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Boston Consulting Group II – A Business Portfolio Analysis Matrix

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Abstract: The continuous development and market introduction of new businesses can play an important role in the future performance of companies. The business portfolio analysis represents an analytical approach by means of which managers have the possibility to view the corporation as a set of strategic business units that must be managed in a profitable way. Also, by taking into account features specific to the area in which the company operates, by taking into account the competitive advantage and the modalities of earmarking financial resources thereof, the business portfolio analysis provides managers the opportunity to approach companies from a different point of view and to pay increased attention to all activities that need to be undertaken. The present paper aims at presenting from a conceptual standpoint the Boston Consulting Group II Matrix, its strategic consequences and the characteristic advantages and disadvantages. Moreover, the paper will emphasize the importance that the business portfolio analysis holds within a company.

Key words: B.C.G. II, business, matrix, strategic analysis, portfolio.
JEL classification: M31

1 Introduction

Nowadays, all companies operate in a marketing environment, facing a large number of uncertainties. Thus, in order to be successful in a market place, a company should be subjected to a process of continuously adapting to changes that occur in the process, even though some marketing environments show higher levels of predictability, in comparison with others (Voinea and Filip, 2011).
Over time, companies have tried each time to identify various ways in order to cope with uncertainties more easily, which were their most feared enemy. After many attempts, which were aimed at weakening or even annihilating this enemy, companies have managed, finally, to identify the most powerful weapon, by which the battle can be won definitively. This weapon of war is known in the management and marketing literature as the strategic business planning.
At the beginning of strategic business planning, almost all companies put emphasis on diversification. Over time, due to changes in the marketing environment, generated by the tightening competition, technological, social and political pressures and not only, it became obvious that a company can no longer solve the problems brought by these changes, simply by action of diversification of the business portfolio, leading to the company's business portfolio to grow quantitatively.
As a result of this approach in the '70s the companies' attention switched from the actions of diversification to the optimization of the entire businesses portfolio. This modification that occurred in companies' approaches has been determined by the fact that businesses they carried, began to differentiate between them strong enough, through the saturation stage of consumers' demand, competitive climate, technological turbulence and levels of development, profitability and vulnerability.
Being forced to deal very carefully with all the differences between businesses, the companies have to take a major change in the business portfolio leading approach. As such, companies have adopted an introvert behavior, by which the potential businesses began to be treated as strategic business units.
In order to face these big issues, the companies have to make some changes in their way of doing business, especially in their business portfolio analysis process.
Thus, as companies are diversifying more and more, their managers confront a number of challenges arising from the management of

resources for the business portfolio and the low level of resources with which companies can identify, at a time.

Responding to these challenges, over time were developed a series of analytical business portfolio methods through which managers can balance the sources of cash flows from the multiple businesses and also can identify the place and role of businesses, in strategic terms, within the business portfolio. Therefore the continuous development and market introduction of new businesses can play an important role in the future performance of companies.

The business portfolio analysis represents an analytical approach by means of which managers have the possibility to view the corporation as a set of strategic business units that must be managed in a profitable way. Also, by taking into account features specific to the area in which the company operates, by taking into account the competitive advantage and the modalities of earmarking financial resources thereof, the business portfolio analysis provides managers the opportunity to approach companies from a different point of view and to pay increased attention to all activities that need to be undertaken.

This business portfolio analysis must become routine activity undertaken by the company, through its carrying out on a regular basis, so that decisions of earmarking of financial resources may be monitored, updated and modified with a view to accomplishing corporate objectives, correlated to the process of generation thereof carried out in an efficient way by each business (Armstrong and Brodie, 1994).

The basic decisions, that involve the earmarking of corporate resources together with the general approach, by means of which a business will be managed, does not complete the strategic analysis process and the selection of the viable strategic alternative.

Consequently, for each business must be examined and selected a certain type of strategy that in the end should lead to the meeting of long-term strategic objective (Wensley, 1994).

2 B.C.G. II Matrix

A significant contribution in the field of strategic business portfolio analysis belongs to Bruce Henderson. His name is synonymous with the B.C.G. matrix. In the mid 1960s, when he was just a salesman at Westinghouse, the company wanted to know why unit costs fall, while it gained experience in production. Henderson adapted the experience curve (a derivative of the learning curve), which was known for many years as the answer to this question. Further he deducted the policy implications of the experience curve, founded the Boston Consulting Group (B.C.G.) consultancy agency and disseminated its findings to other companies in the form of the B.C.G. matrix. This matrix revolutionized the field of strategic planning in the '70s.

Henderson has popularized the idea that the strategy may be universal. Businesses could reduce risk and optimize their individual performance by managing specific strategic business units.

At that time this idea was very successful among companies, but over time the B.C.G. matrix began to lose its popularity. Even if many ideas proposed by this matrix came under fire it can be said that there are a number of contributions that today are still treated as important.

In other way of speaking, the B.C.G. matrix was a foundation brick of strategic marketing thinking.

Further, in order to meet the new environmental conditions and taking into account the limitations and criticisms of the B.C.G. matrix, the consulting firm Boston Consulting Group has developed, in 1980, a new model of business portfolio analysis. This model, in the marketing and management literature, is also known as: "BCG II Matrix" or "Competitive Advantage Matrix" (Rue and Holland, 1986).

The main reasons that have determined the Boston Consulting Group company to develop a new method to analyze the business portfolio were closely related to environmental conditions specific to the '80s, which saw radical changes. Among these changes it can be mentioned the following ones:

• the economic growth was not continue - sometimes was zero or even negative;
• consumer tastes changed with a high frequency;
• rapid changes were taking place in the production techniques;
• there was an unstable global economic environment;
• the competition was very strong.

The B.C.G. II matrix assumes that competitive advantage is a fundamental element of a strategic business unit profitability and the ways in which it is earned are distinct and specific to each type of industry (O'Shaughnessy, 1995). Thus, the B.C.G. II matrix provides a classification of industries in terms of two performance indicators: number of ways to gain the competitive advantage and the size of the competitive advantage (Rue and Holland, 1986). The matrix is presented in terms of graphics in the Figure 1.

Ways of gaining the competitive advantage	Many	FRAGMENTED INDUSTRIES	SPECIALIZED INDUSTRIES
	Few	DILEMMA INDUSTRIES	VOLUME INDUSTRIES
		Small	Big
		The size of the competitive advantage	

Source: (Pearce and Robinson, 2007)

Figure 1. B.C.G. II Matrix

The number of ways to increase the competitive advantage is influenced by the complexity of the products. Thus, a complex product offers more opportunities for differentiation, while for simple products the company should look for opportunities that can reduce costs in order to survive (Pearce and Robinson, 2007).

In terms of both performance indicators, the B.C.G. II matrix is divided into four boxes called suggestive: *specialized industries, fragmented industries, dilemma industries and volume industries* (Anghel and Petrescu, 2002).

They have the following features:
• *specialized industries* – this box highlights business area that have a great competitive advantage and a large number of ways to win it. However, these business areas are characterized by a large number of competitors present within each specialized niches;
• *fragmented industries* – this box shows the business areas that have a competitive advantage of small significance but with a large number of ways to obtain it. Within these business areas there is a strong financial product differentiation and firms are characterized by a high level of flexibility;
• *dilemma industries* - this box outline business areas that are characterized by an insignificant competitive advantage, with a few ways to gain it. As such, companies should identify a number of solutions by which to overcome this competitive dilemma;
• *volume industries* - this box represents the business areas that have a limited number of ways to gain an important competitive advantage. Another characteristic of these industries is linked to the production of large quantities, which can be obtained through economies of scale, which in turn generate significant competitive advantages in the cost. However, product differentiation is difficult.

This matrix helps managers to conduct a diagnostic analysis of business areas in which they operate or in which they would like to enter. Also, the method offers the possibility to determine the importance of the competitive advantages associated with specific business from the company’s portfolio and to determine the number of ways to win them, taking into account the specificities of each business area (Pearce and Robinson, 2007).

3 Strategic implications

The nature of strategic decisions that BCG II matrix recommends are based on the following assumptions ((Rue and Holland, 1986) :
• the strategy is influenced by the competitive environment and its capriciously character;
• in order to maintain the long-term profitability

of a business it is required the existence of the competitive advantages;
• the number of ways to gain the competitive advantages and their size, vary from industry to industry;
• the business areas evolve over time so that the ways to gain the competitive advantage and their size can record changes over time.

So for the *specialized industries* box, corporate level managers have to adopt a position maintenance strategy coupled with the elimination of competition through cost reductions.

The *fragmented industries* box requires the practice of a differentiation strategy. Thus a manager must consider the fact that the products sold in these markets are characterized by low levels of loyalty from consumers, the technologies embedded in products are easily copied and the economies of scale are minimal. The companies must have the ability to respond quickly to market changes and the cost reductions are a key element of survival.

For the *dilemma industries* box it is suggested a business restraint strategy generated by the existence of a very tough competitive conditions and the existence of a small number of elements of product differentiation from those of the competition.

Finally, the strategy recommended for the *volume industries box* is to increase the sales volume. This can be implemented only if the company applies the learning curve effect, which involves the practice of low prices by reducing costs. Also, for companies operating in a volume industry that failed to gain superiority it is recommended a business restraint strategy.

4 Strengths and weaknesses of the B.C.G. II matrix

The B.C.G. II matrix offers a fresh perspective, using modern classifications of industries based on their profitability and competitive structure (Băcanu, 1999).

The particular advantages of the present matrix are that it reveals a number of assumptions that the first B.C.G. matrix can not highlight in terms of analysis.

The B.C.G. II matrix helps managers to identify optimal strategies and expected profit levels. It also helps managers to identify whether a company has the necessary resources to invest and also to determine the size of the competitive advantage associated with each type of industry, in which the strategic business units operate (Mercer, 1992).

The B.C.G. II matrix focuses on technological and competitive environment in which a company operates. Thus, the managers can explore the battlefield, where they already compete or are interested in for future entries.

It is a useful model for the resource allocation process needed for investments and also for setting goals of strategic nature (O'Shaughnessy, 1995).

Given the advantages mentioned for the present matrix, at the end it is important to highlight a number of weaknesses.

A first weakness of the matrix is given by the specific competitive advantages that do not have a permanent character. Thus, as the industry evolves, the competitive advantage of a company can become a vital element for all companies. In other words, due to market or economic sector evolutions, the companies should constantly review their competitive advantage.

The number of ways to obtain a competitive advantage and the size of the advantage varies from market to market. Thus, for each type of business there is a set of competitive advantages necessary to maintain long-term profitability (Rue and Holland, 1986).

Another disadvantage is underlined by the strategic positioning of the business units in one of four boxes, which is subjective, because it is based solely on the experience and strategic thinking of managers.

Another weakness is the use of measure units such as those presented in Figure 1, necessary for positioning the strategic business units within the matrix. In other words, strategic business unit positioning has a relative character because it represents a projection of the attitudes of managers rather than objective reality. Also, the number and the size of advantages in some situations may simply reflect the current lack of investment in the

industry.
If I stated earlier that the B.C.G. II matrix can help managers to identify optimal strategies and expected levels of profit, however it must be said that the application fails to provide information about the level of cash flow, as is the case with the first version of the BCG matrix.

5 Managerial implications and conclusions

Taking into consideration the above mentioned, I must emphasize the fact that the restriction of the portfolio analysis to a single method is not a very wise decision. Each method presents a series of advantages and disadvantages and each of them tries to offer, at one time, a diagnostic of the business portfolio specific to a company. (Haspeslagh, 1982)
The methods of analysis of the business portfolio facilitate the debate and outline of the competitive positions of the company and also contribute to the generation of a series of questions related to the way in which the allocation of its actual resources contribute to the achievement of success and vitality on long term.
At the same time, these methods, besides the fact that they help the managers to control the allocation of resources and suggest realistic objectives for every strategic business unit, also offer the possibility to use the strategic units as indispensable resources in the process of achievement of the objectives established at a corporate level (Wind, 1983).
In conclusion, it is recommended the combined use of a large variety of methods of analysis of the business portfolio, by the managers from a corporate level, because, in this way they will understand much better the whole market mix included in the custody account analysis, the strategic position held by every strategic business unit, within a market, the performance potential of the portfolio as well as the financial aspects related to the process of allocation of resources, for the business units within the portfolio. It should also be mentioned that the methods of analysis of the business portfolio are not instruments, which offer accurate answers, in spite of the appearances created by the stage of analysis, in which the strategic business units are represented graphically and with austerity. Nevertheless, their main virtue is simplicity, since these underlie the need to further research.

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