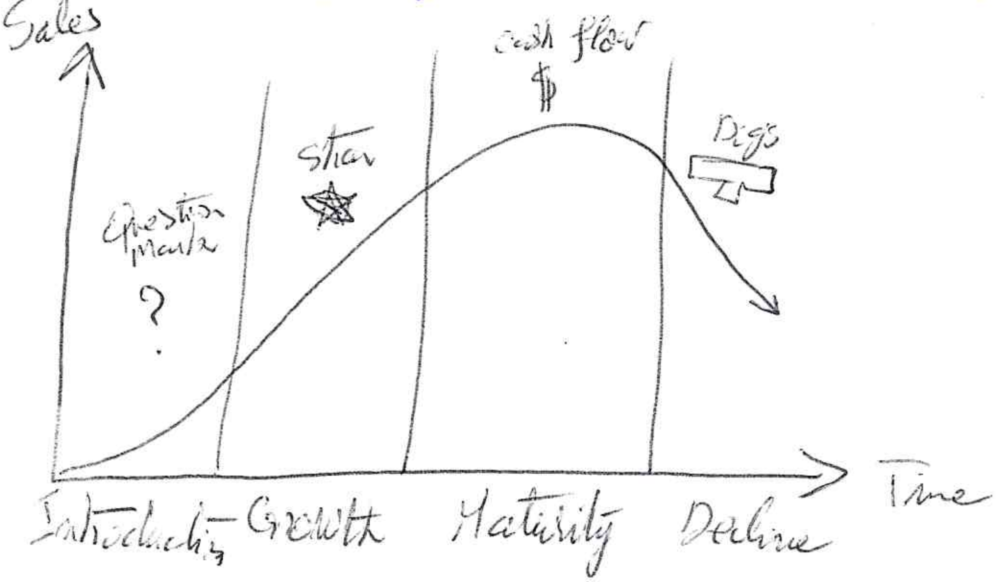
BCG Matrix methode

What is the BCG matrix?
- also refered to the growth share matrix
- portfolio management tool
- comparative analysis of business potential and the evaluation of environment.
- helps companies allocate resources.

Product life cycle is a business analysis



Where did it come from?
- Boston Consulting Group
- Bruce Henderson in 1982

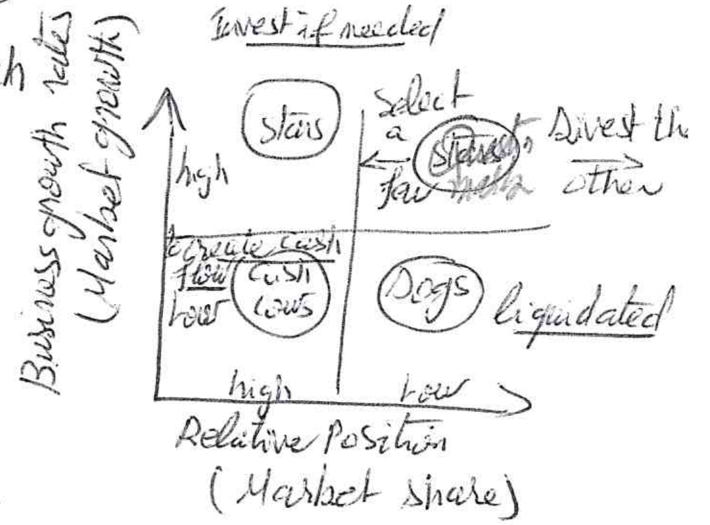
To be successful, a company should have a portfolio of production with different growth rates and different market shares.

Stars:

- High growth, high market share
- Use large amounts of cash
- Leaders in business
- shares should be kept in order to keep cash low rewar

Cash Cows:

- Low growth, high market share
- Profits and cash will be high
- Initial investment is low
- often "stars of yesterday"
- foundation of a company.



Dogs

- Low growth, low market share
- Should be avoided and minimized
- Should deliver cash, otherwise
- Should be liquidated
- Look out for expensive "rescue plans".

Question marks

- High growth, low market share
- High cash demands with low returns
- Three options:
  1. Invest heavily
  2. Sell off
  3. Invest nothing

Exercise 1

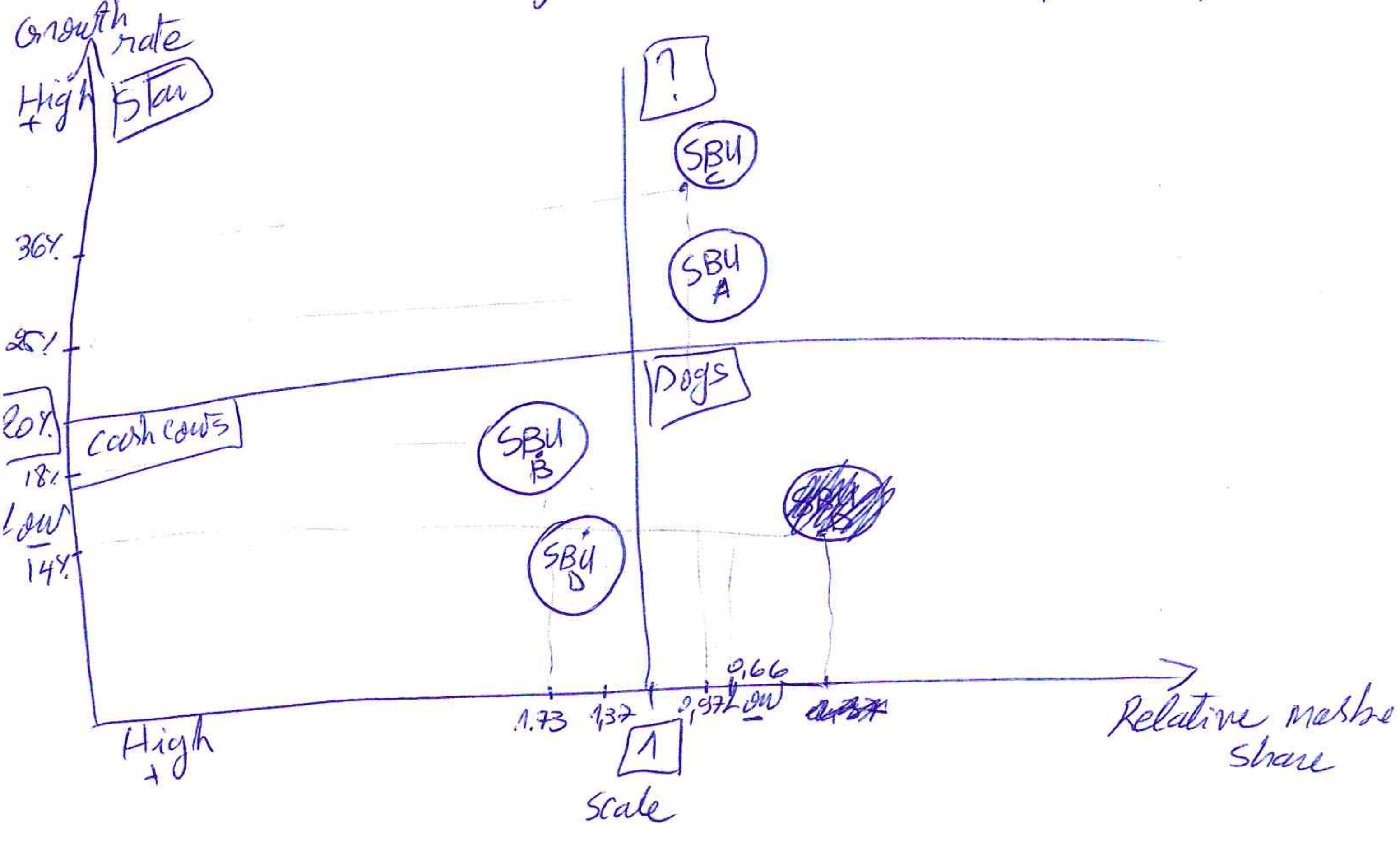
- The company x service markets 4 SBU : A, B, C, D
relative market and competition data are presented in the following table

	Business turnover	Competitor 1	Competitor 2	Growth rate
SBU A	620.000 DA	780 000	510 000	25%
SBU B	1.560.000 DA	900 000	897 000	18%
SBU C	890.000 DA	780 000	912 000	36%
SBU D	620.000 DA	450 000	446 000	14%

In this market, we consider a growth rate of less than 20% as low and more than 20% as high.

$$23\% = \frac{\overset{\text{The Sum}}{\sum} G.R}{\text{Nbr SBU}} = 25 + 18 + 36 + 14 / 4$$

- Draw the BCG matrix of this portfolio
- What are the strategic recommendations for this portfolio.



Exercise 2

- The Sigma Company has been manufacturing and selling musical instruments for 10 years, specializing in particular in copper wind instruments. It realizes more than two thirds of its turnover from this type of rather growing product.
The following table shows the turnover of Sigma and of the main competitor in A.D as well as the percentage growth for each of the S.B.U of interest to the Company.

S.B.U	SIGMA.T	Principal Competitor.T	Growth rates	relative market share
A	7,5	2,5	2%	7,5 / 2,5 = 3
B	1,5	3	7%	1,5 / 3 = 0,5
C	1	4	0%	1/4 = 0,25
D	1	3	8%	1/3 = 0,33
E	3	1,5	9%	3/1,5 = 2
F	1	4	10%	1/4 = 0,25

- Draw the BCG matrix of the portfolio of SIGMA
- What are the different strategic recommendations for this portfolio.

The average growth rate $= \frac{\sum G.R}{Nbr\ SBU} = \frac{2+7+0+8+9+10}{6} = \boxed{6\%}$

<u>S.B.U A</u> : $G.R = 20\% \longrightarrow R.M.S = \frac{T.A}{T.P.C} = 3$

<u>S.B.U B</u>: $G.R = 7\% \longrightarrow R.M.S = 0,5$

SBU. C: $G.R = 0\% \longrightarrow R.M.S = 0,25$

Why 5 forces of Porter ?

- Assess (evaluer) the balance of Power in a business situation.
- Understanding the strength of current (actuel) Competitors.
- Understanding the potential of the future situation.

Effects of Porter's Five Forces Model

- Affect a company's ability to make a profit
- Arbitrate the competitive intensity
- Affect the overall profitability of the industry.

Problem Solved: Get a clear sense of where the power and threats lie, take advantage of the strengths, & seize every possible opportunity.

Threat of New Entrants

Due to high returns, profitable markets attracts new entrants.
This affects the profitability of all firms.
New competitors weaken a steady (stable) position.
less investment and market barriers = more competition and low profit.
To prevent this, high entry barriers should be created.

Threat of substitutes

- Availability (disponibilité) of new products in the market make the customers switch to alternatives.
- Threat of substitutes arises when buyers are able to find a better product at a lesser price
- When buyers find a new products due to the unavailability or poor quality of the existing product.

Bargaining power of customers

Also discribed as the market of outputs, the bargaining power of customers is their ability to put the firm under pressure, which in return affects the customer's sensitivity to price changes. The power of customers or buyers is high or low, depending upon sur the number of alternatives.

Bargaining power of suppliers

Market of outputs or commonly known as the bargaining power of suppliers is completely a ball game of the producers, which accorde grants them the aptitude to drive up prices. This cost switching depends on certain factors such as the number of suppliers, uniqueness of the product or services, their dominance in the market and their control over the buyers. Strong bargaining power allows the supplies to sell low quality products at a higher price. This directly affets the buyers pockets.

Industry rivalry

The intensity of competitive rivalry and profitability is the major determinant of the competitiveness of the industry. The more the number of competitors and their equally attractive product and services, the lesser the power of each supplier in such situation. Industry rivalry is one of the prime prime movers when a firm is considering to potentially position itself in the market.

International Trade terms

- **Dumping**: selling marchandise in another country at a price below the costs incurred in production and shipment.
- **Duty**: A tax imposed on imports by the customs authority of a country. Duties are generally based on the value of the goods and some other factors such as weight or quantity.
- **Drawback**: is the refund of certain duties, internal revenue taxes, and certain fees collected upon the importation of goods.
- **Customs**: the authorities designated to collect duties levied by a country on imports and exports.
- **Credit risk insurance**: Insurance designed to cover risks of non-payment for delivered goods.
- **Balance of trade**: the difference between a country's total imports and exports.
If exports exceed imports, a favorable balance of trade exists, If not, a trade deficit exists.
- **Barter**: trade in which merchandise is exchanged directly for other merchandise without use of money.