Markiting

BCG Matrix and Marketing Strategy On page 10 of the Company and Marketing Strategy lecture 2 PowerPoint slides, we encounter the BCG model as a toolfor evaluating companywide strategic planning. The BCG model is a portfolio planning model used to line up which products within an organization’s product mix get more attention and funding. In a strict sense, the BCG matrix is based on the observation that an organization’s products can be classified into four categories based on combinations of market share and market growth relative to the largest competitor. The BCG matrix also aids management in making decision on resource allocation to the different company departments and / or strategic business units. The two dimensions of the BCG model, market growth and relative market share, serve as proxies for industry attractiveness and competitive advantage respectively which are two important determinants of company profitability (“ BCG Matrix” para 1). Looking at it from the product lifecycle point of view, it is often prudent for an organization to have a balanced product portfolio consisting of both high-growth and low-growth products. High-growth products are those that require greater resources and effort to market now but that have a high probability of generating immense revenues in the future, for example Apple could categorize the iPad here. On the other hand, a low-growth product is an already established product that brings the organization constant flow of cash for example in Apple’s case the iMac. The BCG model operates under two important assumptions. First of all, increasing market share leads to an increase in the generation of cash. The experience curve manifests that relative market share increases as a firm creates cost advantages (“ BCG Matrix” para 2). Secondly, a growing market requires investment in assets to increase capacity which results in the consumption of cash. This means that the positioning of a company in the BCG matrix indicates its cash generation and its cash consumption. The BCG matrix has four categories where an organization's products can be placed: (1) stars – high growth, high market share; (2) cash cows – low growth, high market share; (3) dogs – low-growth, low market share and; (4) question marks – high growth, low market share. Stars have the potential to generate immense cash and business leadership even though they demand more resources for them to be well developed. The aim is to convert them into cash cows because cash cows are the foundation of the organization. An organization should aim to reduce the number of products that fall into the dog category because they lock-up cash that could be put to better use elsewhere. With dogs the organization may try to re-vitalize them through turn-around so long as the marginal benefits of the turn-around exceed its cost of implementation. Question marks are every organizations problem child because they have high net cash consumption against potential to become a star or a dog. The organization should ideally select which question marks to invest heavily on to become stars and which ones to divest from. In conclusion, the BCG matrix is an excellent tool for an organization to use to view its product / business portfolio. However, its importance has continued to diminish as newer and better techniques have emerged. The BCG also has its limitations with the following three being the most cited: (1) market growth is not the only indicator of how attractive a market is; (2) high market share is not the sole success factor e. g. a company can have a high market share in a small niche market; (3) at times dogs may bring in more cash than cash cows or they may help other products gain competitive advantage. Works Cited “ BCG Matrix.” The BCG Growth-Share Matrix 29 June 2011. Web. 30 June 2011.