



BCG MATRIX EXPLAINED WITH STRATEGY PLANNING





Establishing SBU

- **Establishing Strategic Business Units(SBUs) is the strategic planning process of any Organization followed by defining the corporate Mission.**
- **According to Philip Kotler Every business undergoes four different phases of product life cycle .This is the process of evaluating an SBU according to its stage in Product life cycle and formulate appropriate strategy.**
- **There are different Business Models in this pursuit. Every model has different criteria to evaluate a Business/SBU and provide with the suitable strategy for growth, diversification and business profitability.**

Establishing SBU

1. **BCG Matrix**
2. The General Electric Model
3. PESTEL Model
4. Porter's 5 Forces Model
5. Eight Ps Of Marketing Mix



BCG MATRIX

- Any Business undergoes four phases of Product life cycle . The Boston Consulting Group developed and popularized the *Growth -share* matrix. This matrix is divided into four cells, each indicating a different type of Business on the basis of two dimensions, Relative *Market share* and *Market Growth Rate*.
- *These four cell are named as Question Marks , Star, Cash cow and Dogs.*

BCG MATRIX



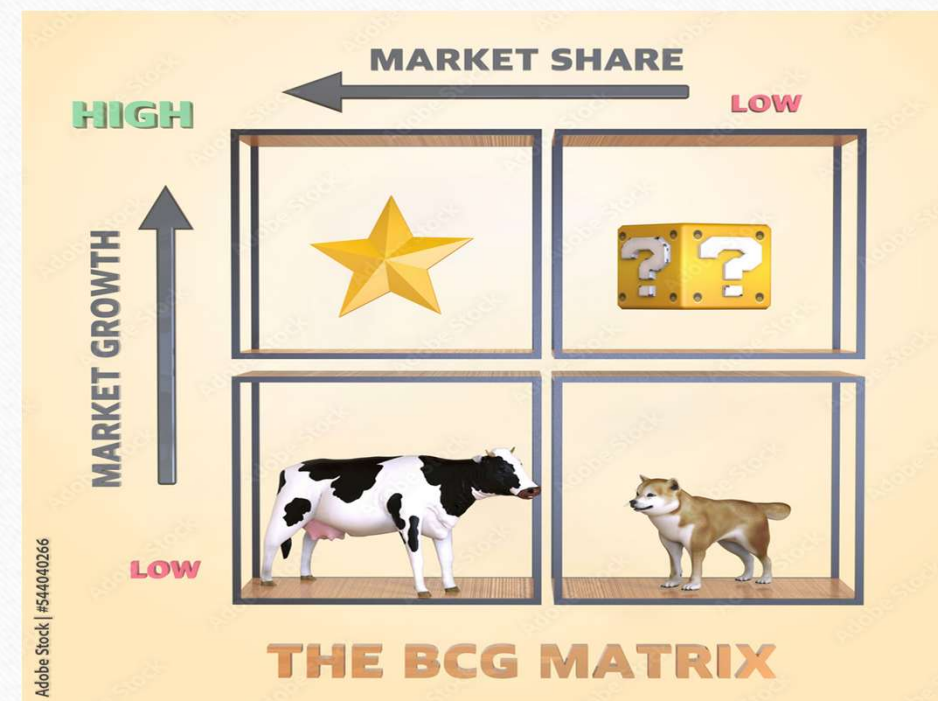
Relative Market Share Vs Growth Rate

Relative Market Share

Relative market share refers to the SBU's market share in comparison to that of its largest competitor in that segment of Business or sector

Growth Rate

The Market Growth rate on the vertical axis indicates the annual Growth rate of the market in which the Business operates.



Question Mark

Low market share in High Growth Market.

- ▶ A question mark business is a business that operates in *High Growth and Low Market Share*. Most business start of as question marks as the company tries to enter a *high growth market* in which there is already a market leader. A question marks requires a lot of cash because the company has to spent money on plant, equipment and personnel to keep up with the *fast growing market* and also because ,it wants to become the market leader.



STARS

High Market share in Highly growing Market:

- ▶ If a question mark business is successful ,it becomes star. A star is the market leader in a high growth market. A star does not necessarily produce a positive cash Flow as the company has to keep pouring money in the business to stimulate the growth rate in terms of diversification, Business expansion and increasing customer base to surge ahead of competition.



CASH COW

High Market share in Low Growth market.

- ▶ When the market's annual growth falls below **10%**, the star becomes a cash cow if it still has largest market share. A cash cow produces a lot of cash for the company. The company does not have to finance because the market's growth rate has slowed down. Because the business is a market leader, it enjoys the economy of scale and high profit margin.



DOGS

Low market share in Low Growth Market.

Dogs are business that have low market share in a low growth market. They typically generate low profits or losses. A company should consider whether it is holding on to these business for good reasons (such as an expected turn-around in the market growth rate or a new chance of market leadership).



Task to determine objective, strategy, Budget to each SBU(BUILD)

1.Build :

Here the Objective is to **increase the market share**, even forgoing the short term earnings to achieve this objective if necessary. This strategy is appropriate for the **question marks** whose market share must grow if they are to become stars.



Task to determine objective, strategy, Budget to each SBU(HOLD)

2.Hold :

Here the objective is to *preserve the market share*. This strategy is appropriate for the strong *Cash cows* if they are to continue yielding a positive cash flow.



Task to determine objective, strategy, Budget to each SBU(HARVEST)

3.Harvest:

Here the objective is to *increase short term cash flow* regardless of the long term implications. Harvesting involves a decision to withdraw from a business by implementing a continuous cost retrenchment.



Task to determine objective, strategy, Budget to each SBU(Divest)

4. Divest:

Here the objective is *to sell or liquidate the business* because resources can be better used elsewhere. This strategy is appropriate for the *Dogs and the question marks* that are acting as a drag on company profits.





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