

Boston matrix (BCG matrix)

At the end of the 1960s, Bruce Henderson, founder of the Boston Consulting Group, BCG, developed his portfolio matrix. The effect on the business world was dramatic.

Henderson first came up with the concept of an *experience curve*, which differs widely from the *learning curve*, a concept formulated many years before and which states that staff productivity increases according to the number of times a particular work task is carried out.

The experience curve does not have the inherent threshold effects of the learning curve. The experience curve states that when a particular task is duplicated, the cost of carrying it out the second time will fall by about 20 per cent. Thus, by doubling our sales force, customer sales costs will fall by about 20 per cent. The same thing applies to invoicing, production, etc. For more on this, see the entry *Experience curve*.

The other important principle in the BCG concept was relative market share, which was calculated in relation to the biggest competitor.

The experience curve was combined with relative market share and the life cycle curve in the well-known BCG matrix shown in the figure below. The matrix was popularized by the use of symbols mainly representing animals. Such terms as 'dogs', 'wildcats', 'star' and 'cash cow' subsequently came into business use, whereupon the Boston matrix was referred to as the 'BCG zoo'.

If we look at the four squares of the BCG zoo and try to predict cash flow for the next 3.5 years, we begin to make out certain patterns. The dog or the star should have a minimal positive or negative cash flow. The cash cow delivers very positive cash flow, while the wildcat has negative cash flow.

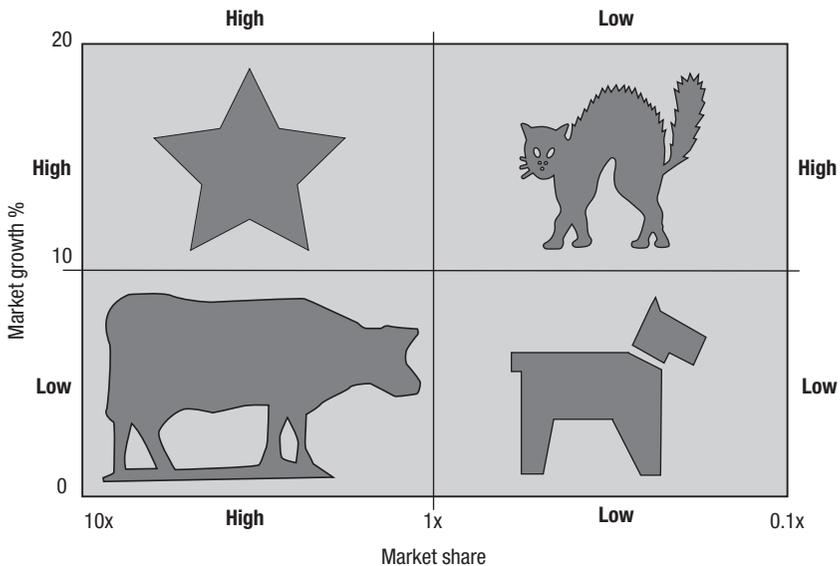
When portfolio strategy was in its infancy, balancing the cash flow was one of group management's most important functions. The theory was that cash flow should be created in the cash cow and invested in the wildcat in order to increase market share and reach a strong competitive position. This would then bring the unit into the star square. When the market gradually stopped growing, the star business would tumble into the cash cow.

The underlying idea of the BCG matrix is that the best strategy is to dominate market share when the market is mature. The thinking goes like this:

1. Profitability is greatest when the market matures.
2. A dominating market share gives the highest accumulated production volume.
3. According to the experience curve, high volume leads to lower production costs.
4. Low production costs can either be used to lower prices and take market share, or to increase profit margins.

The BCG matrix proved a great success and most of the big American companies used it to review their business units.

BCG's competitors naturally wanted to get on the band wagon and both McKinsey and Arthur D Little developed a method involving matrices of nine cells instead of the BCG four-cell model (see for example *Industry attraction and strategic position*).



The Boston matrix has come in for harsh criticism. Here are two examples of the risks involved in connection with its use.

James Ferguson, Managing Director of a foodstuffs group, tells the story of the company's coffee business, known for, among other things, the Maxwell House brand. According to the prevailing portfolio pundits, this unit was classed as a cash cow. It was therefore supposed to create positive cash flow and not to develop and grow. The management of the unit consequently relaxed and were on the way to missing the wave of brewed and freeze-dried coffees, which were of course making a great breakthrough in the early market.

The other example concerns General Electric, a great pioneer of portfolio strategy. General Electric began to apply strategic management to its portfolio as early as the 1960s. Since then they have realized the limitations and dangers of BCG. Railway engines powered by electricity, lighting and white goods were some of the businesses that were financially starved for many years before the need for investment was discovered and applied to these business units.

Richard Hamermesh, who has made a study of the disadvantages of the BCG matrix, considered that portfolio planning on the basis of early methods was very useful when decisions had to be made concerning which business units were to be sold off, but was much less useful in connection with growth and business development. Richard Hammermesh gives good advice in this respect:

1. Do not confuse resource allocation with strategy. Planning is not a substitute for visionary leadership.
2. Pay careful attention to the strategy of each business unit and not only the strategy for the whole portfolio, which is of course the aim of portfolio planning.
3. Involve line managers in the planning process. Line managers and not personnel managers should plan strategy.
4. Do not confuse strategic planning with strategic thinking. The discipline involved in strategic planning helps in the development of strategic thinking, but they are in no way identical.

The fourth point has been called into question by many business commentators. It seems that the discipline of rigorous planning is deleterious to strategic thinking. Creativity in the sense of the ability to integrate empiri-

cal elements in new ways is a requirement in strategic planning. The rigorous discipline called for in a planning process will curb the ability of its participants to think creatively, and the result will be a second-rate strategy.

RECOMMENDED READING

Carl W Stern and George Stalk Jr (ed), *Perspectives on Strategy from The Boston Consulting Group*.

BPR (Business Process Re-engineering)

Business Process Re-engineering was one of the most highly touted management concepts in the early 1990s. The underlying idea was to redefine and invigorate out-of-date processes that were frustrating large organizations and leading to inefficiency.

Michael Hammer is generally considered to be the father of re-engineering. In 1990 he introduced the concept in an article in the *Harvard Business Review* and, in 1993, together with James Champy, he published *Re-engineering the Corporation*, regarded as one of the standard works on the subject. Hammer challenged management thinking of the time, advocating drastic change rather than incremental improvements. BPR is founded on the idea that an organization starts with an empty sheet of paper before defining its processes, in an attempt to put its history and old routines to one side. BPR can be regarded as diametrically opposed to Kaizen (see this entry), which is based on the idea of slow and gradual improvement. Expressions meaning to obliterate were sedulously used by Hammer.

As suddenly as BPR appeared on the management scene, just as sudden was its departure. There are several reasons for this. The main reason was probably a blind faith in BPR as the key to an organization's efficiency: all that had to be done was to implement it. The importance of company culture and the need to implement change through the company's co-workers, was forgotten. Critics have rather unkindly suggested that it is

typical that BPR should have been developed by a former professor of computer science at MIT. Employees were expected to quickly familiarize themselves with the new charts that someone (often a consultant) had drawn up. This rather technocratic approach to business development has caused its critics to see in BPR a rediscovery of Taylorism. Someone even went so far as to compare the BPR mentality of 'knocking down to build up' with Mao's cultural revolution.

Another problem was that the concept came to be seen simply as hunting down costs and making staff cuts. A study made in 1994 of 624 companies which had worked with the concept showed that in the USA, an average of 336 jobs per BPR project disappeared. The corresponding figure for Europe was 760. BPR made its appearance during a period of recession and heavy competition, one in which IT moreover came to play a major role in companies. Many organizations had to make cutbacks and dispose of activities that did not create direct value, and BPR was a useful tool for this purpose. It is easier to tell your workforce that you are downsizing or introducing BPR, than to tell them that you are making cutbacks.

It may be a rare thing nowadays to hear a company say that it is working with BPR, but the fact is that many organizations today have well defined and documented processes that are regularly reviewed and developed. The concept of BPR has contributed to an understanding of company processes and has provided many useful tools for analyzing them. It has also offered food for thought in the debate on what companies ought to concentrate on and what could be better done by others (see the entry on *Outsourcing*).

RECOMMENDED READING

1. Joe Peppard, *Essence of Business Process Re-Engineering*.
2. Michael Hammer and James A Champy, *Re-Engineering the Corporation*.

Branding

A *brand* is a distinguishing mark of a company or product and the sum of the external world's associations with this mark. Brands are usually registered or trademarked with a regulatory authority. In current English we normally use the word trademark to refer to brand in the legal sense of the word. Because a trademark can be distinguished, it cannot be confused with an already existing *trademark*. A trademark is protected for a period of 20 years that is renewable indefinitely. Trademark legislation places two fundamental demands on a trademark:

1. It must be capable of being reproduced graphically.
2. It must be able to distinguish one product from another.

A legal trademark is usually identified by the symbols TM or ®, the latter symbol indicating that it has been registered with The United States Patent and Trademark Office.

More recently, the commercial, strategic aspects of a trademark (brand) have won general acceptance. In this sense, a brand is defined as something experienced; it is the external world's association with a company or product name. The most common definition of brand is a variation on the following:

'A brand is a word, mark, symbol or design that identifies a product or differentiates a company and its product from others.'

There are two important aspects of a brand: its *spread* and its *power*. 'Spread' refers to how well-known a brand is, while 'power' refers to what it is known for. A brand's spread and power form the basis for its value. A study carried out in 2002 by J P Morgan Chase attributes to the world's ten strongest brands the following values (in billions of dollars):

1. Coca-Cola (69.6).
2. Microsoft (64.1).
3. IBM (51.2).
4. GE (41.3).
5. Intel (30.9).
6. Nokia (30.0).

7. Disney (29.3).
8. McDonald's (26.4).
9. Marlboro (21.2).
10. Mercedes (21.0).

How is it that Coca-Cola can be valued at close to 70 billion dollars? 'The Pepsi Challenge' may give an explanation. Pepsi issued a challenge to Coca-Cola to allow a large test group to carry out a 'blind' test of the two beverages. The result was that 51 per cent preferred Pepsi, while 44 per cent preferred Coke. The remaining 5 per cent did not have any special preference. When the same test was carried out with participants knowing what they were drinking, the result was 63 per cent to 23 per cent in Coca-Cola's favour!

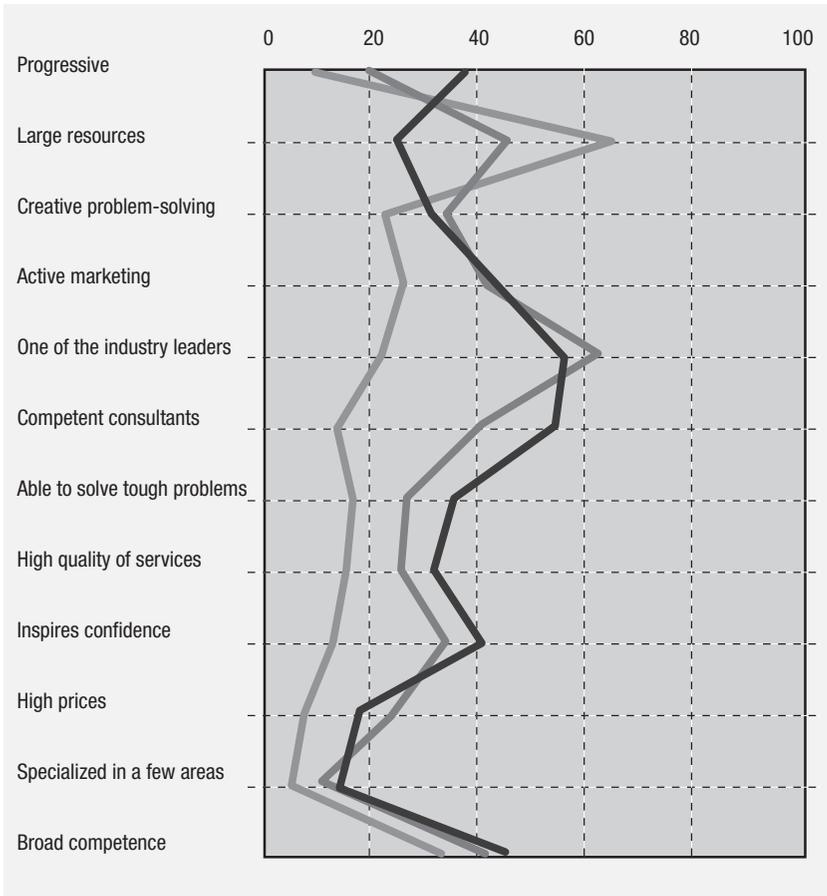
There is considerable evidence to show that we as customers are loyal to brands and are prepared to pay much more for a product with a strong brand. Brands even affect the way we act in that we use them to boost our own image. How much would people be willing to pay for a Rolex watch if it was impossible to identify as a Rolex? Who buys a Rolex watch because it tells the time better than a cheaper watch?

Work with branding usually aims to answer the following questions:

1. What does the brand stand for today and who is aware of it? What position does the brand have in the market?
2. What do we want a brand to represent and who do we want to recognize it? What position do we want a brand to have in the market?
3. How can we close the gap between points 1 and 2, above?
4. How do we know that we are moving in the right direction?

Profile studies are normally carried out in order to answer question 1, above. By 'profile' we mean the characteristics for which a company or part of a company is known by an important target group. A company profile is the image a company or product has in the target group, where image is the way the public interprets reality. A company's profile is its active offering of competitive advantages, while image is the recipient's passive understanding of the sender, i.e. company or product.

The figure opposite shows how some management consultancy firms are interpreted by the market. This was a real study and was part of a survey carried out by Testologen AB, the Swedish market research company.



Dr Frans Melin, a researcher of brands at Lund University, has identified brand-building as a process comprising six steps:

1. Product attributes

First, a product must have a quality and functional value that are demanded by the market. Then it is important to consider how the product can be developed by other attributes such as packaging design.

2. Brand identity

Brand identity relates to how a company wants its brand to be perceived. Image, which is closely related to identity, describes how the public perceives a brand.

3. Core value

The core value of a brand derives from those factors, emotional or functional, which are believed to produce a long-term, differentiating advantage. A brand's core value should therefore be unique and hard to imitate.

4. Positioning

The purpose of external positioning is to establish a certain perceived position in the consumer's mind. However, first there should be internal positioning, i.e. a place should be established for the brand in the collective mind of the organization. Careful analysis of a brand's core value will create the conditions for effective positioning.

5. Marketing communication

Market communication (advertising, etc.) should be carried out from a long-term perspective, where persistence is the watchword. Effective positioning is achieved by communicating a brand's core value to desired target groups. A unique communicative identity should be uniformly conveyed through all marketing channels.

6. Internal brand loyalty

Internal loyalty to the brand is an important component in the management of accumulative brand capital. It can be maintained through in-house communication and the publication of guidelines, for instance in the form of a brand manual.

Ries and Ries have described 22 rules for effective brand building. Below is a summary of their main points.

Conclusion 1

A brand loses in strength when it includes too much information

Focus is vital for a brand. Identify the core value and build the brand around it. Expanding a brand may give short-term returns but will eventually contribute to undermining it. This thesis is far from being accepted by other researchers and practicing managers.

Conclusion 2

First publicity, then advertising

A success factor for a new brand is to generate positive *publicity* (as opposed to advertising) in the media.

The best way to do this is to be the first brand in a new category. When the novelty value has subsided, there has to be investment to maintain the brand's position. This should be treated as an investment, not a cost. Brand leadership is the most effective message to communicate ('biggest' rather than 'best', regardless of what people say, as 'biggest' is an indication of 'best').

Conclusion 3

The importance of being the owner of a word in the customer's mind

History is the proof of this. Volvo owns the word 'security' in the car market, which is not to say that their cars are always the safest ones.

In brand building, a distinguishing attribute has to be identified and then adhered to and imprinted in the minds of customers. In the interests of clarity, there should be a focus on the message going out while other attributes should be toned down.

Conclusion 4

An impression of quality is more important than actual quality

Quality is of course important for a brand. Studies show that brands connected to quality in the customer's mind are more successful in respect of both market share and profitability. However, studies also show that in principle there is no connection between a product's success in the market and success in quality tests. The important thing then is to create an impression of quality in a market. In this connection, it is important to

be perceived as a specialist, to have a good brand name, and to charge high prices.

Conclusion 5

Leading brands should develop their category

A leading brand should market the category (which it has often created) and welcome competing brands. Pepsi-Cola's entry into the cola drinks category was the best thing that could have happened to Coca-Cola. Buyers like to have a selection to choose from. If a category is short on brands, buyers may become suspicious and buy from another category.

Conclusion 6

Keep concept separate

It is important to differentiate between a company and its brand. Ries and Ries believe that a brand should be given precedence over the company which has developed it. The authors also criticize the widespread use of sub-brands as they tend to dilute the power of the core brand. Mega-branding, master-branding, sub-branding and so on are fine but they are not customer-driven concepts. The customer has to understand the distinction and draw lines between them.

Singularity is a concept that Ries and Ries often return to.

Conclusion 7

Persistence is decisive

Brands must be built from a long-term perspective. Success is measured over decades, not years. Volvo has communicated 'security' for almost 40 years, BMW has been getting 'fun to drive' across for almost 30. Where brands are concerned, it is important to keep a tight hold on creativity and not overdo the message. Then there are situations where it can be necessary to change or get rid of a brand, but this is a long, expensive process.

RECOMMENDED READING

1. Al Ries and Laura Ries, *The 22 Immutable Laws of Branding*.
2. David E Aaker, *Building Strong Brands*.
3. Erich Joachimsthaler et al, *Harvard Business Review on Brand Management*.

Business concept (Corporate mission)

An enterprise's business concept describes its fundamental aim. In non-commercial businesses, the business concept is often called the operational concept, or simply the business objective. The terms corporate or business mission are often used by both commercial and non-commercial organizations.

An important distinction should be made between the term 'business concept' as applied to a group and as applied to its business units, although it is unnecessary to get into pointless discussions about the idea of a business concept for groups if one does not actually exist. (A group consists of different business units each with its own business concept.) It may however, be meaningful to talk about a *portfolio* concept, which describes how a concern can best coordinate its business units and create synergies between them.

A business concept should always start with the needs of customers or buyers. In this connection it is important to distinguish between needs and demand. A need to satisfy one's hunger can result in a demand for porridge, a fillet steak, or fish. A need for cold can lead to a demand for ice, a fridge, or for a trip to more northerly latitudes (more southerly ones for those in the southern hemisphere). The latter case was vividly exemplified by the two companies which at the beginning of the 1900s were engaged in the business of sawing and delivering ice. The business concept of one of them was to sell ice, while that of the other was to sell cold. After the introduction of the refrigerator, one of the companies remained. You don't need to be a genius to guess which one.

This example also says something about defining core competence. The delivery of ice was an undertaking that embraced what for the time was advanced logistics. Surely this competence could have been used in some other connection after the advent of the fridge?

More about the distinction between needs and demand can be found under *Needs*.

Philip Kotler compares a business concept with the 'invisible hand' which leads it along the right tracks. Kotler believes that a good business concept is:

- Market-oriented. A business concept should be based on customer utility and the needs that the business satisfies in the market.
- Possible. It should be attainable but still be challenging; it should be all-embracing but not vague.
- Motivating. Co-workers should know what the business concept is and believe in it.
- Specific. A business concept should be relatively easy to define and simple to communicate (avoid mumbo jumbo).

Furthermore, a business concept should be able to answer the question: 'Why should we be the ones who customers buy their services or goods from?'

So far we have looked at some important aspects underlying a business concept. These can now be summarized under the following five points:

1. Needs/demand
2. Customers/distributors
3. Offering of goods and services
4. Core competence
5. Competitive edge

A useful exercise for testing a business concept and improving it is to go through the five defining elements, above. Here are some questions that might help in this work:

- What needs underlie customer demand? Are there any problems in connection with the use of a particular product or service? Should we carry out a study to find ways to improve needs satisfaction?
- Who are the customers whose needs we are to satisfy? Who makes the decision to buy? Are there gaps between the distributor and the end-user?
- Can we think of more effective combinations of goods and services to provide needs satisfaction? Can we add anything to make what

we have to offer more attractive, or take away components that cost money but do not give value?

- Do we need to have more skills and expertise than we have now? Are we living on out-dated skills which are no longer meaningful?
- What separates us from the competition? How do people react to our brand? What is the advantage for our customers?
- How do we formulate our business concept on the basis of customer needs? Is our business concept credible? What code words can we use to help to formulate it?
- How can we exploit our business concept in respect of co-workers, customers and owners? Should we try it out to get feedback?

Another idea we can put to work is what Abell calls the three dimensions of the business concept. These are:

1. **What?** What needs (functions) of the customer are met by our business concept?
2. **Who?** What customer segments will we direct our business concept to?
3. **How?** What technology and products are used to meet needs in selected customer segments?

RECOMMENDED READING

1. Philip Kotler, Marketing Management.
2. Richard O'Hallaron and David O'Hallaron, The Mission Primer: Four Steps to an Effective Mission Statement.

Business development

There is a choice between two main approaches in any strategic process. Either a strategy for a business is pursued in roughly its present form, that is, without any spectacular plans for expansion, or a development process is pursued which aims at a much higher ambition level in respect of market share, expansion of the served market, or new goods and services.

The term 'business development' has a great attraction when it means a sudden, reckless expansion. We define business development as a special case of the development of a business strategy, oriented to growth and characterized by commercial risk-taking and pertaining to the revenue entry of the profit and loss statement. Strategy questions can essentially focus on either of two functions.

1. Making important decisions on the future development of current operations.
2. Creating and making use of new business opportunities.

Both types of strategy development are essential. The former is important at all times, while the latter – making use of new business opportunities – is not necessarily a decisive factor in the successful development of a business. On the other hand, there are a number of points which can form the basis for the search for new business opportunities:

1. The company is capital rich and is looking for investment opportunities.
2. An external threat in the shape of new technology, deregulation, or intense competition.
3. Favourable conditions
4. Entrepreneurs in the company wish to impel business development.

Easy access to capital as a result of the success of previous operations will probably drive a company to acquisitions or organic business development. The tax system existing in Europe and many other parts of the world creates lock-in effects that make it very expensive to distribute capital to shareholders and puts pressure on management to act. Dangers may present themselves in different forms. Digital satellite technology may threaten terrestrial radio and TV, for instance. In preserving an organi-

zation's size and avoiding recidivism, management suffering similar threats is put under pressure. The same thing applies to deregulation where monopolies are given free rein and competition is allowed. A third point may be that business opportunities present themselves. Existing customers may clearly be looking for greater supply capacity, that is, more products or services. Other possibilities might suddenly present themselves: launching the company into what had been a protected market, or benefiting from spin-offs through technological synergy.

The fourth point, one which may seem irrelevant but which in fact can play a major role, is that in management there may exist people with entrepreneurial flair who are looking for greater responsibilities and seeking to drive on various types of development processes. We define an entrepreneur as someone who is creative, has high performance expectations and is not averse to taking risks. These attributes can be found in certain people. For a successful outcome, meanwhile, generous portions of judgment and tenacity, not necessarily present in such people, are required. The difference between an active entrepreneur and an injudicious enthusiast can be a fine one.

There are many examples of business development where an enterprising person took charge of a part of a company and developed it into an independent business. Catering in SAS was developed into Service Partner and sold. Car handling equipment in Volvo was developed into Olofström. Their systems are now sold to motor works all over the world.

There are different ways of identifying business opportunities. The sources given below can be useful:

1. An inventory of business opportunities in the company
2. Customer needs remaining satisfied.
3. New geographical markets
4. New customer groups
5. New technology
6. New distribution channels

The use of one of these sources does not rule out using one or more of the others at the same time. In fact, highly satisfactory results can be achieved by the use of various combinations.

Another aim of business development is to revitalize the existing main business and to increase the radiation of outwardly directed energy at the expense of internal energy consumption.

We resort to these somewhat grandiose expressions after having observed a number of organizations which, as they grew, began to expend more and more energy on maintaining and preserving the basic organization itself. Internal conferences, reshuffling production apparatus and personnel, a constant growth of internal communications, and so on, make it all too easy to forget about customers and to use up more and more energy on in-house matters. This is one of the main reasons why companies lose their ability to compete. The increasing consumption of energy internally is usually accompanied by decreasing alertness to the changing pattern of customer needs.

Business development can also be defined as increasing delivery capacity. This means that customers are encouraged to decide to buy goods and services that were not previously part of the product range. Unfortunately, this kind of expansion is often undertaken without prior analysis of 'ideal' delivery capacity, i.e. of how many buying decisions customers are prepared to make at the same time.

Traditional strategy strives for efficient utilization of resources in the form of capital and costs. The experience curves and optimization models developed in the 1950s and 1960s all had that aim. The rationale for striving in that direction was that goods were in short supply in most areas and demand could therefore be taken for granted. After the cataclysmic events of the mid-1970s, corporate development came to focus on customer value. This was how the concept of business development came to embrace a holistic view in the sense that all the dimensions of business management had to be included in the work of strategy. We refer the reader to the section on *Efficiency* for an illustration of this holistic view.

It is an essential part of businessmanship to balance the components of efficient resource utilization and customer-perceived value against each other.

The traditional view of business in Europe differs from that which prevails in the USA. Ever since the *experience* curve was first described in America in 1926, the emphasis of commercial operations there has been heavily on cost advantages in manufacturing. The large, homogeneous market of the United States, free from regional barriers, has stimulated cost-based – and thus price-based – competition. In Europe, on the other hand, we have had a jumble of small regional and national markets which has prompted greater interest in quality as a means of competition.

Value is the quotient of quality and price, so concentrating on *either* costs or business development is not a satisfactory solution. It is thus the task of leadership to balance the parameters according to the situation. We have worked with a number of similar situations in strategic planning, and one of these categories was business development. Below we briefly describe some of these situations, which may perhaps trigger inspiration in your business development.

Expanded delivery capacity. To primarily offer new products to existing customers. Companies can increase sales to existing customers through expanded delivery capacity. By simplifying customer purchasing, customer-perceived quality can be enhanced. Decisions can thus be based on a value analysis of the customer purchase situation.

New customer groups. Identifying buyers in parallel with the traditional market. New customer groups can both contribute to expansion (greater revenue) and productivity (better use of resources) in that they often complement existing customer groups. Take, for example, tourist class customers as a complement to business travellers on airlines, or DIY customers as a complement to professionals in the power tools market. Tourist class passengers fly on weekends, and DIY customers buy power tools on the weekends too.

New geographical markets. Establishing ourselves in geographical markets in which we have not previously been active. A growing company may wish to branch out into the European market. It is important to take into account the conditions and culture of each country or region.

Globalization. Expanding potential/served markets to include the whole world. Globalization may lead to economies of scale in a larger served market. This may be vital when competing with global competitors. A country known for its competence in a particular area would obviously benefit from globalization.

Synergy. The use of skill and scale advantages. Synergy is about achieving lower Costs, or the better use of a company's skills through advantages of skill and scale (greater knowledge mass) while creating higher customer value. Unfortunately, the term synergy is both vague and often used incorrectly. Synergy is often given as a reason for mergers. The benefits of synergy are often exaggerated in order to promote various kinds of structural change.

Strategy as investment. Financial sacrifice in the present for future profit. Many strategic decisions damage the profit and loss statement and cannot be activated in the balance sheet. It is often easier for companies to make decisions about investments that can be activated in accounts than about investments which will only be entered as a cost. It is therefore important that management communicate effectively, both internally and externally, in respect of the possible outcome of an investment.

Organic or structural growth. Expanding through one's own businessmanship or through acquisitions. As regards whether to strive for organic or structural growth, the question can often be resolved by striking a balance between the need for security and the advantage of shared values on the one hand, and fast growth, on the other, in order to become a real player in the market. Examples of both kinds of growth can be found in IT and finance. It is important for management to remember that growth based on financial strength is very risky if the business is not managed profitably and earns market share.

Market conditions – timing. The ability to introduce new products at the right time for market acceptance. The experts, too, can sometimes misjudge the right time to enter the market, and this can lead to costly investments. In this connection, we could look at Ericsson Information Systems, EIS, in the 1980s, when an attempt was made to integrate data communications and telephony. With hindsight, we can see that this was a mistake but it was not obvious then.

The pressure of technology. Developments in technology drive demand. Rapidly expanding industries often have to wait for the manifestation of demand, as their customers may as yet be unaware of their products. ‘Supply creates its own demand’. Communication between Stockholm and Gothenburg may lead to the demand for a train ticket, a flight, or a video conference! If customers do not realize that the video conference alternative exists, there will be no demand for it.

RECOMMENDED READING

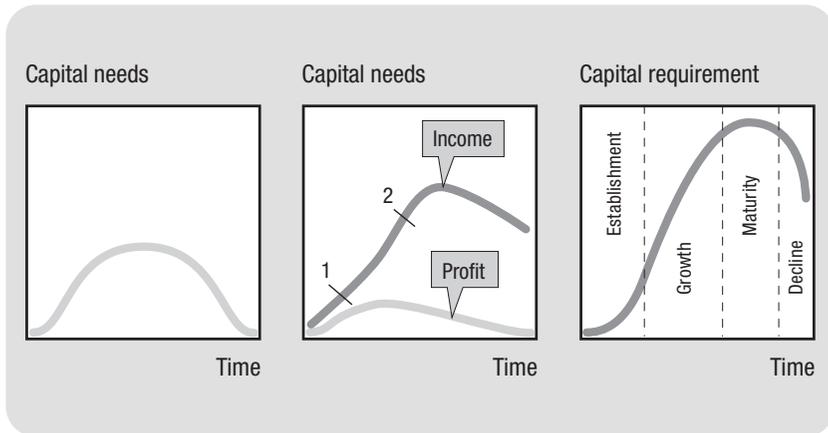
1. David A Aaker, *Developing Business Strategies*, 6th Edition
2. Jim Collins, *Good to Great: Why Some Companies Make the Leap... and Others Don't*
3. Gary Hamel, *Leading the Revolution: How to Thrive in Turbulent Times by Making Innovation a Way of Life*

The business life cycle

Growth and capital needs can be traced to the life cycle curve represented in the first figure, below.

The graduation of the time axis varies depending on the business; there are countless variations on this theme. In business, one of the main functions of leadership is to stretch out the business life cycle over time, by changing the offering of goods/services or by entering new markets.

In the same diagram we could insert the profits for all the companies in a particular industry on the time axis. Then we would see that a business' total profit is maximized before the market reaches its peak. If such life cycle curves were accurate, we would do best to go into a business at point 1 and getting out of it at point 2 (see the second figure). During this interval there is rapid growth in both profit and volume. We can develop the business life cycle concept by dividing it into phases, and this is done in the third figure.



A diversified portfolio will probably have businesses in every one of the four phases of launch, growth, maturity and decline. Thus, at a given point in time, certain business units will have just started, others will be coming into rapid growth, some will have reached their peak, while others will be in decline.

If we know a business unit's position in the life cycle curve and must allocate capital, then in theory we should be able to find certain guidelines. It is important to note that as the number of competitors increases, structuring becomes tighter ahead of market maturity and possible decline.

Traditional portfolio analysis began with the business life cycle and described the market in each of the four phases. On this basis, conclusions could be drawn about competitors, performance levels and strategy. A number of guidelines emerged based on a business' position on the life cycle curve. Terminology has changed somewhat, so that the four phases are now usually called:

1. Market launch
2. Market penetration
3. Defence of position
4. Market exit, that is, winding-up of the business unit.

A series of recommendations have been developed for each phase in order to put these theoretical ideas into concrete form and make them useful for heads of department.

During the *launch phase*, previous users have to be persuaded to buy the product or service. During this time, much of management's capacity goes towards solving questions of finance and looking after production.

During *growth*, the important thing is to penetrate the market and persuade customers to buy our brand and not any others. At the same time, energy must be used to extend the products offered, thereby maximizing sales and market share. Production should be trimmed so that economies of scale can be attained and we can go down the *experience curve* (see this term).

During the *maturity phase* it is important to defend the brand and maybe structure the business in the acquisition of competitors. This is not the time to add new products. Instead, existing ones should be trimmed back. During this phase we should also work on capital rationalization and produce to satisfy orders, increasing volume if necessary.

During the *decline phase*, attention should be given to reducing costs. Preparation should be made for exiting the market by milking the brand for all it's worth.

RECOMMENDED READING

1. Lawrence M Miller, Barbarians to Bureaucrats: Corporate Life Cycle Strategies.
2. Don Nyman, Maintenance Planning, Scheduling and Coordination.