Boston Consulting Group (BCG) Matrix and Porter's Generic Model

by

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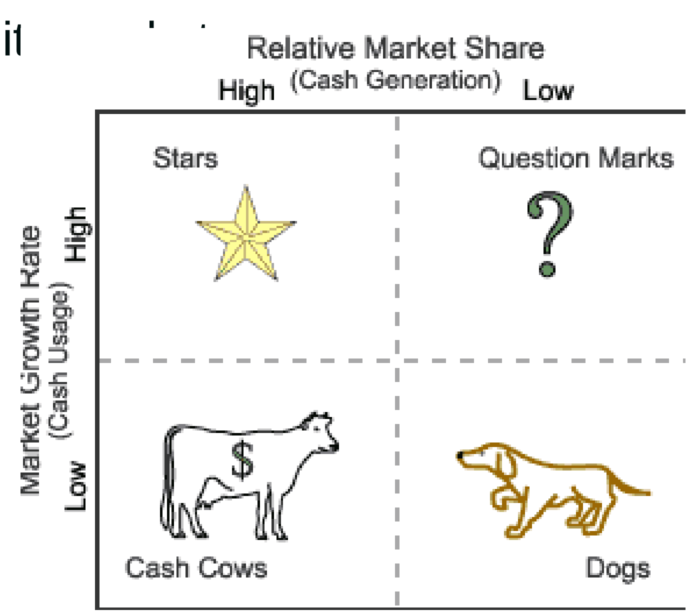
Strategic Market Management

BCG Matrix

- Boston Consulting Group (BCG) Matrix is the most renowned four celled matrix (2 * 2 matrix) to examine different businesses in its portfolio, developed by BCG, USA.
- It is also known as Growth-Share Matrix and Corporate Portfolio Analysis Tool

The matrix assess SBU and a portfolio of products on the basis of two dimensions.

- Relative Market share – measures the product's market share relative to the largest competitor in the industry
- Market/Industry growth – looks at the products general level of growth within it



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Accordingly, businesses are classified into four distinctive groups:

- Stars (upper left quadrant).
- Cash Cows (lower left quadrant).
- Question Marks or Problem Child (upper right quadrant).
- Dog (lower right

Horizontal X Axis represents Relative Market Share running from low on the left to high on the right)

Vertical axis Y Axis represents Market/Industry Growth Rate running from low at the bottom to high at the top

STAR

(high growth and market share)

- Stars are business units operating in high growth rate with a high market share (potentially market leaders) in a fast-growing industry.
- Stars generate large amounts of cash due to their high relative market share but also require large investments to fight competitors and maintain their growth rate.
- Net cash flow is usually modest. If successful, a star will become a cash cow when the industry mature.

Diet Coke, Reliance Petrol Pump

Cash Cows

(low growth and high market share)

- Cash Cows represents business units having a large market share in a mature, slow growth industry.
- Cash cows require little investment and generate cash that can be utilised for investment in other business units.
- Cash cows therefore typically generate cash in excess of the amount of cash needed to maintain the business. This 'excess cash' is supposed to be 'milked' from the Cash Cow for investments in other business units (Stars and Question Marks).
- Cash Cows ultimately bring balance and follow stability strategies.

Ex. Amul Milk, Lifebuoy, Lux

Question Marks

High Growth, Low Market Share

- Question marks are also called as Problem Child
- They represents business operating in low relative market share and located in a high growth industry.
- Like the name suggests, the future potential of these products is doubtful.They require attention to determine if the venture can be viable. They have the potential to gain market share and become Stars (market leaders) eventually.
- Question marks are generally new goods and services which have a good commercial prospective.
- If given attention and investment they can become stars otherwise if ignored, then question marks may become dogs.

Ventures or start-ups usually start as

Dogs

Low Growth, Low Market

- Dogs" refers to products that have a low market share in unattractive, low-growth markets. Dogs hold low market share compared to competitors.
- Neither do they generate cash nor do they require huge cash. In general, they are not worth investing in because they generate low or negative cash returns and may require large sums of money. Dogs are likely to be divested or liquidated.

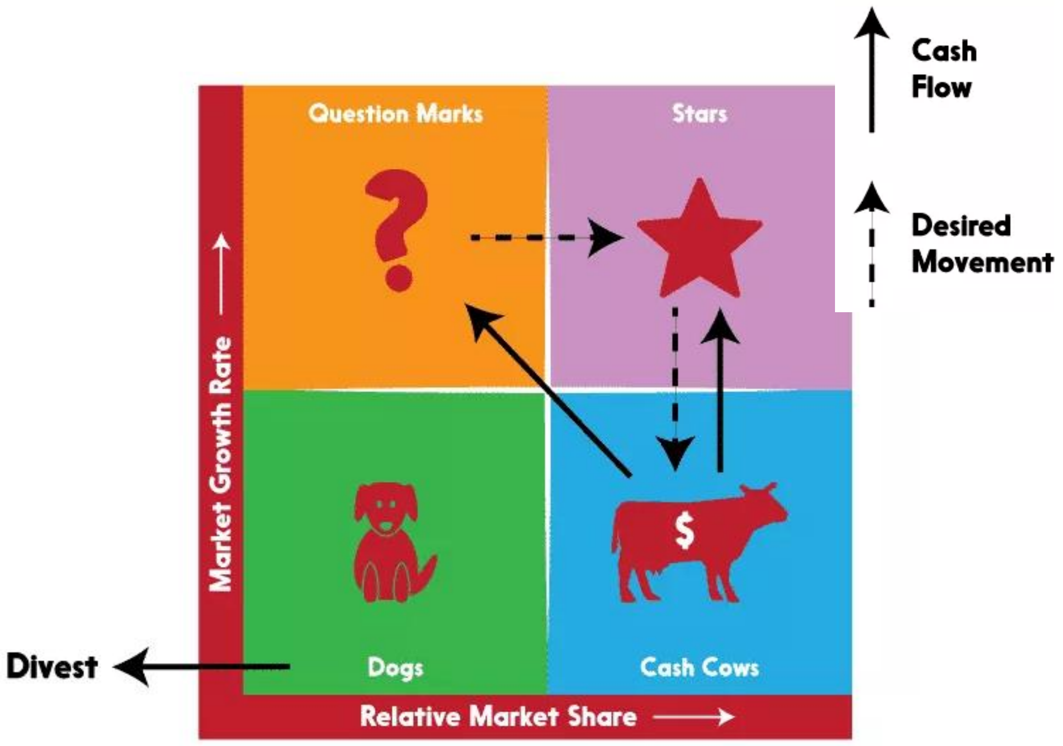
BCG Matrix Marketing Strategies

- Stars : should “Invest” to prevent market share loss at all costs, and if possible grow share while the market is still expanding.

- Cash cows : generate the funds require to invest in another business so cash cows should be “Hold, Milk/Harvest and Defend”

- Question Marks : Either Discard or Invest more money in question marks to convert into the star quadrant

- Dogs: Liquidate or Divest the business of failing products (dogs) and release the money that's tied up in them



Limitations of BCG Matrix

- BCG matrix categorises businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
- High market share does not always leads to high profits. There are high costs also involved with high market share.
- Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
- BCG MATRIX uses only two dimensions, Relative market share and market growth rate.
- Problems of getting data on market share and market growth.

Porter's Generic Strategies Model

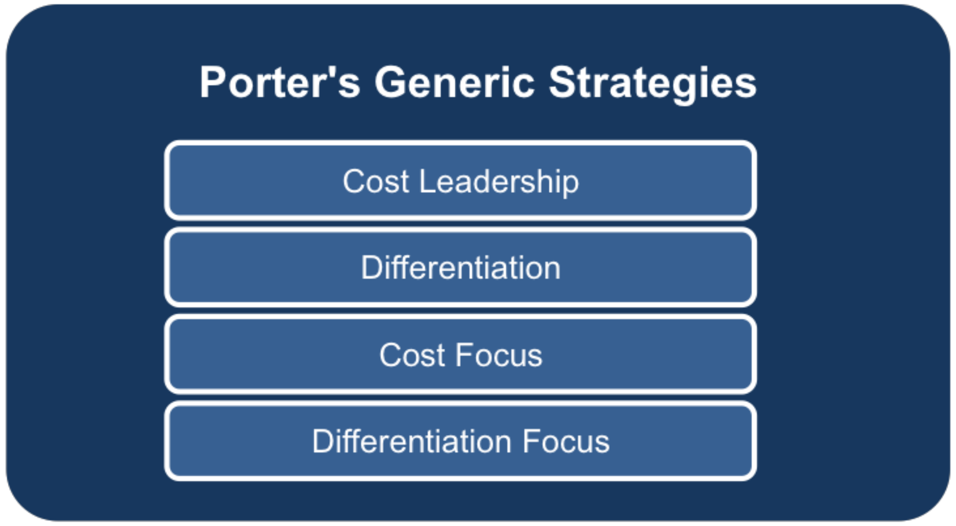
The Generic Strategies can be used to determine the direction (strategy) of your organisation. Michael Porter in his book 'Competitive Advantage: Creating and Sustaining Superior Performance' describes three basic strategies, namely C**ost Leadership**, **Differentiation** and **Focus**. He believes that a company must choose a clear course in order to be able to beat the competition

He divided the later Focus into **Cost Focus** and **Differentiation Focus**.

The four strategies to choose from are:

1. Cost Leadership (no frills)
2. Differentiation (creating uniquely desirable products and services)
3. Focus

    - Differentiation Focus
    - Cost Focus



Cost Leadership

The objective of Cost Leadership is to minimise the cost to the organisation of delivering products and services. The Cost Leadership strategy is exactly being the leader in terms of cost in respective industry or market. In cost leadership, a firm focus is to become the low cost producer in its industry. There are two main ways of achieving this within a Cost Leadership strategy:

- Increasing profits by reducing costs, while charging industry-average prices.
- Increasing market share by charging lower prices, while still making a reasonable profit on each sale because you've reduced costs.

Wal-Mart's and Maruti are the examples of Cost Leadership Strategy

Differentiation

Differentiation involves making your products or services different and more attractive than those of your competitors. Differentiating the product offering of a firm means creating something that is perceived industry wide as being unique in terms of features, functionality, durability, support, brand image etc. The objective is to achieve competitive advantage through differentiation and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product uniqueness and to covers the additional production costs, giving customers clear reasons to prefer the product over other, less differentiated products.

Examples of a differentiation leadership include global brands like Nike and Mercedes.

Focus Strategy

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The main premise is that the needs of the group can be better serviced by focusing entirely on it. The firm using focus strategy often enjoys a high degree of customer loyalty and chooses a specific segment or group of segments in the industry on the basis of either cost advantage or differentiation.

- **Cost Focus** in which a firm seeks a cost advantage in its target segment, while in
- **Differentiation Focus** in which a firm seeks differentiation in its target segment in terms unique produc rs in certain segments.