Unit 4 -Portfolio Analysis

The various methods/tech. for Portfolio analysis are

- BCG Growth-Share Matrix,
- GE Business Screen,
- Shell's Directional Policy Matrix,
- Hofer's Product – Market Matrix.

BCG Matrix

- The Boston Consulting Group Matrix (BCG Matrix) helps companies make decisions about resource allocation and strategic focus.
- It is a four cell matrices developed by BCG, USA. It provides a graphic representation for an organization to examine different businesses in it's portfolio on the basis of their related market share and industry growth rates.
- It is a comparative analysis of business potential and the evaluation of environment.
- BCG matrix has four cells, with horizontal axis representing relative market share and the vertical axis denoting market growth rate.

- It’s important to note that the BCG Matrix is a simplification of a company’s complex portfolio, and it has its limitations. Market growth rate and market share are not the only factors to consider in strategic decision-making, but the matrix can provide a useful starting point for analyzing a company’s products or business units.
- For example, companies may invest heavily in stars to turn them into cash cows, gradually divest from dogs, and carefully evaluate the potential of question marks.
- The matrix is presented as 2X2 matrix. The X-axis is relative market share and Y-axis shows market growth.

BCG Growth-Share Matrix

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BCG Matrix (Boston Consulting Group Matrix), popularly known as Growth-Share Matrix, is a strategic tool used to analyze a company’s portfolio of products or business units.

It categorizes these products or units into four quadrants based on their market growth rate and market share.

The four quadrants in the BCG Matrix are:

STARS ,QUESTION MARKS

CASH COWS DOGS

- Stars:

Products or business units with high market share in high-growth markets. Stars typically require significant investment to maintain their growth and market leadership. High growth & high market share business which may or may not be self-sufficient in terms of cash flow. Companies generally perceives expansion strategy to establish a strong competitive position.

Indian example: Reliance Jio’s 4G services when they were introduced in India, at that time, Jio had a high market share in the rapidly growing 4G market, and they invested heavily in infrastructure and marketing to maintain their position.

- Cash Cows:

Products or business units with a high market share in low-growth or mature markets. Cash cows generate a lot of revenue with minimal additional investment. The cash generation exceeds the reinvestment.

Business can adopt mainly stability strategies & limited expansion strategy. The cash generated by cash cow is reinvested in stars & question mark.

Indian example: Hindustan Unilever’s (HUL) soap and detergent brands. These are well-established products with a high market share in a stable market, and they consistently generate profits for HUL.

- Question Marks (or Problem Children):

Products or business units with low market share in high-growth markets. These are often in the early stages of development and require substantial investment to grow. Question mark therefore may become stars if enough investment is made or they may become Dog if ignored.

Indian example: Electric vehicles (EVs) in India. The market for EVs is growing rapidly, but many companies are still trying to establish themselves and gain market share, which requires significant investment.

- Dogs:

Products or business units with low market share in low-growth markets. Dogs do not offer much growth potential, and companies may consider divesting or discontinuing them if they cannot improve their market position. They neither generate nor require a large amount of cash.

In terms of PLC, the dogs are usually products in late maturity or a declining stage.

Retrenchment strategies are normally suggested for this stage.

Indian example: Some traditional landline telephone services. With the rise of mobile phones and the decline of landline usage, these services have become low-growth and low-market-share products.

The Moral is

Milk the cows,

Don't waste money on the dogs,

Invest in the stars and

Give the question marks some experimental funds to see if they can become stars.

Example of the BCG matrix

Reyansh Textile currently has four revenue streams, men's semi-formal wear, women's formal wear, lingerie and kid's clothing. The company wants to categorise each revenue stream on the BCG matrix to decide where to reinvest funds and identify less or more profitable streams.

According to the company, here is how the streams perform:

Men's semi-formal wear is the company's newest product offering and there are few competitors in the market.

The company believes the product has high growth potential but a low market share.

Investing in this revenue stream might be profitable for the company.

So **Question mark:** Men's semi-formal wear

Reyansh's women's formal wear has a current market share of 25% in the women's clothing section. Their biggest competitor, Supreme Fabrics, has a market share of 28%.

Reyansh Textile believes that by increasing the market share, the company can increase its revenue and profit.

The company puts women's formal wear in the star sector section, showing a high growth and market share.

So **Star:** Women's formal wear

The lingerie sales continue to decrease and if the company continues to invest, it is likely to lose money.

It might be profitable to discontinue the product and invest those funds in another category.

Typically, the dog product shows low growth and low market share and such products might have negative cash flow.

So **Dog:** Lingerie

Though the kid's clothing section is the highest revenue generator for the company, it is unlikely to get any more market share.

While it might not be a good idea to continue investing in this stream, the company can use the funds from this stream to invest in other high-value brands, like women's formal clothing.

The company can keep this investment because this revenue stream has a high market share but a low growth rate.

So ***Cash Cow***

Assignment -I

Food delivery apps like Zomato, Swiggy;

e-commerce apps like amazon, myntra, flipkart,

Coca Cola, ThumsUp, Maruti Baleno?

McKinsey GE Matrix

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McKinsey's GE Matrix is a visual tool designed to help portfolio managers determine resource allocation for multi-business portfolios.

PROS

Along with providing an overview of SBU performance, the GE Matrix also prescribes three strategic paths (grow, hold, and harvest) to inform strategic decisions.

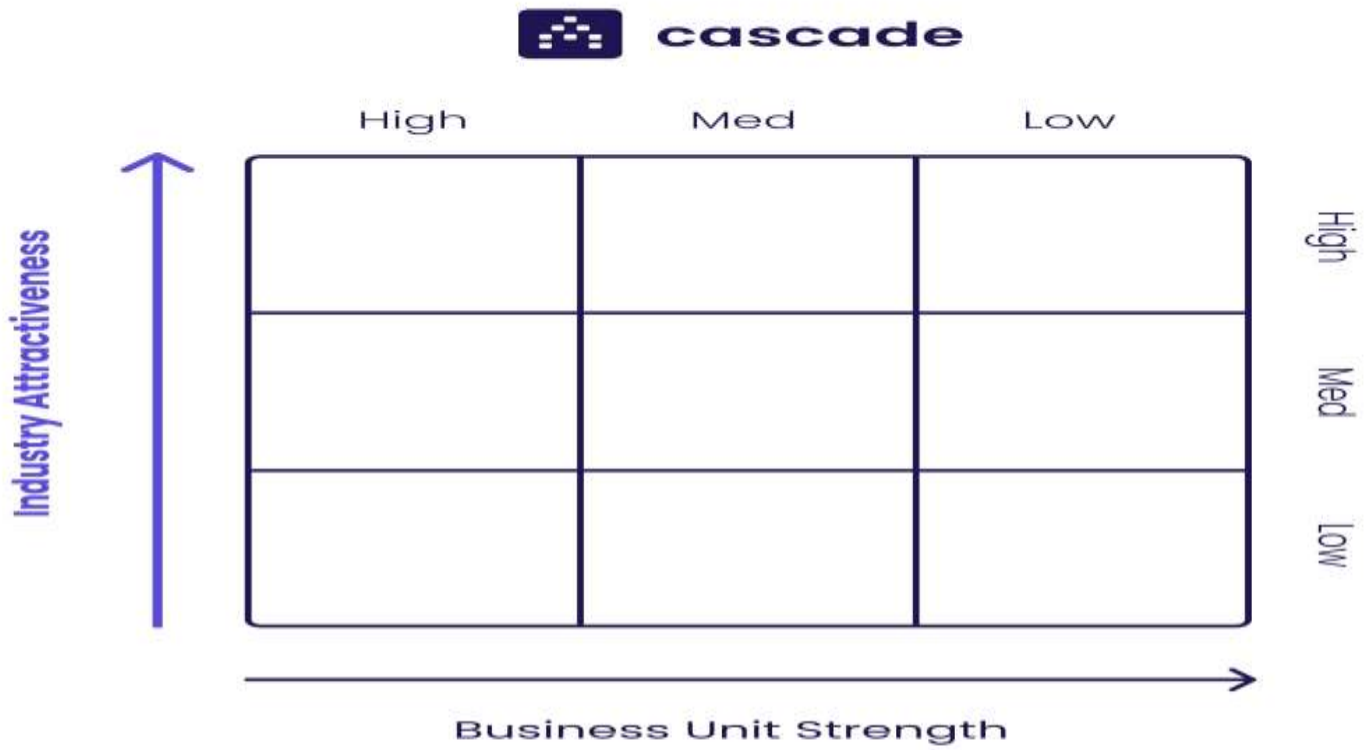
CONS

The GE Matrix only offers a snapshot of business potential, which must be contextualized by strategic decision-makers.

The GE Matrix looks at two factors when scoring SBUs (Strategic Business Units) — the strength of a particular business and the attractiveness of the industry.

The GE McKinsey Matrix is a strategic framework that helps multi-business corporations manage portfolios and prioritize investments across products and SBUs (Strategic Business Units).

The GE Matrix looks at two factors: the competitive strength of an SBU and the attractiveness of the market in which it operates.

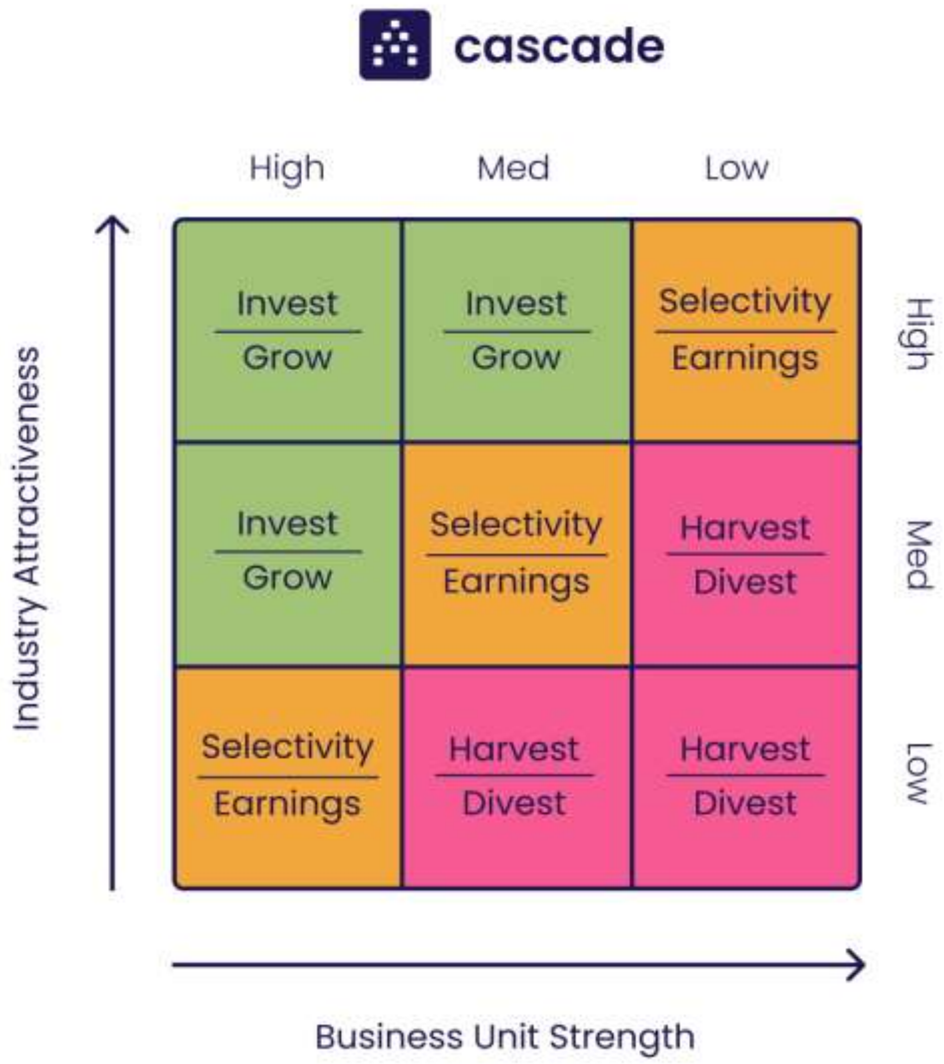


X-Axis

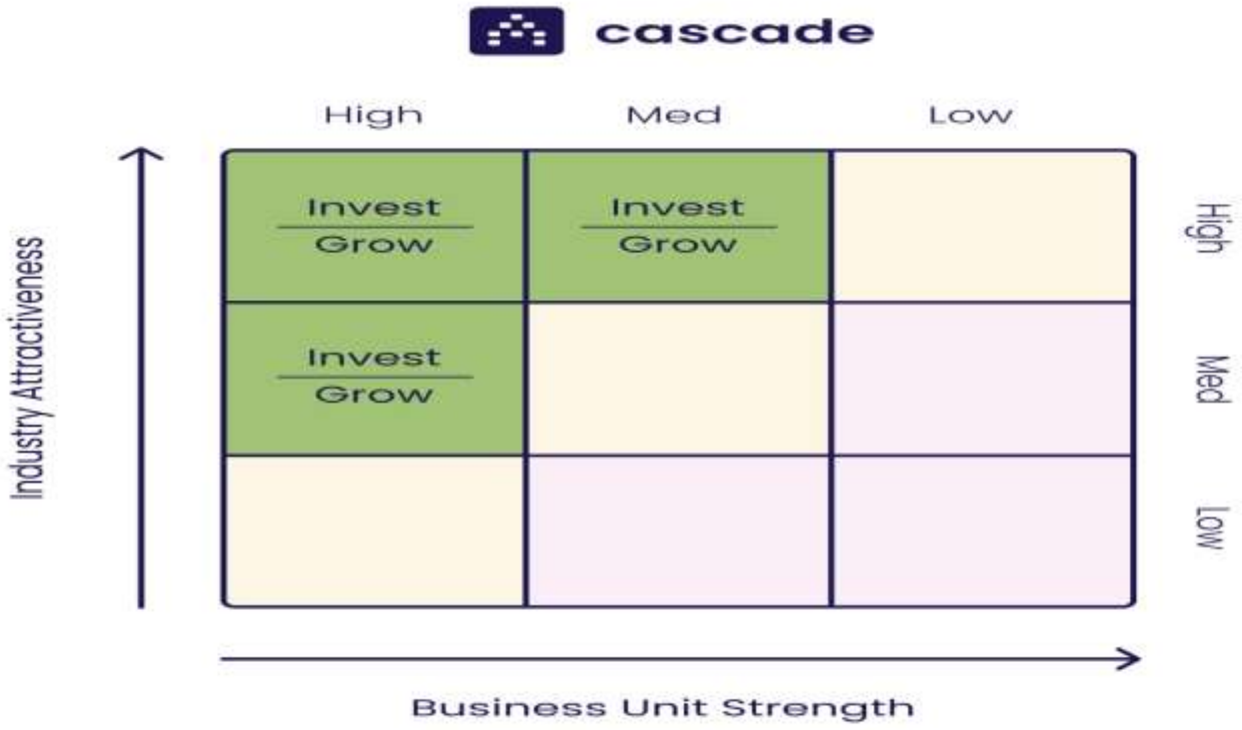
- The horizontal axis indicates the SBU's strength as either low, medium, or high. It moves from right to left, but it goes from high to low.
- **Y-Axis**
- The vertical axis scores the industry attractiveness (either low, medium, or high) of SBUs. A higher score on this axis will place an SBU higher in the GE Matrix.

- Based on where the SBU sits within the 3x3 GE Matrix, portfolio managers can quickly answer three strategic questions:
- How to allocate capital throughout the organization's portfolio of companies?
- What products or additional strategic business units are needed in their portfolio?
- Which strategic business units should be divested?

The Components Of The GE McKinsey Nine Box Matrix

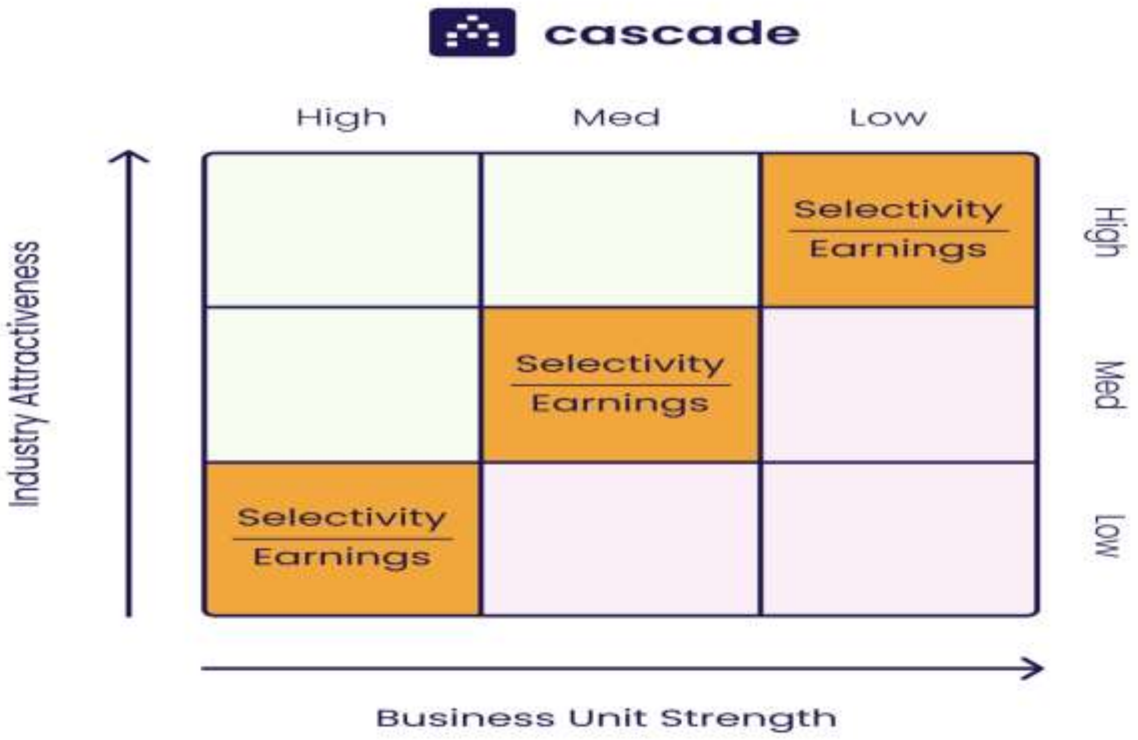


Invest/Grow (Green)



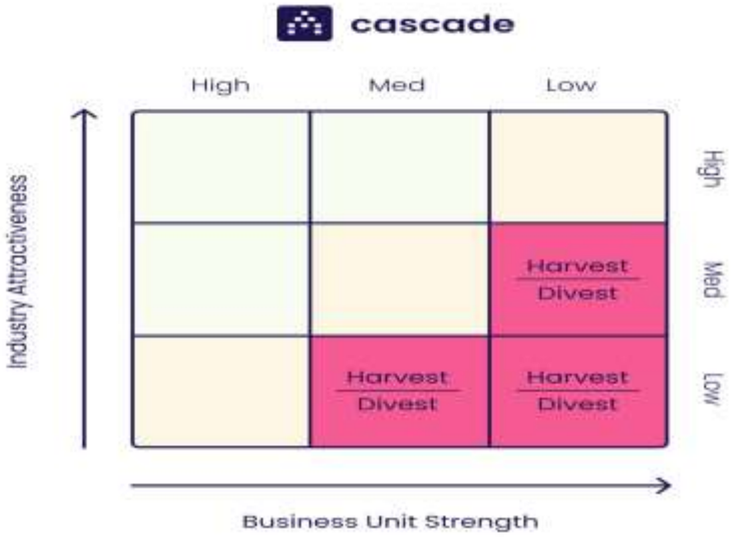
SBUs in these blocks have a mixture of solid business performance and an attractive industry. They are primed for growth and should be allocated resources and capital.

Selectivity/Earnings (Orange)



SBUs that fall within these blocks aren't performing optimally or operate in an unattractive industry. These business units require a more conservative approach to either growth or divestment strategies.

Harvest/Divest (Red)



If a business unit is mapped in the red blocks, this indicates that a divestment/harvest strategy should be taken. Generally, this means that a business should be closed, further investment should be withheld, or the company should be run for cash.

How To Use GE Matrix?

1. Determine the industry attractiveness of each SBU

- Calculate the market attractiveness in which each SBU operates. Remember, this is a subjective estimate based on your understanding of the business unit industry or sector.
- Score the SBUs industry attractiveness by looking at factors like:
- Market size
- Industry profitability
- Market growth potential
- Industry segmentation
- Market profitability
- Differentiation
- Market growth rate
- Level of competition

2. Determine the competitive strength of your strategic business units

- Factors you can consider when working out the strength of a business unit:
- Sustainable competitive advantages (use **VRIO analysis**)
- Brand equity
- Customer loyalty
- Market share
- Internal competencies
- Strength of the value chain (use **value chain analysis**)
- Production capacity
- Product lines
- Pricing and cash flows
- Profit margin compared to competitors

3. Plot the information on the GE McKinsey Matrix

- Plot the values for each strategic business unit on your Matrix. Use the market attractiveness score to plot your Y-axis position and the business strength score to plot your X-axis position.
- The location of each SBU on the 3x3 chart will indicate whether the company should grow, hold, or harvest specific business units.

4. Identify the future direction of each strategic business unit

The GE Matrix only provides a view of the current state of business units in a portfolio and doesn't account for other variables that may impact a business's viability.

5. Choose where to invest and focus your attention

- Once you have a picture of your portfolio mapped out on the GE Matrix, you'll still need to answer some critical questions before making decisions about SBUs.

It helps to know how much money should you put into a specific business unit?

Does investing in these SBUs align with your long-term strategy?
Which parts of a particular business unit should you invest in?

6. Turn insights into results

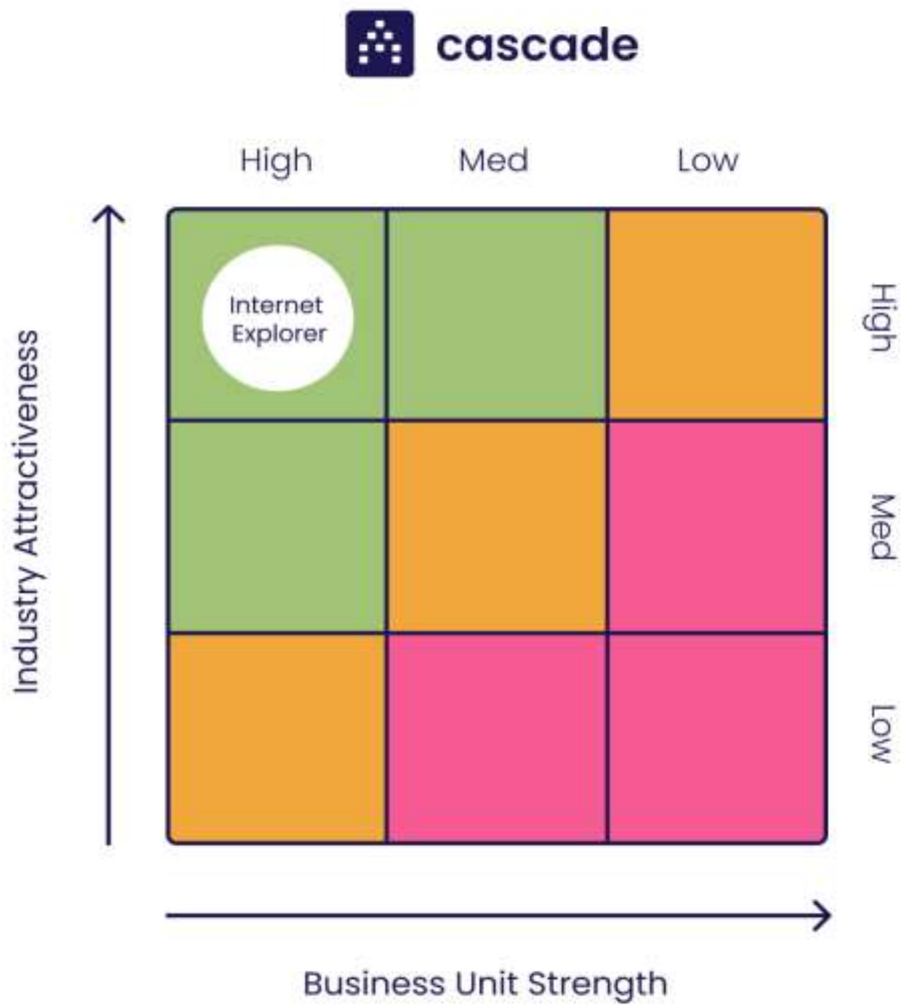
With a clear idea of direction and new priorities, you should take those insights and turn them into an actionable strategic plan.

Examples Of GE Matrix And Its Possible Strategic Scenarios

GE Matrix Example (Harvest Strategy): Microsoft Internet Explorer

- At one point, Microsoft Internet Explorer, was the dominant internet browser in the market. In 2003, **more than 95%** of all internet users were using it to surf the web. Here's how the GE McKinsey Matrix might look for the Internet Explorer SBU over time.

- The 2003 Microsoft Internet Explorer was:
- 1. A strong business unit
- 2. In an attractive industry
- It would have been somewhere in the top left corner of a GE McKinsey Nine Box.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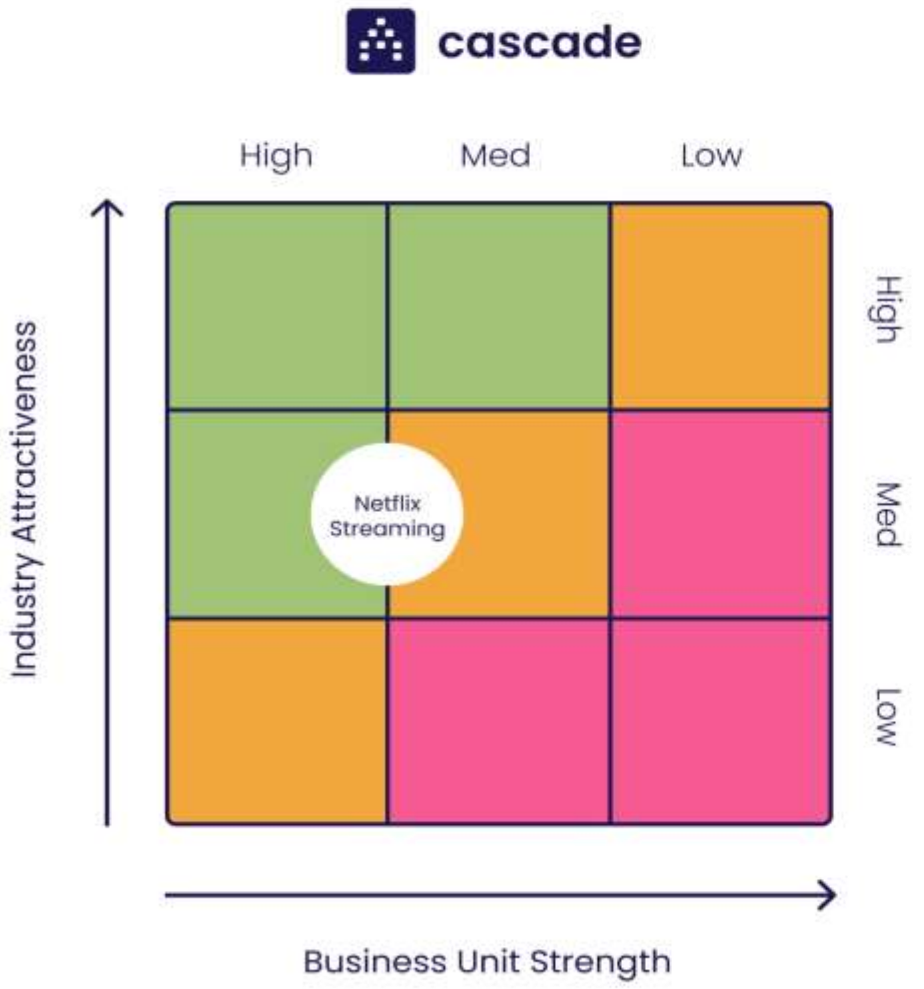
High
Med
Low
Internet
Explorer
High
Med
Low
Industry Attractiveness
Business Unit Strength

- However, more web browsers started to appear, and the industry became more competitive. By 2010, Microsoft had **lost 35%** of its web browser market share to other competitors such as Firefox, Chrome, and Safari.
- After 2010, the Internet Explorer SBU likely scored lower in competitive strength and market attractiveness compared to its earlier days.

- Based on these significant changes, Microsoft likely decided that the Internet Explorer business unit would need to be closed, run for cash, or selectively harvested.
- And that's the strategy the company followed over the next 12 years.
- In **2013**, Microsoft released the last version of Internet Explorer (IE 11).
- In **2015**, they launched a new web browser, Microsoft Edge.
- In **2022**, they ended support and retired the program.

GE Matrix Example (Grow Strategy): Netflix

- Nowadays, Netflix, the online streaming company that revolutionized the entertainment industry, is a household name.
- However, when Netflix released its **streaming service in 2007**, it made up a tiny portion of the company's revenue, offering 1,000 titles for streaming, compared to the 70,000 titles in physical DVD format.



Netflix's streaming business in 2007.

- In **2010**, Blockbuster, Netflix's largest competitor, filed for bankruptcy, further propelling its online entertainment streaming industry dominance.
- As internet speeds increased, technology improved, and consumer preferences shifted towards streaming, Netflix's video-on-demand service business unit would have moved to an aggressive **growth strategy** block on the GE McKinsey Matrix.

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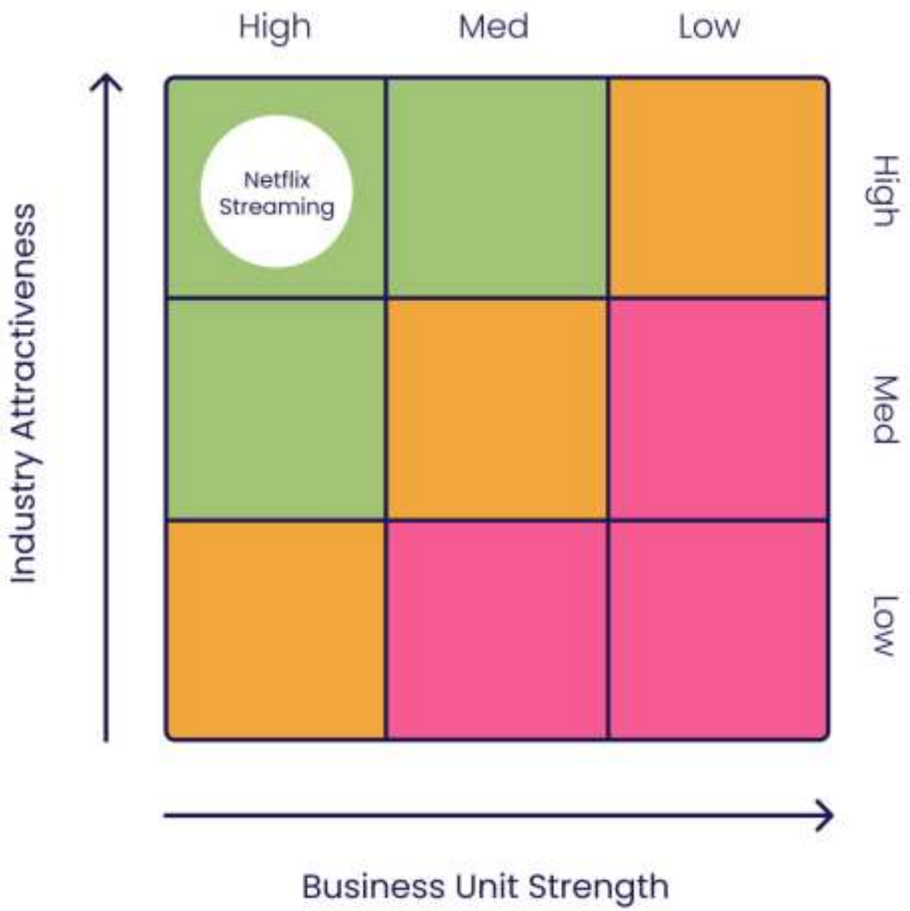
High
Med
Low
Netflix Streaming
High
Med
Low
Industry Attractiveness
Business Unit Strength

- Netflix continued its growth path and rapidly expanded between 2012 and 2021:
- In **2012**, the platform had 20 million subscribers, consumed 30% of all residential US bandwidth, and launched in the UK.
- By **2018**, Netflix had 125 million subscribers and a market value of $151 B.
- In 2020, Netflix **added 36 million subscribers** to its user base and had a **net income of $2.76 B**.

Advantages of GE Matrix

- The advantages of GE McKinsey Matrix are:
- A simplified approach to portfolio analysis and investment allocation decisions
- Highly replicable and consistent framework
- Applicable across different industries
- An efficient method of determining strategic paths for multiple business units
- Helps measure and map the strategic position of business units
- Helps understand which businesses are making a profit and which aren't