

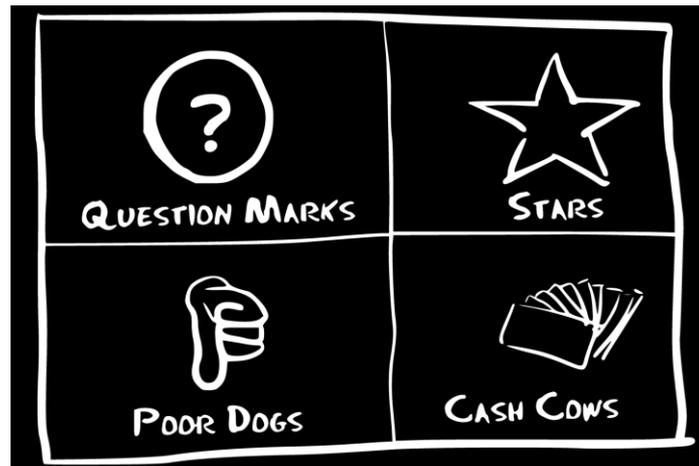
BCG Matrix

Growth/Share Matrix

Understanding the tool

BCG matrix (or growth-share matrix) is a corporate planning tool, which is used to portray firm's brand portfolio or SBUs on a quadrant along relative market share axis (horizontal axis) and speed of market growth (vertical axis) axis.

Growth-share matrix is a business tool, which uses relative market share and industry growth rate factors to evaluate the potential of business brand portfolio and suggest further investment strategies.



Relative market share.

Higher market share results in higher cash returns.

Market growth rate.

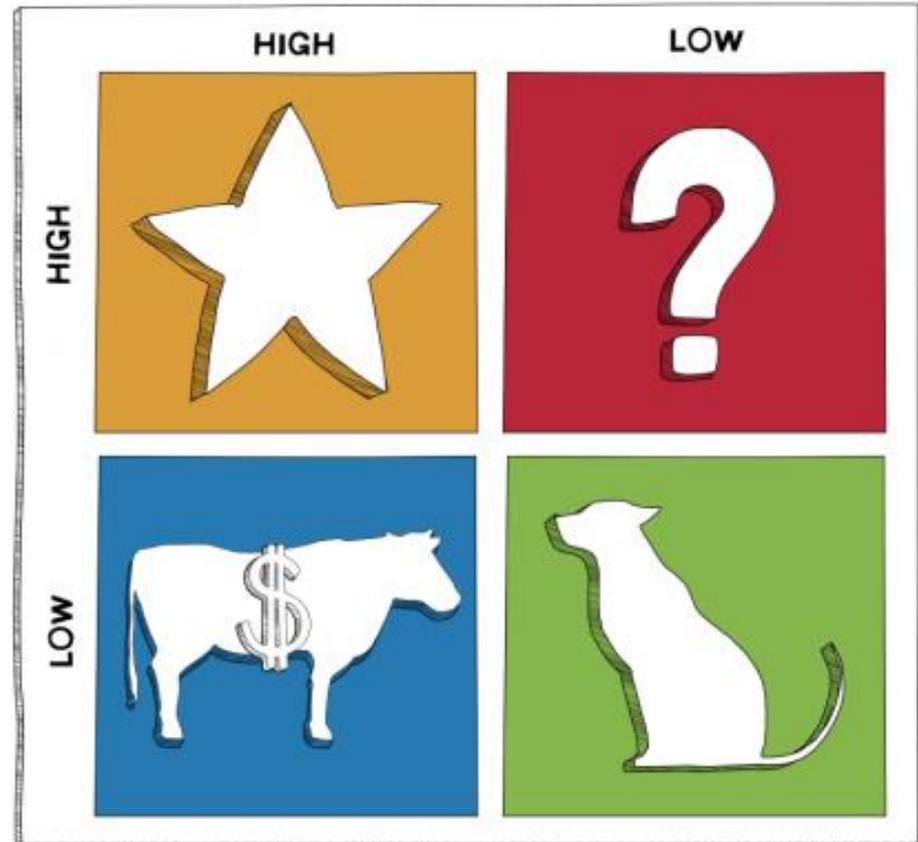
High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth.

THE GROWTH SHARE MATRIX

RELATIVE MARKET SHARE

CASH GENERATION

MARKET GROWTH RATE
CASH USAGE



Stars.

Stars operate in high growth industries and maintain high market share.

Stars are both cash generators and cash users.

They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows.

Yet, not all stars become cash flows. This is especially true in rapidly changing industries, where new innovative products can soon be outcompeted by new technological advancements, so a star instead of becoming a cash cow, becomes a dog.

Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development.

Cash cows.

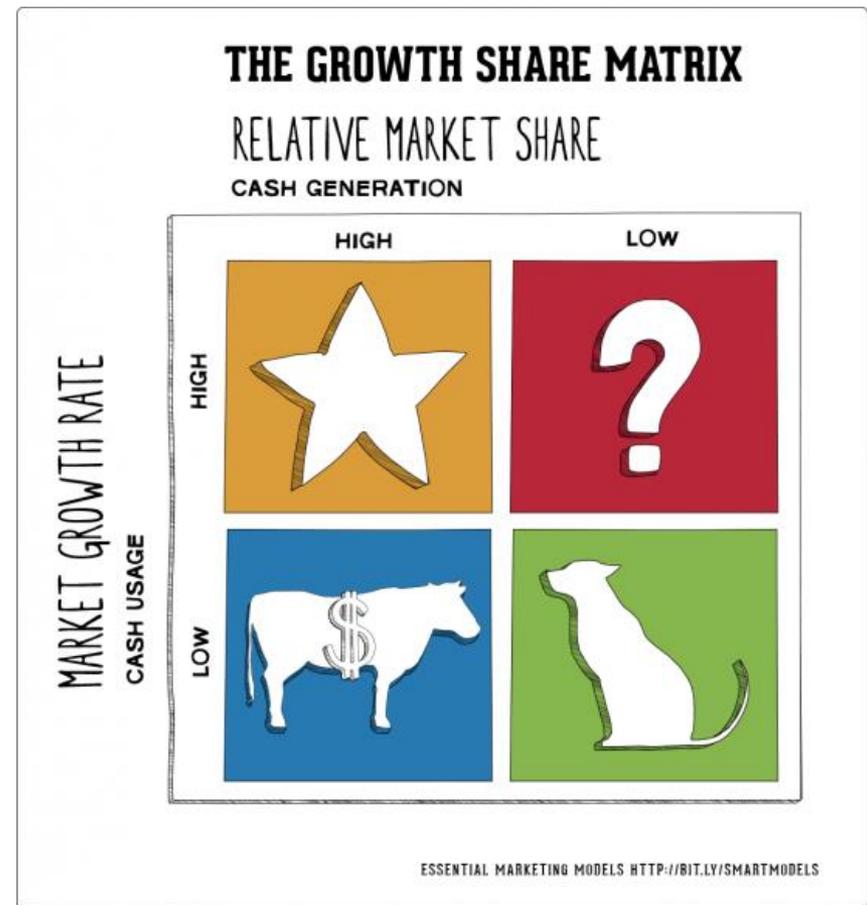
Cash cows are the most profitable brands and should be “milked” to provide as much cash as possible.

The cash gained from “cows” should be invested into stars to support their further growth.

According to growth-share matrix, corporates should not invest into cash cows to induce growth but only to support them so they can maintain their current market share.

Cash cows are usually large corporations or SBUs that are capable of innovating new products or processes, which may become new stars. If there would be no support for cash cows, they would not be capable of such innovations.

Strategic choices: Product development, diversification, divestiture, retrenchment.



Question marks.

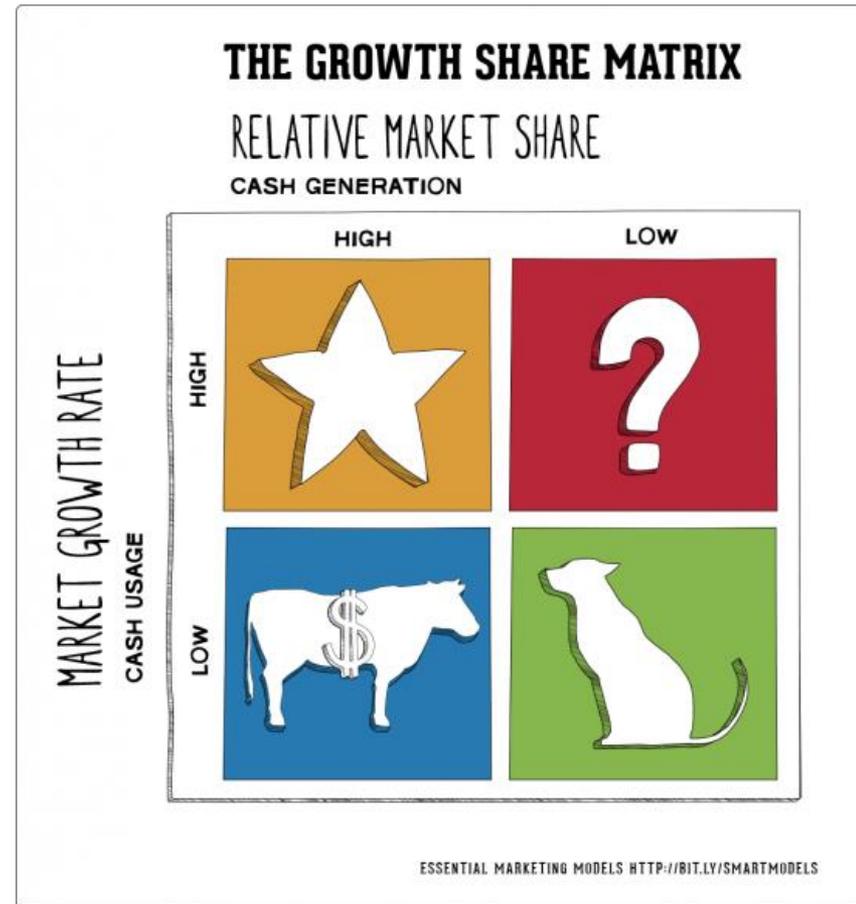
Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow. Question marks do not always succeed and even after large amount of investments they struggle to gain market share and eventually become dogs. Therefore, they require very close consideration to decide if they are worth investing in or not.

Strategic choices: Market penetration, market development, product development, divestiture

Dogs.

Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. Some dogs may be profitable for long period of time, they may provide synergies for other brands or SBUs or simple act as a defense to counter competitors moves. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested.

Strategic choices: Retrenchment, divestiture, liquidation



Calculating Market Share

Calculating Market Size (per period)

Example: Method 1

Number of units sold in market (per period)	Units	100,000
Average selling price (\$) in market	SP	\$15.00
Market size = (Units x ASP)	MSize	\$1,500,000

Example: Method 2

Firm's revenues (per period)	Revs	\$250,000
Market Share (%)	MShare	5.0%
Market size = (Revenues / Market Share)	MSize	\$5,000,000

Calculating sales revenues

Calculating a Firm's Revenues

Example: Method 1

Number of units sold (qty) in period	Units	5,000
Average selling price (\$)	SP	\$20
Firm's Sales Revenue = (Units x ASP)	Revs	\$100,000

Example: Method 2

Market size (\$)	MSize	\$2,000,000
Firm's Market share (%)	MShare	5.0%
Firm's Sales Revenue = (MSize x Mshare)	Revs	\$100,000

Calculating Market Growth Rate

Calculating the Market Growth Rate (%)

Example:

Market Size (\$) This Year (Y1)	Y1	\$4,600,000
Market Size (\$) Last Year (Y0)	Y0	\$4,200,000
Change in Market Size (\$) (Y1 - Y0)		\$400,000
Percentage Change (%) = $\{(Y1 - Y0)/Y0\} \times 100$		9.5%

BCG Matrix

Growth/Share Matrix