**Master of Business Administration-MBA Semester 4**

**MB0052 – Strategic Management and Business Policy - 4 Credits**

**Assignment Set- 1 (60 Marks)**

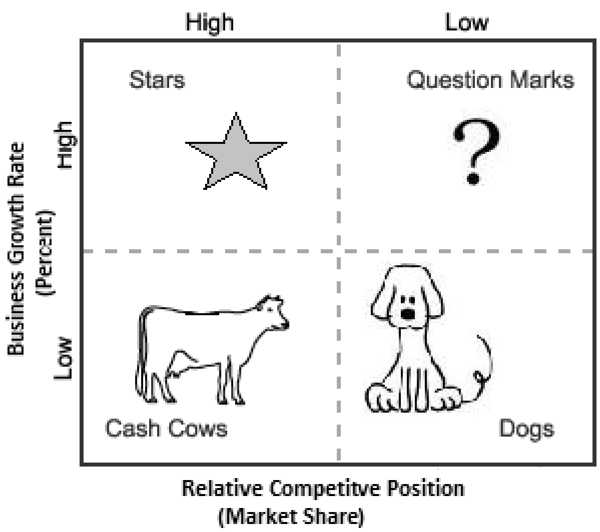
**Note: Each question carries 10 Marks. Answer all the questions.**

**Q.1 What similarities and differences do you find in BCG business portfolio matrix, Ansoff growth matrix and GE growth pyramid. (10 marks)**

**Answer:**
Strategic Advantage Profile (SAP) shows the strength and weakness of an organisation. Preparation of SAP is very similar to ETOP analysis. The five functional areas in most organisations are production or operation, finance or accounting, marketing or distribution, human resource and corporate planning, and research and development. These functional areas are listed to identify their relative strengths and weaknesses in SAP. Very similar to the ETOP analysis, positive, neutral, and negative signs are denoted and brief description is written in SAP profile. Each functional area is very broad and has many constituents.

**1 BCG portfolio matrix**
The BCG matrix is a portfolio management tool used in product life cycle. BCG matrix is often used to highlight the products which get more funding and attention within the company. During a product's life cycle, it is categorised into one of four types for the purpose of funding decisions. Figure below depicts the BCG matrix.

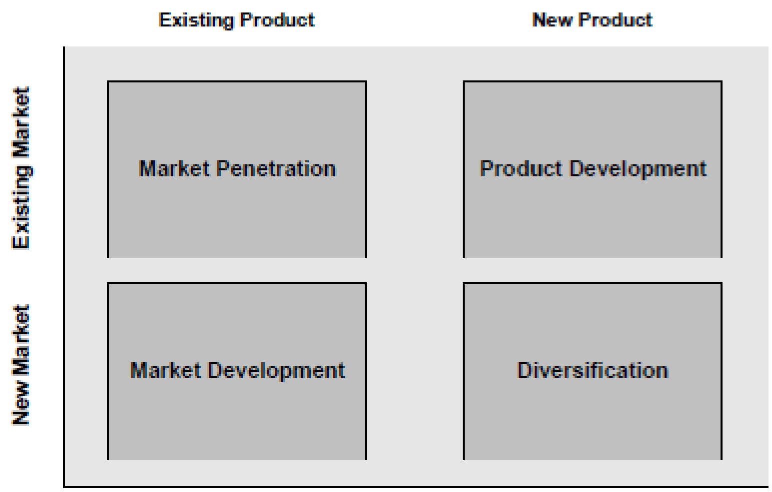





**BCG Growth Share Matrix**

*Question Marks (high growth, low market share)* are new products with potential success, but they need a lot of cash for development. If such a product gains enough market shares to become a market leader, which is categorised under Stars, the organisation takes money from more mature products and spends it on Question Marks.
*Stars (high growth, high market share)* are products at the peak of their product life cycle and they are in a growing market. When their market rate grows, they become Cash Cows.
*Cash Cows (low growth, high market share)* are typically products that bring in far more money than is needed to maintain their market share. In this declining stage of their life cycle, these products are milked for cash that can be invested in new Question Marks.
*Dogs (low growth, low market share)* are products that have low market share and do not have the potential to bring in much cash. According to BCG matrix, Dogs have to be sold off or be managed carefully for the small amount of cash they guarantee.
The key to success is assumed to be the market share. Firms with the highest market share tend to have a cost leadership position based on economies of scale among other things. If a company is able to apply the experience curve to its advantage, it should able to produce and sell new products at low price, enough to garner early market share leadership.
**Limitations of BCG matrix:**
• The use of highs and lows to form four categories is too simple
• The correlation between market share and profitability is questionable.
Low share business can also be profitable.
• Product lines or business are considered only in relation to one competitor: the market leader. Small competitors with fast growing shares are ignored.
• Growth rate is the only aspect of industry attractiveness
• Market share is the only aspect of overall competitive position

**2 Igor Ansoff growth matrix**
The Ansoff Growth matrix is a tool that helps organisations to decide about their product and market growth strategy. Growth matrix suggests that an organisation's attempts to grow depend on whether it markets new or existing products in new or existing markets. Ansoff's matrix suggests strategic choices to achieve the objectives. Figure 3.6 depicts Ansoff growth matrix.




**Ansoff Growth Matrix**

*Market penetration* – Market penetration is a strategy where the business focuses on selling existing products into existing markets. This increases the revenue of the organisation.

*Market development* – Market development is a growth strategy where the business seeks to sell its existing products into new markets. This means that the product is the same, but it is marketed to a new audience.

*Product development* – Product development is a growth strategy where a business aims to introduce new products into existing markets. This strategy may need the development of new competencies and requires the business to revise products to appeal to existing markets.

*Diversification* – Diversification is the growth strategy where a business markets new products in new markets. This is an intrinsically riskier strategy because the business is moving into markets in which it has little or no experience.

For a business to adopt a diversification strategy, it should have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks.

Market Penetration
Product Development
Market Development
Diversification
New Market Existing Market



**3 McKinsey/GE growth pyramid**

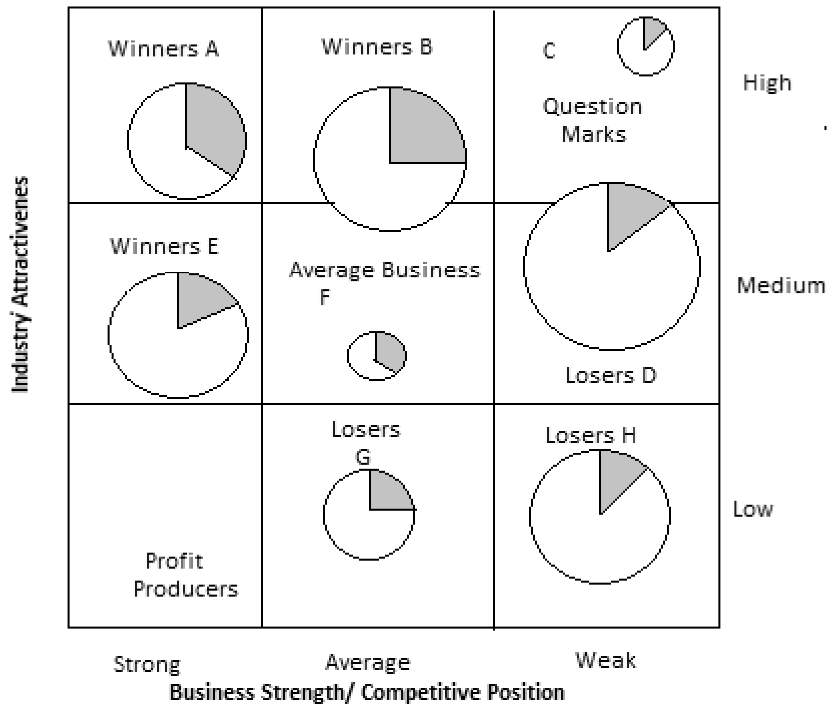
The McKinsey/GE matrix is a tool that performs a business portfolio analysis on the Strategic Business units in an organisation. It is more sophisticated than BCG matrix in the following three aspects:

• *Industry (market) attractiveness* - Industry attractiveness replaces market growth. It includes market growth, industry profitability, size and pricing practices, among other possible opportunities and threats.

• *Competitive strength* - Competitive strength replaces market share. It includes market share as well as technological positions, profitability, size, among other possible strengths and weaknesses.
• *McKinsey/GE growth pyramid matrix* works with 3*3 grids while BCG matrix is 2*2 matrixes.

External factors that determine market attractiveness are the following:
• Market size
• Market growth
• Market profitability
• Pricing trends
• Competitive intensity/rivalry
• Overall risk of returns in the industry
• Opportunity to differentiate products and services
• Segmentation
• Distribution structure (e.g., retail, direct, wholesale)

Internal factors that affect competitive strength are the following:
• Strength of assets and competencies
• Relative brand strength
• Market share
• Customer loyalty
• Relative cost position (cost structure compared to competitors)
• Distribution strength
• Record of technological or other innovation
• Access to financial and other investment resources




**McKinsey/GE Growth Pyramid**

**Q.2 Discuss the investment strategies applicable for businesses and methods to rectify faulty investment strategies. (10 marks)**

**Answer:**
Investment is defined as the commitment of money or capital (e.g. purchasing assets, keeping funds in a bank account etc) to generate future returns. A proper understanding of the investment strategies and a thorough analysis of the options helps an investor to create a portfolio that maximizes returns and minimises exposure to risks.
Following are the ways to invest successfully:
• *Leave a margin of safety* – Always leave a margin of safety in your investments to protect your portfolio. The following are the two ways to incorporate the above principle in your investment selection process.
• Be conservative in your valuation assumptions
• Only buy assets dealing at substantial discounts to your conservative estimate.
• *Invest in business which you understand* – Invest in a business in which you have a thorough understanding of the customers, products/services etc.
• *Make assumptions* – Make assumptions about your future performance by