Boston consulting group matrix (bcg) explained

\n[toc title="Table of Contents"]\n

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The Boston Consulting Group (BCG) growth-share matrix is a very vital inclusion in marketing or strategic management. The Boston Matrix developed by Bruce Henderson in the early 70s of the Boston Consulting Group. Even thou considering the flaws in the model, the Boston Consulting Group model is one of the most famous portfolio management tool implemented in product life cycle theory. It can provide effective guidance towards resource distribution. The BCG matrix works on two variables: market share and market growth. This variables point at the status of the organisation. It can be also stated as, products which have a greater market share or fall in the fast growing category can yield higher profit margins.

It basically serves four distinctive purposes: It can be used to categories products portfolio in four types namely Stars (high growth, high market share) , Cash Cows (low growth, high market share), Question Marks (high growth, low market share) & Dogs (low growth, low market share); it can be used to prioritize products in the products portfolio; classifying products on the bases of cash usage and generation; helps generating strategies to tackle possible product lines. Hence, the BCG model proves to be a useful analytical tool to value a company's product ranges.

The four cells classified in the BCG are:

Stars

This category holds the market leaders which also have greater market share. The products in this category generate large amount of income but also require heavy investment to sustain market share & rapid growth.

Cash Cows

The products in this category basically have high market share in an already developed market. They generate high profits and generate good cash flow. Such products do not require much investment as they are already established products.

Question Marks

Question marks are products which fall in a high growth market with relatively low market share. Such products require considerable investment to hold and increase the market share. The return on investment is also low due to the lack of market share.

Dogs

Dogs thrive in a low growth market with a low share. They do not generate any effective profits for the company and show little signs of growth. Such products should be generally liquidated.

Although BCG matrix is a well-known tool for portfolio analysis, it has numerous constraints too. Some of them are:

The foremost and important problem is how to define the market and collection of data regarding a products market share.

It is not necessary that a product with a high market share result in profitability at all times.

The model only works on two aspects namely market share and market growth.

Businesses with low market share can also be profitable.

It only rates the products on the bases of one competitor i. e. the market leader. It overlooks small competitors with high rate of growth.

It overlooks the effects of synergy between strategic business units.

Internal and External Audits

The marketing audit forms a very core part of the marketing planning process. Audits are undertaken at the beginning of the plan, as well as at fixed intervals during the execution of the plan. The marketing audit consists of both internal and external influences on marketing planning, also considering the review of the plan itself. Many tools and methods are available to undertake such audits, e. g. SWOT analysis which can be used for auditing internal as well as external environment. Altogether such marketing audits help evaluate the opportunities and threats, and help the marketing heads to assess and make necessary changes to the plan.

Many a times when things start going downhill in a company in ways like falling sales, weakening margins, reducing market share, the need for an audit spurges up. Management often overlook the actual problem and work towards the wrong symptoms. Launching of new products, reducing costs, cutting costs are some of the tactics used. Such measures are highly ineffective, if core problems are not addressed. Such problems have to be effectively identified and auditing helps in defining such problems.

Internal Audit

Internal audit consist of controllable variables in a firm. Internal audit helps in evaluating the strengths and weaknesses of an organisation which provide certain advantages and can relate to the needs of the specific target market.

Strengths can be classified as internal factors which can support an organisation accomplish its objectives or to reduce threats. Weaknesses are factors which may hamper the organisational growth and foil organisations from achieving their targets.

Some of the areas of internal audit in order to analyse the internal factors of a company are:-

Resources, sales, market share, profit margin, costs, marketing procedures, marketing organisation, marketing information, marketing mix variables as : Products, Price, Distribution, Promotion.

External Audit

External audit is related with the uncontrollable variables, outside the firm such as the market, the competitor, etc. The external audit is concerned with factors such as political-legal, economic, social-cultural and technological (also known as PEST or STEP), with these the ecological and competitive factors which may stand opportunities or pose threats. An opportunity can be termed as an external factor which the company can exploit to gain higher profits margins. A threat can be any external circumstances that could curtain organisational performance.

Areas of analyses for external audit include information regarding customers, suppliers, partners, market share, technical standards; customer feedback through surveys, suggestions, complaints; government, academic or syndicated studies of the market, the industry, competition; industry groups; employees, suppliers, and other partners; media and online reports; special interest group (Woods, 2007)*.

SWOT & TOWS

It is very an important part of planning to understand the environment an organisation operates. SWOT analysis summarises a company's strengths, weaknesses, opportunities and threats. SWOT analysis is a tool for auditing a company and its environment. It is conducted at the initial stage of planning and helps point out the key issues. SWOT is an acronym used to define

Strengths, Weaknesses, Opportunities and Threats which are strategic factors for a company, where the strengths and weaknesses form the internal factor, opportunities and threats are external factors to the firm.

Where SWOT analysis is a tool used to identify business strategies for an organisation to adopt. It comprises of specifying and grouping together internal organisational strengths and weaknesses and environmental opportunities and threats. In real life scenario this is not so viable as although having all identified all the information in hand, the problem arises of what to do with the information. Whereas, the TOWS matrix is a mechanism which helps in explaining the strategy rather than just helping in its generation. The TOWS matrix (Weihrich, 1982)* presents a mechanism for facilitating linkages and presents a framework for identifying and formulating strategies.

In order to conduct Strategic management, brief market research needs be carried out using accurate information systems to evaluate key issues in the company and environment. Factors such as:

- Market Research
- External and internal which may affect a company.
- Target customers.
- Driving forces behind sales trends.
- Company Research
- Information of company resources – assets, I. P., etc.
- Information of company capabilities.
- Competition Research

- Competitive edge.
- Needs of products and services.

The information thus collected needs to be scanned and evaluated into four elements: strengths, weaknesses, opportunities and threats, where in opportunities and threats are used to analyse the external factors and strengths and weaknesses are used to analyse the internal factors. It is very important to bear in mind that internal and external factors should clearly distinguished, as it may obscure both the management approach and decision making body. The SWOT & TOWS process can carry on till the time the body feels it is productive, as long as the information is properly evaluated and refined by discussions and arguments. At the end, the points put forward should be agreed by the whole board on which points to reject and which to retain, so the final gird will contain only the key strategic marketing external opportunities and the key strategic internal strengths and weakness. As concluded by Tony Proctor (2000)* with his case study on over 50 organisations, that practising such techniques have helped the organisations in gaining greater insights in the process of strategy creation and have helped structure their thinking process and have helped them profoundly in coming up with better strategic ideas.

Segmentation, Targeting and Positioning process

The STP process is a very important process in a marketing strategy as it helps the organisation in creating personalised marketing mix packages which target specific group of the market segment with similar characteristics and needs. The STP process consists of three main activities: market segmentation, market targeting and market positioning. The level and category of segmentation process employed varies significantly depending factors like

- Dimension of the organisation
- Point at which it is carried in the marketing planning process
- Financial position of the organisation
- Current market position

Segmenting targeting positioning (STP) consist of different steps as stated by Pelsmacker and Geuens (2007)* namely, definition of segmentation criteria, definition of segment profiles, assessment of the attractiveness of segments, selection of target groups, definition of the desired unique position in the mind of targeted consumers.

The STP implementation begins with defining potential factors based on which segmentation of the market can be carried. The market segments created should further be divided in to generalized subgroups, in which the members of one group should respond identically to marketing stimuli and be different in their reaction to such stimuli from members of other segments. For example, the furniture market can be disturbed into different groups such as home and business market. Further division of these segments can be carried out such as, home market can include segments like student home furniture, classic furniture, design furniture etc.; likewise business segment can be divided into office furniture, hotel furniture etc.

In the next stage, Points in each segment can be combined to form segmentation profiles. On the basis of identified segmentation profiles, their attractiveness can be assessed. The attractiveness of the segments depends on many factors like the size and forecasted progression of sales, buying power and competition amount targeted for the segment.

Considering the analysis of segment attractiveness, a number of target groups will be selected which will be focused upon, keeping in mind the company’s strengths. This process is called targeting. Further objectives, strategies and tactics created will circle around these particular groups.

In the end, the organisation has to create a unique and appropriate position for its product in the mind of the target group. Positioning can be defined as how a product is perceived by the target group based on its important attributes. Positioning is one of the fundamental element of marketing strategy and of marketing communications.