Strategic Management – The Competitive Edge
Professor R Srinivasan
Department of Management Studies
Indian Institute of Science, Bengaluru
Lecture 26
Display Matrices

Welcome to this session. Now, let us look at the GE matrix also referred to as the Mackenzie's matrix. Known by different names McKenzie matrix, E business screen; what does it do? Again, a portfolio analysis matrix analyzing the portfolios with reference to a company.

If you see what is happening with respect to this particular business screen, available to you on page number 135 of my Book on Strategic Management. Classification of this business screen is with respect to strong, medium and weak. So, market attractiveness is on the y axis, business strength is on the x axis, suppose it is a weak business unit you are in this last blocks, medium in the center and strong towards the left. This screen has 9 compartments the scale going from 1 to 5 on the x axis as well as on the y axis.

Market attractiveness going from 1 to 5, if you are between 1 and 2.33 it is low, then 2.33 to 3.67 it is medium and 3.67 to 5 it is high. When you are looking at the business strength, suppose the portfolio of the company is between 1 and 2.33 it is weak, 2.33 to 3.67 it is medium, 3.67 to 5 it is strong. Different colors are used in this particular matrix from grey towards greenish are used for the three blocks with respect to this company GE.

So, what are the types of portfolios they are looking at; the portfolios with respect to joints, hydraulic pumps, clutches in these three blocks. So, a portion of these hydraulic pumps is also coming towards the other three shaded blocks somewhat orange in this where you have aerospace fittings, fuel pumps and also flexible diaphragms, so hydraulic pumps, there is a good possibility that it might move towards this orange block.

If you see the one at the bottom is relief valves.For GE the business strength of this portfolio is also weak, the market attractiveness is low. This portfolio is really not doing well; when it is not doing well the strategy is to harvest or divest this particular portfolio. So, when you are in orange blocks if you see that is towards aerospace fittings, fuel pumps and flexible diaphragms, the strategic planner can be selective depending on the types of earnings these portfolios are providing to the company.

When you are in this green, grey or green blocks, that is the market attractiveness is moving from medium to strong, similarly the business strength is also moving from business to strong.

The best method of strategy that the strategic planner would advocate for all these types of portfolios would be to invest, make them grow. So, when they grow, it is possible that they can take off.

So, some of the portfolios where you want to what you call infuse cash to make them sustain in the marketplace, you can make use of these particular portfolios to do that. So, this is the way this McKenzie company, again a consulting company, drew up this business screen; kindly note that these were done for companies which were operating in the marketplace; the BCG matrix as well as the GE business screen.

Page number 135 of my book gives you more details on this GE business screen. It is a more complicated matrix compared to BCG developed with assistance from McKinsey, shown in figure 8.5. So, if you really see industry attractiveness, business strength and competitive position, it is categorized differently winners, average businesses, profit producers, losers, question marks, losers. So, where are these particular portfolios falling if you really see is falling in losers category with reference to the screen.

Now, using all these indicators with reference to the Jeep company in the Indian scenario, you can draw this GE business screen similar to that matrix. So, what could be the type of industry attractiveness and what could be the typical weightage percent that you can give. So, these are what you call indicator figures only. So, perhaps a deeper discussion may be required to see that these are fine-tuned or pruned.

So, if you look at the industry attractiveness the size of the market tells you what is the type of factor that determines its attractiveness, size of the market, typical weightage is 10 percent. Similarly, the rate of growth of sales and cyclic nature of business, typical weightages 15 percent. Third, the nature of competition vulnerability to foreign competition again 15 percent, this is very important in the present-day Indian context because you are in this LPG era.

Susceptibility to technological obsolescence and new products again very important. And entry conditions and social factors again getting a 10 percent weightage and profitability of the business unit getting a 40 percent weightage.

Now, with respect to competitive position, the factors that are considered are market share and capacity at 20 percent, growth rate at 10 percent, location and distribution at 10 percent, management skill at 15 person, workforce or money at 20 percent, then technical excellence including product and product process engineering at 20 percent, the image of the company at 5 percent, making a total of 100 percent. So, it has to be rated between 1 to 10 on all these factors; so when you rate a hypothetical company in the Indian scenario, it has got 6.9 as the score.

So, when it has got 6.9 as a score, what is the type of inference that you can draw? The type of inference is that this company can sustain in the marketplace, it is a strong company it can do well in spite of all the types of competition that is being thrown at this company or being made to face by this company; it can still do well to sustain itself in the marketplace.

There are many public sector units also which are doing reasonably well in spite of very heavy competition, one of the companies is BHEL doing well with respect to its products, making consistent profits. So, one of the consulting organizations which is also doing reasonably well is public sector unit Engineers India. So, this is what comes as the inference when you apply this McKenzie matrix.

So, initially you apply the BCG matrix, this McKenzie matrix or the GE business screen you can apply at the second stage with respect to an organization

So, if you look at the shells directional policy matrix, gives you : protect position, invest to build selectively, what is the type of strategies the strategic planner can adopt? So, the strategies could be when you are protecting position invest to grow at maximum digestible rate, concentrate effort on maintaining strength.

When you are investing to build, it is challenge for leadership build selectively on strengths reinforce vulnerable areas. When you are building selectively, depending on the block where you are in, it can be specialized around limited strengths seeks ways to overcome weaknesses with the drive indications of sustainable growth .

Suppose you have to select selectivity and manage for earnings it can be protecting existing program, concentrate investments in segments where profitability is good and risk is relatively low. Suppose you want to build selectively, invest heavily in most attractive segments, build up ability to counter competition, emphasize profitability by raising productivity. Suppose it is limited expansion or harvest, you look for ways to expand without high risk otherwise minimize investment and rationalize operations.

Suppose you are at the bottom here with reference to business trends and market attractiveness these strategies can be protect and refocus that is managed for current earnings, concentrate on attractive segments, defend strengths or it can be managed for earnings in perfect position in most profitable segments, then upgrade product line, maximize /minimize investment, when you are looking for divestments sell at a time that will maximize cash value, so to the extent possible realize a reasonable portion of the investment you made into that portfolio. Cut fixed costs and avoid investment, so this can be the type of strategies that you can adopt for the marketplace.

So, this next slide gives you with reference to the factors underlying market attractiveness and competitive position with respect to this hydraulic pump market of the GE; when you are using this I have given you the type of factors in the Indian context.

So, if you look at the shell matrix, it is very similar to the GE approach, but what is the difference; it identifies different strengths for each grid sector. This shell matrix is discussed on page number 137, it is called the shells directional policy matrix, it was adopted by the Shell Oil Company in the US. So, similar to the GE business screen, you have the competitive position and the sectoral prospects and the different cells give you what is the type of strategy that you can adopt.

So, if you see, suppose your position is that of a leader that is on page number 138, the business prospects are high, the competitive capability is strong, then the recommended strategy is to hold high market position with all necessary resources. Suppose, it is a custodial one the business prospects are average, the competitive capability is also average, may have many competitors, maximize cash generation with new resources.

Now, before next model discussed also on page number 138 of my book, is the profit impact of marketing strategy. I am reading from page number 138 a small portion, started at GE later used by Strategic Planning Institute for portfolio analysis, makes use of multi-dimensional cross sectional regression studies of profitability of more than 2000 business units.

Using this industry characteristic, average, profitability is developed and it is compared with the performance of the company concerned. The model uses past data to develop best statistical relationship instead of judgment weights used in the GE screen, this is a main difference.

Makes use of past data to develop a statistical relationship instead of judgment weights used in the business screen. This model is also criticized from the fact that it makes use of a heterogeneous population that is different types of businesses taken at different time periods.

According to this model profitability is closely linked to market share, 10 percent improvement of profitability corresponds to 5 percent improvement in return on investment. The rationale for this is given by using the experience curve effect, so what we discussed in the experience curve you produce more then the cost per unit might come down the which implies that the average cost per unit will reduce with an accumulated production. However, it has to be recognized that larger companies with better quality management techniques can exercise greater market power. So, this was also what was brought out as one of the points with reference to experience curve.

Suppose you are a new entrant in the market so many compromises you might have to do. So, there are 2 more matrices which are discussed in the book, one is called the Arthur D little companies matrix, the other is the Hofer's product evaluation matrix, again giving you different screens. So, if some of you are interested, you can go through these pages 139 and 140, it brings you to one more matrix on international portfolio analysis on page number 141; this international portfolio analysis matrix is looking at portfolios by country, so this is what many companies are doing.

So, you have most of these IT companies concentrating on different country markets, you have an Asia market, you have an European market, you have the North America all these types of things.

So, if you look at the market share say for a company like Infosys with reference to India, what is the share of the market of the company from the India? It is very small, but now improving in the Indian market scenario also because so many services are being offered through Infosys, including the GST, and even your IT filing, the service is coming from Infosys.

So, this is given by on page number 141 and brings you to one important aspect; this is what is called the parenting strategy. It is a fit between parenting opportunities and parenting characteristics. So, this is highlighted to you on page number 142 of the book and it gives you different names different depending on where the company is.

So, businesses that lie in the top right corner of the matrix or the heart of the corporate future that is called heartland. These Heartland businesses present opportunities for improvement by the parent and the parent understands their critical success factors well, therefore, these should have priority for all corporate activities.

Businesses in the edge of Heartland parent may not have all the characteristics needed by the unit or may not understand the unit's critical success factors in such circumstances, the parent needs to know when to interfere in the business units activities and strategies and at other times should remain away from the business decision making process, for those ballast business units they have been with the company for a long time, have been successful, fit well with a company but the environmental changes may make them to move to an alien territory. So, the decision maker has to take a decision when he should divest this business unit.

So, when it is in an alien territory, very little opportunity for improvement through the parent. So, this is what happens with reference to so many of the product SBUs, of many PSUs also, so if you really look at it, the present day scenario is like is really choking many of the PSUs, the liberalized scenario. Generally, these business units are small and often remnants of past diversification, it may be better to divest these business units.

The value trap business fits well with parental opportunities, but are a misfit with parents understanding critical success factors. So, thus there is a good chance of the parent making a big mistake. Now, look at the utility given on page number 143, of this portfolio analysis and display matrices. These matrices can help top management to evaluate each of their business units and set objectives to allocate resources. So, they can also use make use of external data and supplement this management judgment.

So, if you look at many of the screens that are used for this display matrices, it facilitates communication. But sometimes there are limitations; many of the market segments cannot be very accurately defined, some opportunities may get missed, sometimes it is difficult to clearly make out what makes an industry attractive or where exactly the product fits in in the PLC; if you really see in present Indian context, it is time for the Indian business units to make use of these display matrices with a lot of vigor and emphasis to make a mark in the present competitive scenario.

So, if you see the present slogan, the present Governament is coining, is to make in India. So, whether it is a defence product or whether it is a product for other sectors, the government says why do you want to go in only for imported products, why not you make this product within our own country, can we not do it? So, the idea that the policymakers in the country have given to the industry is make the country to become self-sustaining, even with respect to demands of different sectors, different industries, make the product at home and make it viable to the extent possible.

Whether it is a startup unit or an MSME, so if you will see the growth of startup units in the country which could be counted on your fingertips a few years back, it has grown phenomenally in the last few years, the present figures indicate it is clocking several 1000's of startup units, somewhere in the region of some 68,000 startup units in the country, which is quite phenomenal.

So, this make in India concept which is being promoted by the present government, has made a impact with the entrepreneurs or the persons or the youngsters who want to become entrepreneurs instead of seeking a job with a government sector or a private sector; the government is telling why not you create jobs instead of seeking a job.

So, many of the entrepreneurs especially from the top institutes in the country are venturing into Entrepreneurship. This is where we stop for today, we looked at the usefulness of display matrices and how these display matrices are going to play a very important role in the present Indian context. We will continue in the next class. Thank you.