

BOSTON CONSULTING GROUP MATRIX (BCG)

This technique is particularly useful for multi-divisional or multi-product companies. The divisions or products comprise the organisations “business portfolio”. The composition of the portfolio can be critical to the growth and success of the company.

The BCG matrix considers two variables, namely..

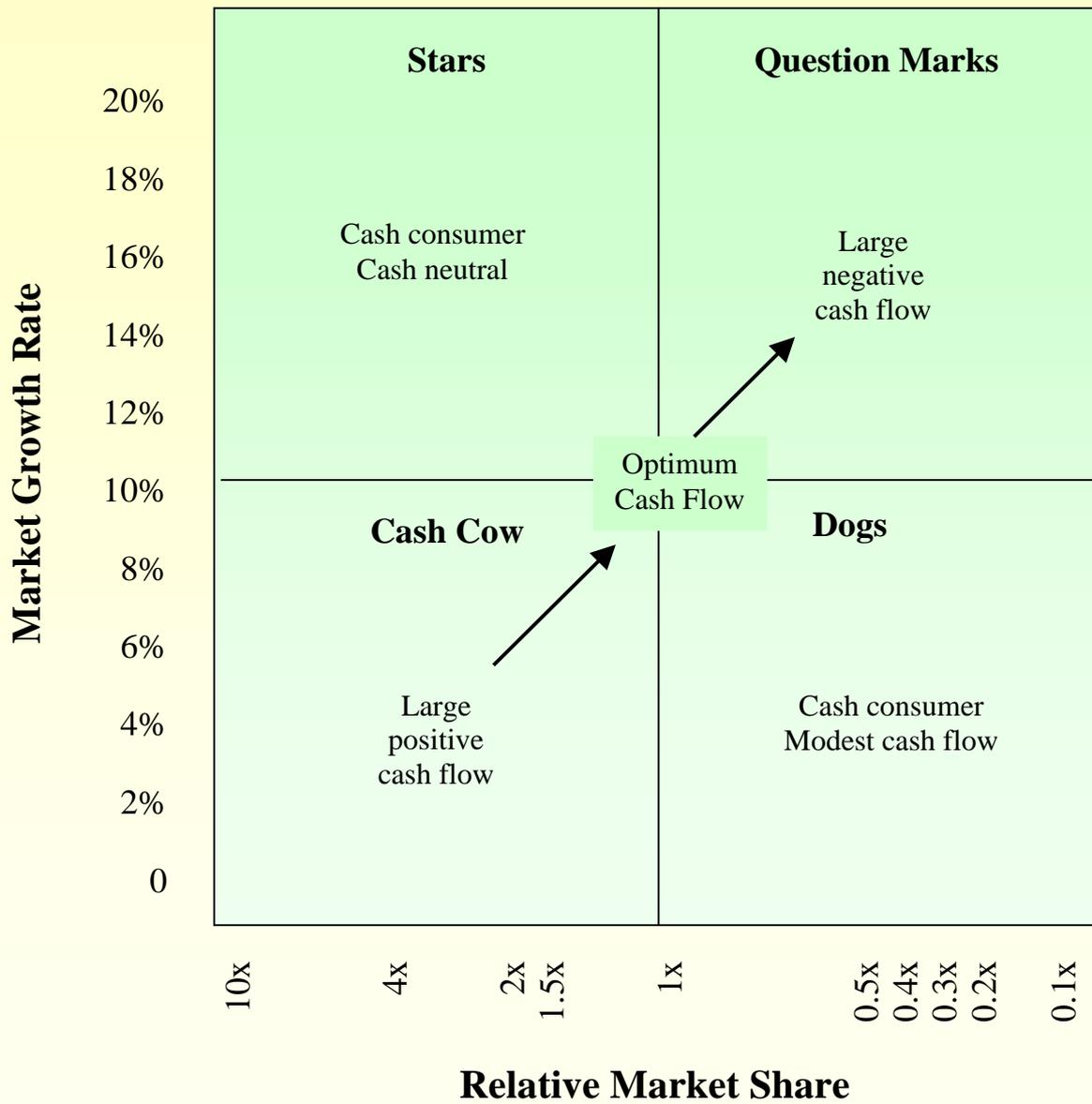
- **MARKET GROWTH RATE**
- **RELATIVE MARKET SHARE**

The market growth rate is shown on the vertical (y) axis and is expressed as a %. The range is set somewhat arbitrarily. The overhead shows a range of 0 to 20% with division between low and high growth at 10% (the original work by B Headley “Strategy and the business portfolio”, Long Range Planning, Feb 1977 used these criteria). Inflation and/or Gross National Product have some impact on the range and thus the vertical axis can be modified to represent an index where the dividing line between low and high growth is at 1.0. Industries expanding faster than inflation or GNP would show above the line and those growing at less than inflation or GNP would be classed as low growth and show below the line.

The horizontal (x) axis shows relative market share. The share is calculated by reference to the largest competitor in the market. Again the range and division between high and low shares is arbitrary. The original work used a scale of 0.1, i.e. market leadership occurs when the relative market share exceeds 1.0.

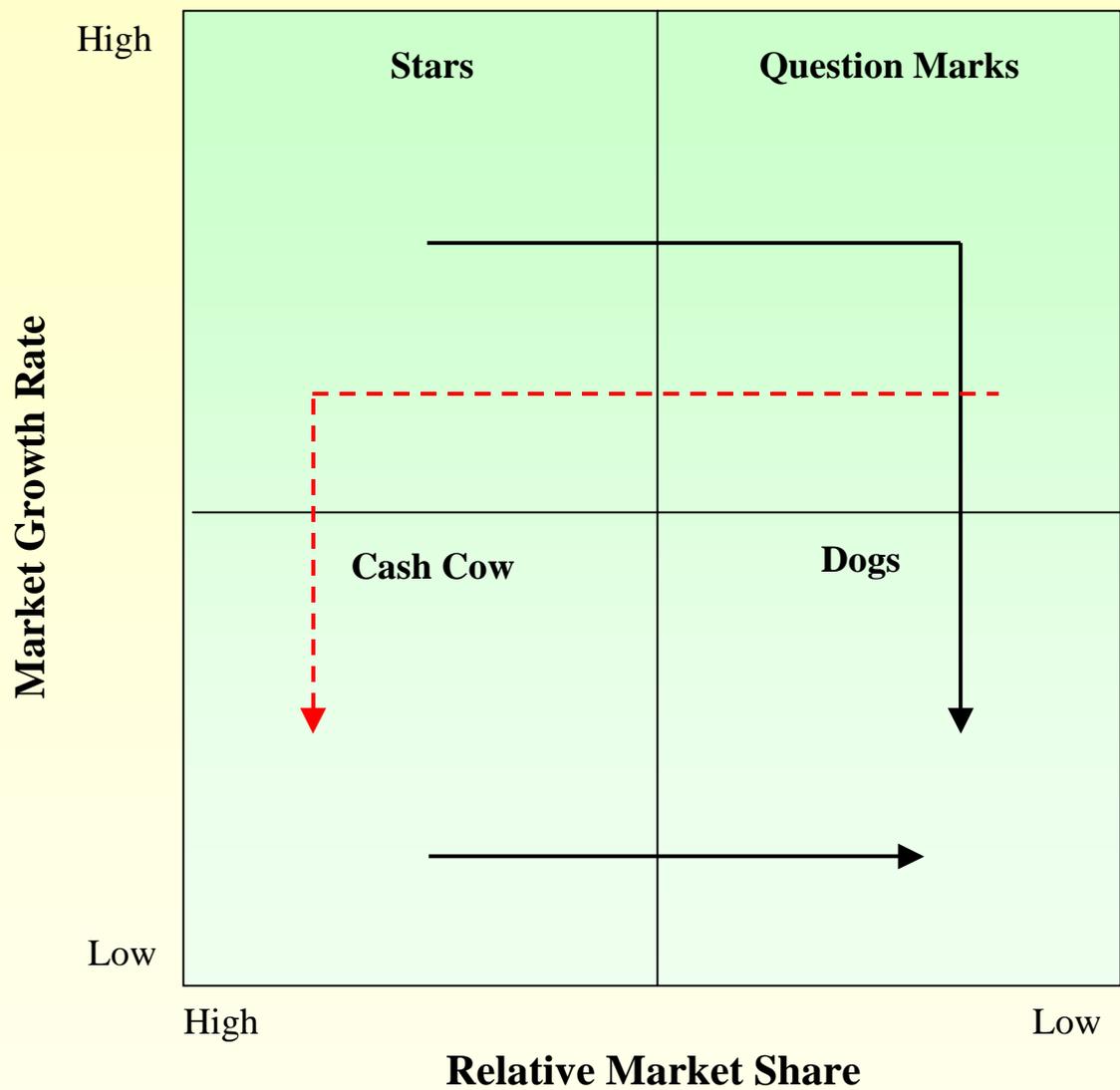
The BCG growth/share matrix is divided into four cells or quadrants, each of which represent a particular type of business. Divisions or products are represented by circles. The size of the circle reflects the relative significance of the division/product to group sales. A development of the matrix is to reflect the relative profit contribution of each division and this is shown as a pie-segment within the circle.

The Boston Consulting Group's Growth Share Matrix



SOURCE: Adapted from Hedley (1977), p12

Success and Disaster Sequences in the Product Portfolio



Disaster sequences —————▶
Success sequences - - - - -▶

- **QUESTION MARKS**

These are products or businesses, that compete in high growth markets but where the market share is relatively low. A new product launched into a high growth market and with an existing market leader would normally be considered as a question mark. Because of the high growth environment, they can be a “cash sink”.

Strategic options for question marks include..

Market penetration

Market development

Product development

Which are all intensive strategies or divestment.

- **STARS**

Successful question marks become stars. i.e. market leaders in high growth industries. However, investment is normally still required to maintain growth and to defend the leadership position. Stars are frequently only marginally profitable but as they reach a more mature status in their life cycle and growth slows, returns become more attractive. The stars provide the basis for long term growth and profitability.

Strategic options for stars include..

Integration – forward, backward and horizontal

Market penetration

Market development

Product development

Joint ventures

- **CASH COWS**

These are characterised by high relative market share in low growth industries. As the market matures the need for investment reduces. Cash Cows are the most profitable products in the portfolio. The situation is frequently boosted by economies of scale that may be present with market leaders. Cash Cows may be used to fund the businesses in the other three quadrants.

It is desirable to maintain the strong position as long as possible and strategic options include..

- Product development

- Concentric diversification

If the position weakens as a result of loss of market share or market contraction then options would include..

- Retrenchment (or even divestment)

- **DOGS**

These describe businesses that have low market shares in slow growth markets. They may well have been Cash Cows. Often they enjoy misguided loyalty from management although some Dogs can be revitalised. Profitability is, at best, marginal.

Strategic options would include..

- Retrenchment (if it is believed that it could be revitalised)

- Liquidation

- Divestment (if you can find someone to buy!)

Successful products may well move from question mark through star to Cash Cow and finally to Dog. Less successful products that never gain market position will move straight from question mark to Dog.

The BCG is simple and useful technique for strategic analysis. It is convenient for multi-product or multi-divisional companies. It focuses on cash flow and is useful for investment and marketing decisions.

One should not however, ignore the limitations of the technique.

- * Definition (qualitative and quantitative) of the market is sometimes difficult.
- * It assumes that market share and profitability are directly related.
- * The use of high and low to form four categories is too simplistic.
- * Growth rate is only one aspect of industry attractiveness and high growth markets are not always the most profitable.
- * It considers the product or business in relation to the largest player only. It ignores the impact of small competitors whose market share is rising fast.
- * Market share is only one aspect of overall competitive position.
- * It ignores interdependence and synergy.

Companies will frequently search for a balanced portfolio, since..

- * Too many stars may lead to a cash crisis
- * Too many Cash Cows puts future profitability at risk
- * And too many question marks may affect current profitability.

Group exercise..

Using the data provided construct a BCG and answer the following questions,

Has the company a balanced portfolio?

From the BCG what do you see as strengths and why?

Propose generic strategies for each division or product.

BCG Exercise

Consider a multi-divisional / product organisation
Using the following data construct a BCG matrix

Division / Product	1	2	3	4	5
Sales £ million	0.4	1.8	1.7	3.5	0.6
No. of Competitors	6	20	16	3	8
Sales of Market leaders £ million	0.8, 0.7, 0.4	1.8,1.8,1.2	1.7,1.3,0.9	3.5,1.0,0.8	2.8,2.0,1.5
Market Growth (%)	16	18	8	5	2
Total Market £ million	2.3	12.2	8.4	5.3	7.3
Industry/Product Profitability % sales	8	6	9	5	6

Is the company balanced?
Identify strengths and weaknesses of company
Propose strategies for each division/product