Boston consulting group matrix

Business

According to Sadler and Craig (2003: 54), the BCG matrix is a corporate portfolio analysis tool that provides a graphic representation of an organization that is used to scrutinize the different businesses involved in the portfolio on the basis of the related market share and industry growth rate. However, it is also a model based on the product-life cycle theory that is used to determine the priorities that are supposed to be given in the product portfolio of a business unit in order to ensure that long-term value is created (Sadler and Craig, 2003: 54). Therefore, a company needs to have a portfolio of products that comprise of both the high-growth products in order to create the need of cash inputs and low-growth products that generates a lot of cash (Sadler and Craig, 2003: 54).

Furthermore, the BCG matrix can be elaborated as a two dimensional analysis on management of the Strategic Business Unit (SBU), generally meaning that it is a comparative analysis of a business potential and the environmental evaluation (Warren, 2008: 344). Thus, the two dimensions are the relative market share (SBU sales this year leading to the competitors sales this year) and market growth rate (industry sales this year minus the industry sales last year) and this analysis entails that both measures be calculated for each SBU (Warren, 2008: 344). However, the relative market share is the strength of the business dimension and it measures the comparative advantage indicated by market dominance while the market share is achieved due to the overall costleadership(Warren, 2008: 344).

As a result, the BCG matrix has four cells and the horizontal axis represents the relative market share with the vertical axis indicating the market growth rate meanwhile the mid-point of the relative market share is set at 1. 0

(Warren, 2008: 344-345). Thus, if all the SBU's are in the same industry, the average growth rate of the industry is used and if all SBU's are located in different industries the mid-point will be set at the growth rate for the economy (Warren, 2008: 3344-345). However, the various resources are assigned to the different business units according to their state on the grid and the four cells of the matrix are called the question marks, stars, cows, and dogs each of them demonstrating a particular type of business and the graphic illustration of the matrix as follows and the explanation of each cell will be found below the diagram:

Source adapted fromHarvardBusiness Review Elaboration of the BCG Matrix cells: Question Marks signify business units that have a low relative market share and are positioned in a high growth industry that requires a fairly enormous amount of cash in order to maintain or gain market share (Lechner and Floyd, 2012: 460). They entail the need to be able to determine if whether the venture can be practical and are generally new goods and services which have a good commercial forthcoming. However, the question marks also known as the problem child has the potential of gaining market share and becoming a star and eventually a cash cow when the market share slows down (Lechner and Floyd, 2012: 460).

Therefore, the question marksfailureto become the market leader will then possibly after years of cash consumption it will relapse into a dog when the market diminishes. Thus, question marks must be evaluated with caution in order to be able to determine if whether they are of significance importance to the investment that is required to grow the market share (Lechner and Floyd, 2012: 460).

Stars represent the different business units that have a large market share in an industry that is growing rapidly and they may generate cash but because of the fast growing market, they require a massive investment so that it can be able to maintain its lead (Lechner and Floyd, 2012: 460). However, the net cash flow is usually modest because the SBU's situated in this cell are attractive as they are positioned in a tough industry where the business units are highly competitive in the industry and if it is successful, the star will develop into a cash cow when the industry is better established (Lechner and Floyd, 2012: 460).

Cash cows represent a business unit that has a large market share in a mature but growing industry and they require a little bit of investment because they generate cash that can be utilized for investment in other business units within the same industry (Lechner and Floyd, 2012: 460). The SBU's are the corporations' main source of cash and are particularly the business core. However, cash cows are also the base of an organization where businesses usually follow strategies of stability and when they loose their appeal and move towards weakening, then a retrenchment policy may be implemented (Lechner and Floyd, 2012: 460).

The last cell being dogs represent businesses that have a weak market shares in low-growth markets and they neither produce cash nor require an enormous amount of cash (Lechner and Floyd, 2012: 460). Therefore, because of the of the low market share, these business units are faced with costs disadvantages leading to retrenchment policies to be implemented in order to be able to help these firms gain market share at the competitor or rivals expense (Lechner and Floyd, 2012: 460).

However, the BCG matrix produces a framework with the allocation of resources among the different business units found in the industry making it possible to compare the business units at a momentary look and the matrixes has limitations and are as follows: the BCG matrix classifies business as low and high forgetting the fact the a business can also be regarded as medium restricting the proper nature of the business to be revealed (Lechner and Floyd, 2012: 460).

Furthermore, the model cannot properly define market and the high market share does not constantly lead to high profits but there are high costs that are associated with high market share (Lechner and Floyd, 2012: 460). The model's growth rate and relative market share are not the only key indicators of profitability as it ignores and sometimes overlooks other possible indicators of profitability (Lechner and Floyd, 2012: 460). As a result the dog can sometimes help other businesses in increasing competitive advantage so that they can be able to earn even more than cash cows, thus this model (four-celled approach) is regarded to be too simplistic (Lechner and Floyd, 2012: 460).

General Electric Business Screen (GEBS) In contrast, the General Electric Business Screen (GEBS) was initially developed to be able to help managers in the marketing sector to overcome the problems that they were experiencing with the BCG matrix such as lack of credible business information, the fact that BCG mainly concentrates with commodities not brands and cash flow if it is regarded as a more reliable indicator of position as opposed to market growth or share (Collis, Campbell and Goold, 2009: 123).

However, the GEBS introduces a three by three matrix that includes a medium category in order to utilize the industry's attractiveness as a more comprehensive measure than the BCG matrix and substitutes the competitive position for the original market share and the illustration will be below (Collis et al, 2009: 125): (Source: Adapted from Collis et al, 2009: 124). Furthermore, the GEBS has nine cells while the BCG matrix has only four meaning that large corporations are allowed to have many SBU's which can fundamentally operate under the same strategy but with the difference isthat they are individual firms and distinctive (Collis et al, 2009: 124).

The GEBS replaces the growth/share analogy with competitive position and market attractiveness so that successful SBU's can do well in attractive markets and add value that customers will pay for (Collis et al, 2009: 124). In addition, GEBS calculates the industry attractiveness and business unit strength but it firstly starts identifying the criteria for each cell, determining the parameter value in each criteria, and multiplying that value by weighting a factor, and this results in a quantitative measure of industry attractiveness and the business unit's relative performance in that industry (Collis et al, 2009: 124).