

BCG Matrix





The BCG Matrix was developed by the Boston Consulting Group as an analytical tool for large firms with multiple strategic business units. Specifically it addresses the issue of effective resource allocation from one business unit to another. While it has a number of faults, which are later addressed in the GE/McKinsey Matrix (article to come), it is a good starting point for grasping the fundamentals of resource allocation.

The Matrix has two dimensions: Relative Market Share and Market Growth Rate.

Relative Market Share – How much market share does the business unit have in comparison to other players in the market? Think of this as cash generation – business units with high market share tend to be those that bring more cash into the firm.

Market Growth Rate – How fast is the market growing? Think of this as an outward cash flow – in markets with high growth rates, it takes an investment of cash to keep growing the business. In mature markets, it does not require much cash to sustain the business unit.

With that explained, let's take a look at the BCG Matrix.

		Relative Market Share (\$ IN)	
		HIGH	LOW
Market Growth Rate (\$ OUT)	HIGH	 Star	 Question Mark
	LOW	 Cash Cow	 Dog

There are four sectors: Cash Cow, Star, Dog and Question Mark. These names are there to help illustrate the concept of each of the four types.

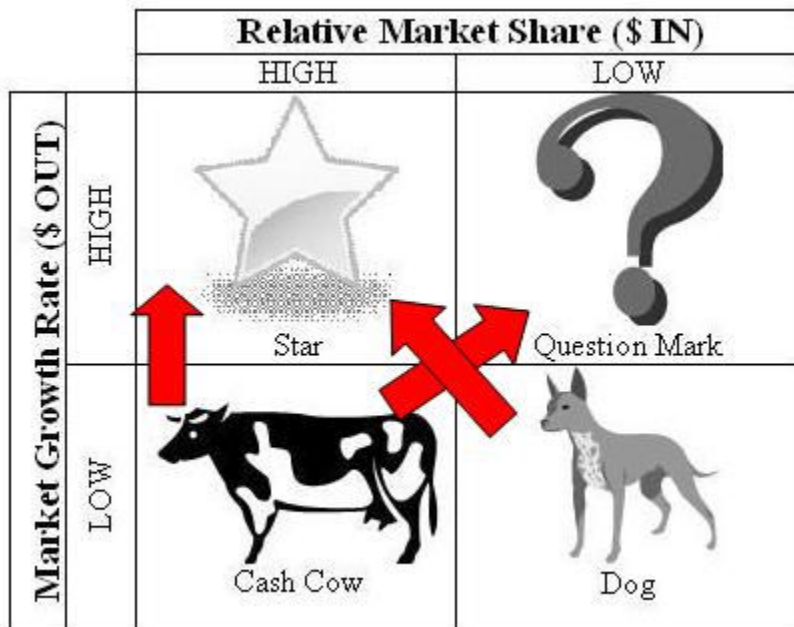
Dog: When a business unit has low market share in a market with a low growth rate, it's a dog. It takes little cash to sustain, but at the same time it has little prospect to become a star or cash cow. Unless there is a specific reason for maintaining the dog, it should be liquidated as it is tying up precious resources that could be allocated elsewhere.

Cash Cow: A business unit that is in a Mature Market (low growth rate) and commands a high market share. This type of business unit doesn't require much investment but generates a lot of cash. The cash generated from this type of business unit should be allocated to stars or question marks.

Stars: Business units that are in rapidly growing markets and have high market share. These business units require lots of cash to sustain a lead and to continue growth. Cash from Cash Cows or resources from Dogs should be allocated to this business unit. It has the potential of someday becoming a Cash Cow.

Question Mark: Business units with little market share in fast-growing markets. The future of such business units is unsure. They could become Stars if they are able to capture market share, but they could also become Dogs. Not that they require lots of resources.

Visually, let's look at how resources should be flowing. Notice that they should be flowing from the bottom of the matrix to the top.



Finally, the ideal life of a business unit is: Question Mark – Star – Cash Cow.