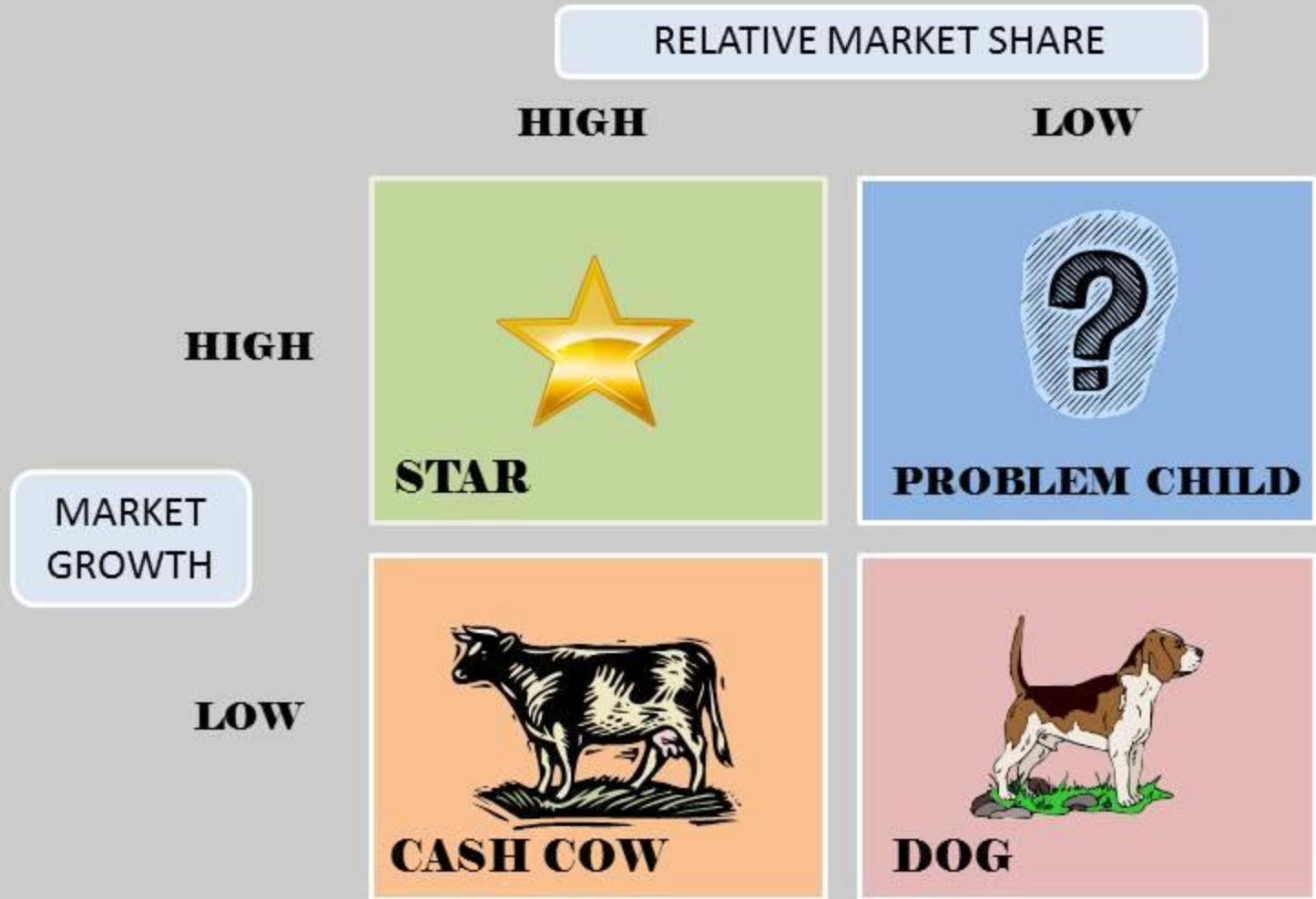
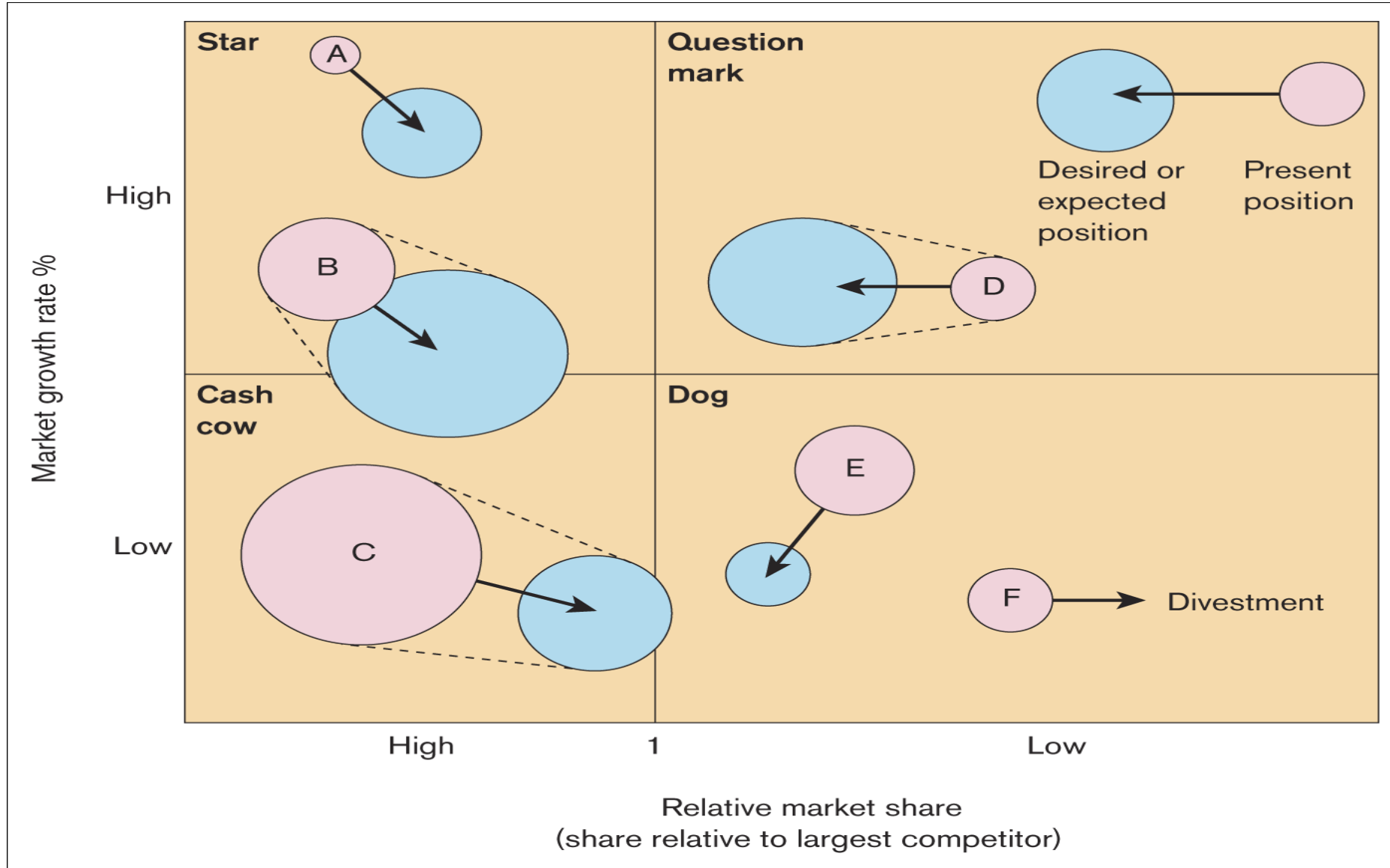


# Portfolio Analysis

# SBU analysis based on the BCG matrix





**Table 7.2**

Characteristics and strategy implications of products in the matrix quadrants

| <b>Quadrant</b>       | <b>Investment characteristics</b>   | <b>Cash flow characteristics</b>          | <b>Strategy implication</b>  |
|-----------------------|---|---|--|
| <b>Stars</b>          | Continual expenditures for capacity expansion<br>Pipeline filling with cash | Negative cash flow (net cash user)        | Continue to increase market share, if necessary at the expense of short-term earnings                |
| <b>Cash cows</b>      | Capacity maintenance expenditures   | Positive cash flow (net cash contributor) | Maintain share and leadership until further investment becomes marginal                              |
| <b>Question marks</b> | Heavy initial capacity expenditures<br>High research and development costs  | Negative cash flow (net cash user)        | Assess chances of dominating segment: if good, go after share; if bad, redefine business or withdraw |
| <b>Dogs</b>           | Gradually deplete capacity  | Positive cash flow (net cash contributor) | Plan an orderly withdrawal so as to maximise cash flow   |

Source: Adapted from Hollensen, S. (2006) *Marketing Planning: A Global Perspective*, McGraw-Hill Education, Maidenhead. Reproduced with permission from the McGraw-Hill Companies.



|               |   |  |   |
|---------------|---|--|---|
| Market growth | High  | <b>Star</b><br><br>Cash generated    +    +++<br>Cash use            -    -    -<br><hr style="width: 50%; margin-left: auto; margin-right: auto;"/> 0 | <b>Question mark</b><br><br>Cash generated    +<br>Cash use            -    -    -<br><hr style="width: 50%; margin-left: auto; margin-right: auto;"/> -    - |
|               | Low   | <b>Cash cow</b><br><br>Cash generated    +    +++<br>Cash use            -<br><hr style="width: 50%; margin-left: auto; margin-right: auto;"/> +    +  | <b>Dog</b><br><br>Cash generated    +<br>Cash use            -<br><hr style="width: 50%; margin-left: auto; margin-right: auto;"/> 0                          |
|               | High <span style="float: right;">Low</span><br><b>Relative market share</b> |  |   |

The Ajax company has 4 SBUs, as shown in the table below:

- a) prepare the BCG Matrix for Ajax SBUs
- b) What are the strategic implications?

| SBU | Ajax SBU market share (%) | Largest competitor's market share (%) | Market growth rate (%) | Dollar sales (\$ millions) |
|-----|---------------------------|---------------------------------------|------------------------|----------------------------|
| A   | 30                        | 10                                    | 8                      | 5.0                        |
| B   | 40                        | 20                                    | 14                     | 2.0                        |
| C   | 10                        | 40                                    | 5                      | 1.0                        |
| D   | 10                        | 30                                    | 16                     | 0.5                        |

# SBU analysis based on the General Electric / McKinsey matrix

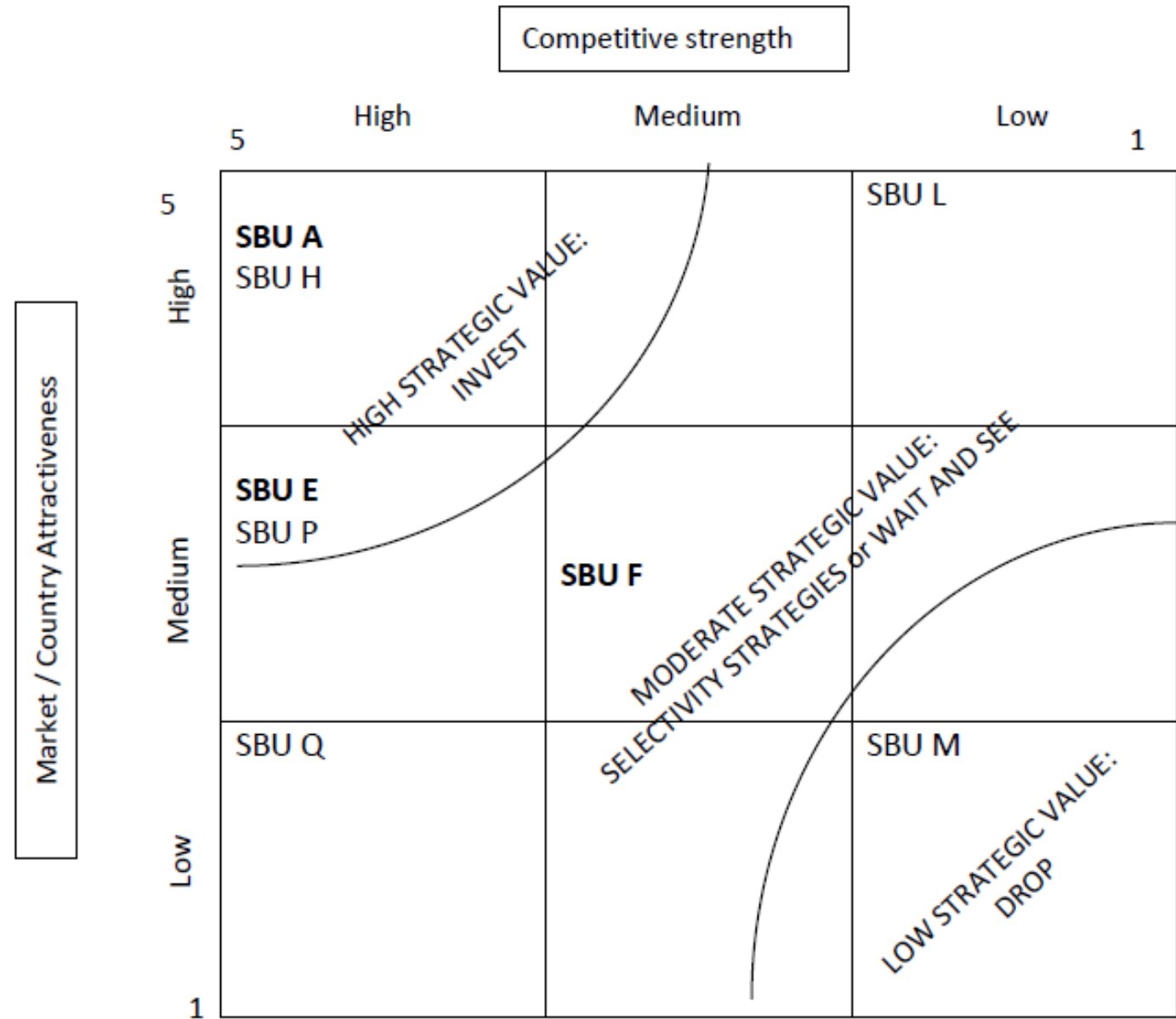


Figure 9.3 – An example of General Electric / McKinsey matrix

# Factors in Markets Attractiveness

| <i>Market attractiveness</i>    | Weight      | SBU A        |          | SBU E        |            | SBU F        |             | SBU ...      |       |
|---------------------------------|-------------|--------------|----------|--------------|------------|--------------|-------------|--------------|-------|
|                                 |             | Rating (1-5) | Score    | Rating (1-5) | Score      | Rating (1-5) | Score       | Rating (1-5) | Score |
| <b>Growth rate</b>              | 0.20        | 5            | 1        | 3            | 0.6        | 2            | 0.4         | ...          | ...   |
| <b>Industry profitability</b>   | 0.15        | 4            | 0.6      | 3            | 0.45       | 3            | 0.45        | ...          | ...   |
| <b>Intensity of competition</b> | 0.10        | 3            | 0.3      | 3            | 0.3        | 2            | 0.2         | ...          | ...   |
| <b>Market size</b>              | 0.15        | 4            | 0.6      | 3            | 0.45       | 2            | 0.3         | ...          | ...   |
| <b>Business risk</b>            | 0.20        | 5            | 1        | 4            | 0.8        | 2            | 0.4         | ...          | ...   |
| <b>Entry barriers</b>           | 0.10        | 2            | 0.2      | 2            | 0.2        | 2            | 0.2         | ...          | ...   |
| <b>Government regulation</b>    | 0.10        | 3            | 0.3      | 4            | 0.4        | 2            | 0.2         | ...          | ...   |
| <b>Total</b>                    | <b>1.00</b> |              | <b>4</b> |              | <b>3.2</b> |              | <b>2.15</b> | ...          | ...   |

Rating: 1=very poor; 5=very good;  
Score: rating x weight



# Factors in Markets/Competitive position

| <i>Competitive position</i>                   | Weight      | SBU A        |             | SBU E        |            | SBU F       |             | SBU ...     |       |
|---|-------------|--------------|-------------|--------------|------------|-------------|-------------|-------------|-------|
|   |             | Rating (1-5) | Score       | Rating (1-5) | Score      | Rating(1-5) | Score       | Rating(1-5) | Score |
| <b>Marketing capacity</b>                     | 0.20        | 4            | 0.8         | 4            | 0.8        | 3           | 0.6         | ...         | ...   |
| <b>Product match</b>                          | 0.15        | 4            | 0.6         | 4            | 0.6        | 2           | 0.3         | ...         | ...   |
| <b>Brand recognition</b>                      | 0.25        | 5            | 1.25        | 5            | 1.25       | 3           | 0.75        | ...         | ...   |
| <b>Quality relative to competitors</b>        | 0.15        | 5            | 0.75        | 5            | 0.75       | 4           | 0.6         | ...         | ...   |
| <b>Managers' experience with the business</b> | 0.05        | 3            | 0.15        | 2            | 0.1        | 2           | 0.1         | ...         | ...   |
| <b>Access to distribution channels</b>        | 0.10        | 4            | 0.4         | 3            | 0.3        | 2           | 0.2         | ...         | ...   |
| <b>Profit margin relative to competitors</b>  | 0.10        | 3            | 0.3         | 4            | 0.4        | 3           | 0.3         | ...         | ...   |
| <b>Total</b>                                  | <b>1.00</b> |              | <b>4.25</b> |              | <b>4.2</b> |             | <b>2.85</b> | ...         | ...   |

Rating: 1=very poor; 5=very good;

Score: rating x weight

# Portfolio analysis for SBUs in different countries

|                                      | Country A     | Country E     | Country F                 | Country H     | Country L                 | Country M | Country P     | Country Q                 |
|--------------------------------------|---------------|---------------|---------------------------|---------------|---------------------------|-----------|---------------|---------------------------|
| <b>SBU 1</b>                         | H             | H             | M                         | H             | M                         | L         | H             | H                         |
| <b>SBU 2</b>                         | M             | L             | M                         | L             | L                         | L         | H             | L                         |
| <b>SBU 3</b>                         | H             | M             | H                         | H             | M                         | M         | H             | L                         |
| <b>SBU 4</b>                         | H             | H             | M                         | H             | M                         | L         | M             | M                         |
| <b>SBU 5</b>                         | M             | H             | L                         | M             | L                         | M         | H             | H                         |
| <b>SBU 6</b>                         | H             | H             | H                         | H             | H                         | L         | H             | M                         |
| <b>Overall evaluation by country</b> | <b>INVEST</b> | <b>INVEST</b> | Selectivity or Wait & See | <b>INVEST</b> | Selectivity or Wait & See | Drop      | <b>INVEST</b> | Selectivity or Wait & See |

H=high potential; M= moderate potential; L=low potential