Boston consultancy group (bcg matrix) essay

Boston Consultancy Group (BCG Matrix) This product portfolio matrix classifies product lines into four categories. The BCG models suggests that organisations should have a healthy balance of products within their range. The Boston Consultancy Group classified these products as following: Dogs These are products which have low market shares and low market growth rates. The options for many companies is to phase these products out, however some organisation do go for the strategy of re-inventing and injecting new life into the product.

(see Heinz Case Study)Question Mark/Problem Child These are products with low market share but operate in high market growth rates. The company puts a lot of resources in this product in the hope that it will eventually increase market share and generate cash returns in the future. Star Stars have high market shares that operate in growing markets. The product at this stage should be generating positive returns for the company. Cash Cow Cash Cow are products at the mature stage of the lifecycle, they generate high amounts of cash for the company, but growth rate is slowing. There are chances that the product may slip into decline, appropriate marketing mix strategies should be employed to try to prevent this from happening.

B. C. G. analysis It has been suggested that this article or section be merged into Growth-share matrix.

(Discuss) B. C. G. analysis is a technique used in brand marketing, product management, and strategic management to help a company decide what products to add to its product portfolio. It involves rating products according

to their relative market share and market growth rate. The products are then plotted on a two dimensional map.

Products with high market share but low growth are referred to as " cash cows". Products with high market share and high growth are referred to as " stars". Products with low market share in a low growth market are referred to as " dogs" and should usually be managed for value, that is as much money should be harvested from those products with low or no investments. Products with low market share but high market growth are referred to as " question marks" or " problem children". It is crucial for those products or brands to improve their market share before the market growth is consumed by the competition. The technique can also be applied to a portfolio of companies.

BCG Matrix Each circle represents a product or brand. The size of the circle indicates the value of the sales of that product or brand. A " question mark" has the potential to become a " star" in the future if it is developed. A company should have a balanced portfolio.

This implies having at least one " cash cow" which can generate revenue that can be used to develop one or more " question mark". This process, referred to as " milking your cash cow", is shown in the next diagram where the arrows represent cash flows. BCG Matrix with Cash FlowsB. C.

G. Analysis was originally developed by Bruce Henderson at the Boston Consulting Group in the early 1970sGrowth-share matrix From Wikipedia, the free encyclopedia (Redirected from BCG growth-share matrix) Jump to: navigation, search It has been suggested that B. C. G.

_analysis be merged into this article or section. (Discuss) The growth-share matrix is a chart created by the Boston Consulting Group in 1970 to help corporations analyze their business units or product lines, and decide where to allocate cash. It was popular for two decades, and is still used as an analytical tool. Cash generated by " cash cows" should be allocated to " stars", and possibly to " question marks". Contents [hide] • 1 The Chart • 2 Practical Use of the Boston Matrix [[1]] o 2.

1 Relative market share o 2. 2 Market growth rate • 3 Risks and criticisms o 3. 1 Alternatives • 4 Other uses of the growth-share matrix • 5 See also • 6 References [edit] The Chart To use the chart, corporate analysts would plot a scatter graph of their business units, ranking their relative market shares and the growth rates of their respective industries. This led to a categorization of four different types of businesses: • Cash cows, units with high market share in a slow-growing industry.

These units typically generate cash in excess of the amount of cash needed to maintain the business. They are regarded as staid and boring, in a " mature" market, and every corporation would be thrilled to own as many as possible. They are to be " milked" continuously with as little investment as possible, since such investment would be wasted in an industry with low growth. • Dogs, or more charitably called pets, units with low market share in a mature, slow-growing industry. These units typically " break even", generating barely enough cash to maintain the business's market share.

Though owning a break- even unit provides the social benefit of providing jobs and possible synergies that assist other business units, from an

accounting point of view such a unit is worthless, not generating cash for the company. They depress a profitable company's return on assets ratio, used by many investors to judge how well a company is being managed. Dogs, it is thought, should be sold off. • Question marks, units with low market share in a fast-growing industry.

Such business units require large mounts of cash to grow their market share. The corporate goal must be to grow the business to become a star. Otherwise, when the industry matures and growth slows, the unit will fall down into the dogs category. • Stars, units with a high market share in a fast-growing industry.

The hope is that stars become the next cash cows. Sustaining the business unit's market leadership may require extra cash, but this is worthwhile if that's what it takes for the unit to remain a leader. When growth slows, stars become cash cows if they have been able to maintain their category leadership. As a particular industry matures and its growth slows, all business units become either cash cows or dogs.

The overall goal of this ranking was to help corporate analysts decide which of their business units to fund, and how much; and which units to sell. Managers were supposed to gain perspective from this analysis that allowed them to plan with confidence to use money generated by the cash cows to fund the stars and, possibly, the question marks. As the BCG stated in 1970: Only a diversified company with a balanced portfolio can use its strengths to truly capitalize on its growth opportunities. The balanced portfolio has: • stars whose high share and high growth assure the future; • cash cows that

supply funds for that future growth; and • question marks to be converted into stars with the added funds. [edit] Practical Use of the Boston Matrix [[1]] For each product or service the ' area' of the circle represents the value of its sales. The Boston Matrix thus offers a very useful ' map' of the organization's product (or service) strengths and weaknesses (at least in terms of current profitability) as well as the likely cashflows.

The need which prompted this idea was, indeed, that of managing cash-flow. It was reasoned that one of the main indicators of cash generation was relative market share, and one which pointed to cash usage was that of market growth rate. [edit] Relative market share This indicates likely cash generation, because the higher the share the more cash will be generated. As a result of ' economies of scale' (a basic assumption of the Boston Matrix), it is assumed that these earnings will grow faster the higher the share. The exact measure is the brand's share relative to its largest competitor. Thus, if the brand had a share of 20 per cent, and the largest competitor had the same, the ratio would be 1: 1.

If the largest competitor had a share of 60 per cent, however, the ratio would be 1: 3, implying that the organization's brand was in a relatively weak position. If the largest competitor only had a share of 5 per cent, the ratio would be 4: 1, implying that the brand owned was in a relatively strong position, which might be reflected in profits and cashflow. If this technique is used in practice, it should be noted that this scale is logarithmic, not linear. On the other hand, exactly what is a high relative share is a matter of some debate.

The best evidence is that the most stable position (at least in FMCG markets) is for the brand leader to have a share double that of the second brand, and treble that of the third. Brand leaders in this position tend to be very stable – and profitable; the Rule of 123 [[2]]. The reason for choosing relative market share, rather than just profits, is that it carries more information than just cashflow. It shows where the brand is positioned against its main competitors, and indicates where it might be likely to go in the future. It can also show what type of marketing activities might be expected to be effective. [edit] Market growth rateRapidly growing brands, in rapidly growing markets, are what organizations strive for; but, as we have seen, the penalty is that they are usually net cash users – they require investment.

The reason for this is often because the growth is being ' bought' by the high investment, in the reasonable expectation that a high market share will eventually turn into a sound investment in future profits. The theory behind the matrix assumes, therefore, that a higher growth rate is indicative of accompanying demands on investment. The cut-off point is usually chosen as 10 per cent per annum. Determining this cut-off point, the rate above which the growth is deemed to be significant (and likely to lead to extra demands on cash) is a critical requirement of the technique; and one that, again, makes the use of the Boston Matrix problematical in some product areas. What is more, the evidence [[3]], from FMCG markets at least, is that the most typical pattern is of very low growth, less than 1 per cent per annum. This is outside the range normally considered in Boston Matrix work, which may make application of this form of analysis unworkable in many markets.

Where it can be applied, however, the market growth rate says more about the brand position than just its cashflow. It is a good indicator of that market's strength, of its future potential (of its ' maturity' in terms of the market life-cycle), and also of its attractiveness to future competitors. [edit] Risks and criticisms The BCG growth-share matrix ranks only market share and industry growth rate, and only implies actual profitability, the purpose of any business. It is certainly possible that a particular dog can be profitable without cash infusions required, and therefore should be retained and not sold.

) The matrix also overlooks other elements of industry attractiveness and competitive advantages. Another matrix evaluation scheme that attempts to mend these problems has been the G. E. multi factoral analysis (also known as the GE McKinsey Matrix).

With this or any other such analytical tool, ranking business units has a subjective element involving guesswork about the future, particularly with respect to growth rates. Unless the rankings are approached with rigor and skepticism, optimistic evaluations can lead to a dot com mentality in which even the most dubious businesses are classified as " question marks" with good prospects; enthusiastic managers may claim that cash must be thrown at these businesses immediately in order to turn them into stars, before growth rates slow and it's too late. Poor definition of a business's market will lead to some dogs being misclassified as cash cows. As originally practised by the Boston Consulting Group [[4]], the matrix was undoubtedly a useful tool, in those few situations where it could be applied, for graphically

illustrating cashflows. If used with this degree of sophistication its use would still be valid.

However, later practitioners have tended to over-simplify its messages. In particular, the later application of the names (problem children, stars, cash cows and dogs) has tended to overshadow all else – and is often what most students, and practitioners, remember. This is unfortunate, since such simplistic use contains at least two major problems: ' Minority applicability'. The cashflow techniques are only applicable to a very limited number of markets (where growth is relatively high, and a definite pattern of product life- cycles can be observed, such as that of ethical pharmaceuticals).

In the majority of markets, use may give misleading results. ' Milking cash cows'. Perhaps the worst implication of the later developments is that the (brand leader) cash cows should be milked to fund new brands. This is not what research into the FMCG markets has shown to be the case.

The brand leader's position is the one, above all, to be defended, not least since brands in this position will probably outperform any number of newly launched brands. Such brand leaders will, of course, generate large cash flows; but they should not be `milked' to such an extent that their position is jeopardized. In any case, the chance of the new brands achieving similar brand leadership may be slim – certainly far less than the popular perception of the Boston Matrix would imply. Perhaps the most important danger [[5]] is, however, that the apparent implication of its four-quadrant form is that there should be balance of products or services across all four quadrants; and that is, indeed, the main message that it is intended to convey. Thus,

money must be diverted from `cash cows' to fund the `stars' of the future, since `cash cows' will inevitably decline to become `dogs'. There is an almost mesmeric inevitability about the whole process.

It focuses attention, and funding, on to the `stars'. It presumes, and almost demands, that `cash cows' will turn into `dogs'. The reality is that it is only the `cash cows' that are really important – all the other elements are supporting actors. It is a foolish vendor who diverts funds from a `cash cow' when these are needed to extend the life of that `product'. Although it is necessary to recognize a `dog' when it appears (at least before it bites you) it would be foolish in the extreme to create one in order to balance up the picture. The vendor, who has most of his (or her) products in the `cash cow' quadrant, should consider himself (or herself) fortunate indeed, and an excellent marketer; although he or she might also consider creating a few stars as an insurance policy against unexpected future developments and, perhaps, to add some extra growth.

[edit] Alternatives As with most marketing techniques there are a number of alternative offerings vying with the Boston Matrix; although this appears to be the most widely used (or at least most widely taught – and then probably ' not' used). The next most widely reported technique is that developed by McKinsey and General Electric; which is a three-cell by three-cell matrix – using the dimensions of `industry attractiveness' and `business strengths'. This approaches some of the same issues as the Boston Matrix, but from a different direction and in a more complex way (which may be why it is used less, or is at least less widely taught). Perhaps the most practical approach is that of the Boston Consulting Group's Advantage Matrix, which the

consultancy reportedly used itself; though it is little known amongst the wider population. edit] Other uses of the growth-share matrix The initial intent of the growth-share matrix was to evaluate business units, but the same evaluation can be made for product lines or any other cash-generating entities. This should only be attempted for real lines that have a sufficient history to allow some prediction; if the corporation has made only a few products and called them a product line, the sample variance will be too high for this sort of analysis to be meaningful.

Cash cowFrom Wikipedia, the free encyclopedia Jump to: navigation, search In business, a cash cow is a product or a business unit that generates unusually high profit margins: so high that it is responsible for a large amount of a company's operating profit. This profit far exceeds the amount necessary to maintain the cash cow business, and the excess is used by the business for other purposes. The expression is a metaphor for a dairy cow, which after being acquired can be milked on an ongoing basis with little expense. Risks of a cash cow include complacency, with management ignoring the need for change as market forces erode value; and ongoing turf wars between the management in charge of the cash cow and other managers trying to garner support for other products. That said, every business longs for a cash cow product.

The BCG growth-share matrix developed by the Boston Consulting Group, still used by analysts in large companies, uses the term " cash cow" to describe business units experiencing high market share and low market growth. [edit]Examples Below is a list of examples of Cash Cows within

various markets. The neutrality of this section is disputed. Please see discussion on the talk page.

• Super Mario Bros. – Arguably, the constant re-releasing of old titles in the Super Mario series can be described as a Cash Cow. • Winnie the Pooh – The Walt Disney Company is currently making a substantial profit from their Winnie the Pooh franchise, mainly from merchandising. Disney is constantly releasing new variations of Pooh merchendise, including redesigns of characters in different art styles, and the same characters in various costumes. B. C.

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