Shell Directional Policy Matrix

The **Shell Directional Policy Matrix** is a strategic management tool developed by the Shell Oil Company in the 1970s.

The matrix is used to evaluate and categorize a company's business units or product lines based on their market attractiveness and the company's competitive capabilities.

This evaluation helps organizations allocate resources effectively, prioritize investments, and make strategic decisions about the future of their various businesses.

Shells Directional Policy Matrix (DPM)

The **Shell Directional Policy Matrix (DPM)** is another refinement upon the Boston Consulting Group (BCG) Matrix.

Along the horizontal axis are prospects for business sector profitability, and

along the vertical axis is a company’s competitive capability.

Business sector profitability includes the size of the market, expected growth, lack of competition, profit margins within the market and other favorable political and socio-economic conditions.

On the other hand company’s competitive capability is determined by the sales volume, the products reputation, reliability of service and competitive pricing.

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The matrix consists of two axes:

- **Market Attractiveness**: This axis measures the overall appeal of the market in which a business unit operates. Factors influencing market attractiveness include market size, growth rate, profitability, competitive intensity, and the presence of barriers to entry. A market with high attractiveness is considered more desirable for investment and growth.

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- **Business Strength/Competitive Position**: This axis assesses the strength of a company's position within the market. Factors influencing business strength include market share, brand reputation, cost structure, distribution network, and product/service quality. A strong competitive position is advantageous in securing market share and generating profits.

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Shell's Directional Policy Matrix

Directional Policy Matrix

	Attractive	Leader	Try Harder	Double or quit
Sectoral Prospect	Average	Leader Growth	Custodial	Phased withdrawal
	Unattractive	Cash Generation	Phased withdrawal	Disinvest
		Strong	Average	Weak

Unit's / product competitive Position

Shell’s Directional Policy Matrix

- Each of the zones in **Shell’s Directional Policy Matrix** is described as follows:
- **Divest:** SBU’s running in losses with uncertain cash flows. They should be divested as the situation is not likely to improve in the near future. These liquidate or move thee assets.
- **Phased withdrawal**: SBU’s with weak competitive position in a low growth market with very little chance of generating cash flows. They should be phased out gradually. The cash realized should be invested in more profitable ventures.

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- **Double or quit**: Gamble on potential major SBU’s for the future. Either invests more to use the prospects presented by the market or else better to quit the business.
- **Custodial**: SBU’s are just like a cash cow, milk it and do not commit any more resources. The corporate has to bear with the situation by getting help from other SBU’s or get out of the scene so as to focus more on other attractive business.

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- **Try harder**: SBU’s could be vulnerable over a longer period of time, but fine for now. They need additional resources to strength their capabilities. The corporate try harder to exploit the business prospects thoroughly.
- **Cash Generator**: Even more like a cash cow, milk here for expansion elsewhere. SBU’s may continue their operations, at least for generating strong cash flows and satisfactory profits. No further investments are made.

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- **Growth**: Grow the market by focusing just enough resources here. These SBU’s need funds to support product innovations, R&D activities etc.
- **Market Leadership**: Major resources are focused upon the SBU. It must receive top priority.

The take away points of DPM are

- The Directional Policy Matrix (DPM) helps evaluate organisations' strategic options against two composite dimensions - business strengths and market attractiveness.
- The DPM, therefore, enables organisations to conduct an analysis of their portfolio of products or areas of operation.
- It is a way of categorizing and prioritizing opportunities.
- The tool can be customized to unique content and made relevant to the individual strategic position of an organization in its market place.
- The grid plots market attractiveness against organizational capability; this allows management to appropriately prioritize resources and strategic investments.

Hofer’s Market Evolution Model

- Hofer’s Market Evolution Model is a powerful framework that helps to understand the different stages of market development and the strategic implications for businesses.
- Hofer’s Market Evolution Model, developed by Charles Hofer, is a strategic management tool that outlines the stages through which markets typically evolve. The model assists businesses in identifying their current market stage and enables them to develop appropriate strategies to compete effectively.

The Stages of Hofer’s Market Evolution Model

- Hofer’s Market Evolution Model consists of five distinct stages:
- **Introduction**: This stage represents the birth of a new market, characterized by low sales, high costs, and minimal competition. Businesses must focus on creating awareness and stimulating demand for their products.
- **Growth**: As the market gains traction, sales increase, competition intensifies, and profitability improves. Companies should invest in product differentiation, expansion, and customer acquisition during this stage.

- **Maturity**: In this stage, the market growth slows down, competition becomes fierce, and profit margins decline. Businesses should emphasize product refinement, cost reduction, and customer retention.
- **Saturation**: At this point, market growth comes to a standstill, and the competition is at its peak. Firms must focus on maintaining market share and defending their position through cost leadership or differentiation.
- **Decline**: As the market shrinks, sales decrease, and companies exit the market. Remaining businesses need to decide whether to divest or attempt to consolidate their market position.

Applying Hofer’s Market Evolution Model

- **Determine Your Market Stage**: Assess your market’s current stage by analyzing factors such as growth rates, competition, and profitability.
- **Identify Strategic Implications**: Based on your market stage, determine the most appropriate strategies to achieve competitive advantage and drive business success.
- **Monitor Market Evolution**: Continuously monitor your market for changes, and adjust your strategies accordingly to stay ahead of your competition.