or change the market or field. There are tons of ideas about things one could do. However, it is hard to determine which idea will be the best. Therefore, strategic marketing planning tools will be important and beneficial, such as BCG matrix, Ansoff Matrix or Porter 5 forces and so forth, to help one evaluate the options and decide on the one that suits the organization and situation best. As a result, it gives the best return on the considerable investment that an organization will need to make.

Strategic marketing management involves the process of deciding the marketing strategy to follow and to ensure it is followed correctly, in order to compete against its rivals successfully. In an attempt to assist strategic marketing process, a number of different strategic marketing planning tools have been created. Igor Ansoff, Michael Porter, and the Boston Consulting Group have the best known models in the field of business. Strategies are developed according to the objectives within an organization. The establishment of the objectives will normally produce a difference between what had been achieved and what target needs to be met. The uses of strategies are to illustrate how this gap is going to be solved, and objectives met. " Strategic Management is a systematic approach to the major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will assure its continued success and make it secure from surprises"(Ansoff, 1990).

This paper will focus on the BCG Matrix, which is one of the models like PESTLE, SWOT, Ansoff matrix, Gap analysis, GE matrix and Porter 5 forces. It is often used to assess the profits of business or resource allocation and divestment decisions by the marketers. The content of this report will explain and analyse the application of BCG Matrix with some examples. Some of the other analytic tools will also be mentioned in this work.

Analysis of BCG matrix

BCG Matrix is developed by Bruce Henderson of the Boston Consulting Group in the year of 1968 (BCG, 2012). It is one of the Portfolio analyses. It is used to determine high or low performers of businesses or products depending upon their market growth rate and relative market share. The idea behind this Matrix is that higher market share or a better market grows of the product is better for the organization. There are four categories in BCG Matrix, which are Stars, Cash cow, Question mark, and Dogs (Philip. K, et al., 2008). Furthermore, horizontal axis is given for relative market share position and vertical axis for industry growth rate (Philip. K, et al., 2008). Planners are to classify their products or businesses into the four categories according to their position on the matrix. It provides a framework for analysis and comparison of products or businesses for multinational companies with diverse products. The advantages of using BCG Matrix are to have the ability to prioritise a business or product portfolio; it is to know what products are doing well and what are not performing. It provides a useful insight into the potential opportunities and problems associated with a particular product. It is often a convenient graphical form that is easily understood by the staffs who are the decision makers. In appendix A, it takes Nestle company (table 1. 0) as an example, prepared dishes and cooking aids, PetCare and confectionery would be classed as Cash cow; beverage products would be a star; whereas pharmaceutical products as Question mark. Water products are most likely to be classed as a Dog. The BCG matrix is linked to the Product life cycle. Introduction, growth, maturity and decline, it represents Question marks, Stars, Cash cows and dogs in the BCG matrix respectively. Referring back to the table 1. 0, it shows that PetCare and Confectionery products are at the late maturity period in the Product life cycle. Therefore, Nestle must come out with new and better ideas, in order to prevent or slow down the product from further decline in sales, or perhaps becoming a Dog. However, it is expected that different product will have different life cycle. Therefore, some stars with short life cycle will be better to harvest rather than to commit further investment (Graeme. D and John. E, 2007). In a multinational company, it is essential for its products to have high and low growth rate, such as stars to assure future of the company, cash cows that supply money for further growth, and converting question marks into stars. It is because a balanced product portfolio will maximize organisation revenue. As mentioned by Bruce Henderson " Only a diversified company with a balanced portfolio can use its strengths to capitalize on growth opportunities"(BCG. P, 2010). The benefits of high growth products include high return at the cost of wide ranging resource to market. For low growth rate products, its benefits are customers' familiarity with the product, thus, lesser cost for marketing and a constant source of revenue.

With the help of BCG matrix, it can be identified how organization cash resources can be used to maximize a company's future growth and profitability. It provides the criteria for determining which products or business one should invest in, hold, harvest, or divest. However, the BCG matrix is only useful to a certain extent, and its limitation makes it increasingly less accurate. The BCG matrix was created in 1970s; therefore, it is expected to be less accurate in the current society especially during periodic recession (Blythe, 2006). The situation in the current business market is much more complicated than before. The model of BCG matrix discouraged organizations to invest in businesses with a less than 10% growth rate in a year. During the hard time, many companies will not have a growth of 10%. Thus, it is not accurate to rely on BCG matrix during an economic downturn; it might create confusion in the company's direction. The connection between market share and profitability is arguable because sometimes low share businesses can be profitable too and vice versa (Babette & Craig, 2012). As mention by experts, the markets are difficult to determine with a huge amount of overlaps and complex segmentation (Macmillan. H, 2000). There are many portfolios in real businesses consist of a high percentage of dog businesses and few star businesses (Macmillan. H, 2000). Thus, portfolio analysis is criticized for offering little help in these circumstances. Growth rate and market share are only one aspect of industry attractiveness and overall competitive position respectively. The market definition and measurement are not perfect as there are some problems faced (Wensley. R, 1981). Hence, poor definition of business market might lead to some misclassification, such as dogs, becoming cash cows. Moreover, the matrix mainly focuses on investment in current products of a company. Thus, it might neglect alternative investment such as setting new product lines or investing in new technology, which could be better than investing in current products or services. The matrix also ignores the potential competitive responses. When an organization tried to build their market shares and support growth, it is likely to get responses from the competitors as retaliation (Blythe, 2006). Furthermore, it is too simplistic and general just to use high and low to form four categories, which lead to a low accuracy analysis. In addition, the matrix is based on cash revenue, whereby profit should be a better phrase to use as it means the financial gain after all the deduction of expense from the revenue. General electric (GE) matrix developed by Mckinsey is a similar matrix that overcomes some of the disadvantage of BCG matrix. It uses market attractiveness instead of market growth rate which included a broader range of factors compare to growth rate. It also replaced market share into competitive strength which assessed each SBU with competitive positioning (Kozami, 2002). However, this paper will not go into the details of GE matrix due to the words constraint.

According to an article by Hiram and Clyde on portfolio analysis, they added three categories to the matrix, such as infants, war horses and dodos, to get a better coverage of the business society during recession. War horses represent a cash cow in a declining market. The veteran products in an organization are things which hold a strong market position. It is used to prevent an organization from eliminating a veteran product during a recession as it is always just a temporary phenomenon (Hiram & Clyde, 1982). Dodos represent products that have little potential for growing and low shares in declining markets (Hiram & Clyde, 1982). It is added into the matrix because it will enable the company to make an early decision in withdrawing or removing such products so as to improve the chance of selling the assets of such business. The authors categorized new innovative products to be infants (Hiram & Clyde, 1982). Most of the time, infant products do not generate any profit to the company at the introduction period and may even have a negative cash flow. Thus, it is important to point out the new innovative products before they are treated as a dog or question mark.

With the obvious limitations of BCG Matrix, it is not recommended to use the matrix alone. It is a portfolio analysis tool which focuses on the internal of an organization. Thus, it is always best to use with external analysis tools such as SWOT. SWOT will look at matters like the strength and weakness of the company, and the opportunities and threats that might occur. It is used to measure the degree of strategic fit between the organization and its environment. As a combination with BCG matrix, BCG matrix will focus on the internal factors and SWOT will be focusing on the external factors. Therefore, the “ O & T” of SWOT will mainly suggest using alongside with BCG matrix. For example, with the “ O & T”, the organization can recognise the opportunities and threats in Nestle such as an increase in health conscious society (PRweb, 2012) provide a huge opportunity for Nestle to produce more health care products and raw ingredient prices for chocolate production are increasing will affect the profit margin as threat (Christopher, 2011). If only BCG matrix is used, the planners will miss the external factors like the society or raw materials pricing which might cause problems to the organization. According to experts, it mentioned that a mixture of two or more analysis tools is recommended for a holistic view of strategic scenario (Wind, et al, 1983). Therefore, it is essential for an organization to capture the internal and external factors with appropriate marketing analytic tools to strengthen the company performance.

Conclusion

This paper focused on the analysis of BCG matrix. It evaluated the usefulness and weakness of the model. Recommendations had also been advised for further enhancement of the usefulness of the model. Although BCG Matrix has a number of limitations, it is still one of the most popular portfolio planning tools used by big companies with diverse products. It can measure the growth rate and relative market share of each sector in a table form. The table shows a clear understanding on how an organization is performing. With a simple and clear understanding, the company can develop strategies to deal with the sectors, and achieve the organization’s aimed goals and objectives. It is also useful for small businesses to survey the company’s market share and growth, in relation to relative market to see how products are performing. Lastly, BCG Matrix is not a tool to replace management decision or vision. It is a tool to help managers or planners evaluate their strategy alternatives together with other analysis tools, such as SWOT. It is a tool with flaws, but still suffices to be a good tool for portfolio analysis.

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