ORGANISATION STRATEGY

BCG MATRIX

BCG MATRIX BY

- Boston Consulting Group is renowned as a thought leader in the management consulting world. One of the firm's most famous analytical frameworks includes the BCG Matrix, also known as the BCG Growth Share matrix. The tool was first introduced in the 1970s by Bruce Henderson, the founder of BCG. It has continued to endure until the present day.

CONTENT

WHAT IS BCG MATRIX

The BCG Matrix is used to help companies analyze their product portfolio by categorizing them into four distinct categories based on their market shares and growth rates relative to their largest competitors. These four categories include: cash cows, dogs, question marks, and stars. Market growth is thought of as a representation of industry attractiveness while growth rate is a proxy for a product’s competitive advantage.

Looking at where the company's products fall on this matrix helps firms visually see which ones are struggling or thriving. With this information, companies can make better strategic decisions on where to invest their efforts and which products should be shut down or divested. Ultimately, the BCG Growth Share Matrix can be used a way to bolster a company's profitability.

CASH COWS

Cash cows are the products with high market share in a slow-growing industry. These business units typically generate more cash than what's needed to maintain them. Because they tend to be in more mature markets, cash cows are more "boring." While "boring," they are valuable due to their cash-generating abilities. They should continue to be "milked" with as little investment as possible given that additional time, capital, and efforts wouldn't yield much in a low growth industry.

DOGS

Dogs are the least favorable in the BCG Matrix and are business units with low market share in a mature and slow-growing industry. These products are seen to have little future with the company and typically either break even, generate very little cash, or even reduce a company's cash flow. Though these products provide employees jobs and possibly result in revenue or cost synergies, the opportunity cost of utilizing resources for other favorable products is too high. Dogs should therefore be divested and sold to another company.

QUESTION MARKS

Question marks are the business units operating with low market share in a high-growth market. These products tend to reduce a company’s cash flow initially because they require heavy investment in order to grow. If the unit performs well, question marks have a chance to becomes stars and eventually into cash cows once the industry growth declines. If the product fails to gain traction, the question mark becomes a dog. Question marks must be analyzed thoroughly and carefully to determine whether they are worth the investment required to grow market share.

STARS

The Stars are business units with both high market share and a high growth industry. They lead a niche or a market and have monopolistic qualities due to dominant competitive advantages or fortuitous timing. As the stars continue to boom, additional investment generates excess cash, making stars extremely valuable products for a company. The hope is that eventually as the industry growth rate dies down, the stars become cash cows.

BCG MATRIX EXAMPLE: APPLE

One of the most widely well known consumer product companies in the world is Apple. The company owns several product lines that can be categorized into different categories across the BCG Matrix. Here is a BCG Matrix example of how some of Apple's products could be categorized using the matrix:

- **Cash Cow** – Once an innovative product, Apple's laptops are no longer in a fast-growing industry but generate healthy profits for the company
- **Dog** – Apple's iPods have now been cannibalized by its iPhones and should no longer receive further heavy investment
- **Question Mark** – Apple's AirPods are growing extremely quickly but have yet to dominate the market
- **Star** – Apple's iPhones continue to generate excess profits and the company dominates the growing smartphone market

LIMITATIONS

Though the BCG Matrix was once widely used, the tool has faded in popularity due to its limitations. These include:

1. **Lack of Profitability Dimension** – Some products may be extremely profitable but with both low market share and in a slow growing industry. These products are categorized as dogs but should not necessarily be viewed in a bad light if they are extremely efficient at generating profits.
2. **Too Simplistic** – The market is not clearly defined in this model. A company's fast-growing product could dominate a small, high-growth niche but have very low market share in the overall industry. In such a case, the definition of the market would categorize the product as either a star or a question mark.
3. **Doesn't Represent an Entire Business Well** – The BCG Growth Matrix separates business units in order to evaluate each independently. However, that is clearly not how businesses work. Sometimes, a dog may be helping companies earn a competitive advantage in a bulk product offering and therefore should not be divested.

SUMMARY

The BCG Growth Share Matrix can be used to analyze companies or products based on their market shares and growth rates relative to their largest competitors. Its recent use has diminished because of inherent limitations. With the limitations in mind, it can be a useful tool and despite its age, is still in use today.

THANK YOU