

**Management of Product Portfolio
and
Development of Product Mix Strategy**

Establishing Strategic Business Units

Large companies normally manage quite different businesses, each requiring its own strategy. At one time, General Electric classified its businesses into 49 strategic business units (SBUs). An SBU has three characteristics:

1. It is a single business, or a collection of related businesses, that can be planned separately from the rest of the company.
2. It has its own set of competitors.
3. It has a manager responsible for strategic planning and profit performance, who controls most of the factors affecting profit.

The purpose of identifying the company's strategic business units is to develop separate strategies and assign appropriate funding.

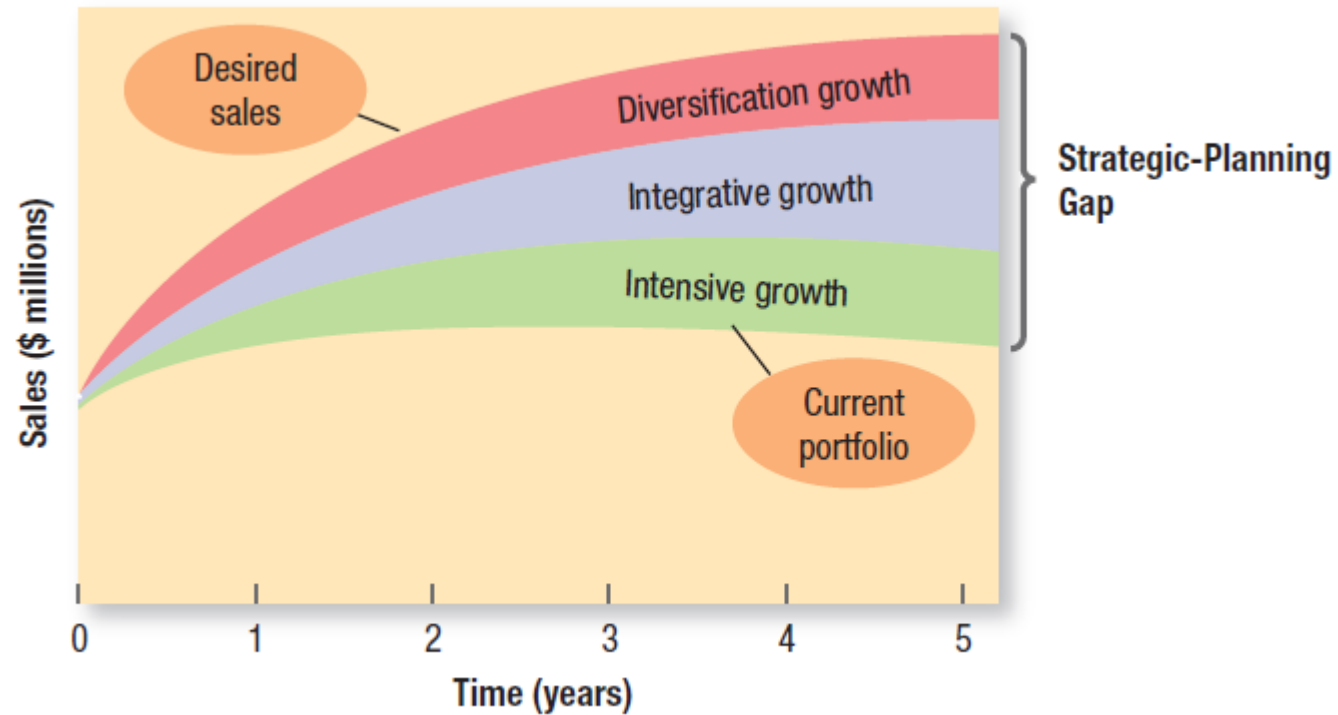
Assigning Resources to Each SBU

Once it has defined SBUs, management must decide how to allocate corporate resources to each. The GE/McKinsey Matrix classified each SBU by the extent of its competitive advantage and the attractiveness of its industry. Management could decide to grow, “harvest” or draw cash from, or hold on to the business. BCG’s Growth-Share Matrix used relative market share and annual rate of market growth as criteria for investment decisions, classifying SBUs as dogs, cash cows, question marks, and stars.

Portfolio-planning models like these have largely fallen out of favor as oversimplified and subjective. Newer methods rely on shareholder value analysis and on whether the market value of a company is greater with an SBU or without it. These value calculations assess the potential of a business based on growth opportunities from global expansion, repositioning or retargeting, and strategic outsourcing.

Assessing Growth Opportunities

Assessing growth opportunities includes planning new businesses, downsizing, and terminating older businesses. If there is a gap between future desired sales and projected sales, corporate management will need to develop or acquire new businesses to fill it.

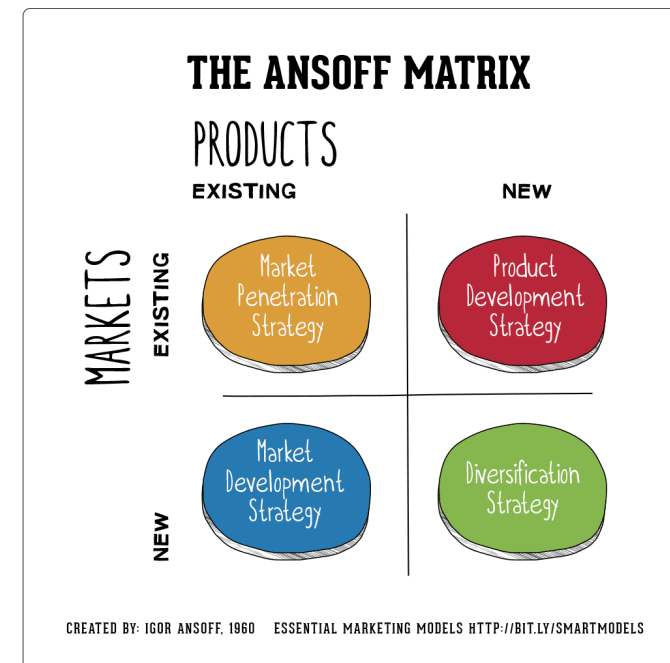


The lowest curve projects expected sales from the current business portfolio over the next five years. The highest describes desired sales over the same period. Evidently, the company wants to grow much faster than its current businesses will permit. How can it fill the strategic planning gap?

The first option is to identify opportunities for growth within current businesses (intensive opportunities). The second is to identify opportunities to build or acquire businesses related to current businesses (integrative opportunities). The third is to identify opportunities to add attractive unrelated businesses (diversification opportunities).

Intensive Growth

Corporate management should first review opportunities for improving existing businesses. One useful framework is a “product-market expansion grid,” which considers the strategic growth opportunities for a firm in terms of current and new products and markets. The company first considers whether it could gain more market share with its current products in their current markets, using a market-penetration strategy. Next it considers whether it can find or develop new markets for its current products, in a market-development strategy. Then it considers whether it can develop new products for its current markets with a product-development strategy. Later the firm will also review opportunities to develop new products for new markets in a diversification strategy.



Integrative Growth

A business can increase sales and profits through backward, forward, or horizontal integration within its industry.

Diversification Growth

Diversification growth makes sense when good opportunities exist outside the present businesses—the industry is highly attractive and the company has the right mix of business strengths to succeed.

Downsizing and Divesting Older Businesses

Companies must carefully prune, harvest, or divest tired old businesses to release needed resources for other uses and reduce costs.

SWOT Analysis

The overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called SWOT analysis. It's a way of monitoring the external and internal marketing environment.

External Environment (Opportunity and Threat) Analysis

A business unit must monitor key macro environment forces and significant microenvironment factors that affect its ability to earn profits. It should set up a marketing intelligence system to track trends and important developments and any related opportunities and threats.

Internal Environment (Strengths and Weaknesses) Analysis

It's one thing to find attractive opportunities and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses.

A SWOT-like analysis was instrumental in the development of the corporate strategy that drove Dell to years of success.

- Dell's strength was selling more effectively and efficiently directly to consumers than IBM and Compaq, its hardware competitors at the time.
- Dell's weakness, however, was that its brand was not as strong and it lacked a well-entrenched channel infrastructure and solid dealer relationships.
- Dell's opportunity was that the consumer market was becoming more sophisticated and customers increasingly knew exactly what they wanted.
- Dell's threat was that it would fail to generate a big enough customer base in the face of strong competitors and demanding channel partners.

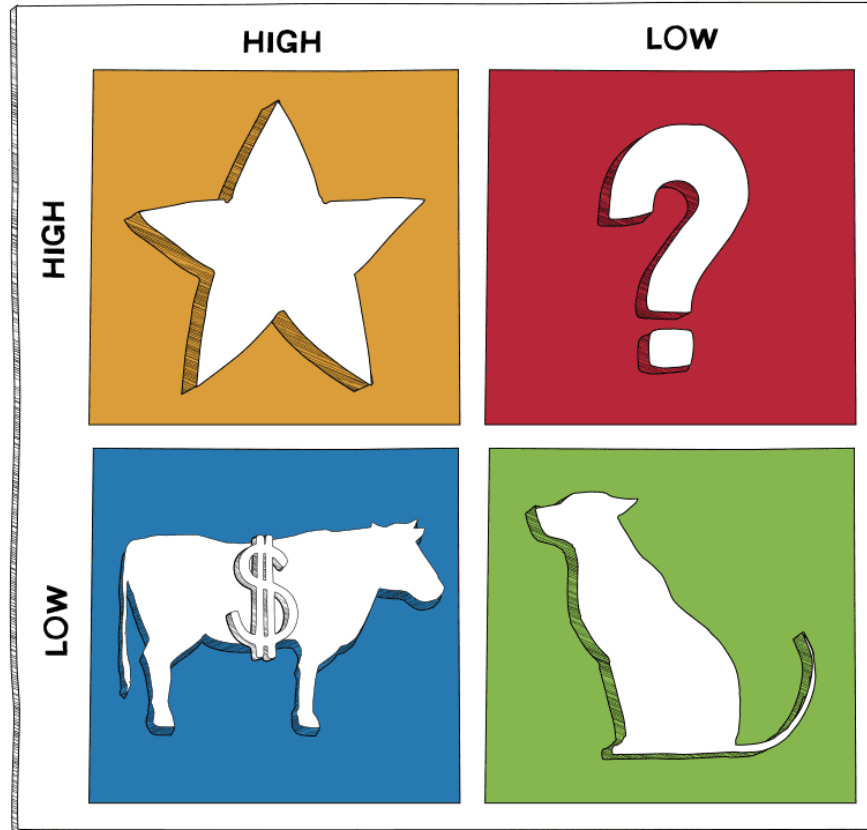
THE GROWTH SHARE MATRIX

RELATIVE MARKET SHARE

CASH GENERATION

MARKET GROWTH RATE

CASH USAGE



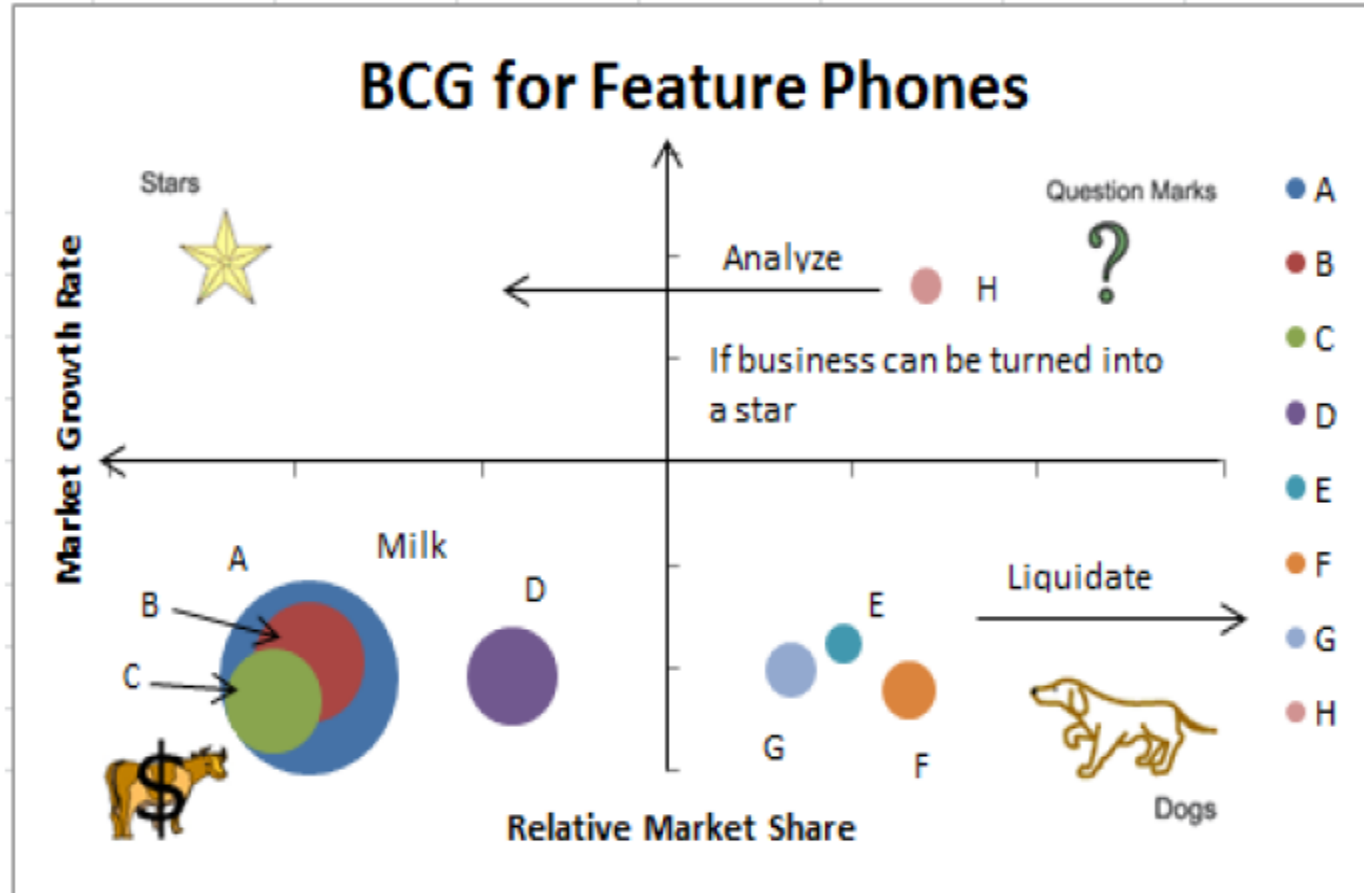


Figure 2: BCG Growth Share Matrix for Feature Phone Segments

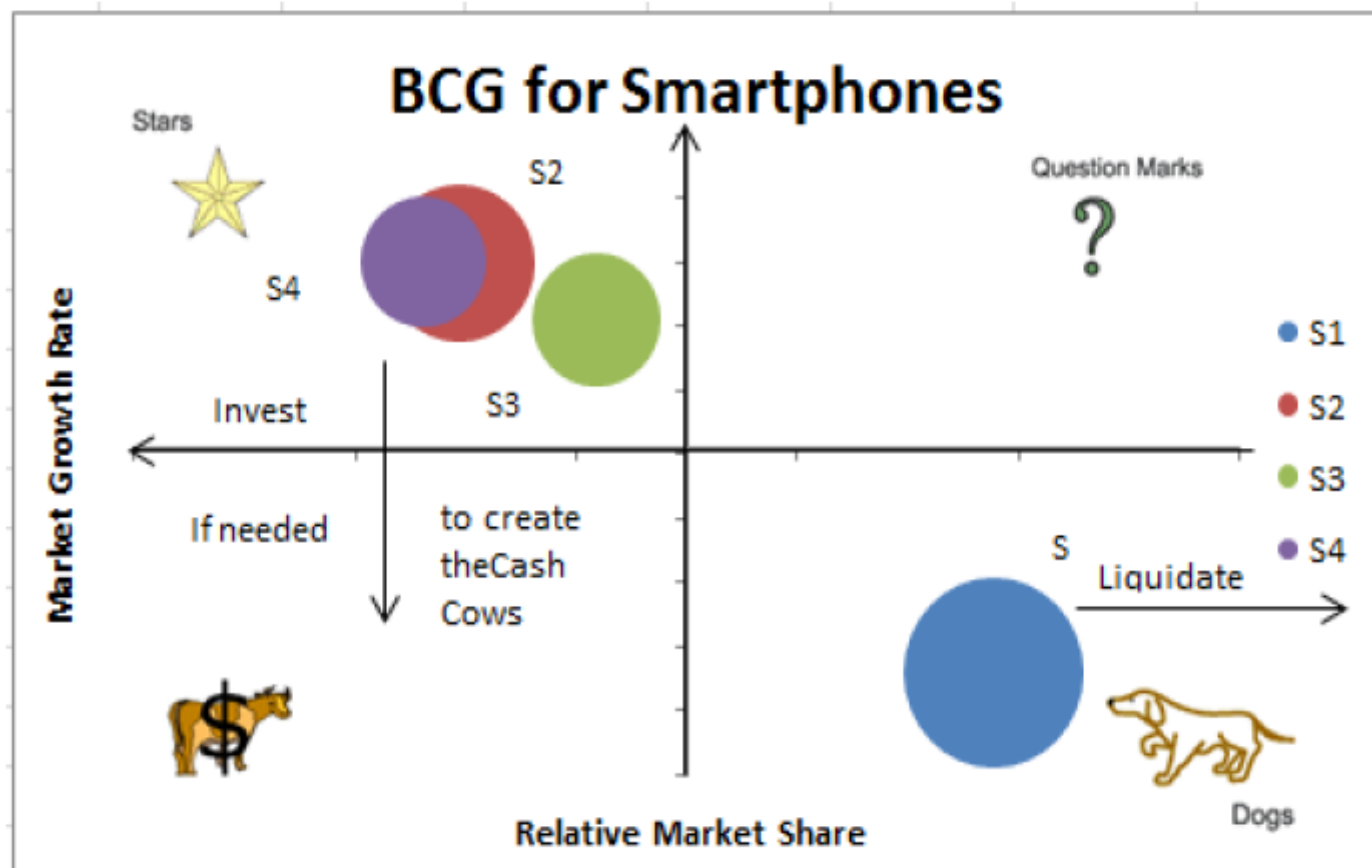


Figure 1: BCG Growth Share Matrix for Smartphone Segments

Strategic Expansion of BCG Matrix

By understanding the position of each product in the BCG Matrix, businesses can make informed decisions about:

Resource Allocation: Prioritize resources for products with the greatest potential for growth and profitability.

Investment Decisions: Determine where to invest to fuel growth, such as in Stars or Question Marks.

Growth Strategies: Develop strategies tailored to the specific needs of each quadrant, whether it's to maintain growth, increase market share, or generate cash flow.

Example: A company with a Star product (high market share, high growth) might invest heavily in marketing and R&D to further increase its market share and maintain its growth trajectory. Conversely, a Dog product (low market share, low growth) might be a candidate for divestment or liquidation.