The PORTFOLIO MATRIX

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Methods of Portfolio Planning

- The two best-known portfolio planning methods are from the Boston Consulting Group (the subject of this revision note) and by General Electric/Shell. In each method, the first step is to identify the various Strategic Business Units ("SBU's") in a company portfolio. An SBU is a unit of the company that has a separate mission and objectives and that can be planned independently from the other businesses. An SBU can be a company division, a product line or even individual brands - it all depends on how the company is organised.
The Boston Consulting Group Box ("BCG Box")

- By dividing the matrix into four areas, four types of SBU can be distinguished:
- **Stars** - Stars are high growth businesses or products competing in markets where they are relatively strong compared with the competition. Often they need heavy investment to sustain their growth. Eventually their growth will slow and, assuming they maintain their relative market share, will become cash cows.
· **Cash Cows** - Cash cows are low-growth businesses or products with a relatively high market share. These are mature, successful businesses with relatively little need for investment. They need to be managed for continued profit - so that they continue to generate the strong cash flows that the company needs for its Stars.
• **Question marks** - Question marks are businesses or products with low market share but which operate in higher growth markets. This suggests that they have potential, but may require substantial investment in order to grow market share at the expense of more powerful competitors. Management have to think hard about "question marks" - which ones should they invest in? Which ones should they allow to fail or shrink?
**Dogs** - Unsurprisingly, the term "dogs" refers to businesses or products that have low relative share in unattractive, low-growth markets. Dogs may generate enough cash to break-even, but they are rarely, if ever, worth investing in.
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Conventional strategic thinking suggests there are four possible strategies for each SBU:

- **Build Share:** here the company can invest to increase market share (for example turning a "question mark" into a star)
- **Hold:** here the company invests just enough to keep the SBU in its present position
- **Harvest:** here the company reduces the amount of investment in order to maximise the short-term cash flows and profits from the SBU. This may have the effect of turning Stars into Cash Cows.
- **Divest:** the company can divest the SBU by phasing it out or selling it - in order to use the resources elsewhere (e.g. investing in the more promising "question marks").
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