# BCG Matrix

## Introduction

The Boston Consulting Group (BCG) growth-share matrix is a planning tool that uses graphical representations of a company's products and services in an effort to help the company decide what it should keep, sell, or invest more in. It was introduced by the Boston Consulting Group in 1970.The matrix plots a company's offerings in a four-square matrix, with the y-axis representing the rate of market growth and the x-axis representing market share. It is used internally by management to assess the current state of value of a firm's units or product lines. It has 4 quadrants which will be discussed individually in the sections below.

## Definition

The BCG matrix has four quadrants designated as Stars (upper left), Question Marks (upper right), Cash Cows (lower left) and Dogs (lower right). The internal management places each of the company's products in the appropriate box based on where they rank in market share and growth.

## When to Use it

In the practical business world, the BCG matrix is suitable for use if:
- The firm is a large manufacturer
- The firm has a diverse product range or if they have multiple business units (SBUs)
- The firm has reasonable levels of market shares in some markets
- The firm likes to be analytical and take a strategic view of their planning

Do Not use BCG matrix for small to medium sized businesses – as generally all small-medium businesses would be classified as either a dog or as a question mark at best.

## Details



**BCG GROWTH-SHARE MATRIX**

### Dogs (or Pets)
If a company's product has a low market share and is at a low rate of growth, it is considered a "dog" and should be sold, liquidated, or repositioned. Dogs, found in the lower right quadrant of the grid, don't generate much cash for the company since they have low market share and little to no growth. Because of this, dogs can turn out to be cash traps, tying up company funds for long periods of time. For this reason, they are prime candidates for divestiture.

## Cash Cows

Products that are in low-growth areas but for which the company has a relatively large market share are considered "cash cows," and the company should thus milk the cash cow for as long as it can. Cash cows, seen in the lower left quadrant, are typically leading products in mature. These products should be taken advantage of for as long as possible. The value of cash cows can be easily calculated since their cash flow patterns are highly predictable. In effect, low-growth, high-share cash cows should be milked for cash to reinvest in high-growth, high-share "stars" with high future potential

## Stars

Products that are in high growth markets and that make up a sizable portion of that market are considered "stars" and should be invested in more. In the upper left quadrant are stars, which generate high income but also consume large amounts of company cash. If a star can remain a market leader, it eventually becomes a cash cow when the market's overall growth rate declines

## Question Marks

Questionable opportunities are those in high growth rate markets but in which the company does not maintain a large market share. Question marks are in the upper right portion of the grid. They typically grow fast but consume large amounts of company resources. Products in this quadrant should be analyzed frequently and closely to see if they are worth maintaining

# Example:

Lets us see the BCG matrix of a popular brand Coca Cola
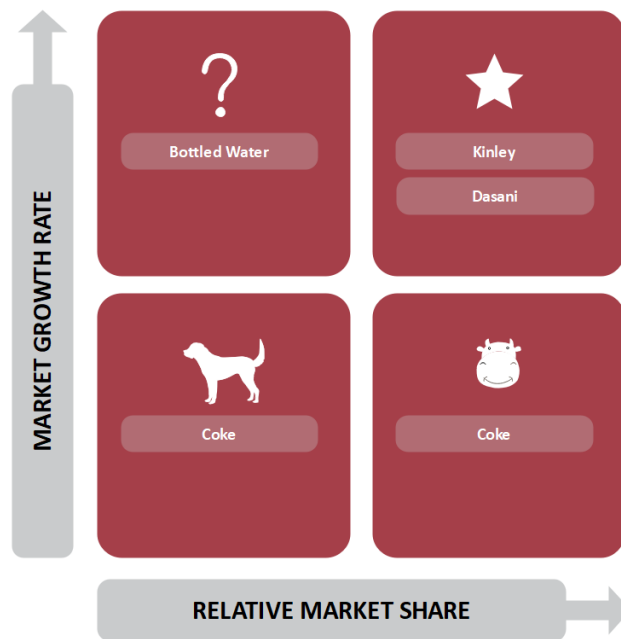


## Dogs

In the BCG matrix of Coca-Cola, we can see that Coke is a potential dog product because of the declining demand for carbonated soft drinks in favor of increasing demand for healthier options or low-calorie drinks. If these factors keep increasing, Coke, a cash cow, can become a low market share product. Currently coke is in 2 quadrants which can be possible for a product. Such products warrant more research and forecasting.

## Stars

In the BCG matrix of Coca-Cola, the bottled water segment is categorized as star products. Coca-Cola offers two bottled water brands, namely Kinley and Dasani, operating in separate geographical locations. Kinley is offered in European markets, while Dasani is popular in the US. As the market for healthy drinks and bottled water is expanding, this segment of Coca-Cola is expected to gain a bigger market share and a better opportunity for further investment. Therefore, Coca-Cola is investing in more brands like sparkling water and flavored water.

## Cash Cow

In the BCG matrix of Coca-Cola, we can see that Coke has been the market leader in the carbonated soft drink industry and a significant revenue generator for the company. It has a global presence and has been an established brand for years, making Coke currently as a cash cow for the Coca-Cola company.

## Question Marks

In the BCG matrix of Coca-Cola, we can see that they are launching many new brands and lines of products, including Diet Coke. Smartwater, Honest Tea, Sparkling Water, Minute Maid. These products are geared towards growing healthy non-carbonated drinks and healthy lifestyles. Coca-Cola is also investing in new products and raising awareness about these products. These products are question marks for the company.

# Limitations of BCG

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always lead to high profits. There are high costs also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
6. This four-celled approach is considered as to be too simplistic.