Integrated Marketing Management
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Lecture – 12
BCG Matrix, Strategic Marketing

Welcome to this class. Today, we will discuss first this Boston Consulting Group Growth-Share Matrix.

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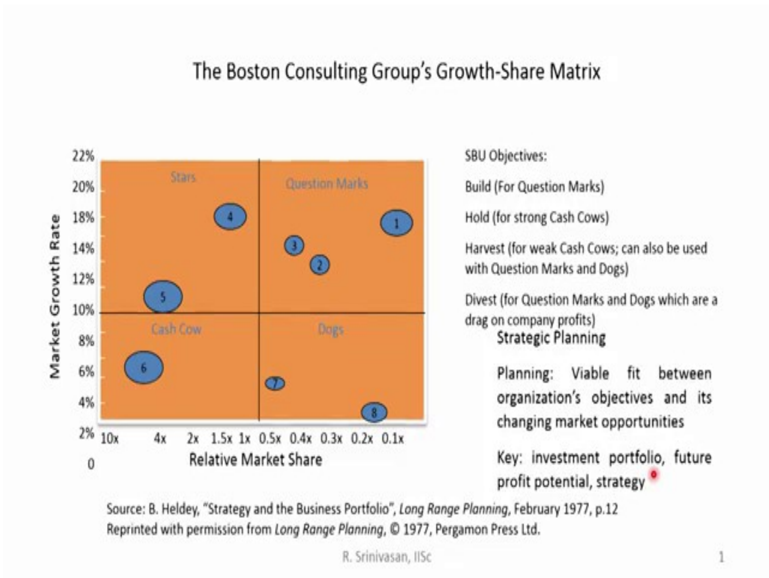

This is referred to in short as BCG matrix. This is an important matrix in marketing. As you could see here a small brief this thing about this BCG matrix it was developed by the Boston consulting group company a well known consulting firm and it was first published in this journal of long range planning in the year 1977 ok.

What does this matrix give? It plots the market share of a company, it is actually the relative market share, the market growth rate against the relative market share of the company. Why it is called relative market share? Because it is relative with respect to the leader. As you can see in this graph this graph is a semi log graph that is on the x-axis it is on the logarithmic scale, on the y-axis it is on the normal scale.

On the x-axis, you have the relative market share, on the y-axis you have the market growth rate. Any company which is operating in the market we divide it or we bring it into different compartments and call it by SBUs. What is an SBU? An SBU stands for a

Strategic Business Unit. What is the objective of this strategic business unit? The objective of this strategic business unit is it has its own product line, it has its own competitors and it has a manager for marketing strategic planning that is to device marketing strategies, strategic planning etcetera.

These three characteristics of an SBU we make use of and divide a company into different SBUs. Take for example, Bharat Electronics in Bangalore it caters to so many defense products and an SBU can be tailor-made to the defense products division only. Similarly, with respect to ITI, you can have an SBU with respect to telephones, you can have an SBU with respect to defense. So, this is how you bring an a company into different SBUs.

Taking these SBUs into account this BCT matrix is drawn. As I mentioned this is a matrix of the market growth rate against the relative market share that x-axis being on the logarithmic scale and the y-axis being on the normal scale. The dividing line is 10 percent here. If you see this graph this graph is divided into four compartments. The first compartment is called question marks, the second compartment is stars, the third compartment is cash cows, the fourth is dogs.

Any market which has a growth rate of 10 percent, and above is considered to be good in any context. It fits in the Indian context also. This is for this matrix is drawn for a hypothetical company and this matrix when it is drawn for a hypothetical company you can see in this matrix that there are three SBUs which are in the question marks. What do you mean by saying there are three SBUs?.

To put it in the simple English language they are trying to find their feet in the market. You have launched a product and that product is has entered the market, now when it when the product has entered the market till it stabilizes you do not know what is going to happen to that particular SBU. Any SBU which enters the market initially will be in the question marks.

For this company when this diagram was drawn by BCG matrix they had in mind a pharmaceutical company and for this pharmaceutical company these three SBUs were shown - 1, 2 and 3 they were trying to find their feet in the market. Whenever an SBU is in the question marks stage depending upon how strong it is, you pump in money to build that market. So, the SBU objectives should be to build for question marks.

You want that company SBU to move from question marks to stars, you do not want it to go away suppose it goes away let us say a product introduced from the question marks itself it vanishes then you would not find that SBU all in this BCG matrix. Before it vanishes it may go to dogs and then vanish.

If you see this particular diagram you have got three SBUs which are in the question marks and for these three SBUs the objective should be of the company to move these SBUs to stars. In order to move them to stars you require pumping enough investment whether it is with respect to promotion, whether it is with respect to incentives or any other type of program.

The marketing communication mix you are trying to emphasize upon and trying to ensure this SBU objective when it is in question marks you want to build that SBU so that it can move towards stars. When the SBU move towards stars you would like that SBU to be as long as possible in the stars that is you would like to prolong the life of that SBU in the stars.

Any SBU which moves from the question marks to the stars may after sometime or will after sometime move towards the cash cow. When it goes towards the cash cow what is the type of objective you will adopt? If you see this diagram this there is one SBU of this company which is in the cash cow and that come that cash cow is almost the leader in the market. It is moving towards 10x.

If you see here this is when it is moving towards 10x it becomes the market leader. When it becomes a market leader the objective of that SBU for the objective for the company with respect to that SBU should be to hold on. You do not require lot of investment for that cash cow still you get money out of it and when you get money in terms of revenues, when you get good amount of returns from this SBU you hold onto this cash cow and this type of strategy you will adopt for a strong cash cow.

How do you identify a strong cash cow? You identify a strong cash cow depending upon its position in the market with respect to the leader. When it is moving towards 10x, it is almost the leader in the marketplace and you want to milk that cash cow to the maximum possible extent. From the cash cow stage an SBU moves towards dogs. Suppose the cash cow was not a very strong cash cow, let us say.

Suppose it was here, then it is a weak cash cow when it is a weak cash cow you have two options: one is to you harvest that cash cow that is to get the maximum possible returns from that cash cow or to get a salvage value from that particular cash cow because you know that it is moving towards dogs when you are moving. When that SBU is moving towards dogs before it moves towards dogs when it is in the cash cow it may fetch you a higher return vis-à-vis when it moves towards dogs.

Suppose you are not able to prevent it from going to dogs, let us say that also happens with respect to SBUs, then what should you do? This can this SBUs which are in dogs their candidates for divesting that is try to get as much salvage value as possible because they are a drag on the company's profits. It can also be the case with respect to question marks when some of these products which you are trying to introduce with respect to the market, you are not very confident that you can move it to the star.

In the question marks stage itself you may like to divest this SBUs. This divesting strategy can be adopted for question marks and dogs which are a drag on the company profits. Now, a few points about strategic planning. What do you do in strategic planning with respect to markets? You create a viable fit between the organization's objectives and its changing market opportunities.

You create a viable fit between the organization's objectives and its changing market opportunities. In other words, you are keeping a constant eye on this changing business environment. A marketing manager has to keep his eyes and ears close to the market always; in other words, he cannot be complacent at any time especially when the market is competitive like what it is in the Indian context now.

Now, when you are operating in such a market and your planning for this strategic planning activity what are the keys? The keys are three: one is the investment portfolio, the second one is the future profit potential, the third is the strategy. These are the keys with respect to the SBUs – investment portfolio, future profit potential and strategy. Using these keys you decide on the marketing strategies. The strategic planning you decide using this keys.

This is a very good matrix for an initial startup or an initial analysis of the market for any company. Using this matrix you can superimpose other matrixes, it can be the McKinsey matrix or it can be other matrixes, but for this particular course we will stay foot with this BCG growth share matrix because it is ubiquitously used by most of the companies.

Any company in the market would like to first use the BCG growth share matrix to find out how its SBUs are with respect to the market leader, where do they stand and depending upon where they stand the companies might like to change their strategies or draw their strategies or redraw their strategies. All these things are possible. This is a wonderful way of visualizing the market in terms of SBUs.

You put it into different compartments and depending on what is the product or the product line, the competition it is facing you keep a person in charge of the strategic planning for that particular SBU. You create an SBU depending on your product line, how much it is going to contribute to your total sales revenue, sometimes you may find that one SBU may be contributing more than 30 percent towards your total sales revenue.

What does that mean? It means that this SBU you should be giving maximum attention you cannot allow this SBU to slide down because it is going to impinge on your sales revenue. This is a wonderful matrix which was put initially by the BCG company and used now also by almost all the companies which are operating in the competitive market. Why we are why are we considering this matrix here?

Even though we may be in 2019, we find many of the Indian companies not using this matrix. Though the scenario is fierce competition many of our Indian companies are not aware of some of these techniques which are used by the Western companies. It is high time that we also that is Indian companies also make use of these matrixes to keep abreast of what is going on in this competitive market. We cannot afford to lag behind. This is this BCG growth matrix which is very helpful in initially analyzing the market.

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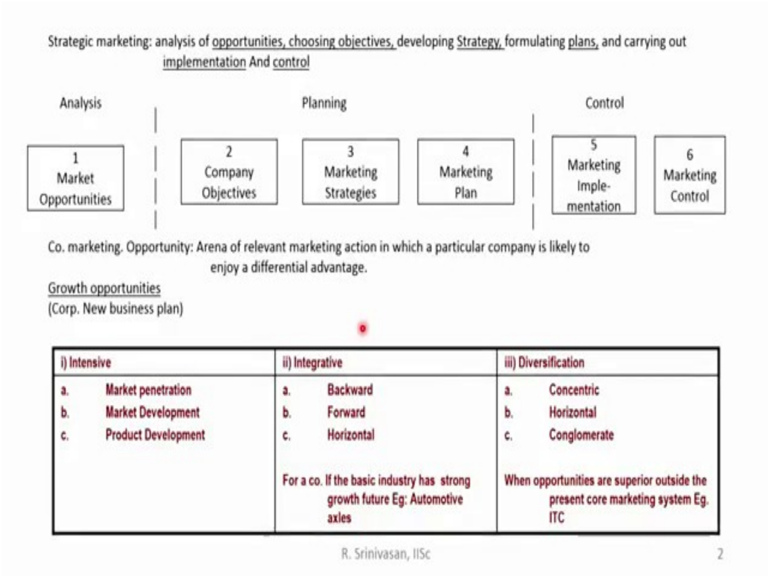

This is with this we move to the next one where we look at strategic marketing. What are we trying to look at? When we are looking at strategic marketing when we say we are looking at strategic marketing we are looking at analysis of opportunities, choosing objectives, developing strategy, formulating plans and carrying out implementation and control.

We are looking at analysis of opportunities, choosing objectives, developing strategy formulating plans and carrying out implementation and control. In other words, there are three compartments which you can visualize for the strategic marketing. One is with respect to analysis, the second is with respect to planning, the third is with respect to control.

The analysis stage involves identifying the market opportunities, the planning stage involves looking at the company objectives, then drawing up the marketing strategies, after the marketing strategies you draw the marketing plan. When we go along, we will discuss this in a little more detail. After this marketing plan the third stage or the third compartment is where we look at marketing implementation and marketing control.

In other words, this strategic marketing can be visualized in three compartments: one with respect to analysis, second with respect to planning, third with respect to control. It has in all six; it has in all six blocks. If you put this in six boxes, first box will be market opportunities, second box will be company objectives, third block will be third box will be marketing strategies, fourth will be marketing plan, fifth will be marketing implementation and sixth will be marketing control.

Now, we give a formal definition for company marketing opportunities, how do you define this company marketing opportunity. It can be looked at as an arena of relevant marketing action in which a particular company is likely to enjoy a differential advantage arena of relevant marketing action in which a particular company is likely to enjoy a differential advantage.

You can give an example for this. Take for example, the Horlicks you have in the market as some brands of Horlicks. One is called the Kesar Badam, the second is called the Women's Horlicks. Women's Horlicks coming in different flavours one is chocolate flavor, another is the caramel flavor. The Kesar Badam having both kesar and badam.

These two products which are introduced by this company they enjoy a differential advantage that is they the product characteristics are such that the other competitors they are not as of now able to put out a challenge for this particular products which are introduced by this company. You have the Kesar Badam, you have this Womens Horlicks in the market holding a very great sway. If you go to any retail marketing store or even a wholesale marketing store you find a good demand for these two products.

This is what is called a differential advantage. Similarly, if you take this Gillette companies Mach 3, what is this Mach 3? The company claims that it is making use of a triple blade technology to give the user a very smooth shave, that is three blades in slanting positions and this technology as of now has not been able to be replicated by other competitors.

This company enjoys a differential advantage with respect to this Mach 3. This you can see when you are going to different stores people asking for that Mach 3 and this Mach 3 holding onto this market share for a considerably long time. This is how companies have identified opportunities, marketing opportunities and once that marketing opportunities has clicked for them they are able to create a space for that particular product or product line where they enjoy a differential advantage.

With this we look at how a company can look at growth opportunities what are the methods by which it can increase the growth? There are three ways you can look at growth opportunities – one is intensive growth, second is integrative growth, third is diversification. Growth opportunities can be intensive growth opportunities, integrative growth opportunities or diversification.

Suppose it is an intensive growth opportunities. You could visualize the intensive growth opportunities with respect to market penetration, market development and then product development. What do you mean by market penetration? You are penetrating the market by your product. There might there might already be a product there does not matter because that one particular product or that particular competitor or competitors cannot be filling in the entire market space.

You might or you might also come to that market space with your product that is what you are seeing right now with respect to many of the products which are being sold in the marketplace especially with respect to consumer marketing. You have different juices coming from different companies. Each company claiming that it is a very good quality juice with all that take the example of Amul Lassi. You are not getting a similar product like the Amul Lassi in the market.

This Amul Lassi in the market enjoys a differential advantage compared to others. When you are putting a market let us say you are putting your own lassi into this market space let us say you have to compete with this existing brands like the Amul or whatever.

In order to compete with the existing brands this existing brands may not be taking up the entire market space that is available, with your lassi also you can corner or you can take a small chunk of the marketplace. Any new product which is introduced into the market able to get about 2 to 3 percent of the market share is good enough.

This is where you are looking at market penetration. Once you penetrate the market the idea is to develop on that market that is you increase the market share. Once you increase that market share you may also try to find out whether the market wants different types of products in the same line.

You may have a lassi, you may have a mango lassi, some other type of lassi all those types of things which the market would be willing to lap up. How do you develop the different types of products. All these three, that is a market penetration, market development or the product development come in the category of intensive growth opportunities.

Then we are when we are looking at integrative growth opportunities again we are looking at backward, forward and horizontal. What is this backward, forward and horizontal? Backward is where you take control of the supply line, forward is where you take control of the distribution line and horizontal is where you take control of your competitors.

When do you go in for these integrative opportunities? You go in for integrative opportunities when the basic industry has got strong growth future. There is there is I have taken an example of a company called automotive axles in Pune. Into the automotive industry supplies to major automotive players in the Indian market be TVS or Bajaj or name it, all these companies are supplied by the products of automotive axles.

If a company is if the basic industry has got a very strong future growth future then you can look at these three integrative growth opportunities. So, automotive axles has to keep up it is orders to a company say like TVS, it cannot afford to default on it is delivery schedules. These delivery schedules are affected by the supply line.

Suppose there is a break in the supply line linkage that is the supply chain linkage, then your delivery lines are going to be affected. So, in order to ensure that this will not happen you may try to find out whether you can take charge of the supply line to the extent possible. Similarly, with respect to the distribution line if it is possible.

Your order chain will always be on time this is the second growth opportunity. The third growth opportunity is what we call diversification. When you look at diversification it is when you look when the market outside the present marketing present core marketing system provides you a great opportunity.

For example, you look at ITC it was facing lot of problems whether it was with respect to curbs on the use of tobacco or smoking. So, government insisting that on each of the cigarette packs put a warning sign to the consumer saying that smoking is injurious to health with even with that warning if he still smokes that is up to him.

From the company side you put that warning in a box saying that smoking is injurious to your health. And, each time a budget used to come one of the candidates for increasing the price used to be your cigarettes that is the cigarette price always used to go up whenever a budget is presented.

Given this type of a scenario ITC was looking at whether it can go to another field or another marketing system up way from the present core marketing system which can be a good opportunity for the company. A market research study undertaken identified for ITC, the hotel industry as an opportunity outside it is core marketing system. It was suggested to ITC to look at hotel industry as an opportunity.

The result ITC took the plunge and the hotel which came was the Windsor Manor in Bangalore very near to the Vidhan Soudha and it is considered to be one of the most popular 5-star hotels in Bangalore even to this day. So, even after nearly three decades of operation you find that this hotel is still able to maintain its prime place with respect to the star hotel industry.

That is where you look at diversification that is something which is away from the core marketing system ITC in the cigarette business coming away from that cigarette business to an entirely new field like the hotel industry and still succeeding in that. A wonderful experiment which was done, and done very successfully by this company.

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We look at diversification in more detail. What is this concentric diversification, what is this horizontal diversification and what is this conglomerate diversification. You can as I mention to you can have three types of diversification it can be concentric, it can be horizontal or it can be conglomerate. What is concentric diversification?

When you are introducing new products that have technological stroke, marketing synergies with the existing product line the appeal to new class of customers. The example that is taken here is ITI it came out with a product what is called the earth stations, this is used for satellite communication. You find so many companies making use of this earth stations produced by ITI.

It was a new company was created for this purpose called the ITI sat com which was to assist in getting data and this was found to be extremely useful for the planning process initially now having lot of other applications as well. So, you get the data from the field first at the village level then at the taluk level, then at the district level, then at the state capital level, then the national capital level all through this ITIs earth stations or the satellite communication.

This is an example of concentric diversification when you are looking at new products that have technological marketing synergies with the existing product line appeal to new class of customers. What about this horizontal diversification? You are coming out with new products, but they have an appeal to the present customers though technologically unrelated.

Take the example of ITI itself it was coming out with mechanical telephones that is you might have seen the big black telephone of ITI. When the market started becoming competitive it was felt by the existing customers of ITI only or the market segments why not ITI come out with a sleek telephone, why this heavy black telephone with this mechanical dialing. The result towards the end of 80s, ITI came out with what is called the cordless telephone.

This cordless telephone was a very satisfying entry to ITI with respect to their new product segment and their existing customers also found this product to be one handy, second easily usable third can be taken out of this base and to a distance that is a person is let us say wants to talk in a room you can take it out from the hall based and go to the room talk complete that and come back and put the phone down in the base. All this was possible using the cordless phone. This is an example of horizontal diversification.

When we come to what is called the conglomerate diversification what is it that you are doing? You are looking at new products we appeal is to new class of customers it is not your existing customers. What are you trying to do? It offsets some deficiency or it presents a great environmental opportunity. For a company like ITC, this hotel industry provided a great environmental opportunities with which was lapped up by the company and came out with a large number of hotels starting from Windsor Manor in Bangalore to different parts of the country and also the globe ok.

These are the three types of growth opportunities you can visualize for a company. One is the intensive growth opportunities second is the integrative growth opportunities third is the diversification. In all these three growth opportunities again there are three – three in each of them making up to nine ok. We will stop here we will continue.

Thank you.