Lesson 25

PORTFOLIO MANAGEMENT

―PORTFOLIO is the Collection of Products, Services, or Brands that are offered for sale by a company‖.
In building up a product portfolio a company can use various analytical techniques including

- B.C.G. Boston Consulting Group-ANALYSIS
- Contribution Margin Analysis
- GE General Electric. Multi Factorol Analysis

Typically a company tries to achieve both diversification and balance in their portfolio of product offerings.

B.C.G. Analysis

B.C.G. Analysis is a technique used in Brand marketing, Product management, and Strategic management to help a company decide what products to add to its product portfolio.

It involves rating products according to their

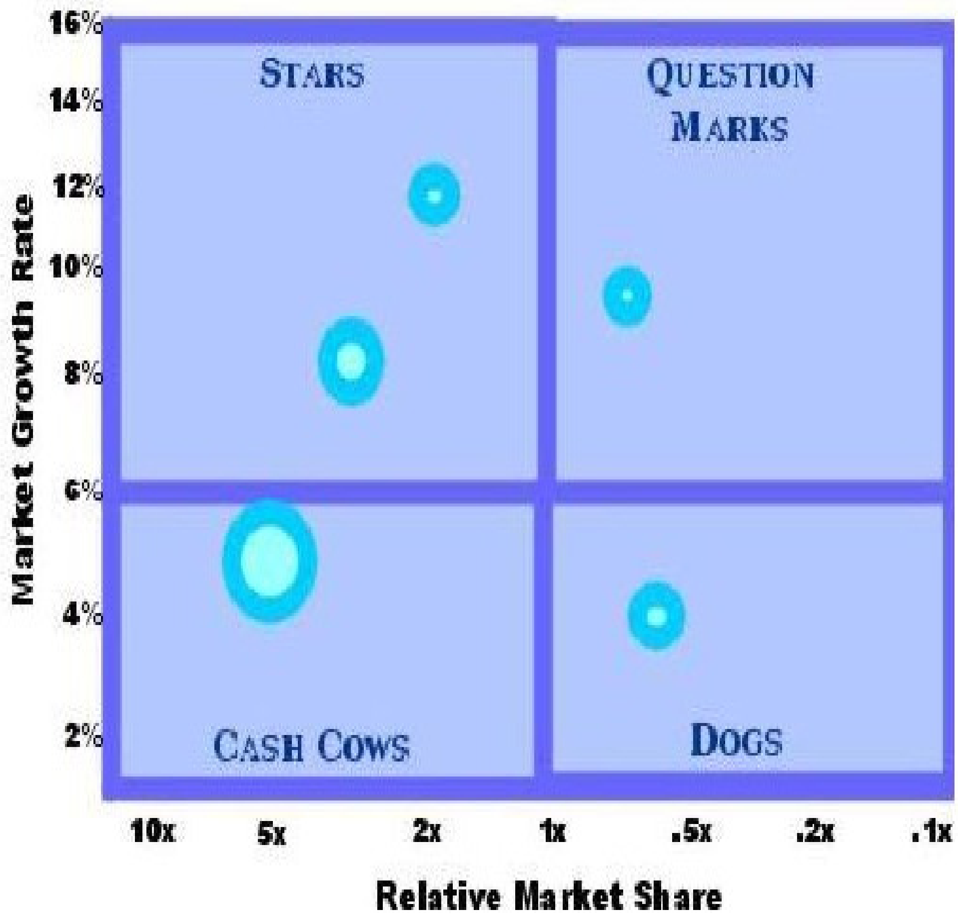
- Relative Market Share
- and Market Growth rate.

The products are then plotted on a two dimensional map.

Products with high market share but low growth are referred to as "**cash cows**".
Products with high market share and high growth are referred to as "**stars**".

Products with low market share in a low growth market are referred to as "dogs" and should usually be managed for value that is as much money should be harvested from those products with low or no investments.

Products with low market share but high market growth are referred to as "**question marks**" or "**problem children**".

It is crucial for those products or brands to improve their market share before the market growth is consumed by the competition. The technique can also be applied to a portfolio of companies. **BCG Matrix** Each circle represents a product or brand. The size of the circle indicates the value of the sales of that product or brand.	

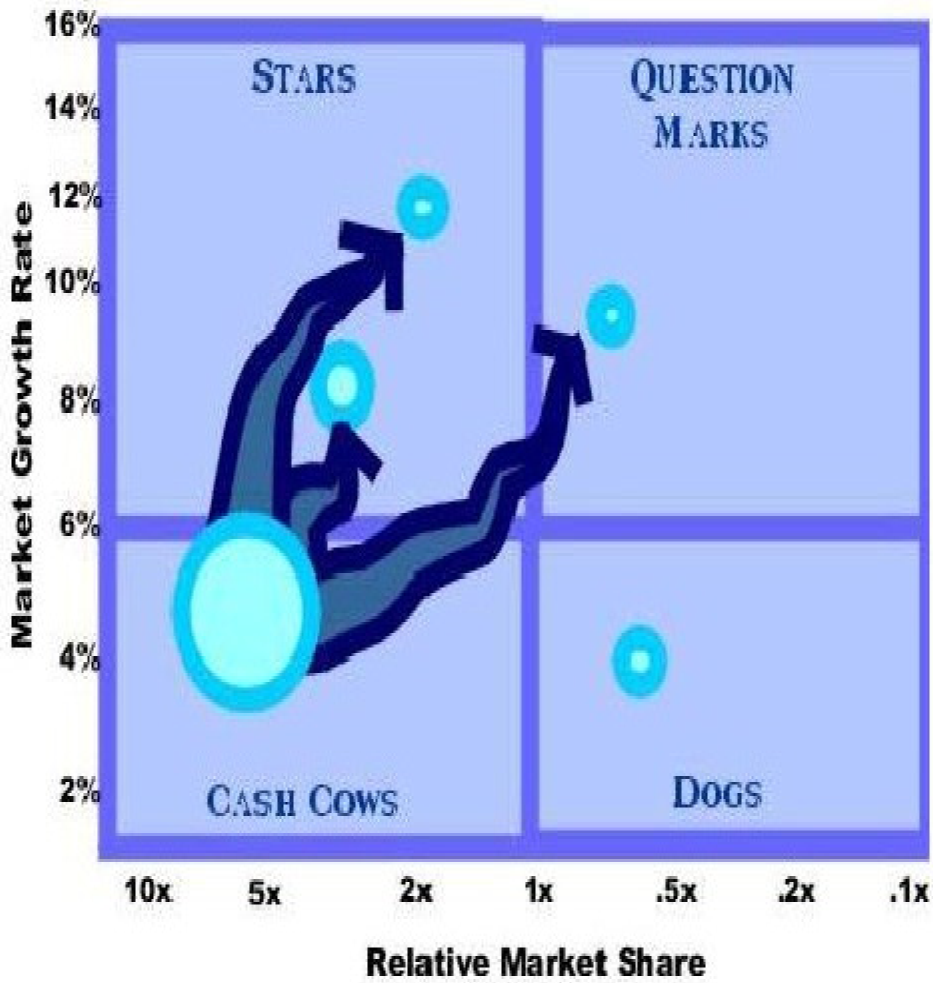
A "question mark" has the potential to become a "star" in the future if it is developed.
A company should have a balanced portfolio. This implies having at least one "**cash cow**" which can generate revenue that can be used to develop one or more "question mark". This process, referred to as "**milking your cash cow**", is shown in the next diagram where the arrows represent cash flows.

BCG Matrix with Cash Flows

B.C.G. Analysis was originally developed by Bruce Henderson at the Boston Consulting Group in the early 1970s.

G.E.Multi-Factoral Analysis

G.E.Multi-Factoral Analysis is a technique usedin brand marketing and product management to help a company decide what product(s) to add to its product portfolio.



It is conceptually similar to B.C.G. analysis, but somewhat more complicated. Like in BCG Analysis, a two- dimensional portfolio matrix is created. However, with the GE model the dimensions are multi factoral.
One dimension comprises nine industry attractiveness measures; the other comprises twelve internal business strength measures.

Each product, brand, service, or potential product is mapped in this industry attractiveness/business strength space. The GE multi factoral model was first developed by General Electric in the 1970s.

Contribution Margin Analysis

Contribution Margin Analysis is a technique used in brand marketing and product management to help a company decide what product(s) to add to its product portfolio. The manager asks what will happen to profits if a new product is added or an existing product is discontinued. Calculations take into account additional revenues, additional costs, effects on other products in the portfolio (referred to as cannibalization), and competitors' reactions.