Bcg model in marketing? assignment

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Marketing Management Unit 2 Scanning Marketing Opportunities Chapter 4 – Strategic Planning Lesson 12 – Business Portfolios, Boston Consulting Group (BCG) Modal Hello students! After having an understanding of what an SBU is you also need to now how do the companies select a particular strategy for which they need to analyze their SBUs? There is a matrix given by the Boston Consultancy Group, which can be used by the companies for the purpose of analysis, which will be discussed in this lesson, and also how useful it is. BCG Model The BCG Matrix, named after the Boston Consulting Group (BCG), is perhaps the most famous 2×2 matrix.

The matrix measures a company's relative market share on the horizontal axis and its growth rate on the vertical axis. 20% MarketGrowth rate 10% 10x 4x 2x 1. 5x 1x 0. 5x 0. 4x 0. 3x 0. 2x 0. 1x Relative Market Share THE GROWTH SHARE MATRIX- the market growth rate on the vertical axis indicates the annual growth rate of the market in which the business operates. It ranges from 0 to 20 percent. A market growth rate above 10 percent is considered high. Relative market share, which is measured on the horizontal axis, refers to the SBU's market share relative to that of its largest competitor in the segment. A relative market share of 0. means that the company's sales volume is only 10 percent of the leader's; a relative share of 10 means that the company's SBU is the leader and has 10 times the sales of the next-strongest competitor in the market. The growth share matrix is divided into four cells, each indicating a different type of business: 1. Question Mark(Problem Child) ??? Businesses that operate in high-growth markets but have low relative market shares. A question mark requires a lot of cash because the company has to spend money on plant, equipment and

personnel to keep up with the fast-growing market, and because it wants to overtake the market leader.

The company has to decide whether to keep pouring money into the business or not. 2. Stars ??? The market leaders in the high growth market. A star does not necessarily produce a positive cash flow for the company. The company must spend substantial funds to keep up with the high market growth and to fight off compatitors' attacks. 3. Cash Cows ??? Stars with a falling growth rate that still have the largest relative market share and produce a lot of cash for the company. The company does not have to finance expension because the market's growth rate has slowed.

Because the business is the market leader, it enjoys economies of scale and higher profit margins. The company uses its cash cows to pay bills and support other businesses. If the cash cow starts losing relative market share, the company will 82 ?? Copy Right : Rai University 16. 101G Marketing Management have to pump money back into it to maintain market leadership. 4. Dogs ??? Businesses that have weak market share in low growth markets. A dog may not require substantial cash, but it ties up capital that couls better be deployed elsewhere. The company should consider whether it is holding on to these businesses for good reasons or not.

After plotting its various businesses in the growth-share matrix, a company must determine whether its portfolio is healthy. An unbalanced portfolio would have too many dogs or quaestion marks and too few stars and cash cows. STRATEGIC BUSINESS UNITS STRATEGIES The Boston Matrix – Product Portfolio Decisions Like Ansoff's matrix, the Boston Matrix is a well-known

tool for the marketing manager. It was developed by the large US consulting group and is an approach to product portfolio planning. It has two controlling aspect namely relative market share (meaning relative to your competition) and market growth.

You would look at each individual product in your range (or portfolio) and place it onto the matrix. You would do this for every product in the range. You can then plot the products of your rivals to give relative market share. This is simplistic in many ways and the matrix has some understandable limitations that will be considered later. Each cell has its own name as follows. FOR YOU, SIMPLE WAYS TO REMEMBER ABOUT EACH CELL IN THE MATRIX IS GIVEN BELOW. Dogs These are products with a low share of a low growth market. These are the canine version of ‘ real turkeys! ‘ They do not generate cash for the company rather they tend to absorb it.

Get rid of these products. Cash Cows These are products with a high share of a slow growth market. Cash Cows generate more than is invested in them. So keep them in your portfolio of products for the time being. Problem Children 16. 101G ?? Copy Right : Rai University 83 Marketing Management These are products with a low share of a high growth market. They consume resources and generate little in return. They absorb most money as you attempt to increase market share. Stars These are products that are in high growth markets with a relatively high share of that market.

Stars tend to generate high amounts of income. Keep and build your stars. What do you think are the features of BCG matrix? The Boston Consulting Group matrix lets a firm classify each SBU in terms of market share relative

to key competitors and annual industry growth. With the matrix, it can be determined which SBUs are dominant and whether their industries are growing, stable, or declining. The matrix's major assumption is that the higher an SBU's market share, the lower its per-unit costs and the higher its profitability. The Boston Consulting Group matrix identifies four types of SBUs shown in the figure.

A star is a leading SBU in an expanding industry. The major goal is to sustain differential advantages in the face of rising competition. It generates substantial profits but requires large amounts of resources to finance growth. A cash cow is a leading SBU in a mature or declining industry. It generates funds that can be used for other SBUs. A question mark is an SBU that has had little impact (low market share) in an expanding industry (high growth). It needs substantial cash to improve its position. A dog is an SBU with limited sales (low market share) in a mature or declining industry (low growth).

It has cost disadvantages and few growth opportunities. Can you suggest some ways to manage your businesses based on the BCG matrix? Look for some kind of balance within your portfolio. Try not to have any Dogs. Cash Cows, Problem Children and Stars need to be kept in a kind of equilibrium. The funds generated by your Cash Cows are used to turn problem children into Stars, which may eventually become Cash Cows. Some of the Problem Children will become Dogs, and this means that you will need a larger contribution from the successful products to compensate for the failures.

What according to you may be the problems with the Boston Matrix? There is an assumption that higher rates of profit are directly related to high rates of

market share. This may not always be the case. When Boeing launch a new jet, it may gain a high market share quickly but it still has to cover very high development costs. It is normally applied to Strategic Business Units (SBUs). These are areas of the business rather than products. For example, for LG in India, IT products have a separate focus and hence are an SBU and not just a basket of products. There is another assumption that SBUs will cooperate.

This is not always the case. The main problem is that it oversimplifies a complex set of decision. Be careful. Use the Matrix as a planning tool and always rely on your gut feeling. 84 ?? Copy Right : Rai University 16. 101G Marketing Management What do you think are the strategies, which companies can make, based on BCG matrix? STRATEGIC BUSINESS UNITS STRATEGIES 1) Build ??? this strategy is appropriate for question marks whose market shares must grow if they are to become stars. As they are in a growing market, an inflow of resources would work wonders for them.

But if the company is doubtful about its growth even in a growing market then it divesting it would be a better decision. An earlydecision to divest is likely to produce fairly good bids if the business is in relatively good shape now. 2) Hold ??? this strategy is appropriate for stars. As they are the market leaders with highest relative market share and in a rapidly growing market, it is important for the firm to hold on to its current position for long. In this stage the firm would be required to pump in resources in order to maintain its position as a star.

In order to reap the benfits from this star the firm would be required to continuosly support it with resources. 3) Harvest ??? this strategy is

appropriate for cash cows. The objective of harvest strategy is to increase short term cash flow regardless of long term effect. In other words it involves ‘ milking the business’. In this position the firm does not spend money on R&D activities, reduces advertising expenditure and undertakes other cost cutting measures for the concerned SBU. Harvesting can be also used for weak cows, question marks and dogs which show some promise for futre potential.) Divest ??? the objective is to sell or liquidate the business because resources can be better used elsewhere. This strategy is appropriate for dogs and question marks that are acting as a drag on the company’s profits. In this atrategy the firm does not plough resources into the business but just try to sell it off at a good price. SBU LIFECYCLE As shown in the figure every successful SBU follows a lifecycle. As time passes, SBU’s change their position in the growth-share matrix. They start as question marks, become stars, then cash cows and if not taken care of , they finally become dogs.

For this reason, companies should examine not only their businesses’ current positions in the matrix but also their moving positions. Strategies must be changed if the SBU is not on its expected trajectory. The worst mistake a company could make would be to require all its SBUs to aim for the same growth rate or return level. The very point of SBU analysis is that each business has a different potential and requires its own objective. Other mistakes include: 16. 101G ?? Copy Right : Rai University 85 Marketing Management i. Leaving cash cows with too little in retained funds in which case they grow weak. ii.

Leaving the cash cows with too much in retained funds in which the company fails to invest enough in new businesses with growth potential. iii. Making major investments in dogs in hopes of turning them around but failing each time. iv. Maintaining too amny questions marks and underinvesting in each. Question marks should either receive enough support to achieve segment dominance or be dropped. The BCG matrix provides a framework for allocating resources among different business units and allows one to compare many business units at a glance. However, the approach has received some negative criticism for the follwing reasons: i.

The link between market share and profitability is questionable since increasing market share can be very expensive. ii. The approach may overemphasize high growth, since it ignores the potential of declining markets. iii. The model considers market growth rate to be given. In practice the firm may be able to grow the market. The Porter Generic Strategy Model The Porter generic strategy model identifies two key planning concepts and the alternatives available for each: i) Competitive scope (broad or narrow target). ii) Competitive advantage (lower cost or differentiation). B.

The following three basic strategies are identified (see Figure): 1. Cost leadership??? broad market and low cost position. 2. Differentiation??? large market and unique strategy. 3. Focus??? narrow target segment and either low cost position or a unique strategy. Cost leadership and differentiation strategies are alternatives for large firms; a focus strategy is available to smaller firms. 86 ?? Copy Right : Rai University 16. 101G Marketing Management i. Cost Leadership strategy: this generic strategy calls for being the low cost producer in an industry for a given level of quality.

The firm sells its products either at average industry prices to earn a profit higher than that of rivals or below the average industry prices to gain market share. The cost leadership strategy usually targets a broad market. Some of the ways by which firms acquire cost advantages are by improving process efficiencies, gaining unique access to large source of lower cost materials, making optimal outsourcing and vertical integration decisions or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

Firms that succeed in cost leadership often have the following internal strengths: Access to the capital required to make a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome. Skill in designing products for efficient manufacturing. High level of expertise in manufacturing process engineering. Efficient distribution channel. Each generic strategy has its risks, even the low cost strategy. For example, other firms may be able to lower their costs as well.

As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost withintheir segments and as a group gain significant market share. ii. Differentiation Strategy : This strategy calls for the development of a product or service that offers a unique attributes that are valued by the customers and customers perceive to be better than or different from the products of the competition.

The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Firms that succeed in differntiation strategy often have the following internal strengths: Access to leading scientific research. Highly skilled and creative product development team. Strong sales team with the ability to successfully communicate the perceives strengths of the product. Corporate reputation for quality and innovation.

The risks associated with differentiation strategy include imitation by competitors and changes in customer tastes. Additionally various firms pursuing focus strategies may be able to achieve even greater differntiation in their market segments. iii. Focus Strategy : this strategy focus on narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focussing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty and this entrenched loyalty discourages other firms from competing directly.

Because of their narrow market focus, firms pursuing a focus strategy have lower volums and thus 16. 101G ?? Copy Right : Rai University 87 Marketing Management less bargaining power with their suppliers. However, firms pursuing a differentiation-focussed strategy may be able to pass higher costs on to customers since close substitutes do not exist. Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well.

Some risks of focus strategy include imitation and changes in the target segment.

Furthermore, it may be fairly easy for a broad-market cost leader to adapte its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better. The Product/Market Opportunity Matrix The product/market opportunity matrix identifies four alternative marketing strategies to maintain and/or increase sales of business units and products: market penetration, market development, product development, and diversification. See accompanying figure. Current Products Current Markets New Products New Markets 1.

In market penetration, a firm seeks to expand the sales of its present products in its present markets through more intensive distribution, aggressive promotion, and competitive pricing. 2. In market development, a firm seeks greater sales of present products from new markets or new product uses. It can enter new markets, appeal to segments it is not yet satisfying, reposition products, and use new distribution methods. 3. In product development, a firm develops new or modified products to appeal to present markets. It emphasizes new models, better quality, and other minor innovations and markets them to loyal consumers. . In diversification, a firm becomes involved with new products aimed at new markets. The products may be new to the industry or to the company. Distribution and promotion orientations are different from those traditionally used by the firm. While the corporations are faced with ever increasing strategic planning gap, three strategies have been formulated to overcome this gap. 1. INTENSIVE GROWTH- corporate management’s first course of action should be a review

of whether any opportunities exist for improving its existing businesses' performance.

Ansoff model propounded by Igor Ansoff is a useful framework for detecting new intensive growth opportunities called a “ Product-Market Expansion Grid”. The company first considers whether it could gain more market with its current products in their current markets(market penetration strategy). This can be done by either increasing the usage among 88 ?? Copy Right : Rai University 16. 101G Marketing Management the existing customers or switching of competitor's customers or by adding non consumers in the consumer list.

Next it considers whether it can find or develop new markets for its current products (market-development strategy). This can be either based on demographic or geographic or psychographic factors. Then it considers whether it can develop new products of potential interest to its current markets(product-development strategy). They can be either completely new products or existing product extensions. Later it will also review opportunities to develop new products for new markets(diversification strategy). But here the company should take care as this involves high risk and the firm might loose focus.

By examining these three intensive growth strategies, management may discover several ways to grow. Still, that growth may not be enough. In that case, management must also examine integrative growth opportunities. 2. INTEGRATIVE GROWTH ??? Often a business's sales and profits can be increased through backward, forward or horizontal integration within the

industry. A company may acquire one or more of its suppliers to gain more control or generate more profits which would be called as backward integration. It might acquire some wholesalers or retailers, especially if they are highly profitable(forward integration).

Finally if the company decides to acquire one or more competitors, provided that the government does not bar this move(horizontal integration). However, these new sources may still not deliver the desired sales volume. In that case company must consider diversification. 3. DIVERSIFICATION GROWTH ??? When good opportunities which are highly attractive are found to be outside the present business and the company has a mix of business strengths to be successful in them, the company goes for diversification. This is possible in three kinds: a.

Concentric Diversification Strategy-The company could seek new products that have technological or marketing synergies with existing product lines, even though the new product themselves may appeal to a different group of customers. b. Horizontal Diversification Strategy- the company might search for new products that could appeal to current customers even though the new products are technologically unrelated to its current product line. c. Conglomerate Diversification Strategy ??? the company might seek new businesses that have no relationship to its current technology, products or markets. 4.

DOWNSIZING OLDER BUSINESSES- companies must not only develop new businesses, but must also carefully prune, harvest or divest tired old businesses in order to release needed resources and reduce costs. Managers

should focus on growth opportunities, not fritter away energy and resources trying to salvage hemorrhaging businesses. THE GENERAL ELECTRIC MODEL An SBU's appropriate objective cannot be determined solely by its position in the growth-share matrix. If additional factors are considered, the growth-share matrix can be seen as a special case of a multifactor portfolio matrix such as that pioneered by General Electric.

The model is based on the company's seven businesses. It holds that a company can appropriately rate its different businesses for the purpose of strategic planning on the basis of two main parameters ??? Market Attractiveness and Business Strength. The above two factors make excellent marketing sense for rating a business. Companies are successful to the extent that they enter attractive markets and possess the required business strengths to succeed in those markets. If one of these factors is missing, the business will not produce outstanding results. Neither a strong company operating in an unattractive market nor a weak company operating 6. 101G ?? Copy Right : Rai University 89 Marketing Management in an attractive market will do very well. The General Electric Approach The second model to analyze the SBUs has been give by General Electric and it is even known as Market attractiveness and Company strength matrix. Both axes are divided into three segments, yielding nine cells. The nine cells are grouped into three zones: The block with the Lateral Zone consists of the three cells in the upper left corner. If the enterprise falls in this zone the business is in a favorable position with relatively attractive growth opportunities.

This indicates a “ green light” to invest in this product/service. The blocks with plain Zone consists of the three diagonal cells from the lower left to the upper right. A position in the yellow zone is viewed as having medium attractiveness. Organisation must therefore exercise caution when making additional investments in this product/service. The suggested strategy is to seek to maintain share rather than growing or reducing share. The blocks with a Diagonal Zone consists of the three cells in the lower right corner. A position in the red zone is not attractive.

The suggested strategy is that management should begin to make plans to exit the industry. FACTORS UNDERLYING MARKET ATTRACTIVENESS AND BUSINESS STRENGTH IN GE MULTIFACTOR PORTFOLIO MODEL 1. MARKET ATTRACTIVENESS Overall market size Annual market growth rate Historical profit margin Competitive intensity Technological requirements Inflationary vulnerability Energy requirements Environmental impact Socioal-political legal 2. BUSINESS STRENGTH Market share Share growth Product quality Brand reputation Distribution network Promotional effectiveness Productive capacity Productive efficiency Unit osts Material supplies R & D performance Mangerial personnel 90 ?? Copy Right : Rai University 16. 101G Marketing Management STRATEGIES The GE matrix is divided into nine cells. The three cells in the upper-lrft corner indicate strong SBUs in which the company should invest or grow. The diagonal cells stretching from the lower left to the upper right indicate SBUs that are medium in overall attractiveness. The three cells in the lower-right corner indicate SBUs that are low in overall attractiveness. Management should also forecast each SBU’s expected position in the next three to five years given the current strategy.

Making this determination involves analyzing where each product is in its product life cycle as well as expected competitor strategies, new technologies, economic events, etc. the company’s objective is not always to build sales in each SBU. Rather, the objective moght be to maintain the existing demand with fewer marketing dollarsor to take cash out of the business and allow demand to fall. Thus, the task of marketing management is to manage demand or revenue to the target level negotiated with corporate management.

Marketing contributes to assessing each SBU’s sales and profit potential, but once the SBU’s objective and budget are set, marketing’jo is to carry out the plan efficiently and profitably. Evaluation of Strategic Planning Approaches Many firms assess alternative market opportunities; know which products are stars, cash cows, question marks, and dogs; recognize what factors affect performance; understand their industries; and realize they can target broad or narrow customer bases. The major strengths of the approaches are that they allow a firm to do the following: 16. 101G ?? Copy Right : Rai University 91

Marketing Management Analyze each of its SBUs and products. Study various strategy effects. Learn the opportunities to pursue and which threats to avoid. Compute marketing and other resources needs. Focus on meaningful differential advantages. Compare performance with designated goals. Discover principles for improving performance. Study competitors’ actions and trends. The approaches have these weaknesses: They may be difficult to implement. They may be too simplistic and omit key factors. They

are arbitrary in defining SBUs and evaluative criteria. They may not be applicable to all firms and situations.

They may not adequately consider environmental factors. They may overvalue market share. They are often used by staff planners rather than line managers. These techniques only aid planning. They do not replace the need for managers to engage in hands-on decisions by studying each situation and basing marketing strategies on the unique aspects of their industry, firm, and SBUs. Points to Ponder Analysis of The Enterprise Position- BCG Matrix 92 ?? Copy Right : Rai University 16. 101G Marketing Management Analysis of enterprise position-GE Matrix 16. 101G ?? Copy Right : Rai University 93