

# The Boston Consulting Group Matrix (BCG Matrix)

## What is it?

The Boston Consulting Group (BCG) Matrix is a portfolio management tool created in 1970 by Bruce Henderson. The purpose of the matrix is to enable companies to ensure long-term revenues by balancing products requiring investment with products that should be managed for remaining profits. The BCG matrix has two axes: relative market share (indicating profitability, through economies of scale) and market growth rate (indicating market attractiveness), which means assets can be classified into 4 categories: Question Marks, Rising Stars, Cash Cows or Dogs.

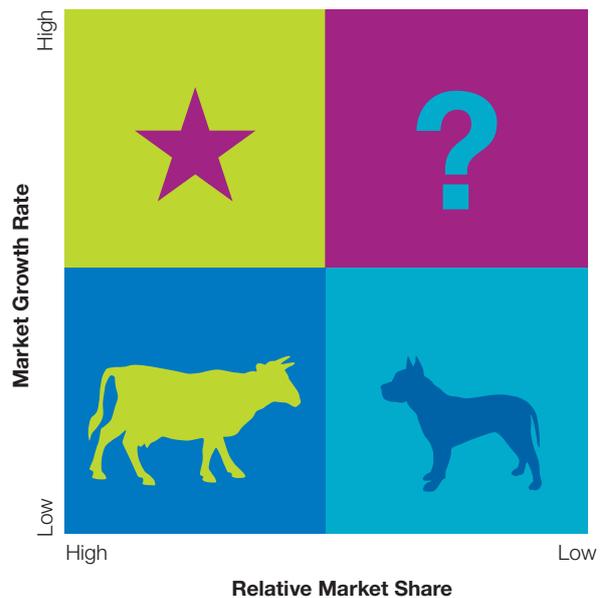
Ideally, the path of an asset through the matrix is, first to be launched into a growing market as a Question Mark, then grow share to become a Rising Star; as market growth slows the asset maintains share to become a Cash Cow, and eventually if its share falls it becomes a Dog. Executives need to make strategic decisions that drive assets onto this path, in order to maximise lifetime profitability.

**Question Marks:** New assets enter the market as Question Marks. Executives should focus on growing market share to convert them to Rising Stars.

**Rising Stars:** Rising Stars generate significant revenues and can generate profits, but they also require investment and focused marketing in order to maintain their positions in the market.

**Cash Cows:** Cash Cows are in a low growth market which means market share is difficult to win and margins are tight. Therefore they should be 'milked' for remaining revenues and profits. Cash Cows are often the main source of company profits, which can then be invested in Question Marks and Stars to maintain profits in the future portfolio.

**Dogs:** As assets with low market share in a slow-growing market, Dogs usually represent the last stage in an asset's life and should be considered for divestment.



**Figure 1** The Boston Consulting Group Matrix

## When to use it

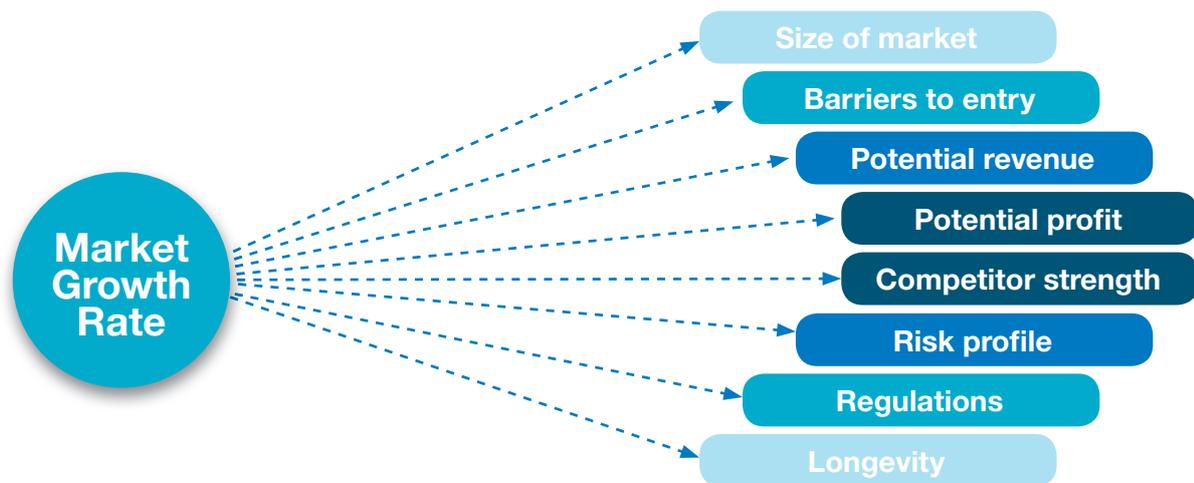
The BCG matrix should be used as part of strategic portfolio management to manage cashflow (McDonald, 1999). The matrix enables you to determine which assets could produce future revenues and make investment decisions that ensure funds are allocated to the right assets.

The tool can reveal portfolio weaknesses that may threaten a company's future cashflow. If a company is not developing many Question Marks, it needs to consider where income will come from in future.

## How to use it

To classify your assets, the market growth rate and relative market share of the competitors need to be estimated accurately for each asset. Each asset should be represented by a circle, proportional to the asset's annual sales. Assets in high growth markets should then be allocated high levels of investment to increase capacity and raise brand awareness (Johnson et al, 2008).

The validity of the market information and the way that the 'market' is defined is crucial for guaranteeing that different assets are assigned correctly. Data on growth and share may be available from analysts, or an independent assessor may be appointed who can judge the assets without bias.



**Figure 2** Market attractiveness factors beyond the market growth rate

### Strengths and weaknesses

The simplicity of the BCG matrix makes it easy to interpret by employees at a range of levels, which means that it can form a useful basis for internal discussions. As well as products, it can be applied to a wide range of areas, from managing a product portfolio to a portfolio of business units to a portfolio of country divisions.

The BCG matrix is based on market data, which makes it robust and relatively objective; however this can be difficult to source and analyse if the relevant expertise is not available in-house.

In today's business environment, other dimensions of market attractiveness have become important as well as the market growth rate, such as potential revenues and profits, risk profile and barriers to entry (see Figure 2), and the commercial landscape is more unpredictable and diverse. Similarly, the importance of market share has reduced; increased accessibility of products means that customer loyalty has reduced, so there may not be a single leading competitor in the market (Reeves, Moose and Venema, 2014), while some premium providers such as Audi aim to maximise profits rather than market share.

There may also be interdependencies that the matrix does not account for. For example, a software company may need to continue to support Dogs, even though this is unprofitable, because consumers will be unwilling to buy software that will soon be out of date. Likewise some companies may need to keep some complementary assets in their portfolio to support the Rising Stars and Cash Cows, or need to present a full product range to the market.

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### Further reading

**Johnson, G., Scholes, K. and Whittington, R.** (2008) *'Exploring corporate strategy'* Harlow: Prentice Hall

**McDonald, M.** (1999) *'Marketing plans'* Oxford: Butterworth-Heinemann

**Reeves, M., Moose, S. and Venema, T.** (2014) *'BCG Classics Revisited: The Growth Share Matrix'* Available at: [https://www.bcgperspectives.com/content/articles/corporate\\_strategy\\_portfolio\\_management\\_strategic\\_planning\\_growth\\_share\\_matrix\\_bcg\\_classics\\_revisited/](https://www.bcgperspectives.com/content/articles/corporate_strategy_portfolio_management_strategic_planning_growth_share_matrix_bcg_classics_revisited/) [Accessed 7 May 2015]