

## Portfolio Analysis

In Portfolio Analysis, top Management views its product lines and business units as a series of investments from which it expects a profitable return. Two of the most popular approaches are the BCG Growth-Share Matrix and GE Business Screen. The Boston Consulting Group (BCG) Matrix is designed to enhance a multi-product and multi divisional firm's effort to formulate strategies. BCG is a private management consulting firm based in Boston. BCG Matrix helps the multi-product and multi-divisional organizations to manage its portfolio of businesses by examining the relative market share position and the industry growth rate of each product relative to all other products in the organization. Relative market share position is defined as the ratio between the company's market share of a product in the industry and the market share held by the largest rival firm in that Industry. For example the table 1 on page 66 shows that the relative market share of the Wall Street Journal is  $1.78/2.24$  which is 79 per cent.

Table 1. Sales of Ten Largest U.S. Newspapers

Company	Average Daily Circulation (in millions)
USA Today	2.24
The Wall Street Journal	1.78
The New York Times	1.11
The Los Angeles Times	0.97
The Washington Post	0.76
The New York Daily News	0.73
The Chicago Tribune	0.62

An example of BCG Matrix is shown in the figure below, Each Circle represent a separate product. The size of the circle corresponds to the proportion of the corporate revenue generated by the business unit and the pie slice indicates the proportion of corporate profits generated by that product. Divisions located in Quadrant I are known as Question marks, those located in Quadrant II are known as stars, those located in Quadrant III are known as Cash Cows and those located in Quadrant IV are called Dogs. As indicated in Global Perspective Box more Japanese firms are becoming stars by changing policies that previously discouraged women from becoming managers.

**Question Marks-** Products in Quadrant I have a low relative market share position, yet they compete in a high-growth industry. These firms' cash needs are high and their cash generation is low. These businesses are known as Question Marks because the organization must decide whether to strengthen them by pursuing an intensive strategy like market penetration, market development or product development or to sell them.

**Stars-** Quadrant II businesses known as stars represent the organization's best long-run opportunities for growth and profitability. Products lying in this range with a high relative market share and a high industry growth rate should receive substantial investment to maintain and to strengthen their dominant positions. Forward integration, Backward integration, horizontal integration, market penetration, market development, product development and joint ventures are the appropriate strategies for these divisions to consider.

**Cash Cows** – Businesses positioned in Quadrant III have a high relative market share position but compete in a low-growth industry and are known as cash cows because they generate cash in excess of their needs. Cash cow divisions should be managed to maintain their strong positions as long as possible. Product development or concentric diversification may be attractive strategies for strong cash cows. However, as a cash cow division becomes weak, retrenchment or divestiture become more appropriate.

**Dogs** – Quadrant IV products of the organization have a low relative market share position and compete in a slow or no market growth industry and are known as Dogs in the Firm's portfolio. When a division reaches the position of Dog, retrenchment can be

the best strategy to pursue because many dogs have bounced back after strenuous asset and cost reduction to become viable and profitable divisions.

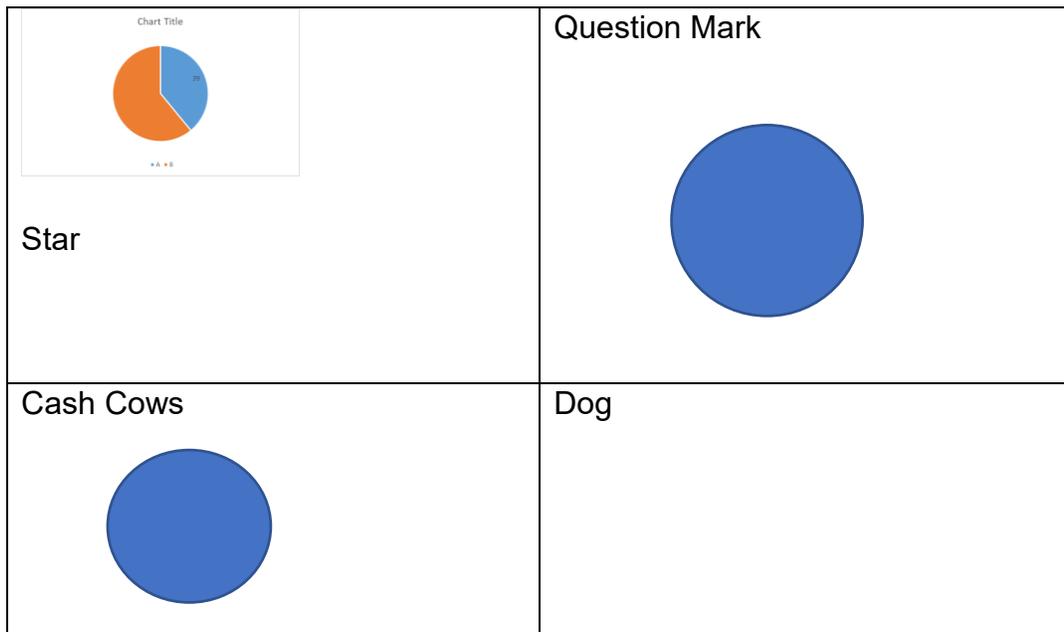
The main benefits of BCG Matrix are that it categorizes the various products of the organization from highly profitable to least profitable and the company takes a decision on whether to continue with a product or to drop it or improve on it. The categories into which the company's product are divided changes over a period of time. For example, Dogs can become Question Marks, Question Marks can become Stars, Stars become Cash Cows and Cash Cows become Dogs. However less frequently, Stars become Question Marks, Question Marks become Dogs, Dogs become Cash Cows and Cash Cows become Stars. Most importantly the Organizations should try to have more stars in their portfolio.

One example of BCG Matrix is provided in fig.6.5. For example, let us assume that an organization has five products with sales ranging from Rs.5,000 to Rs.60,000. Product one has the highest sales volume, so the circle representing that product is the largest one in the matrix. The circle corresponding to product 5 is the smallest one because it has the least number of sales. The pie slices within the circle reveal the percent of profits earned by each product. As shown product 1 contribute the highest amount of profit thus is a star, product 2 and 3 are question mark, product 4 is cash cow and product 5 is a dog.

BCG Matrix like other models have its own limitations too. First of all viewing every business either as a Star, Cash Cow, Dog or a question mark is oversimplification. Secondly it does not explain the future changes that are going to occur. Thus it is the snapshot of an organization at a given point of time.

Product	Revenue (Rs.)	Revenue (%)	Profits	Profit (%)	Market Share (%)	Growth Rate (%)
1	60,000	37	10,000	39	80	+15

2	40,000	24	5,000	20	40	+10
3	40,000	24	2,000	8	10	1
4	20,000	12	8,000	31	60	-20



5	5,000	3	500	2	5	-10
Total	1,65,000	100	25,500			

RELATIVE MARKET SHARE POSITION IN THE INDUSTRY

High  
Low

Medium

1.0  
0.0.

.50

+20

INDUSTRY

SALES GROWTH RATE

(%)

-20

### **Advantage of Portfolio Analysis**

It encourages top management to evaluate each of the Company's business and to set objectives and allocate resources for each. The graphic depiction facilitates communication. It raises the issue of cash flow availability for expansion and growth

### **GE BUSINESS SCREEN**

General Electric in association with McKinsey and Company developed another Matrix with 9 cells in contrast to the 4 cells of BCG Matrix. Whereas BCG Matrix makes an analysis through the use of two basic factors, i.e., Business growth rate and comparable market share, the GE Business Screen incorporates more factors like market growth rate, industry profitability, size and pricing practices for analyzing industry attractiveness and market share, technological position, profitability and size to measure competitive position.

Winners A	Winners B	Question Marks C
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Winners E	Average Businesses F	D Losers
Profit Producers I	Losers G	Losers H