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THE BCG MATRIX

The Boston Consulting Group (BCG) Matrix is a simple tool that can be used to determine what priorities should be given in the product portfolio of a business unit. It helps a company think about its products and services and make decisions about which it should keep, which it should let go and which it should invest in further.

It has 2 positions:

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

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

The basic idea behind it is that the bigger the market share a product has or the faster the product's market grows the better it is for the company

Placing products in the BCG matrix results in 4 categories in a portfolio of a company:

- Stars;
- Question marks;
- Cash cows;
- Dogs.

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

Stars (High growth, high market share):

• Stars are leaders in business so they should also generate large amounts of cash.

• They also require heavy investment, to maintain its large market share.

• It leads to large amount of cash consumption and cash generation.

• Attempts should be made to hold the market share otherwise the star will become a Cash Cow.

Cash Cows (Low growth , high market share):

• They are foundation of the company and often the stars of yesterday.

- 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 in much cash.
- Number of dogs in the company should be minimized.
- Business is situated at a declining stage.

Question Marks (High growth , low market share):

- Most businesses start of as question marks.
- Question marks have potential to become star and eventually cash cow but can also become a dog.
- Investments should be high for question marks.
- Have the worst cash characteristics of all, because high demands and low returns due to low market share
- If nothing is done to change the market share, question marks will simply absorb great amounts of cash and later, as the growth stops, a dog.

The BCG Matrix method can help understand a frequently made strategy mistake, assess profiles of products or businesses, the cash demands of products, the development cycles of products, resource allocation and divestment decisions.

Main steps of BCG Matrix:

- Identifying and dividing a company into SBU.
- Assessing and comparing the prospects of each SBU according to SBU'S relative market share and growth rate of SBU`S industry.
- Classifying the SBU`S on the basis of BCG matrix.
- Developing strategic objectives for each SBU.

Benefits of BCG Matrix:

- It is simple and easy to understand.
- It is used to identify how corporate cash resources can best be used to maximize a company's future growth and profitability.

Some limitations of the BCG Matrix include:

- High market share is not the only success factor.

- Market growth is not the only indicator for attractiveness of a market.
- Sometimes Dogs can earn even more cash as Cash Cows.