Portfolio Techniques in Competitor Analysis

- Since the 1960's a number of techniques have been developed for displaying a diversified firm's operations as a "portfolio" of businesses.
- We will cover two of these techniques:
  - The Boston Consulting Group (BCG) matrix
  - The GE/McKinsey matrix

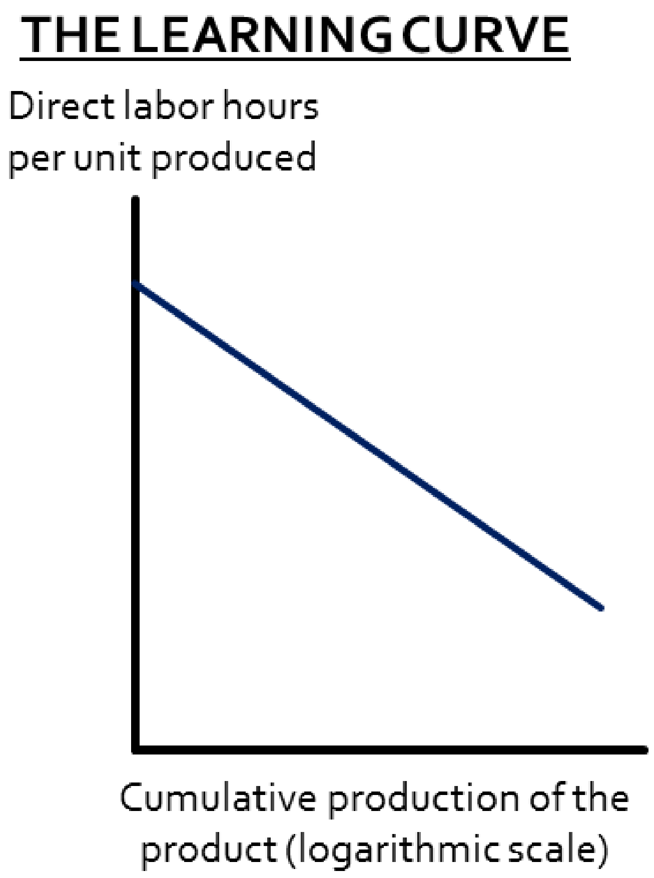
The BCG Matrix

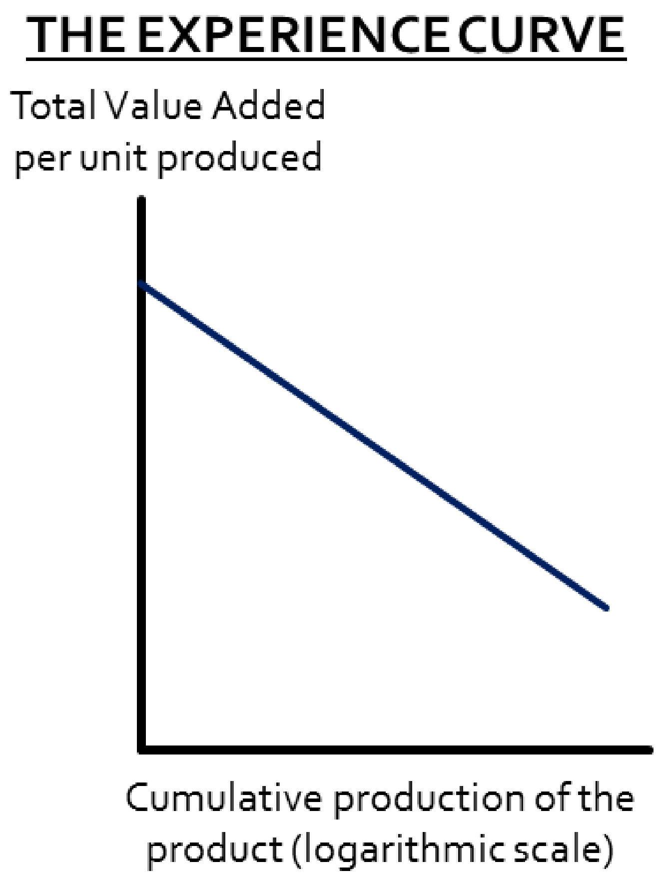
- Bruce Henderson, President of BCG, developed this matrix in the mid-1960's and published an article on it.
- At the time, there was considerable debate among strategists as to the proper measure to use for the formulation of strategy.
- Henderson made the case that Market Share (M/S) is the measure and formulated a matrix to guide decision makers.

The BCG Matrix (cont'd)

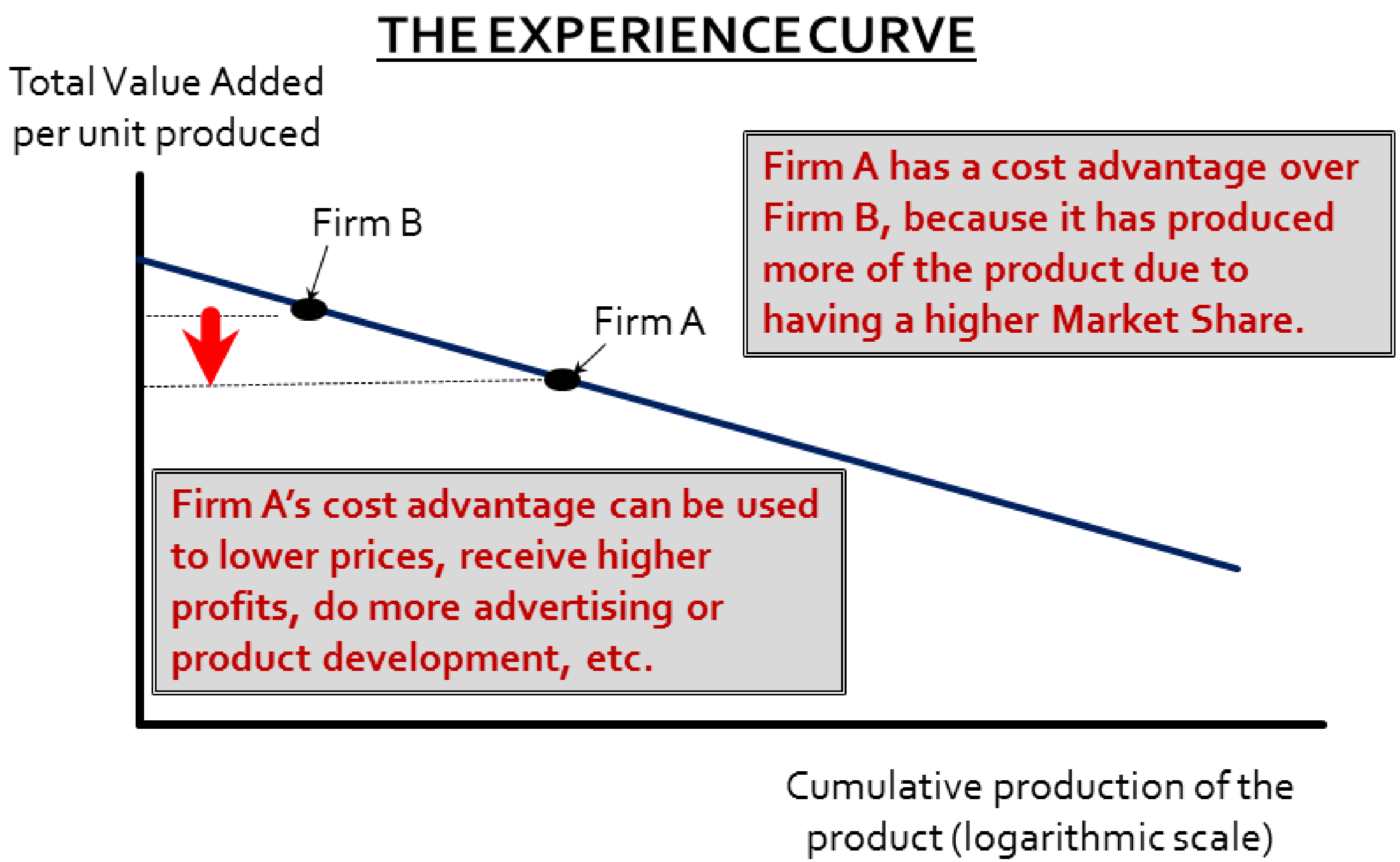
- Before getting to the BCG matrix, we will review the logic that Henderson gave for the choice of market share as that important measure.
- He conceived of something he called The Experience Curve (total value added), which was inspired by the long-used Learning Curve (total direct labor hours).
- These two curves are shown on the next slide.

The Learning and Experience Curves





Henderson's Rationale for Selecting Market Share as the Proper Measure



The BCG Matrix

Step 1: Evaluate Industry Attractiveness

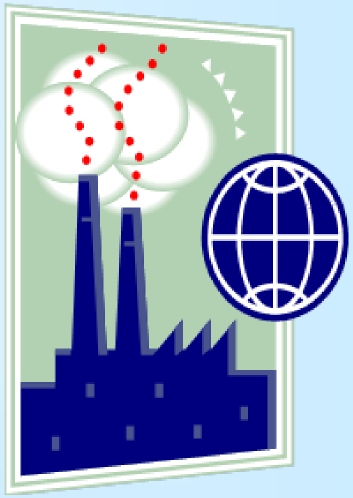
Attractiveness of *each* industry in portfolio

Each industry's attractiveness *relative* to the others

Attractiveness of *all* industries as a group

Industry Attractiveness Factors

- ◆ Market size and projected growth
- ◆ Intensity of competition
- ◆ Emerging opportunities and threats
- ◆ Presence of cross-industry strategic fits
- ◆ Resource requirements
- ◆ Seasonal and cyclical factors
- ◆ Social, political, regulatory, and environmental factors
- ◆ Industry profitability
- ◆ Degree of uncertainty and business risk



Procedure: Calculating Attractiveness Scores for Each Industry

Step 1: Select industry attractiveness factors

Step 2: Assign weights to each factor (sum of weights = 1.0)

Step 3: Rate each industry on each factor, using a scale of 1 to 10

Step 4: Calculate weighted ratings; sum to get an overall industry attractiveness rating for each industry

Table 9.1 Calculating Weighted Industry Attractiveness Scores

Industry Attractiveness Measure	Importance Weight	Industry A Rating/ Score	Industry B Rating/ Score	Industry C Rating/ Score	Industry D Rating/ Score
Market size and projected growth rate	0.10	8/0.80	5/0.50	7/0.70	3/0.30
Intensity of competition	0.25	8/2.00	7/1.75	3/0.75	2/0.50
Emerging opportunities and threats	0.10	2/0.20	9/0.90	4/0.40	5/0.50
Cross-industry strategic fits	0.20	8/1.60	4/0.80	8/1.60	2/0.40
Resource requirements	0.10	9/0.90	7/0.70	10/1.00	5/0.50
Seasonal and cyclical influences	0.05	9/0.45	8/0.40	10/0.50	5/0.25
Societal, political, regulatory, and environmental factors	0.05	10/1.00	7/0.70	7/0.70	3/0.30
Industry profitability	0.10	5/0.50	10/1.00	3/0.30	3/0.30
Industry uncertainty and business risk	0.05	5/0.25	7/0.35	10/0.50	1/0.05
Sum of the assigned weights	1.00				
Overall industry attractiveness scores		**7.70**	**7.10**	**5.45**	**3.10**

Rating scale: 1 = Very unattractive to company; 10 = Very attractive to company.

Interpreting Industry Attractiveness Scores

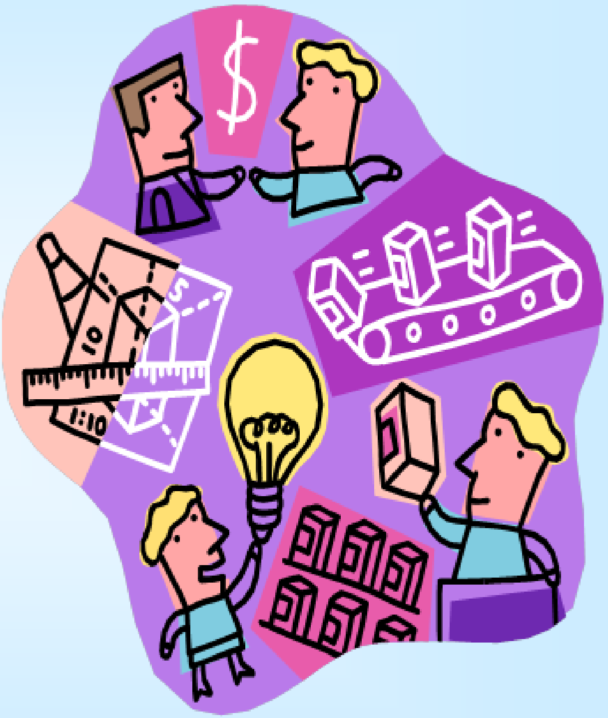
- Industries with a score much ***below 5.0*** do not pass the attractiveness test
- If a company's industry attractiveness scores are all ***above 5.0,*** the group of industries the firm operates in is attractive as a whole
- To be a ***strong performer,*** a diversified firm's principal businesses should be in attractive industries—that is, industries with
  - ➔ A good outlook for growth ***and***
  - ➔ Above-average profitability

Difficulties in Calculating Industry Attractiveness Scores

- Deciding on appropriate weights for industry attractiveness factors
  - Different analysts may have different views about which weights are appropriate for the industry attractiveness factors
  - Different weights may be appropriate for different companies
- Gaining sufficient command of an industry to assign accurate and objective ratings
  - Gathering statistical data to assign objective ratings is straightforward for some factors – market size, growth rate, industry profitability
  - Assessing the intensity of competition factor is more difficult due to the different types of competitive influences

Step 2: Evaluate Each Business-Unit's Competitive Strength

- ***Objectives***
  - ➔ Appraise how well each business is positioned in its industry relative to rivals
  - ➔ Evaluate whether it is or can be competitively strong enough to contend for market leadership



Factors to Use in Evaluating Competitive Strength

- Relative market share
- Costs relative to competitors
- Ability to match/beat rivals on key product attributes
- Ability to benefit from strategic fits with sister businesses
- Ability to exercise bargaining leverage with key suppliers or customers
- Caliber of alliances and collaborative partnerships
- Brand image and reputation
- Competitively valuable capabilities
- Profitability relative to competitors

Procedure: Calculating Competitive Strength Scores for Each Business

Step 1: Select competitive strength factors

Step 2: Assign weights to each factor (sum of weights = 1.0)

Step 3: Rate each business on each factor, using a scale of 1 to 10

Step 4: Calculate weighted ratings; sum to get an overall strength rating for each business

Table 9.2 **Calculating Weighted Competitive Strength Scores for a Diversified Company's Business Units**

Competitive Strength Measure	Importance Weight	Business A in Industry A Rating/ Score	Business B in Industry B Rating/ Score	Business C in Industry C Rating/ Score	Business D in Industry D Rating/ Score
Relative market share	0.15	10/1.50	1/0.15	6/0.90	2/0.30
Costs relative to competitors' costs	0.20	7/1.40	2/0.40	5/1.00	3/0.60
Ability to match or beat rivals on key product attributes	0.05	9/0.45	4/0.20	8/0.40	4/0.20
Ability to benefit from strategic fits with sister businesses	0.20	8/1.60	4/0.80	8/0.80	2/0.60
Bargaining leverage with suppliers/ buyers; caliber of alliances	0.05	9/0.90	3/0.30	6/0.30	2/0.10
Brand image and reputation	0.10	9/0.90	2/0.20	7/0.70	5/0.50
Competitively valuable capabilities	0.15	7/1.05	2/0.20	5/0.75	3/0.45
Profitability relative to competitors	0.10	5/0.50	1/0.10	4/0.40	4/0.40
Sum of the assigned weights	1.00				
Overall industry attractiveness scores		**8.30**	**2.35**	**5.25**	**3.15**

Rating scale: 1 = Very weak; 10 = Very strong.

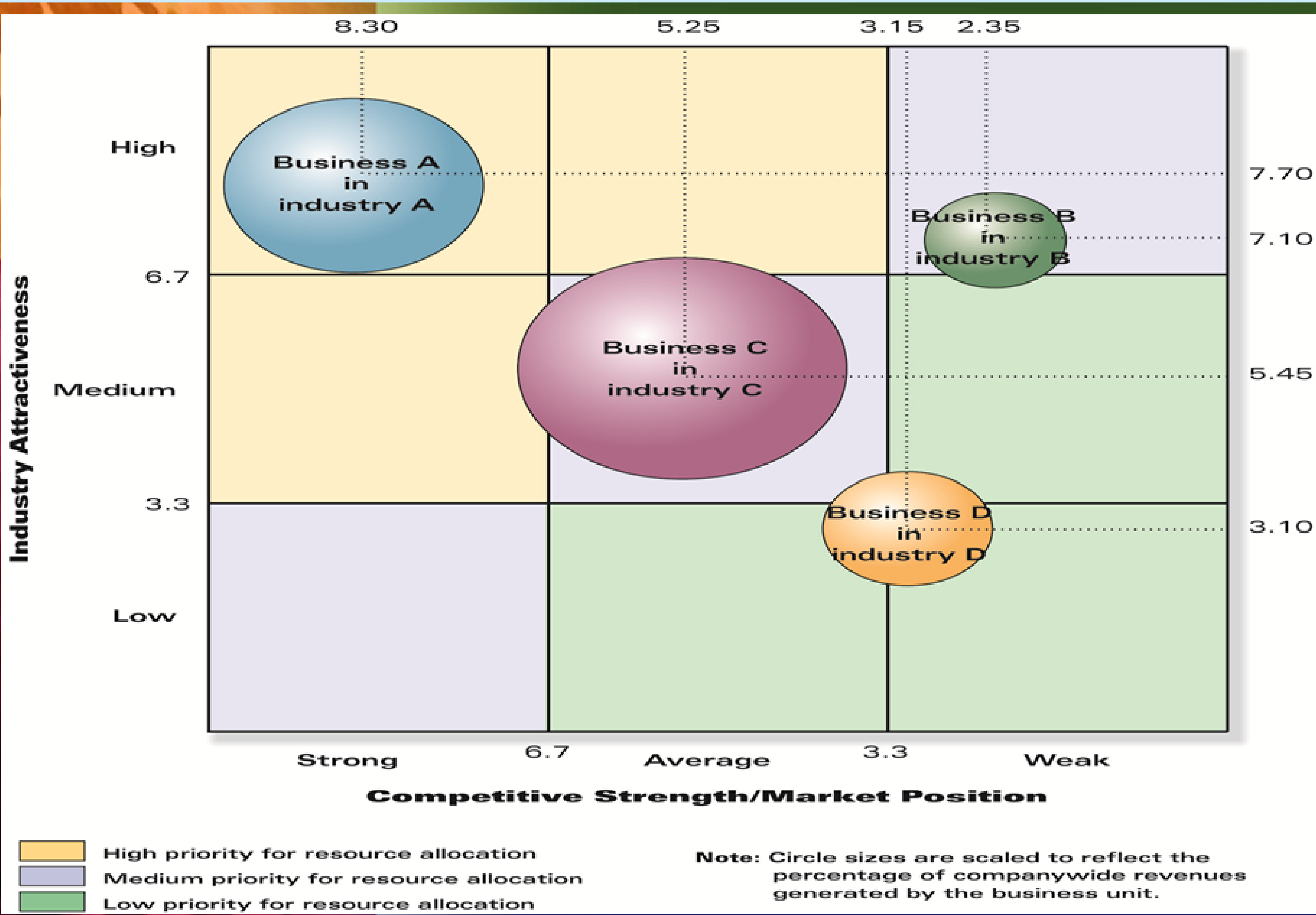
Interpreting Competitive Strength Scores

- Business units with ratings ***above 6.7*** are strong market contenders
- Businesses with ratings in the ***3.3 to 6.7 range*** have moderate competitive strength vis-à-vis rivals
- Business units with ratings ***below 3.3*** are in competitively weak market positions
- If a diversified firm's businesses ***all*** have scores ***above 5.0,*** its business units are all fairly strong market contenders

Plotting Industry Attractiveness and Competitive Strength in a Nine-Cell Matrix

- Use ***industry attractiveness*** (see Table 9.1) and ***competitive strength scores*** (see Table 9.2) to plot location of each business in matrix
  - ➔ Industry attractiveness plotted on vertical axis
  - ➔ Competitive strength plotted on horizontal axis
- Each ***business unit*** appears as a ***"bubble"***
  - ➔ Size of each bubble is scaled to percentage of revenues the business generates relative to total corporate revenues

Fig. 9.5: A Nine-Cell Industry Attractiveness-Competitive Strength Matrix

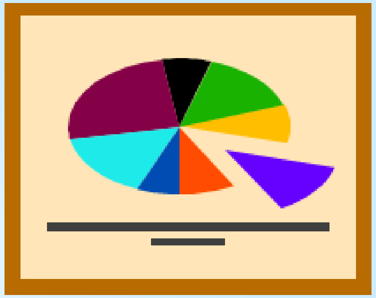


Strategy Implications of Attractiveness/Strength Matrix

- Businesses in ***upper left corner***
  - → Accorded top investment priority
  - → Strategic prescription – ***grow and build***
- Businesses in ***three diagonal cells***
  - → Given medium investment priority
  - → ***Invest to maintain*** position
- Businesses in ***lower right corner***
  - → Candidates for ***harvesting or divestiture***
  - → May, based on potential for good earnings and ROI, be candidates for an ***overhaul and reposition*** strategy

Appeal of Attractiveness/Strength Matrix

- Incorporates a ***wide variety*** of ***strategically relevant variables***



- Strategy implications
  - ***Concentrate corporate resources*** in ***businesses*** that enjoy high degree of industry attractiveness and high degree of competitive strength
  - Make ***selective investments*** in ***businesses*** with intermediate positions on grid
  - ***Withdraw resources*** from ***businesses*** low in attractiveness and strength unless they offer exceptional potential