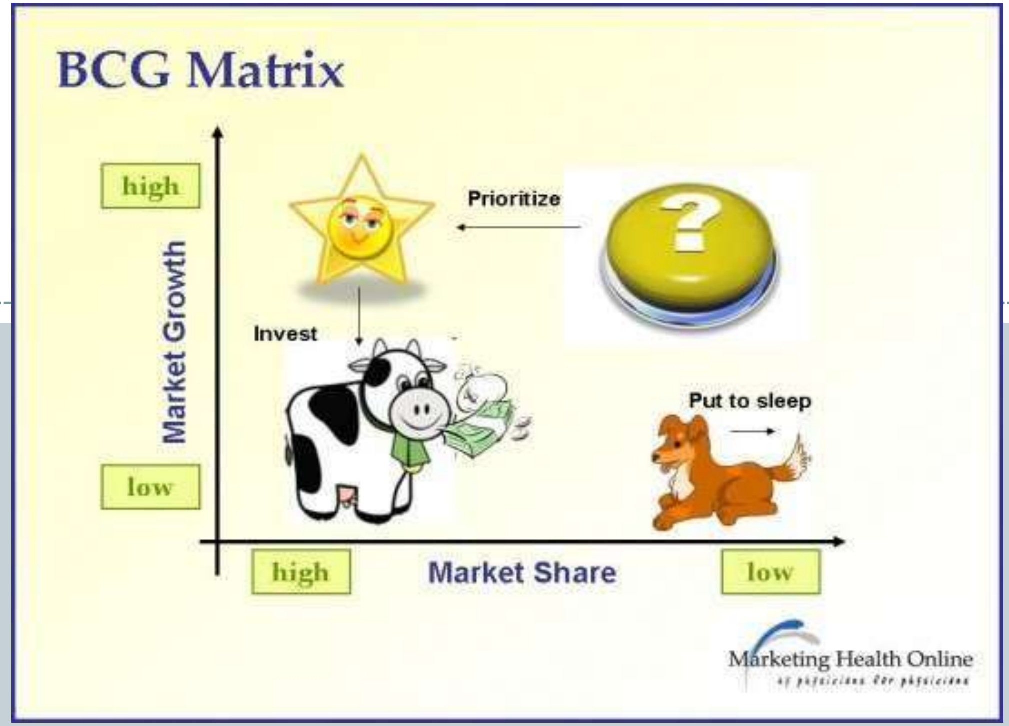
BCG MATRIX



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INTRODUCTION

- The **BCG Matrix**, also known as the **Boston Consulting Group Matrix**, is a strategic management tool used by companies to analyze their business units or product lines based on their market growth and market share.
- It helps organizations allocate resources effectively and make strategic decisions about their product portfolio.

EVOLUTION OF BCG MATRIX

1. **Creation by the Boston Consulting Group (1970s):** The BCG Matrix was developed by **Bruce Henderson** and the **Boston Consulting Group** to help companies prioritize their investments and resources across various business units or product lines.
2. Introduction of the Growth-Share Matrix: **Growth vs. Share**: The matrix introduced the idea of looking at two critical factors—**market growth rate** and **relative market share**—as the key drivers for strategic decision-making.

3. **Expansion Beyond Large Corporations:** Over time, the BCG Matrix became widely used not just by large corporations, but also by smaller businesses and multinational firms with diversified portfolios.

BCG Matrix

- **Relative Market Share**
- **Market Growth Rate**

Relative Market Share

- **Relative Market Share**: A key metric used to assess a business unit or product's competitive strength in comparison to its largest competitor within the same industry or market.
- It is a ratio that compares the market share of a company’s product to the market share of its largest competitor. This metric helps in understanding how dominant or competitive a business unit is in its specific market.

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

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


WE'RE #1

MARKET GROWTH RATE

- **Market Growth Rate** refers to the annual percentage growth rate of the market in which a business unit operates. It indicates how fast the market is growing, and it's a key factor in determining the strategic positioning of a business within the matrix.
- **Formula for Market Growth Rate:**

$$\text{Market Growth Rate} = \frac{\text{Current Year's Market Size} - \text{Previous Year's Market}}{\text{Previous Year's Market Size}} \times 100$$

Where,

- **Current Year's Market Size** is the total market value or volume in the current period.
- **Previous Year's Market Size** is the market value or volume in the previous period.

THE BCG GROWTH MATRIX

1. STARS

1. **High market share** in a **high-growth market**.
2. Require significant **investment** to maintain leadership.
3. Have **great potential for profitability** in the future.
4. Can eventually become **Cash Cows** as market growth slows.
5. Represent the **future growth** of the business.
6. Often require **intense competition** to sustain succes

2. CASH COWS

1. **High market share** in a **low-growth market**.
2. Generate **steady profits** with minimal investment.
3. Require **little investment** but provide **high returns**.
4. **Mature products** with **dominant market positions**.
5. Often fund investments in **Stars** and **Question Marks**.
6. **Low risk** and provide **financial stability**.

3. QUESTION MARK

1. Require **large investments** to increase market share or to grow.
2. **Uncertain future**—could turn into **Stars** or **Dogs**.
3. Tend to have **high growth potential** but **low market share**.
4. Require careful **strategic decisions** about whether to invest or divest.
5. Have **high risk** due to their uncertain outcomes in competitive markets

4. DOGS

1. **Low market share** and **low growth potential**.
2. **Limited future prospects**, often underperforming in the market.
3. May be **draining resources** with little return.
4. Often considered for **divestiture** or **shutdown**.
5. Can still be **cash-generating** but with limited strategic value.

Example of BCG Matrix

- Imagine a company, **TechGizmo Inc.**, that manufactures electronic devices. They have four products in their portfolio: Smartphone, Smartwatch, Laptop, and Tablet.

Product	Market Growth Rate	Relative Market Share	BCG Category
Smartphone	**High**	**High**	**Star**
Smartwatch	**High**	**Low**	**Question Mark**
Laptop	**Low**	**High**	**Cash Cow**
Tablet	**Low**	**Low**	**Dog**

Explanation

- **<u>Smartphone</u>**: The company's smartphone has a **high market share** in a **growing market**. It requires investment but generates a lot of revenue, making it a **Star**.
- **<u>Smartwatch</u>**: The smartwatch is in a **high-growth market** but has a **low market share**, meaning it could grow but needs significant investment, making it a **Question Mark**.
- **<u>Laptop</u>**: The laptop product has a **high market share** but is in a **mature or low-growth market**. It generates a lot of cash with low investment, making it a **Cash Cow**.
- **<u>Tablet</u>**: The tablet has a **low market share** in a **low-growth market**, and it doesn't generate much revenue. This places it in the **Dog** category, possibly a product to phase out.

BCG MATRIX FOR THE PRODUCTS OF COCA COLA

QUESTION MARKS
(HIGH GROWTH, LOW MARKET SHARE)

STARS
(HIGH GROWTH, HIGH MARKET SHARE)

CASH COWS
(LOW GROWTH, HIGH MARKET SHARE)

DOGS
(LOW GROWTH, LOW MARKET SHARE)

CONCLUSION

The **BCG Matrix** has evolved from a simple, static tool in the 1970s to a more complex and adaptable strategic framework used across industries and sectors. While it may not be as dominant as it once was, it remains a valuable tool for businesses to analyze and manage their product portfolios, allocate resources efficiently, and make informed strategic decisions. Its adaptability and combination with other strategic frameworks have ensured its continued relevance in modern business management.

ThankYou