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# **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

## **BCG Matrix**



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## BOSTON CONSULTING GROUP (BCG)

- Matrix is developed by Bruce Henderson of the Boston Consulting Group in the early 1970's
- According to this technique, business or products are classified as low or high performance depending upon their market growth rate & relative market share.





## RELATIVE MARKET SHARE & MARKET GROWTH

- To understand the Boston Matrix you need to understand how market share & market growth interrelated.
- Market Share





Market share is the percentage of the total market that is being serviced by your company measured either in the revenue terms or unit volume terms.





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## RELATIVE MARKET SHARE

$$\text{RMS :- } \frac{\text{Business Unit Sales this year}}{\text{Leading rival sales this year}}$$

The higher your market share, the higher proportion of the market you control.





## MARKET GROWTH RATE

- Market Growth is used as a measure of a market's attractiveness.

$$\text{MGR} = \frac{\text{Individual Sales this year} - \text{Individual sales last year}}{\text{Individual Sales last year}}$$





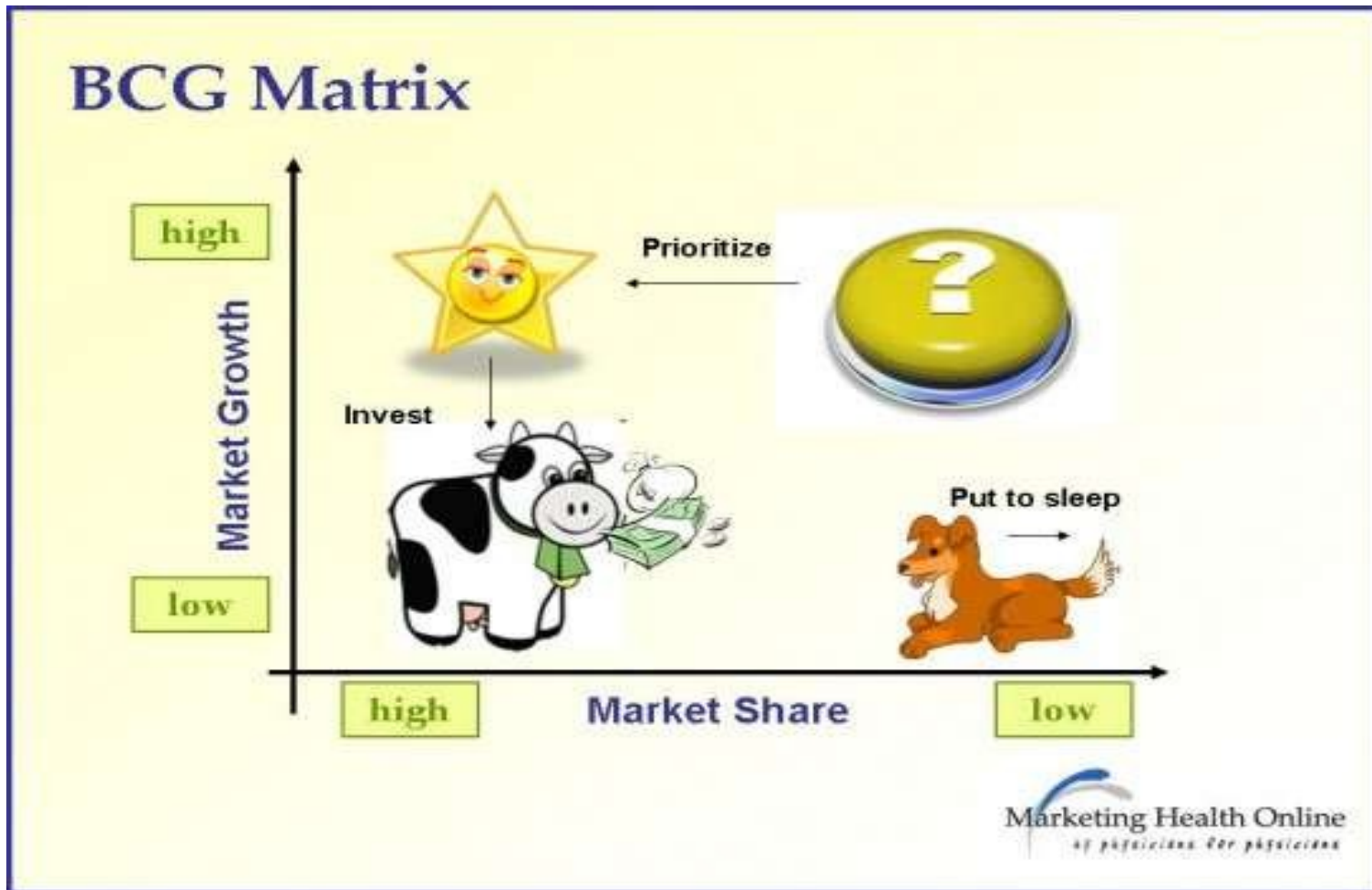
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- Markets experiencing high growth are ones where the total market share available is expanding & there is plenty of opportunity for everyone to make money





# THE BCG GROWTH-SHARE MATRIX







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It is portfolio planning model which is based on the observation that company's business unit can be classified in to four categories .

- Question Marks
- Stars
- Cash cows
- Dogs

It is based on the combination of market growth & market share relative to the next based competitor.





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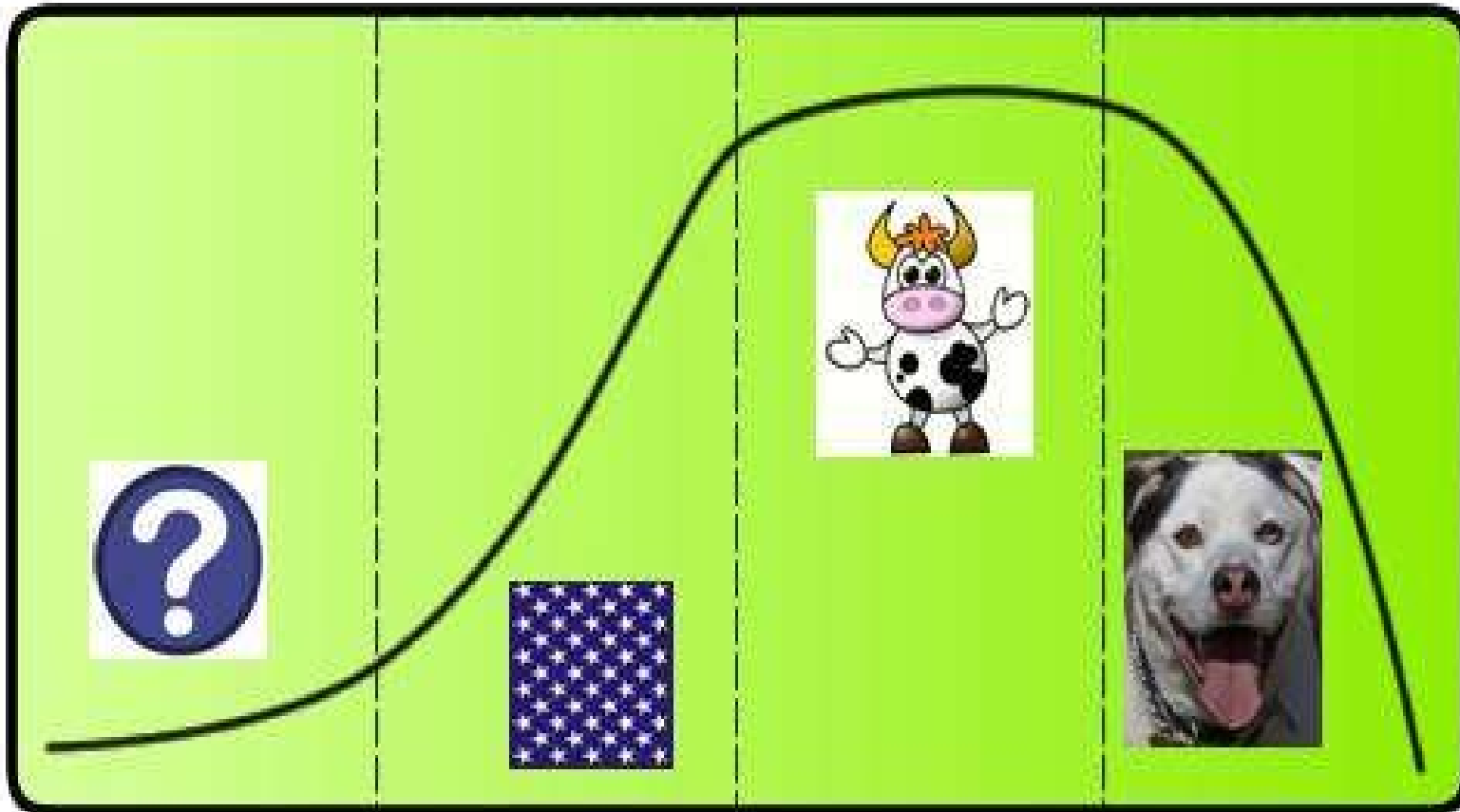
Introduction

Growth

maturity

decline

Sales



Time on market





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## QUESTION MARKS/PROBLEM CHILDREN HIGH GROWTH, LOW MARKET SHARE)

- Most business start of as question marks
- They will absorb great amount of cash if the market share remains unchanged (low)
- Question marks have potential to become star & evenly cash cow but can also become dog.
- Investment should be high for question marks.





## STARS

(HIGH GROWTH, HIGH MARKET SHARE)

- Stars are leader in business
- They also require heavy investment to maintain it's large market share.
- It leads to large amount of cash consumption & cash generation.
- Attempts should be made to hold the market share otherwise the star will became a cash cow.





## CASH COWS

( LOW GROWTH, HIGH MARKET SHARE )

- They are foundation of the company & often the stars of yesterday.
- They generate more cash than required
- They generate more cash than required.
- They extract the profits by investing as little cash as possible
- They are located in an industry that is mature not growing or declining





## DOGS

(LOW GROWTH, LOW MARKET SHARE)

- Dogs are the cash traps
- Dogs do not have potential to bring
- High cost – Low quality
- Business is situated at a declining stage





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## WHY BCG MATRIX

To asses

- Profile of product /business
- Cash demands of products
- The development cycle of product
  
- Resource allocation & divestment decisions







## MAIN STEPS OF BCG MATRIX

- Identifying & dividing a company into SBU

Assessing & comparing the prospects of each SBU according to two criteria

- 1) SBU's relative market share
- 2) Growth rate of SBU's industry

Classifying the SBU's on the basis of BCG matrix

Developing strategic objective for each SBU





## BENEFITS

- BCG matrix is simple & easy to understand
- It helps to quickly & simply screen the opportunity open to you, & help you think about how you can make the most of them.
- It is used to identify how corporate cash resources can best be used to maximize company's future growth & profitability.





## LIMITATION

- BCG matrix uses only two dimensions relative market share & market growth rate.
- Problem of getting data on market share & market growth
- High market share does not mean profits all time.
- Business with market share can be profitable too.





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BCG-MATRIX FOR THE PRODUCT LINE OF

Coca-Cola

*Coca-Cola*





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## QUESTION MARKS (HIGH GROWTH, LOW MARKET SHARE)





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STARS

(HIGH GROWTH, HIGH MARKET SHARE)





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## CASH COWS (LOW GROWTH, HIGH MARKET SHARE)





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# DOGS

(LOW GROWTH, LOW MARKET SHARE)







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Google





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# QUESTION MARKS



Google play



# STARS



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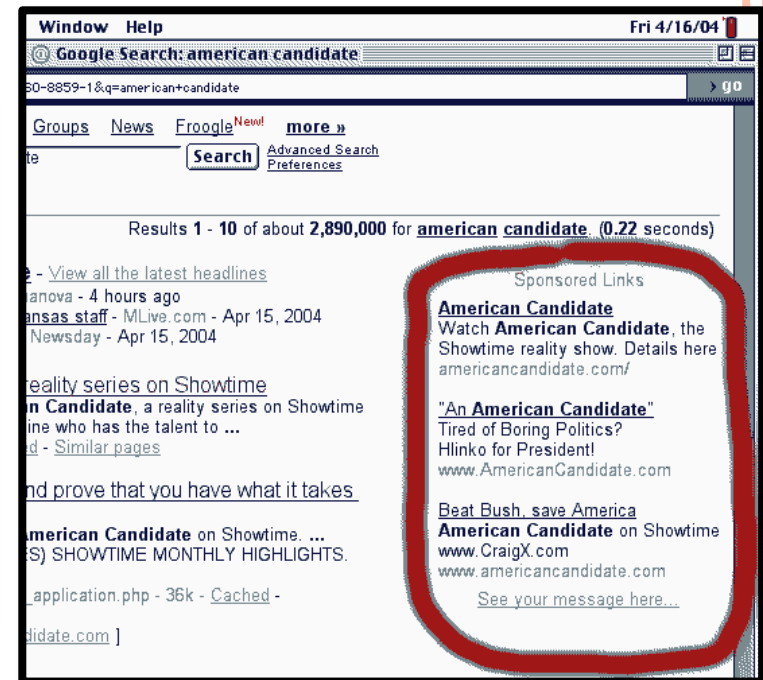
- Invest for growth





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# CASH COWS ( MILK TO FUND OTHER BUSINESS)





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# DOGS





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## CONCLUSION

- Though BCG matrix has its limitation it is one of the most famous & simple portfolio planning matrix, used by large companies having multi-products.



